BANQUE PALATINE
L'Art d'être Banquier

FINANCIAL REPORT

2018

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

ANNUAL FINANCIAL REPORT 2018

Banque Palatine, the bank for medium-sized companies and their leaders and private banking, has been supporting entrepreneurs both personally and professionally for more than 230 years. It uses its expertise with SMEs and medium-sized companies. Its network of 46 branches in France in synergy with the specialist business lines (asset, legal and tax engineering, investment advisory, global approach to leaders' wealth, corporate finance, property, international, trading room, etc.) currently support 12,800 companies and 64,000 individual customers.

Wholly owned by the BPCE Group, the Bank benefits from the strength and financial guarantees of France's second largest banking Group. Banque Palatine establishes a true financial partnership with all of its customers, through an approach founded on well-recognised business lines, strong value-added advising, regional assistance, personalisation of relations and development of solutions adapted to each customer.

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

www.palatine.fr

STATEMENT FROM THE PERSON RESPONSIBLE

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

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

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

Signed in Paris, on 19 April 2018

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REPORTS FROM THE BOARD OF DIRECTORS

1 Management Report

Economic environment

On the political level, 2018 was a complicated year, marked, among other things, by significant events such as trade tensions between the United States and China, the failure to reach an agreement on Brexit on either the industrial or the financial level, or in Europe, the result of the Italian elections. Despite this, and even though China experienced an economic slowdown, global growth posted a fairly robust level of 3% for the year. This rate, however, is the result of very different situations from one economic zone to another.

Thus, in the United States, activity largely benefited from budgetary recovery measures (reduction in taxes and increase in federal spending) adopted at the beginning of the year by the Trump administration. Growth should reach 3% in 2018, as compared to 2.2% in 2017. This performance is the best since 2005. At this point, the increase in numerous customs duties and the implementation of quotas on imports from China do not seem to have a visible effect on growth. Spurred by economic momentum, job creation remained very significant, with an average greater than 200,000 per month. The unemployment rate reached its lowest level in 18 years, with a rate of 3.7%. In parallel, the rate of increase in salaries accelerated slightly to 3.0% for the year.

The Eurozone started well in 2018, thanks to a historically high PMI manufacturing index in December 2017 (Markit Eurozone Manufacturing PMI of 60.6). Industrial production recorded an increase of 4% over the year in the first quarter of 2018, but during the following months, activity fell. Growth in the Eurozone was only 0.2% during the third quarter of 2018. This economic slowdown followed the deterioration in the world climate.

Italy was at the forefront of the European scene with the election results in June and the implementation of a Euro-sceptic government. Fears of slippage in public financing weighed heavily on investor confidence and contributed to the slowdown in the growth of the country. GDP also contracted, for the first time in four years, during the third quarter of 2018.

In the United Kingdom, growth was moderated in 2018 and was 1.3% over the year (as compared to 1.7% in 2017). The uncertainties linked to Brexit weighed on activity and led to a decrease in corporate investment. Work on the organisation of Brexit required mobilisation of significant resources at both the company and public sector levels. According to the Institute for Government, GBP 2 billion of public expenditure have already been spent, essentially for recruitment in the primary ministries. Numerous banks, fearing they will no longer benefit from a "European passport", have relocated some of their employees and assets to continental Europe. Despite this context, the unemployment rate was at a historically low level (4.1%) and inflation was controlled at 2.4% for the year.

As for emerging economies, they posted an overall increase in their GDP, in particular in Russia, India and Brazil.

Interest rate trends

Throughout 2017, central banks marked their divergences at the level of various monetary policies.

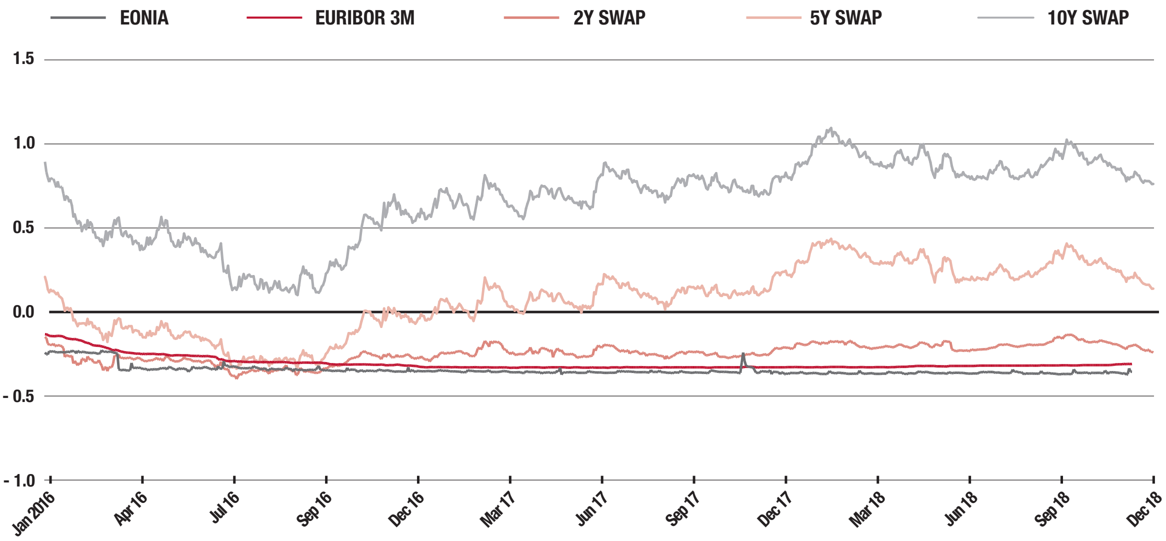
The Fed implemented four increases of 25 basis points each to interest rates (increase in the FED Fund Target Rate from 1.5% to 2.5% in 2018) and pursued a reduction in its balance sheet. The Bank of China implemented three interest rate increases. The Bank of England implemented a single interest rate increase of 25 basis points at the beginning of July (from 0.50% to 0.75%). The European Central Bank continued the exit from its very accommodating policy by terminating, at the end of the year, its net purchases of assets as part of the framework of the APP (Asset Purchase Programmes of €60 billion in December 2017, reduced to €30 billion in January 2018, then to €15 billion in September 2018 before stopping in January 2019).

With respect to interest rates in the Eurozone, 2017 ended with an upward trend and the beginning of the year suggested a continuation of this trend in 2018. But the political and economic environment decided otherwise. Indeed, there was a "before" and an "after" in the formation of the Italian government. The materialisation of a political scenario that had been considered unlikely was a blow to the increase in risk appetite in the Eurozone. After the formation of the government, and as the conflict surrounding the Italian budget intensified, the orientation of the European interest rate market experienced a significant reversal. Since then, the 10-year interest rate for the **German** Bund has fluctuated between 0.22% and 0.58%.

Uncertainties about Brexit, the sharp decrease in oil prices (from $75/barrel in October 2018 to $46/barrel in December 2018 for the WTI benchmark and the publication of misleading inflation numbers with respect to Eurozone expectations combined to destroy the hopes for an increase in interest rates. With respect to Euro Swaps, the global environment, the decline in inflation expectations, the time-lag in the ECB rate increase cycles triggered a downward movement in interest rates. Thus, 5- and 10-year swaps ended the year at interest rates of 0.139% and 0.762%, respectively.

Now, the market does not anticipate an increase in ECB interest rates until 2020, whereas the consensus initially anticipated an increase starting in June 2019.

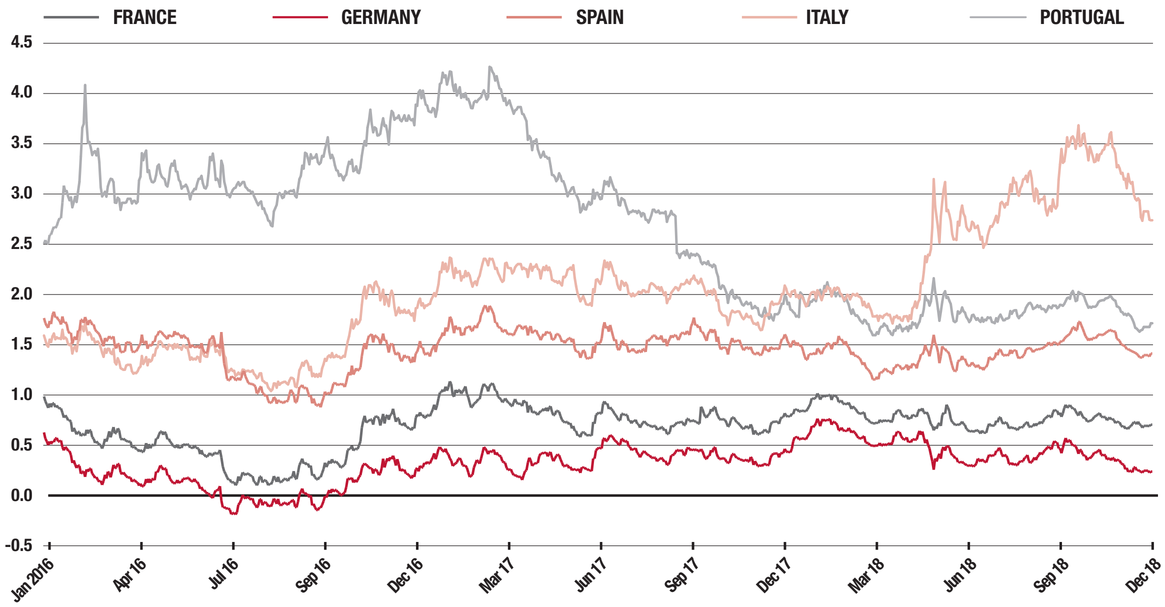
Euro interest rate trends since the beginning of 2016



In the United States, the rapid increase in the American long-term rate of return during the first quarter of 2018 was followed by a particularly long period of range trading, from February to September, when the 10-year US interest rate of return fluctuated between 2.8% and 3%. Fundamentals may leave hope for piercing the 3% ceiling, with dynamic growth trends, a particularly significant volume of issuances, and a central bank that continues to tighten its monetary policy.

The Bank of England's monetary policy is largely dependent on the news linked to Brexit. Uncertainties as to the type of Brexit to come loomed throughout the year and were exacerbated as the end of the year approached. Extreme scenarios became more and more likely. Also, despite the very low unemployment rate and increase in nominal salaries, the market does not anticipate a new increase prior to the end of 2019.

Yields on the main 10-year Eurozone government bonds



Key figures of Banque Palatine (in consolidated figures)

Ratings at 31 December 2018

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

Financial condition

in millions of euros	31/12/2018	31/12/2017	FTA IFRS 9[(1)]
Equity attributable to equity holders of the parent	863.9	820.9	744.5
Tier 1 capital	850.3	787.9	711.5

(1) Information as at 31 December 2017 supplemented by impact of IFRS 9. The amount relating to this standard is -€76.4 million.

Prudential ratios

	31/12/2018	31/12/2017
Core Tier 1 ratio	7.99%	8.30%
Tier 1 ratio	9.05%	8.30%
Total capital adequacy ratio	11.18%	10.40%

Consolidated income statement

in millions of euros	31/12/2018	31/12/2017
Net banking income	331.5	319.2
Gross operating income	79.0	112.7
Net income	23.4	45.9
Cost/income ratio	76.16%	64.7%

Activities

in millions of euros	31/12/2018	31/12/2017	FTA IFRS 9[(1)]
Total assets	15,170.9	14,767.5	14,708.1
Customer loans	9,008.1	9,221.4	8,714.1

(1) Information as at 31 December 2017 supplemented by impact of IFRS 9. The amount relating to this standard is -€76.4 million.

Cost of risk

in millions of euros	31/12/2018	31/12/2017
	41.4	39.5

Significant events

BPCE Group highlights

BPCE's Supervisory Board, chaired by Michel Grass, approved the appointment of Laurent Mignon as Chair of the Management Board, following the departure of François Pérol. A new Management Board was appointed for a term of four years as well as several new Members to the executive management committee.

In 2018, Groupe BPCE continued implementation of its TEC 2020 strategic plan and launched structuring plans to strengthen its model and seek greater efficiency:

- the integration of Credit Foncier's activities and teams[1] seeks to reinforce its position as the group's leader in real estate financing market;
- the sale by Natixis and the acquisition by BPCE SA of the factoring, guarantee, finance lease, consumer loan and securities lines[1], is intended to simplify the organisation and to better serve the institutional customers of the Group;
- it is also aimed at developing the international presence of retail banking[1]. It is with this goal that the Group entered into exclusive negotiations with the Moroccan group Banque Centrale Populaire regarding the sale of shares held by BPCE International in Africa[2]. This project was a step in the sale of Banque des Mascareignes to Banque Centrale Populaire group and to Sipromad group that took place in the beginning of 2018.

In addition, many simplification and efficiency transactions were completed:

- sale of Les Editions de l'Epargne a wholly-owned subsidiary of BPCE SA (following purchase of minority shares) to the Diffusion Plus group, a specialist in publication;
- sale of 100% of the shares held by BPCE SA in the capital of BPCE Immobilier Exploitation to Natixis Immo Exploitation, in order to gain operational efficiency and to more easily share the occupation of operating buildings;
- sale to CE Holding Participations, a subsidiary jointly owned with Caisses d'Epargne, 100% of the securities owned by BPCE SA in the capital of CE Capital with the objective of supporting the capital investment line of Caisses d'Epargne;
- sale of BPCE SA's stake in VIGEO (10.01%) to Natixis.

At the heart of Groupe BPCE's ambition, retail banking continued to strengthen. Insurance and retail banking savings deposits thus recorded a sustained increase (+2.9%)[3] to €707 billion, as for loans outstanding, they increased 4.9% over twelve months[4] to €562 billion.

In 2018, mergers between regional banks continued. Caisses d'Epargne d'Alsace and Lorraine Champagne-Ardenne merged together to create Caisse d'Épargne Grand Est Europe.

The Insurance line, a key strategic area of the Group, pursued its excellent dynamic with loans and income up by 8% over the year.

The Natixis lines also performed well in 2018, with a growth in activity and an increase in profitability in the business lines:

- in Asset Management, net inflow was very positive at €20 billion and income increased 13.6% (at constant exchange rates);
- in Major Customers Banking, income increased year-on-year on a constant basis (excluding CVA/DVA) in a difficult market.

Natixis Asset Management, an affiliate of Natixis Investment Managers, also adopted the brand name Ostrum Asset Management.

Added to these projects and achievements, Groupe BPCE made a commitment to the French Olympic and Paralympic world, becoming the first premium partner of Paris 2024.

Highlights of the year for Banque Palatine

Governance

The following changes took place in 2018:

On 8 February 2018, the Board of Directors appointed Patrick Ibry as Executive Vice-President of Finance, and named him Workforce Manager, together with Pierre-Yves Dréan, Chief Executive Officer and Bertrand Dubus, Executive Vice-President for Development.

On 31 July 2018, the Board of Directors noted the resignation of Benoît Mercier and the merger of Caisse d'Epargne d'Alsace with and into Caisse d'Epargne Lorraine Champagne Ardenne, which is now known as Caisse d'Epargne Grand Est Europe. In order to complete the Board of Directors, Bruno Goré and Caisse d'Epargne Grand Est Europe, represented by Christine Meyer-Forrler, were co-opted to replace the two aforementioned directors. In addition, Caisse d'Epargne Grand Est Europe was appointed Member of the Appointments Committee and Member of the Remuneration Committee.

On 19 November 2018, the Board noted the resignation of Laurent Roubin as Chairman of the Board of Directors and Member, and co-opted, as a replacement, Christine Fabresse as Director and then elected her as Chairman of the Board of Directors of Banque Palatine. In accordance with the rules of procedure of the Board of Directors, Christine Fabresse is an ex officio member of the Audit Committee and the Risk Committee and became the Chairman of the Appointments Committee and the Remuneration Committee.

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[1] Project that will undergo an information-consultation process by employee representative bodies of the group concerned by this initiative, and also subject to conditions customary for this type of transaction.
[2] In Cameroon (68.5% in Banque Internationale du Cameroun pour l'Epargne et le Crédit), in Madagascar (71% in Banque Malgache de l'Océan Indien), in Republic of the Congo (100% in Banque Commerciale Internationale) and in Tunisia (60% in Banque Tuniso-Koweitienne).
[3] 9M 2018/9M 2017.
[4] At end September 2018.

The Board of Directors and the Board committees are now composed of:

Board of Directors

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

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

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

At 31 December 2018, the percentage of female Directors was 62.5%. The composition of the Board of Directors respects the Copé Zimmermann law.

Banque Palatine: the leading bank for medium-sized companies

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

- organisation of the activities of the Cercle Palatine of medium-sized companies, which in 2018 included:
  - lunches with senior executives of medium-sized companies in Paris and in the regions;
  - an evening discussion in Nantes;
  - a dinner organised in connection with International Women's Day, which brought together thirty or so senior executives to hear the writer Anne Goscinny;
- involvement, as both a partner and a participant, in the "Digital Transformation Meetings of the medium-sized companies" organized by the METI at The Camp campus, an innovation space in Aix-en-Provence;
- sponsorship and contribution to the Défi ETI broadcasts on BFM Business, in which 37 Palatine experts participated with senior executives of medium-sized companies;
- the gala for awarding the Grand prizes for Banque Palatine medium-sized companies and BFM Business, which brought together 200 senior executives and was broadcast live on BFM Business;
- a media campaign during the third quarter of 2018 through BFM Business, BFM TV, Radio classique, Le Figaro and Les Echos; and
- finally, every third Thursday of each month, "Banque Palatine Observations on small and medium-sized companies", which measures the levels of confidence, investment and employment in small and medium-sized companies. The study is carried out by the **OpinionWay** institute with 300 senior executives of companies having revenue between €15 million and €500 million, in partnership with Challenges magazine. Each month, media devotes significant coverage to this barometer which has become a benchmark.

In addition, in 2018, in order to maintain its unique position as partner of medium-sized companies and as "player in the real economy", the Banque created "Fondation Palatine des ETI, mécènes ensemble" (philanthropists together) under the auspices of the Fondation Entreprendre. The mission of this foundation is to spread the entrepreneurial commitment to service through better social integration and to share the resources of medium-sized companies in the field of philanthropy. The alignment of the bank and its customers fostered by this project, beyond the commercial aspects, allows affirmation of the company in its position as a reliable and committed partner, devoted to the sustainability and development of medium-sized companies.

Launch of the new strategic plan - Envol

Banque Palatine launched its new strategic plan, Envol. This plan, within the framework of Groupe BPCE's TEC 2020 plan, covers the 2018-2020 period.

Envol brings together 5 strategic orientations:

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

There were 32 projects that were identified to implement these orientations, including the migration of Banque Palatine's information system to the i-BP platform of Groupe BPCE.

Activities in 2018

Commercial banking

Corporate market

In 2018, within an economic context that was both dynamic and that had contrasts, the development of commercial activity in the medium-sized company market took place through the following three main components:

- the conquest of the core target - businesses with more than €15 million in revenue - continued at a sustained pace with 315 new customer relationships in 2018. Thus, from 2013 to 2018, the number of core target business customers increased 32%, from 1,988 to 2,632;
- with its full range of financing solutions, Banque Palatine continues to support medium-sized businesses. Loans outstanding to business customers grew by 3.6% to €7,359 million. Income from financing was dynamic in all types of loans (equipment, real estate, acquisition and LBO). It was €1,973 million, i.e. a level comparable to 2017, confirming the desire to support companies in their development and their investments;

  Banque Palatine also confirmed its position in arranging financial solutions (structured loans, LBO, EuroPP, real estate, financing of senior executives) with 32 transactions arranged, generating fee income of more than €100,000, for a total of €9,249 million:
- loans to companies based on their balance sheet resources remained relatively stable at €10,118 million, reflecting the strategy of adjustment of liabilities in the context of negative interest rates.

Growth in activity in the corporate market rests on a personalised approach to its customers, through national network of 30 agencies spread out over 6 regions (Greater West, Southern Mediterranean, Eastern Centre, 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.

The following significant events took place in 2018:

- Banque Palatine strengthened its position as a leading player in the property administrators market, with close to 1,500 customers, in particular by offering them solutions to facilitate implementation of the new ALUR law on access to housing;
- a significant contribution to loan production from real estate professionals, particularly in the market of investors, historic customers of the Bank, with the increase in generation and co-generation of loans and more generally the growth in commissions, which were close to €4 million;
- the development of the large accounts department which supported more than 150 groups, providing a vehicle for Banque Palatine to showcase its expertise in this crucial segment, working closely with its specialist business lines;
- continuing the development of the audio-visual cinema subsidiary created 8 years ago, which reached the level of net banking income of €6 million. The Bank draws in particular on its ability to bring together various players in the sector (production companies, directors) by drawing on synergies within Groupe BPCE, a long-standing financial backer of cinema and the audio-visual industries;
- sustained support of the corporate finance division which generated nearly €11 million in fee income, as compared with €10 million in 2017. The syndication platform was ramped up with an increase in the amount invested, standing at €708 million in 2018 (compared with €409 million in 2017);
- the volume of documentary credits for 2017 was surpassed for a total of €1,211 million issued in 2018 (+15%). In 2018, in order to intensify its international development, Banque Palatine created three new desks, following the example of the Italian desk, which cover Belgium, Germany and Luxembourg.
- regarding the dealing room, a customer desk was still very active with 155 new direct entrants in 2018, which the Bank supported primarily on topics of hedging risks and interest rates.

In addition, Banque Palatine intensified its partnerships with specialised financing lines of Natixis: Natixis Lease, Natixis Factor, Natixis Garanties, and Natixis Interépargne.

Finally, a partnership agreement was signed with BPI France to support and finance businesses in their digital transformation.

Private banking market

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

Thus, the conquest of private banking customers with more than €50,000 in assets at the start of the relationship achieved a record of 1,354 new accounts, up 9% compared with 2017. The conquest thus grew by 2.5 times in 5 years.

The development of financial and balance sheet resources continues, despite the downturn in the financial markets, with total savings deposits of €4,529 million at the end of 2018, an increase of 1.7%. The net inflow was +€202 million compared to -€14 million in 2017.

Outstanding real estate loans increased by 6% and amounted to €1.56 billion at end-2018.

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

- a national network of 34 branches dedicated to these customers;
- its specialist business lines consisting of private bankers, wealth management specialists and experts in financing for company senior executives (capital transactions for businesses and capital incentive plans for senior executives), put their skills and know-how to work in support of the network;
- a subsidiary dedicated to protected adult customers, with 4 locations in France (Paris, Nice, Lyon and Toulouse);
- an extensive range of savings, investment and loan products, supported by the skills and know-how of:
  - Banque Palatine (Palatine Asset Management UCITS, EMTN issues, SOFICA, real estate, individual and student financing, asset advances and financing of senior executives),
  - Groupe BPCE (SCPI Ciloger offer, Natixis Luxembourg partnership, real estate offer in property and income tax planning iSelection/Crédit Foncier, Natixis payment services);
  - external partners (tax planning, UCITS, SCPI real estate funds, life insurance, Girardin products, real estate).

The private banking market continued to improve our customer experience by relying on digital platforms: digitisation of the client path for investment counselling, launch of multi-currency pre-paid card in partnership with the fintech company Paytop, pursuit of digitisation of client life insurance services in order to reduce handling delays and facilitate the life of our customers.

Finally, 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

Fiscal year 2018 was again marked by an unfavourable interest rate context.

In this environment, Banque Palatine invested €372 million over the year in Eurozone sovereign bonds during the first half.

At the end of 2018, the value of the portfolio stood at €1,655 million. This portfolio's objective is to constitute the liquidity reserve of the Liquidity Coverage Ratio (LCR).

As this portfolio is eligible to be posted as collateral against central bank financing, these securities represent a secure source of funding for the Bank.

The Bank's financial strategy is in line with the regulatory ratios set by the Group. The Liquidity Coverage Ratio (LCR) remained above 100% throughout 2018.

Thus, 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.

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.

Total assets under management were €3.1 billion at the end of the year - a decrease of 27%. The evolution of the market in 2018 was unfavourable for equity funds (41% of exposure as at 31 December 2018) and for bond funds (15% of exposure). Equity funds suffered a significant outflow of institutional customers belonging primarily to the retirement sector, a very competitive sector that is highly concentrated. In the context of negative short-term interest rates, and despite outstanding performance, money management (38% of the assets under management) made a weak contribution to income.

Activities of the other subsidiaries

The Ariès Assurances subsidiary is specialised in the field of collective social protection, as well as in the design of made-to-measure pension cover (Articles 39 and 83 of the French Tax Code) and the appraisal and management of end-of-career employee benefits. Ariès Assurances also advises Banque Palatine customer relationship officers on setting up loan contracts and key person policies.

Changes in scope of consolidation

There were no material changes in Banque Palatine’s scope of consolidation in 2018.

Consolidated and parent-company balance sheet

Consolidated balance sheet

The Bank’s consolidated assets totalled €15,171 million at 31 December 2018, up €463 million compared with 1 January 2018[1].

On the asset side, the loans and advances due from customers was €9,008 million, which was an increase of €294 million, due to the strength of loan production during the year. Loans and advances due from credit institutions were €189 million, while fair value financial assets decreased by €132 million.

On the liability side, amounts due to customers were €9,142 million, an increase of €757 million, as a result of the increase in customer demand accounts. Amounts due to credit institutions decreased by €475 million.

Equity was €864 million, an increase of €119 million. This increase resulted from the issue of €100 million in perpetual deeply subordinated notes in March 2018 which are eligible for additional Tier 1 capital. This issue was intended to offset the impact on capital of the application of IFRS 9 as at 1 January 2018.

Parent-company balance sheet

As at 31 December 2018, the parent-company balance sheet was €15,239 million, or an increase of €489 million with respect to 31 December 2017.

Thus, on the asset side, loans and advances due from credit institutions increased by €186 million, and loans and advances due from customers increased by €281 million.

On the liability side, amounts due to customers increased by €764 million, while amounts due to credit institutions decreased by €475 million.

Property, plant and equipment and intangible assets, amounted to €123 million as at 31 December 2018, a decrease of €17 million with respect to the prior year. Intangible assets amounted to €95 million, reflecting the goodwill of the banking service businesses contributed by Crédit Foncier de France in 2008.

Subordinated debt was €303 million, up by €103 million compared with the 2017 financial year.

Share capital and additional paid-in capital remained stable at €538.8 million and €56.7 million respectively.

Consolidated and parent-company earnings

Consolidated financial statements

Net banking income reached €331.5 million, an increase of 3.8% or €12.3 million compared to 31 December 2017.

The net interest margin was €219.4 million, an increase of 3.8% or €8.1 million, compared to FY 2017. It was supported by the strength of consumer loan production, of which the outstanding amount increased by 3.4% over the previous financial year, which allowed for compensation for the decrease in the average return on customer funds. The decrease in the cost of financial resources as well as the Bank's savings related to the macro-hedging of exchange rate risk following renewal of swap hedging lines at a lower cost, also contributed to the progression in the net interest margins.

Net commissions were €92.8 million, compared to €96.5 million in 2017, i.e. a decrease of 3.7% resulting from the decrease in commission income of Palatine Asset Management (PAM) and offset by the continued dynamic activity of revenue from structured loans and customer pricing.

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[1] *Following impact of applying IFRS 9.*

Net gains and losses on financial instruments at fair value by income increased by €1.7 million, as a result of the activity supported by the customer dealing room. Net gains and losses on instruments at fair value through equity increased by €5.0 million in 2018, as a result of an advance on a liquidation gain from an investment account.

Finally, the net income from other activities was -€2.3 million, compared to -€1.0 million in 2017, representing a decrease of €1.3 million; financial year 2017 benefited from greater profits from the disposal of commercial premises.

Total operating expenses came to €252.4 million, up €45.9 million or 22.2% compared with 2017. This increase resulted from the costs associated with the migration to a new information platform (€34.8 million).

At end-2018, gross operating income came to €79.0 million, down by €33.7 million (-29.9%) giving a consolidated cost/income ratio of 76.2%, compared to 64.7% in 2017.

The annual cost of risk came to €41.4 million in 2018, up €1.9 million from its 2017 level. It benefited in 2018 from a reversal of provisions amounting to €16.3 million linked to the application of the IFRS 9 standards.

The share in net income of associates came to €0.7 million, generated entirely by Conservateur Finance, in line with 2017.

An exceptional charge of €3.1 million related to the valuation of Ariès Assurances was posted to the item "Variation in the value of goodwill".

IFRS consolidated net income at 31 December 2018 came to €23.4 million, compared with €45.9 million in 2017 and €25.9 million in the budget.

Parent-company financial statements

Net banking income in 2018 reached €310.8 million, an increase of 1.4% compared to 31 December 2017.

The net interest margin increased 3.2% due to the strength of customer loan production and the decrease in the cost of Bank refinancing.

Net gains or losses on trading book transactions increased €2.1 million leading to an exceptional income of €5.0 million in 2018, partially offset by an increase in provisions for available-for-sale securities (sovereign securities) and the losses on the UCITS (Collective investment undertakings) shares.

Net commissions increased €1.5 million, or 2.1%, reflecting the development of structured financings within the Bank and the increase in account management commissions.

By contrast, income from variable revenue securities fell €0.5 million, taking into account the dividends that were lower than during the preceding year. Other net operating income also fell by €1 million due to the decrease in disposals of premises compared to 2017.

Total operating expenses rose by €46.4 million to €244.2 million, following the migration to the new information system platform (€34.8 million).

The cost of risk increased €51.7 million with respect to 2017, amounting to €86.7 million at the end of 2018, due primarily to the alignment of the method of determining its collective provisions with the French standards on the method of assessing expected credit losses (resulting from IFRS 9). This amount, reduced by the collective provision recognised prior to 31 December 2017, is €32,8 million.

Income before tax decreased by €96.8 million and was -€23.1 million at the end of 2018.

Net income as at 31 December 2018 thus included a loss of €23.1 million, compared to a profit of €52.5 million, due to the impact on the cost of risk of alignment of the evaluation method on collective provisions with IFRS and the costs of the information migration carried out during the year.

Results of the subsidiaries

Palatine Asset Management recorded net income of €7.3 million in 2018, down €3.3 million compared with 2017.

Ariès Assurances' net income totalled €0.2 million in 2018, a decrease of €0.1 million on 2017.

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

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

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

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

Main risks and uncertainties

This information is presented in the “Risk management” chapter satisfying the obligations of the ministerial order of 20 February 2007 concerning the capital requirements applicable to credit institutions and investment firms. Some of this information is mandatory under IFRS 7 and is thus covered by the opinion of the Statutory Auditors on the consolidated financial statements.

Declaration of extra-financial performance

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

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

Five-year financial summary

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

Subsequent events

No material event liable to have an impact on the parent-company or consolidated financial statements occurred between the reporting date and the preparation date of this report.

Significant investments

No significant investments were made in 2018.

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 2018

At 31 December 2018, the employees did not hold any interest in Banque Palatine's share capital.

Ownership structure

BPCE holds 99.999% of the share capital.

Non-tax deductible expenses

In accordance with the provisions of Article 223 quater of the French Tax Code, the financial statements for the year ended 31 December 2018 include €70,196.28 in non-tax deductible expenses.

Accordingly, the tax charge incurred as a result of these expenses amounted to €24,168.58. These non-tax deductible expenses derived from the portion of rental costs on Banque Palatine's service vehicles not deductible for tax purposes.

Authorisation to effect capital increases

The Board of Directors has not received any authorisation to increase the share capital.

Research and development activities

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

Related-party agreements in 2018

In accordance with order no. 2014-863 of 31 July 2014, this report must disclose related party agreements entered into with any of the Bank's corporate officers or shareholders holding over 10% of the voting rights and with any business having any corporate form whatsoever of which the Bank comes into possession directly or indirectly of over half of its share capital.

In 2018, no agreements that fall within the aforementioned category were authorised by the Board of Directors.

Trading by Banque Palatine in its own shares

In 2018, Banque Palatine did not trade in its own shares.

Resolutions

The Board of Directors presented to the general shareholders' meeting the management report, the report on corporate governance, the parent-company and consolidated financial statements for 2018 as well as the appropriation of income, which appears in the appendix to this report. Pursuant to Article 47 of Act No. 65-566 of 12 July 1965, the previously appropriated amounts are shown below:

Year	Number of shares	Total dividend payment	Net dividend per share
2015	26,940,134	€27,748,338.02	€1.03*
2016	26,940,134	-	-
2017	26,940,134	-	-

**Not eligible for the 40% rebate.*

The principles and criteria for determining the allocation and distribution of fixed, variable or exceptional elements constituting the total remunerations and benefits of any kind attributable for the 2019 financial year to the Chief Executive Officer and the Executive Vice-Presidents by virtue of their position, as well as their total remuneration for the 2018 financial year, are submitted to the general shareholders' meeting for approval.

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

Outlook

In 2019, Banque Palatine will pursue implementation of its Envol strategic plan.

On the commercial level, efforts will focus in particular on:

- the conquest on the two target markets of the Banque: medium-sized businesses, including their senior executives and private banking clients;
- intensification of the relationship with existing clients;
- the upgrade of the sales system;
- the extension of the product and service offer to best respond to expectations.

In 2019, the Bank will also broadly act, with the support of Groupe BPCE, on Pegase (the information migration project), the cut-over of which is planned for April 2020. This project, which secures the anchoring of the Bank to Groupe BPCE, will allow the Bank to benefit from a more integrated information system, more digital and community oriented, thus also permitting the sharing of investments in information systems, including regulatory aspects.

The Bank will continue to capitalise on its human capital with strong investment in training, in particular.

Finally, it will continue to deploy its commitment to society, through the "Fondation Palatine des ETI, Mécènes ensemble" and the medium-sized businesses and by supporting its clients in their responsible financing and investment projects.

2 Board of Directors' report on corporate governance

FY 2018

To the Shareholders,

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

- the composition of the board, the conditions for the preparation and organisation of the work of the Board of Directors, the rules and principles governing determination of remuneration and benefits of any kind granted to corporate officers;
- draft resolutions regarding remuneration which will be submitted to you at the time of the general meeting to approve the financial statements for the financial year ending 31 December 2018.

The Article 266 report under the order of 3 November 2014, which is in the appendix, lists all of the terms in office held by the corporate officers during the 2018 financial year and the Rules of procedure for the Board of Directors.

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

It was submitted in advance to the Remuneration Committee and the Appointments Committee on Friday 8 February 2019, and then approved by the Board of Directors the same day.

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

Board of Directors

1. Corporate governance

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

Only certain provisions that are not applicable to Banque Palatine have been set aside, since its share capital is held in its entirety by BPCE. Accordingly, the following points are not included:

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

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

- staggered reappointments to the Board of Directors:

  In view of the ownership of Banque Palatine noted above, it is not necessary to stagger the renewal of appointments;

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

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

Implementation of the principle of balanced gender representation within the Board of Directors and its committees has been fully met. At 31 December 2018, the percentage of female directors on the Board of Directors was 62.5%. The composition of the Board of Directors respects the Copé Zimmermann law.

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

Lastly, pursuant to the Articles of Association adopted on 14 February 2014, each Director may own shares in the Company.

Table summarising compliance with AFEP-MEDEF code recommendations

Board of Directors: governing body	Recommendations implemented
Board of Directors and the market	Recommendations implemented
Separation of the duties of Chairman from those of Chief Executive Officer	Recommendations implemented
Board of Directors and strategy	Recommendations implemented
Board of Directors and general shareholders' meeting	Recommendations implemented
Composition of the Board of Directors: guidelines	Recommendations implemented
Employee representation	Recommendations implemented
Independent Directors	Recommendations not implemented
Board appraisal	Recommendations implemented
Board and Committee meetings	Recommendations implemented
Access to Director information	Recommendations implemented
Directors' terms in office	Recommendations implemented
Board Committees	Recommendations implemented
Audit Committee	Recommendations partly implemented (proportion of independent Directors not satisfied)
Committee in charge of selection or appointments	Recommendations implemented
Committee responsible for remuneration	Recommendations partly implemented (proportion of independent Directors not satisfied)
Number of terms for Executive Directors and Directors	Recommendations implemented
Directors' code of conduct	Recommendations implemented
Termination of employment contract for corporate office	Recommendations implemented
Remuneration of corporate officers	Recommendations implemented
Transparency regarding Executive Director remuneration	Recommendations implemented
Implementation of recommendations	Recommendations implemented

2. Board of Directors

2.1. Composition and appointments

The Board's composition is governed by Article 10 of the Articles of Association, which stipulates that it shall be composed of Directors elected at the general meeting of shareholders and employee-elected Directors.

Directors elected by the general meeting of shareholders

There are least 6 and no more than 18 of these Directors. They are appointed, reappointed and dismissed in line with the provisions of law and the regulations in force.

They are appointed for a term in office of three years. That said, a Director appointed to replace another Director whose term in office has not yet expired remains in office only for the remainder of his predecessor's term.

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

Employee-elected directors

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

They are elected in line with the provisions of law and the regulations in force. Any seat vacated through death, resignation, dismissal or termination of an employment agreement is filled in line with the provisions of law and the regulations in force.

They are appointed for a term in office of three years.

However, in the event of death, resignation, dismissal or termination of employment contract, the term in office of an employee-elected Director comes to an end when the normal term in office of the other employee-elected Directors ends.

In any event, the period for which a Director is appointed may not exceed the remaining term in office through to the date on which his employment agreement ends as a result of retirement or for any other reason.

Provisions common to both categories of Director

Directors may be reappointed unless they have reached the age limit of 70 years.

On an exceptional and transitional basis, the age limit has been set at 72 years for members of the first Board of Directors designated following the amendment on 14 February 2014 of the Articles of Association introducing the switch to a unitary Board of Directors.

A Director's duties end at the close of the ordinary general meeting of the shareholders convened to consider the financial statements for the previous financial year that is held during the year in which such Director's term expires, unless he resigns, is dismissed or dies.

2.2. Directors

At 31 December 2018, the Board of Directors had eight Directors who were appointed by shareholders until the end of the general meeting convened to approve the financial statements for the financial year ending on 31 December 2019 and two employee-elected Directors, whose appointment began on 16 May 2017 and ends on the determination by the Board of Directors of the results of the employee elections to be held in 2020, all of whom have French nationality:

Attendance rate

Directors	Age	Date of appointment or reappointment	Seniority	Expiry date of appointment	Attendance rate in %				
					Board of Directors	Risks committee	Audit committee	Appointments committee	Remuneration committee
Christine Fabresse, Chairman of the Board of Directors, Member of the Management Board and Chief Executive Officer of BPCE in charge of retail banking and insurance.	54 years old	19/11/2018		2020	100	100	100	100	-
Maurice Bourrigaud, Chief Executive Officer, Banque Populaire Grand Ouest	60 years old	16/05/2017	9 years	2020	83	80	50	-	-
Sylvie Garcelon, Chief Executive Officer of Casden Banque Populaire	53 years old	16/05/2017	2 years	2020	66	75	100	-	-
Bruno Goré, Chairman of the Management Board of Caisse d'Epargne et de Prévoyance de Normandie	57 years old	31/07/2018		2020	100	-	-	-	-
Sylvia Grandel, elected by the employees (technical staff)	44 years old	16/05/2017	1.5 years	2020	83	-	-	-	-
Bernard Niglio, Chairman of the Steering and Supervisory Board of Caisse d'Epargne et de Prévoyance Provence-Alpes-Corse	69 years old	16/05/2017	3 years	2020	100	-	100	100	100
Marie Pic-Pâris Allavena, Chief Executive Officer of Eyrolles	58 years old	16/05/2017	2 years	2020	100	100	-	100	100
Guillemette Valantin, elected by the employees (managerial grade staff)	52 years old	16/05/2017	1.5 years	2020	83	-	-	-	-
BPCE, represented by Stéphanie Clavié, responsible for financial reporting	48 years old	16/05/2017	2 years	2020	100	75	100	-	-
CAISSE D'EPARGNE GRAND EST EUROPE represented by Christine Meyer-Forrler, Board Director in charge of Businesses and Institutions.	49 years old	31/07/2018	2 years	2020	83	-	-	100	-

Changes to the Board during 2018

On 31 July, the Board of Directors noted the resignation of Benoît Mercier and the merger of Caisse d'Epargne d'Alsace with and into Caisse d'Epargne Lorraine Champagne Ardenne. In order to fill the vacancy on the Board of Directors, Bruno Goré and Caisse d'Epargne Grand Est Europe were co-opted the same day to replace the two aforementioned directors.

On 19 November, the Board of Directors noted the resignation of Laurent Roubin from his mandate as Chairman of the Board of Directors and director and co-opted Christine Fabresse as his replacement on a provisional basis. The latter was elected Chairman of the Board of Directors and automatically became a member of the Audit Committee, the Risk Committee and the Chairman of the Appointments Committee and the Remuneration Committee.

Terms in office

The list of all the offices held by Directors during the 2018 financial year appears in Appendix 2 to this report.

Ethics

At its meeting on 14 December 2018, the Board of Directors adopted a Directors' Code of Conduct for Banque Palatine. In accordance with Articles L. 511-51 and L. 511-52 of the French Monetary and Financial Code arising from the transposition of the CRD IV (EU Capital Requirements IV Directive), directors aim to act at all times with the integrity, skills, competence and experience required to perform their duties, to dedicate sufficient time to the performance of their duties and to respect the rules governing the number of corporate offices held.

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

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

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

Integrity of Directors

The Directors have undertaken to perform their duties with integrity and professionalism and not to take any actions damaging the Company's interests, and they must act in good faith in all circumstances.

Furthermore, the Directors and members of the Board Committees, as well as any person invited to attend their meetings, are bound by an obligation of professional secrecy, as provided for in Article L. 511-33 of the French Monetary and Financial Code, and by an obligation to keep their discussions confidential, as well as regarding any such information or information presented as confidential by the Chairman of the meeting, as provided for in Article L. 225-37 of the French Commercial Code.

The Chairman of the meeting may declare the proceedings of a meeting to be confidential whenever regulations or Banque Palatine's interests so require. This declaration is placed on record in the minutes of the meeting. The Chairman of the meeting then takes the requisite measures to maintain the confidentiality of the discussions. He may require all individuals taking part in a meeting to sign a confidentiality undertaking.

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

If a Director fails to comply with one of his obligations, in particular the obligation to keep matters confidential, the Chairman of the Board of Directors refers the matter to the Board with a view to issuing a formal warning to said member, independently of any measures taken under the applicable provisions of the law, regulations or Articles of Association.

The Board of Directors may, if so proposed by its Chairman, request the dismissal of the Director by the relevant body or authority. If the relevant person is a Committee Member, the duties of said Committee Member may be terminated if so proposed by its Chairman.

Said member is given prior notice of the penalties being considered and shall be able to present observations.

Potential conflicts of interest

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

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

To the best of the Company's knowledge, there is no conflict of interest between the duties of the Directors vis-à-vis the Bank and any other private duties or interests. Likewise, to the best of the Company's knowledge, no agreements or arrangements have been entered into with a shareholder, nor are there any familial ties between the Directors.

2.3. Non-voting Directors

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

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

2.4. Role

Duties and powers

The Board of Directors, the governing body representing shareholders and employees, determines the Bank's business goals and oversees their implementation. Except for the powers expressly reserved for the general meeting of shareholders and within the restrictions set by the corporate objects, the Board of Directors handles any issue concerning the smooth running of the Company and settles any matters arising.

In its dealings with third parties, Banque Palatine is bound by the actions of the Board of Directors not covered by the Company's corporate objects, unless the Company can prove that the third party knew that the act was ultra vires or could not have been unaware that the act was ultra vires in the light of the circumstances. Publication of the Articles of Association may not constitute proof thereof.

The Chairman and/or the Chief Executive Officer are required to provide each Director with all the documents or information they require to fulfil their duties.

Pursuant to the provisions of law and the regulations in force, the Board of Directors may entrust one or more Directors with any special responsibilities or decide to set up Board Committees. The Board determines the composition and powers of committees, which operate under its authority.

At any time of the year, it conducts any checks and controls it deems appropriate and may request any documents it regards as expedient in fulfilling its duties.

To this end, the Board of Directors:

- meets to prepare the parent-company and consolidated interim and annual financial statements. It reviews the quarterly parent-company and consolidated financial statements prepared by management and hears the Management's report;
- presents to the general meeting its management report on the financial statements for the financial year.

Since the option for the form of a *société anonyme* (French limited liability corporation with a Board of Directors), the Board of Directors on 14 February 2014 opted for the separation of duties of the President and Chief Executive Officer in accordance with Article L. 225-51-1 of the French Commercial Code.

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

It adopts the rules of procedure of the Board of Directors' Committees.

It calls the General Meeting with an agenda that it establishes and that can include, in particular: the appointment or ratification of directors, the appointment of statutory auditors, the renewal of director or statutory auditor appointments, consultation of shareholders on individual remuneration of directors and on the total amount paid to regulated persons.

2.5. Rules of procedure for the Board of Directors

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

The rules of procedure lay down the arrangements for convening meetings, video conferences or conference calls, the creation of special commissions or committees, drafting of minutes, administration of the company registers, professional secrecy and remuneration received by Directors (Appendix 3).

2.6. Activities

The Board of Directors meets as often as the Company's interests, laws and regulations require and at least once every quarter to review the quarterly parent-company and consolidated financial statements. Board meetings are convened by its Chairman or by half of its members, and take place at the registered office or at any other location stated in the notice of meeting.

In accordance with Article L. 823-17 of the French Commercial Code, the Statutory Auditors are invited to Board meetings reviewing the annual and interim financial statements.

The Works Council is represented at Board meetings as provided for by the legislation in force.

Banque Palatine's Board of Directors met six times in 2018 and the average attendance rate was 90%.

The main topics covered at the meetings in 2018 were:

- the resignation and co-optation of directors;
- appointment of the Committee Chairmen and Members;
- the appointment of the Executive Vice-President of Finance;
- the variable remuneration of Executives;
- the modification of the scope of functions of the Executive Vice-Presidents;
- related party agreements;
- the Board of Directors' management report;
- the report on Corporate governance;
- the report on the employee-related, environmental and social information;
- the report pursuant to Article 266 of the order of 3 November 2014 on internal control;

- the annual report on internal control (Articles 258 and 262 of the order of 3 November 2014);
- the report on Risk management;
- an update on professional and pay equity;
- presentation of the strategic plan and financial path;
- IFRS 9 update and issuance of additional treasury shares
- follow-up on inspections and discussions with the supervisory authorities;
- arrangements for calling general meetings;
- approval of the interim and annual financial statements;
- the review of the quarterly financial statements;
- approval of the budget;
- the minutes of each of the committees of the Board of Directors;
- the quarterly balance sheet and significant events;
- authorisation and delegation of authority to carry out issues of debt securities and their use.

2.7. Board appraisal

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

In 2017, a formalised evaluation of the operation of the Board of Directors and its specialised committees was completed using a questionnaire provided to all Directors. In conclusion, it turned out that the Banque Palatine has a Board of Directors of quality for which the method of operating corresponds to the profile of its shareholder; relying on a diversity of skills and experience, they complement one another in a satisfactory manner.

A new evaluation was completed in December 2018, from which emerged the following points:

- the ten contributing Directors expressed general satisfaction regarding the following:
  - diversity in the composition of the Board,
  - information provided to the Board,
  - access to documents,
  - quality of the meetings,
  - quality of the discussions,
  - relationship with executive management,
  - relationship with the Board Chairman,
  - evaluation of committees,
  - participation on the Board,
  - understanding of the work;
- some Directors expressed issues concerning information on competition, a point on which an action plan was proposed.

Following this evaluation, it was decided that the Board Secretary will take charge of the individual comments in order to define their scope and come back to executive management and the Appointments Committee in order to organise the handling of these requests.

2.8. Training of the Board of Directors

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

BPCE as well as the two cooperative bank networks have each implemented a training program in which Directors of Banque Palatine participated.

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

3. Related-party agreements

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

Significant agreements

This report must disclose related party agreements entered into with any of the Bank's corporate officers or shareholders holding over 10% of the voting rights and with any business having any corporate form whatsoever of which the Bank comes into possession directly or indirectly of over half of its share capital.

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

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

  The purpose of this agreement is to set the amount of fees to be paid for services provided by BPCE within the context of the affiliation of Banque Palatine. The financial effect of this agreement in 2018 is €2,500,000;

- the compensation agreement entered into with Natixis SA, signed 16 February 2016, and its amendment signed 22 February 2017, as part of the transfer of the custodian activity to Natixis Titres and Caceis. The financial effect of this agreement in 2018 is €345,000

4. Operation of Board Committees

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

The Board of Directors has not delegated its powers to these committees, which do not restrict executive management's powers. Committee members are selected by the Board of Directors from among its members based on a proposal made by the Chairman of the Board. The term in office of Committee Members coincides with their term in office as Board members.

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

Each committee has at least three members with voting rights selected from among the Directors on proposal of the Board's Chairman.

The members of these committees shall have the appropriate knowledge and skills to carry out the duties of the committees on which they serve. Specifically, each member of the Audit Committee and of the Risk Committee has the necessary skills to carry out their duties. Accordingly, each member of the Audit Committee and the Risk Committee undertakes to stay informed of changes in regulations relevant to the work of the Audit Committee and the Risk Committee. More generally, members of the Audit Committee and the Risk Committee have the knowledge, skills and expertise to understand and monitor the strategy and risk appetite of Banque Palatine, and at least one member of the Audit Committee has specialised financial or accounting skills.

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

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

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

Members of these committees are neither corporate officers of Banque Palatine nor related to it by any employment contract or other subordinate relationship. They have no business relationship with Banque Palatine other than current transactions.

The Chairman designated by the Board of Directors for each committee is responsible for organising its work.

Wherever possible, each Committee meets several days ahead of a meeting of the Board of Directors to review, in advance of the Board meeting, the points falling within their remit such that the Chairman of each Committee can give an exhaustive oral presentation of the Committee's positions and any recommendations it may have to the Board.

4.1. Audit Committee

Composition

At 31 December 2018, Banque Palatine's Audit Committee had the following members:

- Bernard Niglio - Chairman;
- Maurice Bourrigaud - member of the Committee;
- Christine Fabresse - member of the Committee;
- Sylvie Garcelon - member of the Committee;
- BPCE represented by Stéphanie Clavié - member of the Committee.

Role

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

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

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

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

Specifically, its regular areas of concern are as follows:

Budget process

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

Reporting dates

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

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

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

The Statutory Auditors

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

It guarantees the independence of the Statutory Auditors, notably by reviewing audit fees paid and by monitoring the provision of services not related to the legal audit. It also reviews proposals for consultancy projects to be carried out by the Statutory Auditors that exceed one-third of the annual fees paid to the Statutory Auditors.

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

Activities

The Audit Committee met five times in 2018 with an average attendance rate of 76%.

The main topics covered at the meetings were:

- the review of the quarterly, half-year and annual financial statements and the Bank's financial position;
- the draft Board of Directors' management report on the annual and half-year financial statements;
- the review of the draft annual report;
- the review of the budget; the updated budget and the multi-annual plan;
- an update on IFRS 9 and issuance of additional treasury shares;
- an update on the structure of deposits;
- the supplemental report by the Statutory Auditors' on the financial statements for the year ending 31 December 2017;
- the fees paid to and independence of the Statutory Auditors;
- the presentation of the Statutory Auditors' 2018 audit plan;
- the presentation of the conclusions of the Statutory Auditors regarding the 2017 annual financial statements and the 2018 interim financial statements;
- the presentation and monitoring of a specific litigation file;
- review of the findings by the Audit Committee of Banque Palatine's fully controlled subsidiary Palatine Asset Management, as regards the accounting-related matters.

4.2. Risk Committee

Composition

At 31 December 2018, Banque Palatine's Risk Committee had the following members:

- Marie Pic-Pâris Allavena - Chairman;
- Maurice Bourrigaud - member of the Committee;
- Christine Fabresse - member of the Committee;
- Sylvie Garcelon - member of the Committee;
- BPCE represented by Stéphanie Clavié - member of the Committee.

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

Role

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

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

Its main duties are as follows:

Permanent controls:

- regularly review, and at least twice annually, the strategies, policies, procedures, systems, tools and limits mentioned in Article 148 of the Order and the underlying assumptions and report its conclusions to the Board of Directors;
- review the global risk exposures of Banque Palatine based on the relevant reporting statements;
- review the Bank's compliance with the regulations of the French Law on Separation and Banking and the Volcker Rule;
- advise the Board of Directors on Banque Palatine's current and future global strategy and risk appetite;
- support the Board of Directors in its control of the implementation of the strategy by the members of the executive management and by the Head of risk management;
- support the Board of Directors in its regular review of risk appetite, policies enacted to comply with the Order, assess the effectiveness of measures and procedures put in place for the same end and of corrective measures implemented in response to shortcomings;
- review the annual reports on risk measurement and monitoring and on the internal control system;
- propose to the Board the criteria and thresholds described in Article 98 of the Order for identifying incidents that must be reported to the Board;

- oversee the follow-up to the conclusions of inspections by the ACPR and/or the ECB and of internal audits, a summary of which will be sent to it;
- review the follow-up letters sent by the ACPR and/or ECB and issue an opinion on the projects initiated in response to such letters;
- review, as part of its mission, whether the price of its products and services (mentioned in Books II and III of the French Monetary and Financial Code: financial instruments, savings products, banking transactions, investment services, etc.) offered to customers are compatible with Banque Palatine's risk strategy and, if not, to present to the Board of Directors a remediation action plan;
- review whether the incentives envisaged by Banque Palatine's remuneration policy and practice are compatible with the risk position to which Banque Palatine is exposed, with its capital, with its liquidity and with the probability and timing of expected benefits.

Periodic controls:

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

Activities

The Risk Committee met four times in 2018 with an average attendance rate of 70%.

The main topics covered at the meetings were:

- the quarterly report on risk, compliance and internal audit;
- review of the report on Risk management;
- the review of the audit division's audit plan and annual budget;
- update of the risk appetite system;
- the presentation and monitoring of a specific litigation file;
- an update on IFRS 9;
- review of the findings relating to the internal control of the Audit Committee of Banque Palatine's fully controlled subsidiary Palatine Asset Management.

4.3. Appointments Committee

Composition

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

At 31 December 2018, the Committee's members were as follows:

- Christine Fabresse, Chairman;
- Bernard Niglio, member of the Committee;
- Marie Pic-Pâris Allavena, member of the Committee;
- Caisse d'Epargne Grand Est Europe, member of the Committee, represented by Christine Meyer-Forrler.

Role

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

Moreover, the Appointments Committee:

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

Activities

The Appointments Committee met four times in 2018 with an attendance rate of 100%.

The main topics covered at the meetings were:

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

4.4. Remuneration Committee

Composition

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

At 31 December 2018, the Committee's members were as follows:

- Christine Fabresse, Chairman;
- Bernard Niglio, member of the Committee;
- Marie Pic-Pâris Allavena, member of the Committee;
- Caisse d'Epargne Grand Est Europe, member of the Committee represented by Christine Meyer-Forrler.

Role

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

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

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

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

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

Moreover, the Remuneration Committee also:

- carries out an annual review of:
  - the principles underlying Banque Palatine's remuneration policy,
  - remuneration, termination benefits and benefits of any kind granted to Banque Palatine's corporate officers,
  - the remuneration policy for employees of all categories, including executive management, risk-takers, persons exercising control functions and any employee whose total income puts them in the same class of remuneration and whose professional activities have a significant effect on Banque Palatine's risk profile;
- directly controls the remuneration of the Head of risk management as mentioned in Article L. 511-64 of the French Monetary and Financial Code and of the Head of compliance;
- regularly reports on its work to the Board of Directors;
- issues an opinion on any report dealing with remuneration;
- reviews and issues an opinion on the civil liability insurance policies taken out by Banque Palatine on behalf of its senior executives.

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

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

Activities

The Committee met three times in 2018 with an attendance rate of 100% to deliberate concerning:

- the remuneration of the Executive Vice-President in change of finances;
- the review of the variable remuneration of the Chief Executive Officer and of the Executive Vice-Presidents;
- information concerning the variable remuneration component for the Chief Executive Officer and the Executive Vice-Presidents linked to BPCE income;
- the definition of the criteria defining the variable remuneration of the Chief Executive Officer and Executive Vice-Presidents;
- the definitive award of portions of deferred variable remuneration under the 2014, 2015, and 2016 variable remuneration;
- an update concerning the risk-taker penalty as part of the Bank's information migration and transformation project;
- the integration of the risk appetite system into the variable remuneration of workforce managers;
- the review of which employees are classed as regulated persons and their remuneration;
- the review of total remuneration of corporate officers;
- the review of the report on Corporate governance;
- the review of remuneration policy;
- the background on the elements of remuneration of the Chief Executive Officer and the Executive Vice-Presidents;
- information on parts 4 and 5 of the report pursuant to Article 266 of the order of 3 November 2014;
- the review of remuneration of the Head of risk management and the Head of compliance and permanent controls;
- the opinion on the civil liability insurance policies taken out by Banque Palatine on behalf of its senior executives.

5. Executive management

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

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

The Chief Executive Officer is not a Director of the Company. He was appointed for a term in office of five years. The Chief Executive Officer may be removed from office by the Board of Directors at any time.

In accordance with Article 17 of the Articles of Association, the Chief Executive Officer holds the broadest powers to act on behalf of the Company in all circumstances. He exercises this authority within the restrictions set by the corporate objects and subject to the authority expressly granted by law to general meetings of the shareholders and the Board of Directors. He represents the Bank in its dealings with third parties. The Board of Directors did not set any restrictions on his powers in the Board of Directors' rules of procedure. Even so, any significant transaction departing from the strategy communicated requires the Board of Directors' prior approval.

The Chief Executive Officer may partially delegate his power to any authorised representative of his choice, with or without the ability to make replacements.

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

Members of executive management	Age	Date of appointment	Expiry date of appointment
Pierre-Yves DRÉAN Chief Executive Officer	58 years old	14/02/2014	14/02/2019
Bertrand DUBUS Executive Vice-President for development	59 years old	13/02/2015	14/02/2019
Patrick IBRY Executive Vice-President - Finance	55 years old	08/02/2018	14/02/2019

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

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

Internally, the Executive Vice-Presidents hold the aforementioned powers to perform the duties with which they are entrusted. They may delegate their powers vis-à-vis third parties, each acting within their own area of expertise and for one or more given transactions or transaction categories.

The Executive Vice-Presidents may be removed from office by the Board of Directors at any time, on the recommendation of the Chief Executive Officer. Pursuant to the law, damages and interest may be payable to the Executive Vice-Presidents if they are removed from office without a valid reason.

The remuneration of the Executive Vice-President(s) is determined by the Board of Directors.

When the Chief Executive Officer reaches the end of his/her term of office or is prevented from performing his/her duties, the Executive Vice-Presidents, unless the Board of Directors decides otherwise, retain their duties and responsibilities until a new Chief Executive Officer is appointed.

5.1. Workforce managers

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

- Pierre-Yves DRÉAN as Chief Executive Officer, during its meeting on 14 February 2014;
- Bertrand DUBUS as Executive Vice-President in charge of Development, during its meeting on 13 February 2015;
- Patrick IBRY as Executive Vice-President in change of Finances, during its meeting on 8 February 2018.

Pierre-Yves Dréan, Bertrand Dubus and Patrick Ibry as workforce managers of Banque Palatine, during its meeting on 31 December 2018. In this capacity, they safeguard and assume full and complete responsibility for the following activities vis-à-vis the supervisory authorities and the ACPR in particular:

- effective determination of the strategic aims for Banque Palatine's activities (in accordance with Articles L. 511-13 and L. 532-2 of the French Monetary and Financial Code);
- accounting and financial information (in accordance with Articles L. 571-4 to L. 571-9 of the French Monetary and Financial Code);
- internal control (in accordance with the order of 3 November 2014 on internal control);
- determination of capital (in accordance with Regulation 90-02).

5.2. Executive Management Committee

The Executive Management Committee is composed of members of executive management plus the Director of Human Resources and Services, Director of Transformation and Strategy, and the Head of the Private Banking Market, starting from 1 June 2018.

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

6.1. Structure of share capital

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

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

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

6.2. General Meeting

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

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

The general meeting is chaired by the Chairman of the Board of Directors or, in his absence, by a Director specially appointed for this purpose by the Board of Directors. Failing this, the meeting elects its own Chairman.

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

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

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

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

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

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

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

7. Rules and principles governing determination of remuneration and benefits

7.1. Remuneration of Directors and Committee Members

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

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

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

The 16 May 2017 general meeting set the total amount of directors' fees at €134,500 for the current year and for the following years until the time of a new decision.

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

For the Board of Directors:

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

For the Audit Committee:

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

For the Risk Committee:

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

[1] *Excluding payment to the Chairman.*

For the Remuneration Committee:

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

For the Appointments Committee:

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

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

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

Directors' remuneration

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

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

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

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

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

NA: not applicable;NC: not concerned.

	Amounts in respect of 2018*		Amounts in respect of 2017	
Laurent ROUBIN	due	paid	due	paid
Fixed remuneration (corporate office)	€427,687	€427,687***	€500,000	€311,828
Variable remuneration	€372,840[(c)]	€259,856[(d)]	€449,600[(a)]	€105,740[(b)]
Exceptional remuneration	€0	€0	€0	€0
Directors' fees**	€0	€0	€0	€0
Benefits in kind	€45,130[(f)]	€45,130[(f)]	€45,304[(e)]	€24,946[(e)]

**Until 31 October 2018.*
***Paid to BPCE.*
(a) Variable portion in respect of 2017, of which €224,800 was paid in 2018 and the balance deferred over three years in equal instalments of €74,933.
(b) Amount paid in 2017 for the variable portion in respect of FY 2016.
(c) Variable portion in respect of 2018, of which €186,420 was paid in 2019 and the balance deferred over three years in equal instalments of €62,140.
(d) Amount paid in 2018 for the variable portion in respect of FY 2017, i.e. €224,800, and for the deferred fraction of the variable portion in respect of FY 2016, i.e. €35,056.
(e) Including a housing allowance of €40,000 and €5,304 in respect of a "company car" benefit in kind.
(f) Including a housing allowance of €36,667, €4,862 in respect of a "company car" benefit in kind and €3,601 in outstanding paid leave.

	Amounts in respect of 2018*		Amounts in respect of 2017	
Christine FABRESSE	due	paid	due	paid
Fixed remuneration (corporate office)	€83,349	€83,349***	NC	NC
Variable remuneration	€72,660[(a)]	€0	NC	NC
Exceptional remuneration	-	-	NC	NC
Directors' fees**	€0	€0	NC	NC
Benefits in kind	€813[(b)]	€813[(b)]	NC	NC

**Beginning 1 November 2018.*
***Paid to BPCE.*
(a) Variable portion in respect of 2018, of which €36,330 was paid in 2019 and the balance deferred over three years in equal instalments of €12,110.
(b) In respect of a "company car" benefit in kind.

	Amounts in respect of 2018		Amounts in respect of 2017	
Maurice BOURRIGAUD	due	paid	due	paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€10,500	€10,500	€10,000	€10,000
Benefits in kind	NA	NA	NA	NA

(1) *Excluding payment to the Chairman.*

Stéphanie CLAVIÉ	Amounts in respect of 2018 due	Amounts in respect of 2018 paid	Amounts in respect of 2017 due)	Amounts in respect of 2017 paid)
Fixed remuneration	€114,805	€114,805	€104,192	NA
Variable remuneration	€19,016	€19,016	€18,130	NA
Exceptional remuneration	-	-		NA
Directors' fees*	-	-	€0	NA
Benefits in kind	$153	153	€162	NA

**Paid to BPCE.*

Sylvie GARCELON	Amounts in respect of 2018 due	Amounts in respect of 2018 paid	Amounts in respect of 2017 due	Amounts in respect of 2017 paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€42,000	€42,000	€38,821	€40,833
Benefits in kind	NA	NA	NA	NA

**Including Natixis.*

Bruno GORÉ	Amounts in respect of 2018* due	Amounts in respect of 2018* paid	Amounts in respect of 2017 due	Amounts in respect of 2017 paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€4,500	€4,500	NA	NA
Benefits in kind	NA	NA	NA	NA

**Beginning 31 July 2018.*

Sylvia GRANDEL	Amounts in respect of 2018 due	Amounts in respect of 2018 paid	Amounts in respect of 2017 due	Amounts in respect of 2017 paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€0	€0	€0	NA
Benefits in kind	NA	NA	NA	NA

**Paid to the CGT.*

Benoît MERCIER	Amounts in respect of 2018* due	Amounts in respect of 2018* paid	Amounts in respect of 2017 due	Amounts in respect of 2017 paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€6,500	€6,500	€9,000	€6,000
Benefits in kind	NA	NA	NA	NA

**Until 22 June 2018.*

Christine MEYER-FORRLER	Amounts in respect of 2018 due	Amounts in respect of 2018 paid	Amounts in respect of 2017 due	Amounts in respect of 2017 paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€0	€0	€0	€0
Benefits in kind	NA	NA	NA	NA

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

Bernard NIGLIO	Amounts in respect of 2018		Amounts in respect of 2017	
	due	paid	due	paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€13,500	€13,500	€13,500	€9,000
Benefits in kind	NA	NA	NA	NA

Marie PIC-PÂRIS ALLAVENA	Amounts in respect of 2018		Amounts in respect of 2017	
	due	paid	due	paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees	€13,500	€13,500	€13,500	€4,250
Benefits in kind	NA	NA	NA	NA

Guillemette VALANTIN	Amounts in respect of 2018		Amounts in respect of 2017	
	due	paid	due	paid
Fixed remuneration	NA	NA	NA	NA
Variable remuneration	NA	NA	NA	NA
Exceptional remuneration	NA	NA	NA	NA
Directors' fees*	€0	€0	€0	NA
Benefits in kind	NA	NA	NA	NA

**Paid to the CGT.*

7.2. Executive remuneration

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

Fixed remuneration

Apart from the Chief Executive Officer, paid only in respect of his/her corporate appointment, Executive Vice-Presidents have a corporate appointment and an employment contract. Their remuneration breaks down as 90% under their employment contract, and 10% in respect of the corporate office, car and/or housing benefits.

Arrangements for determining variable remuneration

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

In 2018, the variable remuneration of the Chief Executive Officer and the Executive Vice-Presidents is based on:

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

Chief Executive Officer

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

The achievement of these goals may be adjusted annually to reflect economic conditions and/or exceptional events occurring during the year. The size of the variable remuneration is capped at 80% of remuneration.

With effect from 2012 (n), variable remuneration of €100,000 or above is subject to an additional control rule: 50% of the amount is paid and vests upon grant, with 50% deferred and paid in thirds no earlier than 1 October of years n+2, n+3 and n+4.

The deferred portions of variable remuneration take the form of cash indexed to an indicator representing changes in the value of Groupe BPCE. The indicator adopted is net income attributable to equity holders of the parent.

Executive Vice-Presidents

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

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

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

The following tables summarise the remuneration paid by Banque Palatine and directors' fees paid by Palatine Asset Management, a subsidiary of Banque Palatine.

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

Amounts paid in respect of 2018: all amounts actually paid and received in 2017 (due in 2016 and paid in 2017 + due in 2017 and paid in 2017) in respect of duties performed during the period.

Amounts due in respect of 2017: all remuneration due, on a pro rata basis, in respect of duties performed in 2018, regardless of the date of payment.

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

NA: non applicable. NC: non concerné.

	Amounts in respect of 2018		Amounts in respect of 2017	
Pierre-Yves DRÉAN	**due**	**paid**	**due**	**paid**
Fixed remuneration	€290,000	€290,000	€290,000	€290,000
Variable remuneration	€232,000	€116,000	€180,670	€90,335
Directors' fees	€17,000	€17,000	€17,000	€17,000
Housing allowance	€40,000	€40,000		€40,000
Benefits in kind		€19,394		€19,325

	Amounts in respect of 2018		Amounts in respect of 2017	
Bertrand DUBUS	**due**	**paid**	**due**	**paid**
Fixed remuneration	€205,000	€205,000	€205,000	€205,000
Variable remuneration	€102,500	€81,206	€76,670	€56,246
Profit-sharing and incentive plans		€21,294		€20,424
Directors' fees	€4,000	€4,000	€4,750	€4,750
Benefits in kind		€10,051		€11,885

	Amounts in respect of 2018*		Amounts in respect of 2017	
Patrick IBRY	**due**	**paid**	**due**	**paid**
Fixed remuneration	€190,109	€190,109	NA	NA
Variable remuneration	€95,055	€75,358	NA	NA
Profit-sharing and incentive plans		€19,697	NA	NA
Directors' fees	€5,250	€5,250	NA	NA
Benefits in kind		€8,130	NA	NA

**Beginning 8 February 2018*

Table 4 – Stock options awarded to Executive Directors during the 2018 financial year

Names of Executive Directors	Date of grant	Type of options	Value of options	Number of options awarded	Exercise price	Exercise period
No stock options were awarded during the 2018 financial year.						

Table 5 – Stock options exercised by Executive Directors during the 2018 financial year

Names of Executive Directors	Number and date of the plan	Number of options exercised during the year	Exercise price
No stock options were exercised during the 2018 financial year.			

Table 6 – Performance shares awarded to Executive Directors during the 2018 financial year

Performance shares awarded by the annual general meeting	Number and date of the plan	Number of shares awarded	Value of shares	Number of options awarded	Vesting date	Date of availability	Performance conditions
No performance shares were awarded to Executive Directors during the 2018 financial year.							

Table 7 – Performance shares available for Executive Directors during the 2018 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 2018 financial year (no award of this type of share).			

Table 8 – Past awards of stock options and bonus shares during the 2018 financial year

Names of Executive Directors	Date of grant	Type of options	Number of options awarded	Subscription price after adjustment	Starting date for exercising options	Expiration date
No stock options or bonus shares were granted during the 2018 financial year.						

Table 9 – Stock options awarded to and exercised by the 10 employees other than Executive Directors who were awarded the most during the 2018 financial year

Name of non-Director employee	Number and date of the plan	Number of options awarded and exercised during the 2018 financial year	Weighted average price
No stock options were awarded or exercised by Banque Palatine employees during the 2018 financial year.			

Table 10 – Post-employment benefits awarded to Executive Directors

Names of Executive Directors	Start of term in office	End of term in office	Employment contract	Supplementary pension scheme	Payments or benefits due or potentially due owing to sale or change in duties	Payments under a no-compete clause
Pierre-Yves Dréan Chief Executive Officer	14/02/2014	14/02/2019	No	REUNICA: pay-as-you-go system ALLIANZ: defined-benefit pension	GSC: unemployment insurance for senior executives Enforced loss of office benefit	No
Bertrand Dubus Executive Vice-President	13/02/2015	14/02/2019	Yes	REUNICA: pay-as-you-go system	No	No
Patrick Ibry Executive Vice-President	08/02/2018	14/02/2019	Yes	REUNICA: pay-as-you-go system	No	No

Employment contracts of Executive Vice-Presidents

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

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

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

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

As for Patrick Ibry, Executive Vice-President in Charge of Finances starting on 8 February 2018, the duties include without limitation:

- 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 on a daily basis;
- reporting on his activities to the Chief Executive Officer and briefing him on his 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 pay.

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

Directors' fees

In accordance with Groupe BPCE's standards, directors' fees paid by Group companies may be received directly by members of the companies' Boards of Directors and Supervisory Boards.

Benefits in kind

- *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.
- *Benefit in kind - housing allowance:*
  - for the Chief Executive Officer: assessed on a real basis.
  - for the Executive Vice-Presidents: flat-rate calculation based on the number of items and remuneration level.

Enforced loss of office benefit

Arrangements for payment of the benefit

The enforced loss of office benefit may be paid only if the term in office was terminated (dismissal by the governing body) other than for serious misconduct or transfer within Groupe BPCE. It may not be paid if the officer initiates his or her own departure.

Payment of the enforced loss of office benefit causes the former Director to lose any entitlement to the specific supplementary pension schemes or to the retirement benefit that he or she may otherwise have claimed.

In the event of a transfer within Groupe BPCE under an employment contract, notification of the termination of this employment contract more than 12 months after the enforced loss of office, carries a right, except in the event of gross or wilful misconduct, to payment of merely the redundancy benefit laid down in the applicable collective agreement. Conversely, should notification that this employment contract has been terminated come less than 12 months after his or her enforced loss of office, termination gives a right, except in the event of gross negligence or wilful misconduct, to payment of the enforced loss of office benefit, less any benefit paid in respect of termination of the employment contract.

Determination of the benefit

The enforced loss of office benefit is payable only if Banque Palatine generated an IFRS positive net income for accounting purposes over the most recent financial year preceding the enforced loss of the relevant corporate office.

The amount of the benefit is equal to the reference monthly remuneration × (12 months + 1 month per year of service within the Group). The reference monthly remuneration used for the calculation, is equal to 1/12 of the aggregate fixed remuneration (not including any benefits in kind) paid in respect of the most recent calendar year of service and the average variable remuneration (whether paid immediately or deferred) in respect of the three most recent calendar years of service. The remuneration used to calculate reference remuneration consists of the amounts paid in respect of the relevant corporate office.

The amount of the benefit is capped at 24 times the reference monthly remuneration, which is earned through 12 years of service with the Group. Should at least 50% of the maximum variable remuneration be paid during the three most recent years of the then current term of office (or during the term of service, supplemented by the term of any prior office in the event of reappointment), the benefit shall be paid in full.

If the amounts paid do not amount to at least 33.33% of the maximum variable remuneration on average over the reference period, no benefit shall be paid. If the amounts paid range between 33.33% and 50%, the amount of the benefit is calculated on a straight-line basis, at the discretion of the Company's governing body. In any event, this benefit is paid less any benefit payable for termination of an employment contract, where applicable.

Banque Palatine's Chief Executive Officer may not claim any automatic payment of a benefit should he or she not be reappointed. However, the Board of Directors, acting on the advice of the Remuneration Committee, may decide to pay an enforced loss of office benefit, taking into consideration the circumstances of the non-renewal of the term in office and his or her past career with the Group. Such non-renewal shall not be followed by retirement or by a transfer within Groupe BPCE.

Retirement benefit

Chief Executive Officer

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

Arrangements for payment of the benefit

The payment of the retirement benefit is subject to the same conditions as those which apply to the enforced loss of office benefit: subject to positive net profit for Banque Palatine in the year before the term of corporate office ends and an average minimal variable remuneration during the three most recent years of the current term of corporate office.

The retirement benefit may be paid only when the social security pension rights are claimed and provided that the beneficiary is a Banque Palatine corporate officer when the claim is made.

Should the enforced loss of office benefit or non-renewal of office benefit be paid upon non-renewal of a corporate office, the executive director loses any entitlement to the defined-benefit pension plan that he or she may claim and may not benefit from any retirement benefit.

Determination of the benefit

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

The remuneration used to calculate reference remuneration consists of the amounts paid in respect of the relevant corporate office. The amount of the benefit is then equal to the reference monthly remuneration × (6 + 0.6 y), where y is the number, and where appropriate a fractional number, of years of service within the relevant scope.

It is capped at 12 times the reference monthly remuneration, which is earned through ten years of service with the Group. In any event, this benefit is paid less any retirement benefit paid under an employment contract.

The benefit is excluded from the base used to calculate the annuities due under the defined-benefit pension plans of which the Director is a beneficiary.

Executive Vice-Presidents

The Executive Vice-Presidents holding both an employment contract and a corporate office qualify for a retirement benefit under the same terms and conditions as employees.

Arrangements for payment of the benefit

The retirement benefit may be paid only when the social security pension rights are claimed and provided that the beneficiary is a Banque Palatine employee when the claim is made.

Determination of the benefit

The reference salary used to calculate the benefit is 1/12 of the beneficiary’s most recent annual full-time salary, including any 13th month payment.

The amount of the retirement benefit may be up to 8.4 months of the reference salary depending on his or her length of service with the Group.

Supplementary pension plans

The Chief Executive Officer and Executive Vice-Presidents are eligible subject to the same conditions as employees for the defined-contribution pension plan applicable to unclassified executives (Réunica). This plan is funded through a 10% contribution (7.5% at Banque Palatine’s expense and 2.5% at the expense of the Chief Executive Officer and the Executive Vice-Presidents) on remuneration falling within tranches A + B.

At its meeting on 14 February 2014, the Board of Directors authorised the Chief Executive Officer to retain the benefit of the “Pension Guarantee” pension plan, plus the “Spouse Annuity” cover should he die prior to his retirement, with this scheme being applicable to former Groupe Banque Populaire senior executives.

At its meeting on 29 July 2014, the Board of Directors duly noted the close, with effect from 1 July 2014, of the “Pension Guarantee for Banque Populaire Chief Executive Officers” differential supplementary defined-benefit pension plan, the close with effect from 1 July 2014 of the “Complementary defined-benefit pension plan” supplementary pension for which Caisse d’Epargne Management Board Chairmen were eligible, and the introduction with effect from 1 July 2014 of a single complementary “Groupe BPCE senior executives pension plan”, covered by Article L. 317-11 of the French Social Security Code and its rules of procedure, the main aspects of which are as follows:

To be eligible for this pension plan, now closed to new members, the beneficiary must meet all of the criteria listed below on the day of their departure:

- they must end their professional career with Groupe BPCE. This condition is met when beneficiaries are Group employees on the day before the claim of their pension rights under the social security pension plan following voluntary retirement;
- they must prove they have served as an Executive Director for a period of at least the required minimum (seven years) upon the claim of their pension rights under the social security pension plan.

Beneficiaries meeting the above conditions are entitled to an annuity payment equal to 15% of their reference remuneration equal to the average of their annual remuneration in the three highest-paid years in the five calendar years preceding the date of claim of their pension rights under the social security pension plan.

Annual remuneration means the total of the following types of remuneration awarded in respect of the year in question:

- fixed remuneration, excluding benefits in kind or bonuses related to duties;
- variable remuneration – not exceeding 100% of fixed remuneration – and defined as the total variable amount paid, including any portion deferred over several years and subject to attendance and performance requirements in respect of the regulations on variable remuneration in credit institutions.

The annuity is capped at four times the annual Social security ceiling.

Once claimed, 60% of this supplementary pension may be paid to the beneficiary’s spouse or former spouse from whom they are divorced unless the former spouse has remarried.

This plan, funded entirely at Groupe BPCE’s expense, is covered by two insurance policies arranged with Quatrem and Allianz insurance companies.

The supplementary pension plans covered by Article L. 137-11 of the French Social Security Code in force at the Group are managed pursuant to Section 24.6.2 of the AFEP-MEDEF Code in the revised version of June 2018. They are compliant with the principles set out governing beneficiaries’ status, the overall determination of basic remuneration, length of service conditions, the progressive increase in potential rights depending on length of service, the reference period used to calculate benefits and the ban on artificially inflating remuneration.

No employment contract or suspended employment contract – Unemployment insurance

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

Since the Executive Vice-Presidents hold a corporate office and an employment contract, they are covered by Unedic unemployment insurance.

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

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

Social security protection arrangements applicable to all employees

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

- IPGM (tranches A and B) and Quatrem (tranches C and D) complementary personal protection plans, entirely funded by Banque Palatine;
- the BPCE Mutuelle plan reimbursing healthcare costs.

8. Remuneration of regulated persons

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

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

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

The identification of regulated persons is subject to approval by the human resources division, supported by the risk management, compliance, permanent controls and financial security divisions during the meeting of the Committee of Identification of MRTs (material risk takers) and associated variable remuneration.

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

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

9. Draft resolutions regarding remuneration

At the General Meeting, resolutions will be submitted to the shareholders for approval concerning the establishment of the principles and criteria for determining the allocation and award of fixed, variable and exceptional items of total remuneration and benefits in kind, to be awarded in 2019 to the Chief Executive Officer and Executive Vice-Presidents by virtue of their office, as well as their total remuneration for financial year 2018.

In addition, the overall package of remuneration of any kind in respect of financial year 2018 paid to all regulated persons will also be submitted to the shareholders, but this only requires an opinion.

Appendix 1

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

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

1 Description of the Company's current remuneration policy

A. Remuneration of corporate officers at Banque Palatine

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

A.1 Executive body

A.1.1 Chief Executive Officer

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

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

The criteria and amounts of the chief executive Director's variable remuneration are set by the Banque Palatine Remuneration Committee. The variable remuneration is determined based on a combination of attainment of objectives set for Groupe BPCE's and Banque Palatine's earnings and qualitative objectives.

They may be adjusted annually to reflect economic conditions and/or exceptional events occurring during the year. The size of the variable remuneration is capped at 80% of remuneration.

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

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

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

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

A.1.2 Executive Vice-Presidents

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

- aggregate remuneration, 90% of which is paid under their employment agreement and 10% in respect of their corporate office;
- a variable remuneration capped at 50% of the annual fixed remuneration, contingent upon achievement of objectives linked to the results of Groupe BPCE and Banque Palatine and qualitative objectives set by the Chief Executive Officer. Where appropriate, this variable remuneration is reduced by the amount of any employee incentive and/or profit-sharing payments received;
- benefits in kind: company car and/or housing.

A.2 Board of Directors

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

The overall allocation of Directors' fees is submitted to a vote at the annual general shareholders' meeting and the apportionment of this allocation is decided upon by the Board of Directors.

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

B. Remuneration of regulated persons

B.1 Definition of a regulated person

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

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

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

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

B.2 Executive remuneration

Executive remuneration is described in A.1.

B.3 Directors’ remuneration

Directors’ remuneration is described in A.2.

B.4 Other executive remuneration

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

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

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 gross annual salary and pro-rated based on presence in the Executive Management Committee over the year.

B.5 Remuneration of control employees

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

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

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

B.6 Remuneration of other regulated persons

a) Fixed remuneration

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

b) Variable remuneration

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

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

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

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

B.7 Proportionality principle and deferred payment

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

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

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

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

C. Remuneration of Banque Palatine employees[1]

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

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

The Bank’s remuneration policy is defined by the Executive Management Committee on proposal from the Director of Human Resources and Services.

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

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

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

C.1 Budget and procedure

The budgets for the various systems for increases are redefined each year and take account, among other matters, of the Bank’s results and economic outlook.

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

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

C.2 Rules for basic salary increases

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

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

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

C.3 Variable remuneration

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

C.3.1 Definition

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

It is the operational and objective basis for variable remuneration.

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

C.3.2 Persons concerned

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

All of the employees in the scope defined below are eligible for the new systems, with the exception of the Chief Executive Officer, the Executive Vice-Presidents, the Director of Human Resources and Services; the Head of Transformation and Strategy; the Head of the Private Banking Market; the Head of Risks, Compliance, Permanent Controls and Financial Security, the Head of Risks and the Head of Internal Audit.

C.3.3 Number and nature of performance targets

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

Allocation of objectives by profile

<table>
<tr><th></th><th colspan="3">Entity portion</th><th colspan="3">Individual portion</th><th>Team portion</th></tr>
<tr><td>Group profile</td><td colspan="3">1 Target
No outperformance</td><td colspan="3"></td><td rowspan="6">1 Target
Outperformance: 130%</td></tr>
<tr><td>Individual profile</td><td colspan="3">1 Target
No outperformance</td><td>Target No. 1
Outperformance: 140%</td><td>Target No. 2
Outperformance: 140%</td><td>Target No. 3
No outperformance</td></tr>
<tr><td>Corporate individual profile</td><td>Target No. 1
Outperformance: 120%</td><td>Target No. 2
Outperformance: 120%</td><td>Target No. 3
Outperformance: 120%</td><td colspan="3">1 Target
Outperformance: 120%</td></tr>
<tr><td>“Finances” individual profile</td><td>Target No. 1
No outperformance</td><td>Target No. 2
No outperformance</td><td>Target No. 3
No outperformance</td><td colspan="3">1 Target
No outperformance</td></tr>
<tr><td>“Financial Director” individual profile</td><td>Target No. 1
Outperformance: 130%</td><td>Target No. 2
Outperformance: 130%</td><td>Target No. 3
Outperformance: 130%</td><td colspan="3">1 Target
No outperformance</td></tr>
<tr><td>“Investment Banker” individual profile</td><td colspan="3">1 Target
No outperformance</td><td>Target No. 1
Outperformance: 130%</td><td>Target No. 2
Outperformance: 130%</td><td>Target No. 3
Outperformance: 130%</td></tr>
</table>

Concept of entity

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

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

Concept of team

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

The team's aims[1] are proposed by a head of department or a manager.

C.3.4 Weighting of individual performance targets

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

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

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

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

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

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

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 Evaluation of performance

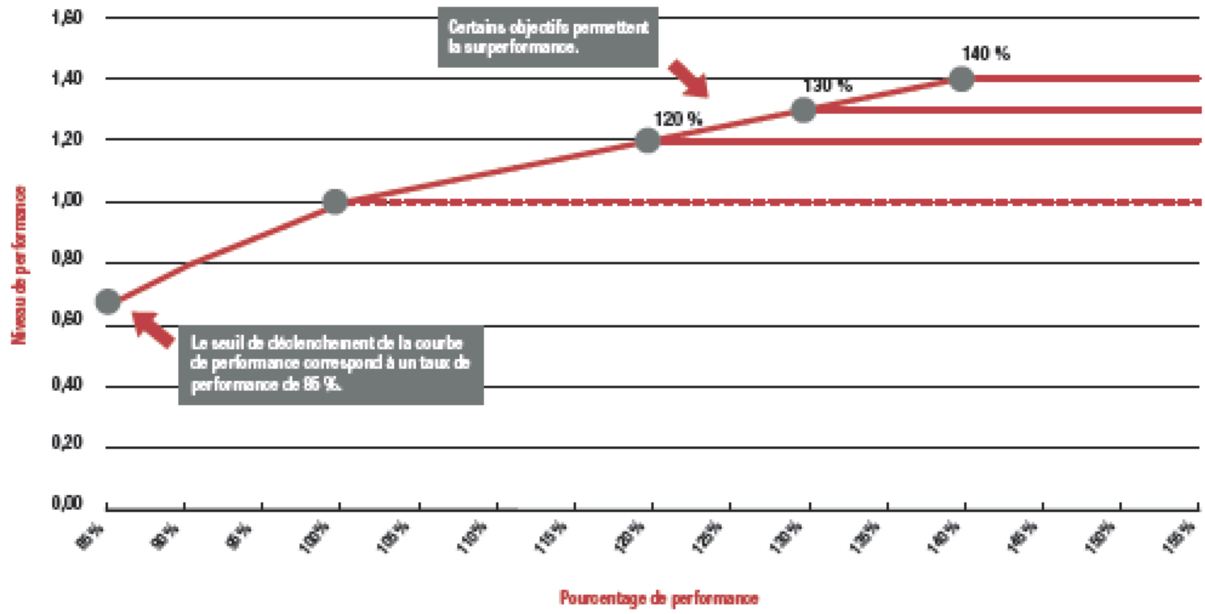
When each target is set, including the qualitative target, a scale of measurement must be defined to be able to objectively determine how far the original aim has been achieved at the year-end review.

Recognition of outperformance

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

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

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



The performance curve is based on the following three segments:

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

C.3.6 Performance management calendar

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

C.3.7 Contribution profiles and amounts

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

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

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

			Composition of bonus			Level of bonus		
Contribution profiles	**Persons concerned**	**Bonus base**	**Indiv. portion**	**Entity portion**	**Team portion**	**On-target bonus**	**Bonus +**	**Maxi bonus**
Executive Officer	Officers who are members of the Bank's Executive Committee	Annual basic salary	50%	50%		21.7%	25.0%	27.5%
Division Director	Non-executives managing an operational or functional division	Annual basic salary	50%	50%		13.0%	15.0%	16.4%
Director of Support Activities	Directors of Middle Office, Back Office or Support Functions	Annual basic salary	66%	33%		10.0%	12.0%	13.2%
Head of service*	Customer service managers, middle office or back office for market unit managers, managers of a functional unit, managers of front office departments, Group managers	Annual basic salary Amount	66%	33%		5.0% €1,500	6.0% €1,800	6.6% €1,980
Regulatory functions	The auditors of the audit division, the controllers or compliance officers of the compliance and permanent control divisions, the managers or those responsible of oversight and control of the risk management division	Annual basic salary		33%	66%	4.0%	4.8%	5.3%
Financial analyst	Analysts of the lending division and risk management division	Annual basic salary		33%	66%	4.0%	4.8%	5.3%
Project manager	For project leaders, Heads of the information systems division and the organisers of the organisation management division.	Annual basic salary	80%	20%		4.0%	5.0%	5.5%
Market division customer experts	For wealth managers, business planners and heads of business product marketing and private clients	Annual basic salary	80%	20%		4.0%	5.0%	5.5%
Head of business	Private bankers, large-corporate customer relationship managers, department heads or service managers of front office units in the market divisions, business managers in market divisions (except for regulated real estate professions)	Annual basic salary	80%	20%		16.1%	20.0%	22.0%
Area manager	Branch managers in the network or similar roles	Amount	50%	50%		€12,200	€14,030	€15,433
Branch manager	Network branch and "regulated real estate professions" managers	Amount	50%	50%		€8,700	€10,005	€11,006
Customer portfolio manager	Roles including CAE/DCE, CGP/CCP/RCP/DCP in the network, management of the private customer and commercial market, and regulated real estate professions	Amount	80%	20%		€5,800	€7,192	€7,911
Financing of senior	Senior executive financing	Annual basic	30%	70%		30.0%	36.0%	40.0%

executives	department employees of the private customers market division.	salary							
Investment bankers	Investment banker department employees of the corporate market division.	Annual basic salary	70%	30%		30.0%	36.0%	40.0%
Specialised finance line	Heads of division	Annual basic salary	25%	75%		50.0%	50.0%	50.0%
	Employees of the finance division, excluding commercial, ALM and treasury activities	Annual basic salary	25%	75%		100.0%	100.0%	100.0%
	Employees of the finance division, support, commercial, ALM and treasury activities.	Annual basic salary	25%	75%		40.0%	40.0%	40.0%
Specialised corporate line	Heads of division	Annual basic salary	40%	60%		82.0%	91.0%	100.0%
	Heads of departments and project heads (CORL & SYND) Heads of departments and project heads (CORF)	Annual basic salary	30%	70%		77.0% 46.0%	91.0% 54.0%	100.0% 60.0%
	LBO portfolio managers and syndication platform coordinators	Annual basic salary	30%	70%		40.0%	47.0%	52.0%
Financial operator	Middle/back office operators in the dealing room, analysts, special affairs advisors and managers of risk monitoring of commitments and middle office managers and middle office real estate assistants and “regulated real estate professions”	Amount		33%	66%	€1,500	€1,800	€1,980
Support functions	All Banque Palatine employees whose job is not covered by any of the other profiles	Amount		33%	66%	€1,000	€1,200	€1,320

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

C.3.8 Bonus by contribution profile

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

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

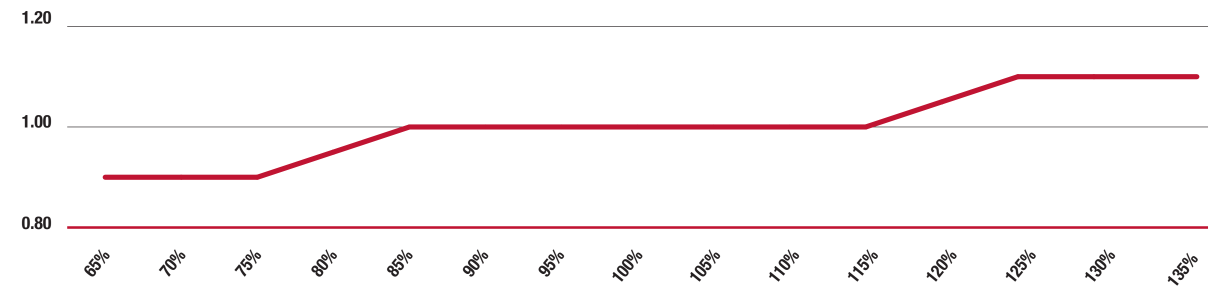
“Bonus +”: the amount of bonus in the event of maximum outperformance on certain targets and a 100% entity and Bank performance.

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

C.3.9 Bank performance multiplier

As previously noted, for legal compliance reasons, variable remuneration must take account of the “overall results of the Bank”.

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



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

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

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

Dealing room market

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

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

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

C.3.10 Bonus calculation

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

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

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

C.3.11 Payment of bonus

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

C.4 Variable remuneration, corporate advisory

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

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

C.5 Special case

Guaranteed variable remuneration is forbidden.

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

D. Employee savings

D.1 Profit sharing

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

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

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

D.2 Incentives

In accordance with book III of the third section of the French Labour Code, an incentive agreement was signed on 15 June 2017. It is in line with the strategic plan and designed to support and stimulate development. The commitment of everyone, whatever their role, and a continuous focus on putting the customer first, are the drivers of the 2017, 2018 and 2019 incentive schemes.

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

Incentives, relating to 2018, are determined based on the degree of achievement of the following four indicators:

- the individual IFRS net banking income;
- the number of new customers in the corporate market captured during the year;
- the number of new private banking customers captured during the year;
- the cost of risk.

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

D.3 Employer's contribution

An agreement on the employer's contribution agreed on unanimously with the unions representing employees was signed for the first time on 28 November 2014 and a renegotiation agreed with three unions on 27 November 2015, 20 December 2016, and 15 December 2017.

It specifies that all Bank staff having received remuneration under an incentive plan in respect of 2017 will be able to receive a contribution from the Bank topping up their investment in the Group savings plan (PEG) or the employee savings scheme (PERCO).

As a result, for any investment of 2017 incentive bonuses into the Group savings plan (PEG) or employee savings scheme (PERCO), the Bank has contributed up to €780, calculated as follows:

- for the first €150 of incentive bonuses invested, the employer contribution is 300%;
- above €150, the employer's contribution is 150%, limited to €330.

The agreement negotiated on 15 December 2017 also provides for payment of a contribution in the event of voluntary payment into the Group savings plan (PEG) or the employee savings scheme (PERCO). This agreement was concluded for a period of two years, i.e. until 31 December 2019.

E. Benefits in kind

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

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

F.1 Minimal capital

Pursuant to the last paragraph of Article L. 511-77 of the French Monetary and Financial Code, for the allocation of the variable portion to risk takers in the Group during a financial year, a minimal level of capital for Groupe BPCE must be respected as of 31 December of the financial year, set at the beginning of the financial year by BPCE's Supervisory Board, upon the recommendation of the BPCE Remuneration Committee.

This threshold is established with reference to the minimal amount required with respect to Pillar 2, defined by the control authority for the CET1 ratio.

For 2018, this reference corresponded to the Common Equity Tier 1 of the Basel 3 group (COREP vision and interim measures) of 10.28%. This level corresponds with the minimum level of Pillar 2 (P2G) prescribed by the ECB in its notice of 19 December 2017.

At 31 December 2018, a Common Equity Tier 1 level of 15.80% was recorded. This threshold allows the allocation of variable remuneration for FY 2018 and the allocation of deferred third-party payments.

For 2019, this benchmark corresponds to 11%.

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

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

F.2 Principles applicable to deferred variable remuneration

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

Deferred variable remuneration will therefore be reduced by:

Losses during the year	Reduction rate
> 15%	30
Between 10% and 14.99%	20
Between 5% and 9.99%	15
Between 0.10% and 4.99%	10

F.3 Principle for cancellation or reduction of variable remuneration

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

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

In 2018, there was no situation giving rise to the application of these reduction or cancellation criteria.

2 Decision-making process

The Remuneration Committee had four members at 31 December 2018:

- the Chairman of the Board of Directors and Chairman 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 2018, the Committee’s members were as follows:

• Christine Fabresse	Chairman
• Bernard Niglio	Member of the Committe
• Marie Pic-Pâris Allavena	Member of the Committe
• Caisse d’Epargne Grand Est Europe	Member of the Committee, represented by Christine Meyer-Forrler

The Committee met three times in 2018.

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

- the principles underlying the Company’s remuneration policy;
- the remuneration, termination benefits and benefits of all kinds paid to members of the executive body;
- the remuneration of the Heads of the risk management and compliance functions;
- allocation of Directors’ fees;
- reviews the civil liability insurance policies taken out by Banque Palatine on behalf of its senior executives;
- the review of which employees are classed as regulated persons and their remuneration;
- the review of the report on Corporate governance.

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

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

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

3 Description of the remuneration policy of regulated persons

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

In accordance with European Commission (EU) delegated regulation no. 604/2014 of 4 March 2014, the 18 criteria (15 qualitative and 3 quantitative) defined in the regulations have been applied to all Bank employees.

Since 2016, and in compliance with the Groupe BPCE standard, 2 additional criteria have been applied in order to take account of employees under the French law on the separation and regulation of banking activities (SRAB) and the Volcker rule.

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

Exclusions were applied under quantitative criterion c) of the aforementioned rule. Application of this criterion concerned a total of 437 employees, with 63 already recognized under another criterion, and 374 with jobs and/or responsibilities that do not belong to the criteria of this report:

- exclusion of branch manager employees (51 employees);
- exclusion of sales employees (131 employees);
- exclusion of business line specialists or experts (120 employees); and
- exclusion of employees in management positions (72 employees).

The identification of the regulated population was approved by the human resources division, the risk management, compliance, permanent controls and financial security divisions during the meeting of the Committee of Identification of MRTs and associated variable remuneration of 15 January 2019.

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

In 2018, Banque Palatine’s regulated persons were as follows:

Functions		Fixed remunerations	Variable remunerations
1.	Chief Executive Officer	A.1.1	A.1.1
2.	Executive Vice-Presidents*	A.1.2	A.1.2
3.	Directors*	A.2	A.2
4.	Director of Human Resources and Services Division	C.	B.4
5.	Director of Transformation and Strategy	C.	B.4
6.	Head of private banking market	C.	B.4
7.	Director of Compliance and Risk	B.5	B.5
8.	Head of audit*	B.5	B.5
9.	Head of risk management	B.5	B.5
10.	Head of finance	C.	C.3
11.	Head of legal and tax	C.	C.3
12.	Head of management control	C.	C.3
13.	Head of information systems	C.	C.3
14.	Head of non-performing loans	C.	C.3
15.	Head of accounting, legal and litigation	C.	C.3
16.	Head of lending	C.	C.3
17.	Head of corporate market*	C.	C.3
18.	Regional Directors*	C.	C.3
19.	Head of regulated real estate professions	C.	C.3
20.	Head of corporate finance	C.	C.3
21.	Head of real estate	C.	C.3
22.	Head of international affairs	C.	C.3
23.	Head of banking services	C.	C.3
24.	Deputy Head of corporate market	C.	C.3
25.	Deputy head of legal and tax	C.	C.3
26.	Head of financial risk department	C.	C.3
27.	Head of compliance and ethics department	C.	C.3
28.	Head of the permanent control management department	C.	C.3
29.	Head of anti-corruption and anti-fraud department	C.	C.3
30.	Head of operational risk department	C.	C.3

31.	Head of loan department*	C.	C.3
32.	Head of prudential oversight and collective provision department	C.	C.3
33.	Head of risk management and measurement department	C.	C.3
34.	Head of customer and brokerage department	C.	C.3
35.	Head of engineering and trading department	C.	C.3
36.	Head of ALM and MLT investment department	C.	C.3
37.	Head of remuneration and benefits department	C.	C.3
38.	Head of special affairs surveillance department	C.	C.3
39.	Head of regulated real estate professions department*	C.	C.3
40.	Head of liabilities and ECM	C.	C.3
41.	Head of LMBO	C.	C.3
42.	Head of structured financing and distribution department	C.	C.3
43.	Head of investment fund hedging department	C.	C.3
44.	Head of large corporates department	C.	C.3
45.	Head of financing of senior executives department	C.	C.3
46.	Head of Private Banking department	C.	C.3
47.	Head of differentiating service offer	C.	C.3
48.	Head of euro and foreign currency service	C.	C.3
49.	Head of exchange service	C.	C.3
50.	Head of information systems security service	C.	C.3
51.	Head of risk monitoring and control service	C.	C.3
52.	Head of market risk and balance sheet management	C.	C.3
53.	Commitment analyst	C.	C.3
54.	Delegation analyst*	C.	C.3
55.	Investment bankers*	C.	C.3
56.	Dealing room sales employee*	C.	C.3
57.	Commercial operator	C.	C.3
58.	Market operators*	C.	C.3
59.	ALM manager	C.	C.3
60.	Treasury manager	C.	C.3

**Functions that were filled by more than one person during 2018.*

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

3.2 Policy on variable remuneration of regulated persons

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

Proportionality principle

The rules regulating variable remuneration apply only where the amount of variable remuneration awarded in respect of a financial year is above a threshold, currently greater than or equal to €100,000.

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

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

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

When an employee moves job during the year, to assess whether the €100,000 threshold has been breached, all portions of variable remuneration granted in respect of year n for their different regulated functions exercised in year n are added.

Deferred and conditional payment of a portion of variable remuneration

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

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

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

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

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

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

Payment in shares or equivalent instruments

The deferred portions of variable remuneration take the form of cash indexed to an indicator representing changes in the value of Groupe BPCE.

The indicator adopted is net income attributable to equity holders of the parent calculated as a rolling average of the last three years preceding the grant year and the payment years. The calculation of this average only considers the 2010 and subsequent financial years.

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

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

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

The ratio is reported each year by BPCE.

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

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

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

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

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

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

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

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

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

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(1) 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.

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

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

4 Aggregate quantitative information on the remuneration of regulated persons

Table 1 - Aggregated qualitative information on remunerations, broken down by sector

Article 450 g) of EU regulation no. 575/2013

	Management body executive function	Management body supervisory function	Investment banking	Retail banking	Asset management	Support functions	Independent control function	Other	Total
Workforce	2.9	7.9		11.1		36.5	12.2	9.7	80.2
Fixed remuneration	€685,109	€0		€953,151		€3,601,666	€957,799	€651,887	€6,849,611
Variable remuneration	€388,564	€0		€216,852		€1,374,439	€106,206	€587,090	€2,673,151
Total remuneration	**€1,073,673**	**€0**	**€0**	**€1,170,003**	**€0**	**€4,976,105**	**€1,064,005**	**€1,238,977**	**€9,522,762**

Table 2. Aggregate quantitative information on remuneration, broken down by executives and employees whose activities have a significant impact on the institution’s risk profile,

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

	Management body	Other	Total
Workforce	10.8	69.4	80.2
Total remuneration	**€1,073,673**	**€8,449,089**	**€9,522,762**
• of which fixed remuneration	€685,109	€6,164,503	€6,849,611
• of which variable remuneration	€388,564	€2,284,587	€2,673,151
• of which non-deferred	€272,564	€2,212,155	€2,484,719
• of which cash	€272,564	€2,212,155	€2,484,719
• of which shares and related instruments	€0	€0	€0
• of which other instruments	€0	€0	€0
• of which deferred	€116,000	€72,431	€188,431
• of which cash	€0	€0	€0
• of which shares and related instruments	€116,000	€72,431	€188,431
• of which other instruments	€0	€0	€0
Total variable remuneration awarded for prior years and not yet vested	€95,449	€74,776	€170,225
Amount of variable remuneration awarded for prior years and vested (after reduction)	€104,004	€49,520	€153,524
• Amount of reductions	€0	€0	€0
Termination benefits agreed	€0	€28,913	€28,913
Number of beneficiaries of termination benefits	0	1	1
Highest amount of termination benefits agreed	€0	€28,913	€28,913
Amounts paid for recruitment	€0	€0	€0,
Number of beneficiaries of amounts paid for recruitment			

In 2018, no Banque Palatine employee received total remuneration of more than €1 million.

5 Individual information

Pierre-Yves DRÉAN	Amounts in respect of 2018	
	Due	Paid
Fixed remuneration	€290,000	€290,000
Variable remuneration	€232,000	€116,000
Directors' fees	€17,000	€17,000
Housing allowance	€40,000	€40,000
Benefits in kind		€19,394

Bertrand DUBUS	Amounts in respect of 2018	
	Due	Paid
Fixed remuneration	€205,000	€205,000
Variable remuneration	€102,500	€81,206
Profit-sharing and incentive plans		€21,294
Directors' fees	€4,000	€4,000
Benefits in kind		€10,051

Patrick IBRY	Amounts in respect of 2018	
	Due	Paid
Fixed remuneration	€190,109	€190,109
Variable remuneration	€95,055	€75,358
Profit-sharing and incentive plans		€19,697
Directors' fees	€5,250	€5,250
Benefits in kind		€8,130

Henri GALLON	Amounts in respect of 2018	
	Due	Paid
Fixed remuneration	€110,000	€110,000
Variable remuneration	€16,500	€16,500
Benefits in kind		€3,289

Christophe MAILLARD	Amounts in respect of 2018	
	Due	Paid
Fixed remuneration	€100,000	€100,000
0Variable remuneration	€15,000	€15,000
Benefits in kind		€3,244

Appendix 2

Terms in office and duties held by corporate officers

Article L. 225-102-1 para. 3 of the French Commercial Code

Pierre-Yves DRÉAN

DoB: 31/01/1960 **Term of office: 14/02/2014-14/02/2019**	**BANQUE PALATINE: Chief Executive Officer and Workforce Manager** PALATINE ASSET MANAGEMENT: Chairman of the Supervisory Board and Chairman of the Remuneration Committee CONSERVATEUR FINANCE: Director, and Member of Audit Committee starting on 19/09/2018. FC LORIENT BRETAGNE SUD: Director **Previous appointment:** ARIES ASSURANCES: Chairman of Supervisory Committee until 20/05/2018

Bertrand DUBUS

DoB: 26/09/1959 **Term of office: 13/02/2015-14/02/2019**	**BANQUE PALATINE: Executive Vice-President and Workforce Manager** PALATINE ASSET MANAGEMENT: Member of the Supervisory Board and Member of the Remuneration Committee PALATINE ETOILE 13: Permanent Representative of Banque Palatine, Director OCBF: Permanent representative of Banque Palatine **Previous appointment:** GIE CAISSE D'EPARGNE SYNDICATION RISQUE: Permanent representative of Banque Palatine, Member of Supervisory Board until 16/02/2018 PALATINE ASSET MANAGEMENT: Vice-President of the Supervisory Board, Chairman of the Audit Committee until 23/03/2018

Patrick IBRY

DoB: 11/04/1963 **Term of office: 08/02/2018-14/02/2019**	**BANQUE PALATINE: Chief Executive Officer and Workforce Manager** PALATINE ASSET MANAGEMENT: Vice-Chairman of the Supervisory Board, Chairman of the Audit Committee GIE CAISSE D'EPARGNE SYNDICATION RISQUE: Permanent representative of Banque Palatine, Member of Supervisory Board starting on 16/02/2018 ARIES ASSURANCES: Chairman of the Supervisory Board as of 20/05/2018

Laurent ROUBIN

DoB: 02/11/1969 **Term of office: 16/05/2017 to 01/11/2018**	**BPCE: Chief Executive Officer in charge of Commercial banking and Insurance, Member of the Management Board, Member of the Executive Management Committee** BANQUE PALATINE: Chairman of the Board of Directors, Chairman of the Remuneration Committee, Chairman of the Appointments Committee, Member of the Audit Committee, Member of the Risk Committee BPCE INTERNATIONAL: Chairman of the Board of Directors CREDIT FONCIER DE FRANCE: Director ERILIA: BPCE's permanent representative, Non-voting Director FIDOR BANK AG: Member of Supervisory Board since 23/03/2017

Christine FABRESSE

DoB: 24/05/1964 **Term of office: 19/11/2018 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019**	**BPCE: Member of the Management Committee and Chief Executive Officer in charge of Retail banking and Insurance** BANQUE PALATINE: Chairman of the Board of Directors, Chairman of the Appointments Committee, Chairman of the Remuneration Committee, Member of the Audit Committee, Member of the Risk Committee CREDIT FONCIER DE FRANCE: Director NATIXIS INVESTMENT MANAGERS: Permanent representative of BPCE, Director BANQUE CENTRALE POPULAIRE (BCP): Permanent representative of BPCE Maroc, Director

Maurice BOURRIGAUD

DoB: 21/01/1958 **Term of office: 16/05/2017 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019**	**BANQUE POPULAIRE GRAND OUEST (BPGO): Chief Executive Officer** BANQUE PALATINE: director, member of the Audit Committee, Member of the Risk Committee ATLANTIQUE MUR REGIONS: Permanent representative of BPGO, Member of Supervisory Board BANQUE POPULAIRE DEVELOPPEMENT: Representing OUEST CROISSANCE, Director i-BP: Permanent representative of BPGO, Director OUEST GESTION D'ACTIFS: Permanent representative of BPGO, Director OUEST CROISSANCE: Chairman OUEST CROISSANCE GESTION: Member of the Supervisory Board OUEST INGENIERIE FINANCIERE: Permanent representative of BPGO, Director GC2I: Manager FONDATION D’ENTREPRISE BPO: Director

Stéphanie CLAVIÉ

DoB: 16/08/1970 **BPCE’s permanent representative starting on 17/01/2017**	**BANQUE PALATINE: Permanent representative of BPCE, Director** FIDOR BANK AG: Director

Sylvie GARCELON

DoB: 14/04/1965 **Term of office: 16/05/2017 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019**	**CASDEN BANQUE POPULAIRE: Chief Executive Officer** BANQUE PALATINE: Director, Member of the Audit Committee, Member of the Risk Committee BPCE: Non-voting Director since 20 December 2018 FONDATION BANQUE POPULAIRE: Director NATIXIS: Director, Member of the Audit Committee CENTRE NATIONAL DE RECHERCHE SCIENTIFIQUE: Director

Benoît MERCIER

DoB: 04/02/1953 **Term of office: 16/05/2017 to 22/06/2018**	**CAISSE D’ÉPARGNE LORRAINE CHAMPAGNE-ARDENNE (CELCA): Chairman of the Management Board** BANQUE PALATINE: Director, Member of the Appointments Committee, Member of the Remuneration Committee ASSOCIATION DE PREFIGURATION DU CENTRE DES CONGRES DE METZ METROPOLE: CELCA’s Permanent representative, Director ALBIAN-IT: Director, Member of the bureau, of the Economic Committee and of the Remuneration Committee BCP SA: Director BPCE IT: Director SCI CEFCL: Manager representing CELCA CEGC: Director FBF – COMITE REGIONAL FBF LORRAINE: Vice-Chairman FEDERATION NATIONALE DES CAISSES D’EPARGNE: Director FIRMAMENT PARTICIPATIONS: Permanent representative of CELCA, Director FONDS DE DOTATION DE LA CELCA: Vice-Chairman of the Board of Directors, Member of the bureau, Representative of CELCA FONDS DE DOTATION DE L’ECOLE D’ENSEIGNEMENT SUPERIEUR ICN: Chairman of the Board of Directors, Representative of CELCA GIE BPCE ACHATS: Chairman GIE IT-CE: Permanent representative of CELCA, Member of the Supervisory Board HABITAT EN REGION: Director LIVRET BOURSE INVESTISSEMENT: Director

Christine MEYER-FORRLER	
DoB: 07/05/1969 **Mandate as Permanent representative of Caisse d'Epargne d'Alsace until 23 June 2018, then of Caisse d'Epargne Grand Est Europe**	**CAISSE D'EPARGNE D'ALSACE (CEA): Member of the Management Board in charge of Corporate and Institutional customers until 23/06/2018** **CAISSE D'EPARGNE GRAND EST EUROPE (CEGEE): Member of the Management Board in charge of Corporate and Institutional customers until 23/06/2018** BANQUE PALATINE: Permanent representative of CEGEE, Director, Member of the Appointments Committee, Member of the Remunerations 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'H.L.M. LOGI-EST: Permanent representative of CEGEE, Director

Marie PIC-PÂRIS ALLAVENA	
DoB: 04/07/1960 **Term of office: 16/05/2017 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019**	**GROUPE EYROLLES: Chief Executive Officer, Director** BANQUE PALATINE: Director, Chairman of the Risk Committee, Member of the Appointments Committee, Member of the Remuneration Committee AUFEMININ.COM: Director, Chairman of the Audit Committee BANQUE POPULAIRE RIVES DE PARIS: Director, Member of the Audit Committee and Chairman of the Risk Committee, Member of the bureau and the Investment Committee, Member of the Remuneration Committee and of the Appointments Committee

Bernard NIGLIO	
DoB: 10/08/1949 **Term of office: 16/05/17 until the Annual General Meeting called to approve the financial statements for the year ending on 31/12/2019**	CAISSE D'EPARGNE PROVENCE-ALPES-CORSE: Chairman of the Steering and Supervisory Board BANQUE PALATINE: Director, Chairman of the Audit Committee, Member of the Remuneration Committee, Member of the Appointments Committee FNCE: Director, Member of the bureau IMF CREASOL: Director NATIXIS FACTOR: Director PFIL OEBI MARTIGUES: Director SLE PROVENCE OUEST: Chairman

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

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

Appendix 3

Rules of procedure for the Board of Directors

ARTICLE 1 – MEETING NOTICE

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

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

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

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

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

ARTICLE 2 – MEETING OF THE BOARD

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

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

ARTICLE 3 – IMPLEMENTATION OF VIDEO OR TELECONFERENCE SYSTEM

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

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

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

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

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

ARTICLE 4 – RECORDING OF MEETINGS OF THE BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

ARTICLE 6 – COMMITTEES

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

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

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

ARTICLE 7 – MINUTES

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

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

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

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

ARTICLE 8 – REGISTER OF ATTENDANCE

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

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

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

ARTICLE 9 – PROFESSIONAL SECRECY AND DUTY OF DISCRETION

The Directors, as well as any person asked to attend meetings of the Board of Directors, are subject to professional secrecy under the terms provided for by Article 511-33 of the French Monetary and Financial Code, and to the duty of discretion regarding discussion as well as all confidential information presented as such by the Chairman of the meeting under the terms of Article L. 225-92 of the French Commercial Code.

The Chairman of the meeting may declare the proceedings of a meeting to be confidential whenever regulations or Banque Palatine’s interests so require. He may require all individuals taking part in a meeting to sign a confidentiality undertaking. He may do the same within the specialised committees of the Board.

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

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

If a Director fails to comply with one of his obligations, in particular the obligation to keep matters confidential, the Chairman of the Board of Directors refers the matter to the Board with a view to issuing a formal warning to said member, independently of any measures taken under the applicable provisions of the law, regulations or Articles of Association.

The Board of Directors may, if so proposed by its Chairman, request the dismissal of the Director by the relevant body or authority. If it concerns a committee member, the Board of Directors may, upon the recommendation of its Chairman, terminate the duties of the committee member.

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

ARTICLE 11 – REMUNERATION

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

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

ARTICLE 12 – REIMBURSEMENT OF EXPENSES

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

ARTICLE 13 – MODIFICATION OF PROCEDURAL RULES

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

2

2018 FINANCIAL STATEMENTS

1 Parent-company financial statements

At 31 December 2018

1.1 Balance sheet and off-balance sheet

Assets

in millions of euros	Notes	31/12/2018	31/12/2017
Cash, central banks		291.4	174.6
Treasury bills and similar securities	3.3	1,077.6	1,080.3
Loans and advances due from credit institutions	3.1	3,783.3	3,597.5
Customer transactions	3.2	9,084.0	8,802.9
Bonds and other fixed-income securities	3.3	597.8	628.4
Equities and other variable-income securities	3.3	0.2	1.5
Investments in subsidiaries and long-term equity investments	3.4	8.8	7.9
Investments in associates	3.4	6.4	9.3
Intangible assets	3.6	106.9	121.6
Property, plant and equipment	3.6	15.9	18.4
Other assets	3.8	150.3	145.2
Accrual accounts	3.9	116.7	163.0
TOTAL ASSETS		**15,239.3**	**14,750.6**

Off-balance sheet items

in millions of euros	Notes	31/12/2018	31/12/2017
Commitments given			
Financing commitments	4.1	2,042.2	1,741.1
Guarantees issued	4.1	1,058.4	1,113.4
Commitments on securities		**0.0**	48.5

Liabilities

in millions of euros	Notes	31/12/2018	31/12/2017
Cash placed with central banks		0.2	0.1
Amounts due to credit institutions	3.1	1,613.8	2,088.7
Customer transactions	3.2	9,149.7	8,385.3
Debt securities	3.7	3,020.6	2,905.4
Other liabilities	3.8	39.2	40.0
Accrual accounts	3.9	154.2	184.1
Provisions	3.10	103.9	69.4
Subordinated debt	3.11	303.5	200.2
Fund for general banking risks (FGBR)	3.12	1.3	1.3
Total equity (excl. FGBR)	3.13	**853.1**	**876.1**
Issued capital		**538.8**	538.8
Share premium		**56.7**	56.7
Retained earnings		**49.8**	47.2
Carried forward		**230.8**	180.9
Net income/(loss) for the year		**(23.1)**	52.5
TOTAL LIABILITIES		**15,239.3**	**14,750.6**

Off-balance sheet items

in millions of euros	Notes	31/12/2018	31/12/2017
Commitments **received**			
Financing commitments	4.1	357.2	337.5
Guarantees issued	4.1	203.9	237.7
Commitments on securities		0.0	0.1

1.2 Income statement

in millions of euros	Notes	31/12/2018	31/12/2017
Interest and similar income	5.1	272.1	288.3
Interest and similar expenses	5.1	(58.9)	(81.6)
Income from variable-income securities	5.3	11.8	12.2
Fee and commission income	5.4	78.3	76.5
Fee and commission expenses	5.4	(7.0)	(6.7)
Net gains or losses on trading book transactions	5.5	13.6	18.0
Net gains or losses on available-for-sale securities and similar items	5.6	1.4	(0.7)
Other banking income	5.7	2.5	3.3
Other banking expenses	5.7	(3.0)	(2.7)
NET BANKING INCOME		**310.8**	**306.6**
General operating expenses	5.8	(229.3)	(186.4)
Depreciation, amortisation and impairment of property, plant & equipment and intangible assets		(14.9)	(11.5)
GROSS OPERATING INCOME		**66.6**	**108.7**
Cost of risk	5.9	(86.7)	(35.0)
OPERATING INCOME		**(20.1)**	**73.7**
Gains or losses on long-term investments	5.10	(2.9)	0.0
INCOME BEFORE TAX		**(23.1)**	**73.7**
Non-recurring items	5.11	0.0	0.0
Income tax	5.12	(0.0)	(21.2)
FRBG charges/reversals and regulated provisions		0.0	0.0
NET INCOME		**(23.1)**	**52.5**

2 Notes to the parent-company annual financial statements

Note 1 General background

1.1 Groupe BPCE

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

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

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

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

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

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

The capital of the Caisse d'Epargne banks is wholly-owned by the local savings companies. Local savings companies are cooperative entities with open-ended share capital owned by cooperative members. They are tasked with coordinating the cooperative membership, in line with the general objectives laid down for the individual Caisse d'Epargne with which they are affiliated, and they cannot perform banking transactions.

BPCE

BPCE, a central body as defined by French banking law and a credit institution licensed to operate as a bank, was created pursuant to Act No. 2009-715 of 18 June 2009. BPCE was incorporated as a French société anonyme with a Management Board and a Supervisory Board. Its share capital is owned jointly and equally by the 14 Banque Populaire banks and the 15 Caisses d'Epargne.

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

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

As a holding company, BPCE acts as the ultimate controlling party of the Group and holds the joint ventures between the two networks in retail banking and insurance, corporate banking and financial services, and their production units. It also defines the Group's corporate strategy and growth and expansion policies.

BPCE's main subsidiaries, including Natixis, a listed company which is 71.0227% owned, are organised around three major segments:

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

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

Banque Palatine

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

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

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

1.2 Guarantee mechanism

In accordance with 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 within the Banque Populaire and Caisse d'Epargne networks.

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

BPCE manages the Banque Populaire Network Fund and the Caisse d'Epargne Network Fund and sets up the Mutual Guarantee Fund.

The **Banque Populaire Network** Fund was endowed with a €450 million deposit by the Banques Populaires that was recorded by BPCE as a ten-year term account renewable in perpetuity.

The **Caisse d'Epargne Network Fund** consists of a €450 million deposit made by the Caisses d'Epargne that was recorded by BPCE as a ten-year term account renewable in perpetuity.

The **Mutual Guarantee Fund** was formed through deposits made by the Banque Populaire banks and the Caisse d'Epargne banks. These deposits were booked by BPCE in the form of ten-year term accounts renewable in perpetuity. The deposits by network amounted to €181 million at 31 December 2018.

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 Caisse de Crédit Maritime Mutuel banks are guaranteed in respect of each individual Caisse by the Banque Populaire bank that is its core shareholder and provider of technical and operational support to the Caisse.

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

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

1.3 Significant events

In 2017, Banque Palatine conducted a long auditing process bringing to light a suspected internal fraud in cases of real estate loan financing. Since then, the bank has lodged a complaint and filed a civil suit. The cases identified were impaired in an amount of €7.2 million.

In compliance with the instructions of Groupe BPCE and with a view to ensuring uniformity of the accounting methods applied within the Group, on 31 December 2018, Banque Palatine aligned the method of determining its collective provisions with the French standards on the method of measuring expected credit losses (stage 2 as defined by IFRS 9).

The impact of this change in the calculation methods was recognised in the income statement. The amount calculated, reduced by the collective provision recognised previous to 31/12/2017, is €32.7 million.

This event led to a net loss of €23 million in the Palatine financial statements at 31/12/2018

During the first half of 2018, the Bank undertook a project to migrate towards the i-BP platform by 2020. This tool will replace the Bank's entire information system. The bulk of the IT spending is now charged to expenses, i.e. €34.8 million for financial year 2018. This amount includes expenses relating to the migration project and also the non-current assets being computerised in the balance sheet at 1 January in the amount of €10.4 million.

1.4 Post-balance sheet events

No events liable to have a material effect on the 2018 financial statements occurred after the reporting date.

Note 2 Accounting principles and methods

2.1 Measurement and presentation methods

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

The parent-company financial statements are based on the financial statements at 31 December 2018. They were approved by the Board of Directors on 8 February 2019. They will be presented to the annual general meeting on 21 May 2019.

2.2 Changes in accounting methods

No change in accounting methods affected the financial statements in 2018.

The texts adopted by the ANC and the obligatory application in 2018 did not have any significant impact on the Company's individual financial statements.

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

2.3 Accounting principles and basis of measurement

The financial statements for the year are presented in an identical format to those for the previous financial year. Generally accepted accounting principles have been applied in compliance with the conservatism principle based on the following principles:

- the going concern principle;
- the consistency of accounting methods from one period to the next;
- the accrual principle;

and in accordance with the general rules on preparation and presentation of the annual financial statements.

The basic method for valuing accounting entries is the historical cost method, and all balance sheet items are presented, as appropriate, net of depreciation and amortisation, provisions and allowances for impairment.

The principal methods used are as follows:

2.3.1 Foreign currency transactions

Income relating to foreign currency transactions is determined in accordance with ANC Regulation No. 2014-07.

Foreign currency receivables, payables and off-balance sheet commitments are translated at the exchange rate ruling at the end of the year. Definitive or unrealised foreign exchange gains and losses are recognised in income. Income and expense paid or received in foreign currencies is recognised at the exchange rate at the transaction date.

Property, plant and equipment, intangible assets and investments in subsidiaries denominated in foreign currencies but financed in euros are stated at acquisition cost.

Unsettled spot foreign exchange transactions are stated at the exchange rate at year-end.

Discounts or premiums on currency forwards and futures used for hedging purposes are recognised in income on a ***prorata basis***. Other currency forwards and futures and financial forwards and futures denominated in foreign currencies are marked to market. Outright currency forwards and futures and those hedged by forwards, futures and options, are remeasured over the remaining term. Foreign exchange swaps are recognised as combined spot purchase/forward sale transactions. Currency swaps are subject to the provisions of ANC Regulation No. 2014-07.

2.3.2 Transactions with credit institutions and customers

Loans and advances due from credit institutions cover all loans and advances made in connection with banking transactions with the exception of those represented by a security. They also include securities received under repurchase agreements, regardless of the type of underlying, and loans and advances relating to securities repurchase agreements. They are broken down into demand loans and deposits, and term loans and deposits. Loans and advances due from credit institutions are stated on the balance sheet at their nominal value, with the exception of buybacks of customer receivables, which are carried at cost, plus accrued interest not yet due and net of any impairment charges recognised for credit risk.

Loans and advances to customers include loans to entities other than credit institutions, with the exception of debt securities issued by customers, securities received under repurchase agreements and loans and advances relating to securities repurchase agreements. They are broken down into commercial loans, customer accounts in debit and other loans. Loans and advances due from customers are recorded on the balance sheet at their nominal value, with the exception of buybacks of customer receivables, which are carried at cost, plus accrued interest not yet due and net of any impairment charges recognised for credit risk. Deferred marginal transaction costs and fees are included in the relevant loan.

Amounts due to credit institutions are recorded according to their initial term under demand deposits and current accounts or term deposits and borrowings. Amounts due to customers are classified into regulated savings accounts and other customer deposits. Depending on the counterparty involved, these items include securities and other assets sold under repurchase agreements. Accrued interest is recorded under the accrued interest line item.

Guarantees received are recorded as an off-balance sheet item. They are remeasured on a regular basis. The total carrying amount of all collateral received for a single loan may not exceed the outstanding amount of the loan.

Restructured loans

Within the meaning of ANC Regulation No. 2014-07, restructured loans are doubtful loans and advances the initial characteristics (term, interest rate) of which have been altered to enable counterparties to repay the amounts due.

A discount is taken on restructured loans to reflect the difference between the present value of the contractual cash flows expected at inception and the present value of expected principal and interest repayments after restructuring. The discount rate used for fixed-rate loans is the initial effective interest rate, and the discount rate used for variable-rate loans is the most recent effective interest rate prior to the restructuring date. The effective rate is the contractual rate. This discount is expensed to “Cost of risk” and offset against the corresponding outstanding on the balance sheet. It is written back to net interest income in the income statement over the life of the loan using an actuarial method.

A restructured loan may be reclassified as performing when the new repayment dates are observed. When a loan that has been reclassified becomes overdue, regardless of the restructuring terms agreed, the loan is downgraded to doubtful.

Doubtful loans and advances

Doubtful loans and advances consist of all outstanding amounts (whether or not they are due, guaranteed or other), where at least one commitment made by the debtor is subject to an incurred credit risk, classified as such on an individual basis. A risk is considered to have been “incurred” when it is probable that the Group will not collect all or part of the sums owed under the terms of the commitments made by the counterparty, notwithstanding any guarantees or collateral.

Doubtful loans are identified in compliance with ANC Regulation No. 2014-07, particularly in the case of loans past due for over three months, over six months for real estate loans, and over nine months for loans to local authorities.

Doubtful loans are considered to be irrecoverable when full or partial collection is deemed to be highly unlikely and a write-off is considered. Loans and advances with terms that have lapsed, terminated lease financing agreements, and perpetual loans that have been rescinded, are considered as irrecoverable. The existence of collateral covering nearly all risks, along with the conditions for classification as doubtful loans and advances, must be taken into consideration when qualifying a doubtful loan as irrecoverable and assessing the associated impairment. A debt that has been classified as doubtful for more than one year is assumed to be irrecoverable, unless a write-off is not considered. Reclassification of a debt from doubtful to irrecoverable does not automatically entail the reclassification of the counterparty’s other doubtful loans and commitments as irrecoverable.

For doubtful loans and advances, accrued interest and/or interest due but not received is recognised in banking income and impaired accordingly. For irrecoverable loans and advances, accrued interest due but not received is not recognised.

Doubtful loans and advances are reclassified as performing once the debtor resumes regular payments in accordance with the original repayment schedule, provided that the counterparty is no longer considered to be at risk of default.

Repurchase agreements

Collateralised repurchase agreements are recognised in accordance with ANC Regulation No. 2014-07, complemented by Instruction No. 94-06, as amended, issued by the French Banking Commission.

The collateralised assets remain on the balance sheet of the vendor, which records the amount collected under liabilities, representing its debt vis-à-vis the purchaser. The purchaser records the amount paid under assets, representing the amount due to the vendor. At each balance sheet date, the collateralised assets, as well as the debt vis-à-vis the purchaser or the amount due to the vendor, are stated according to the rules appropriate for each of these transactions.

Impairment

An impairment loss is recognised on loans and advances to cover the risk of loss where the prospects of recovery are uncertain. Impairment losses are calculated on a case-by-case basis, taking into account the present value of guarantees received. Impairment losses are determined at least every quarter and are based on available collateral and a risk analysis. Impairment losses cover at the very least the interest not received on doubtful loans.

Impairment for probable incurred losses includes all impairment charges, calculated as the difference between the principal outstanding and the projected cash flows discounted at the initial effective interest rate. Projected cash flows are determined based on the type of loans on the basis of historical losses and/or expert appraisals and are positioned over time using debt schedules based on collection histories.

Impairment charges and reversals booked for the risk of non-recovery are recorded under “Cost of risk” except for impairments for interest on doubtful loans and advances, which are recorded as impaired interest under “Interest and similar income”.

The reversal of the impairment related to the passage of time alone is recorded under “Cost of risk”.

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. As from 1 January 2018, the measurement of these non-doubtful loans is thus aligned with those in IFRS 9 of Stage 2 (S2) taken for the consolidated financial statements.

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

2.3.3 Finance and operating leases

Banque Palatine only conducts operating lease transactions as a lessee.

2.3.4 Investment securities

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

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

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

The trading securities, available-for-sale securities, held-to-maturity securities, equity investments available for sale in the medium term and counterparts with incurred default risks the impacts of which can be separately identified are recognised in the form of impairments. Changes in impairment are recorded under the cost of risk.

Trading securities

These are securities acquired or sold with the intention to resell or repurchase them after a short holding period. To be eligible for this category, the securities must be tradable on an active market at the date of their initial recognition and their market prices must be accessible, representing actual arm’s length transactions regularly occurring in the market. They may be either fixed or variable income securities.

Trading securities are recorded in the accounts at cost on their acquisition date, less transaction costs and including accrued interest, where applicable. In the event of a short sale, the debt is recorded under liabilities in the amount of the selling price of the securities, less transaction costs.

At closing, they are valued at the market price of the most recent day: the overall balance of differences resulting from price changes is recorded in the income statement. For UCITS and investment funds, market value corresponds to net asset values reflecting available market information at the balance sheet date.

Securities classified as trading securities cannot be transferred to another accounting category (except in exceptional market situations requiring a change of strategy or in the absence of an active market for fixed-income securities), and the rules for their presentation and measurement continue to apply until they are sold, redeemed in full, or written off.

Available-for-sale securities

Securities that do not qualify for recognition in any other category are considered as available-for-sale securities.

Available-for-sale securities are recognised at cost on their acquisition date, less transaction costs.

Where applicable, for fixed-income securities, accrued interest is recognised in income under “Interest and similar income”.

Any difference between acquisition cost and redemption value (premium or discount) for fixed-income instruments is recognised in income over the remaining term of the security using the actuarial method.

Available-for-sale securities are measured at the lower of cost or market value. For UCITS and investment funds, market value corresponds to net asset values reflecting available market information at the balance sheet date.

Unrealised capital losses are subject to an impairment provision that may be estimated using homogeneous groups of securities and may not be offset by capital gains recorded on other categories of securities.

Any gains generated by hedging instruments as defined in Article 2514-1 of ANC Regulation No. 2014-07, are taken into account in the calculation of impairment. Unrealised gains are not recognised.

Gains and losses on disposals of available-for-sale securities, as well as impairment charges and reversals are recognised in “Net gains or losses on available-for-sale securities and similar items”.

Held-to-maturity securities

These include fixed-income securities with a fixed maturity that were acquired or have been reclassified from “Trading securities” or “Available-for-sale securities” and which the Company intends and is able to hold to maturity. The securities should not be subject to an existing legal or constructive restriction, which may have an adverse effect on the Company’s intent to hold the securities to maturity. Classification as held-to-maturity securities is not incompatible with their designation as items hedged against interest rate risk.

Held-to-maturity securities are recorded in the accounts at cost at their acquisition date, less transaction costs. When previously classified as available for sale, they are carried at cost and the previously recognised impairment charges are reversed over the residual life of the relevant securities.

The difference between acquisition cost and redemption value of the securities, and the corresponding interest are recognised using the same rules as those applicable to fixed-income available-for-sale securities.

An impairment loss may be recognised if there is a strong probability that the bank will not hold the securities to maturity due to new circumstances or if there is a risk of default by the issuer. Unrealised gains are not recognised.

Held-to-maturity securities cannot be sold or transferred into another category of securities, with certain exceptions.

However, pursuant to the provisions of ANC Regulation No. 2014-07, fixed-income trading securities or available-for-sale securities reclassified into the category of held-to-maturity securities as a result of market illiquidity may be sold when the market on which they are traded becomes active again.

Equity securities available for sale in the medium term

Equity securities available for sale in the medium term comprise securities invested in with the sole objective of obtaining capital gains in the medium term without the intent of long-term investment to develop the investee’s business activities or to participate actively in its operational management. In theory, these are always variable-income securities. This investment activity has to be significant and continuous, carried out in a structured framework, and must generate regular returns derived primarily from capital gains on disposals.

Equity securities available for sale in the medium term are recognised at cost on their acquisition date, less transaction costs.

At the balance sheet date, they are carried at the lower of historical cost or value in use. An impairment charge is recognised for any unrealised capital losses. Unrealised gains are not recognised.

Securities recorded under equity securities available for sale in the medium term cannot be transferred to any other accounting category.

Investments in subsidiaries and associates

Securities in this category are those deemed to be useful for the activity of the Company if held over the long term, in particular by providing significant influence or control over the governance bodies of the issuing companies.

Investments in subsidiaries and associates are stated at cost, including transaction costs, where material.

They are measured individually at the balance sheet date at the lower of acquisition cost or value in use. Value in use is determined, in particular, on the basis of criteria such as the strategic nature of the investment, the intention to provide assistance or retain the investment, share price performance, net assets or remeasured net assets and forecasts. Impairment is recognised for any unrealised capital losses on securities on a line-by-line basis and is not offset against unrealised capital gains. Unrealised gains are not recognised.

Investment securities recorded under investments in subsidiaries and associates cannot be transferred to any other accounting category.

Other long-term equity investments

Other long-term equity investments are securities acquired with the intention of promoting the development of lasting business relationships, by creating special ties with the investee, without taking an active part in its management owing to the small percentage of voting rights that the investment represents.

Other long-term equity investments are recognised at acquisition cost, less transaction costs.

They are included on the balance sheet at the lower of historical cost or value in use. Value in use is determined for listed and non-listed securities on the basis of the amount the Company would agree to pay to obtain the securities, given its investment objective, if it were to acquire them. An impairment charge is recognised for any unrealised capital losses. Unrealised gains are not recognised.

Securities classified as other long-term equity investments may not be transferred to any other accounting category.

Reclassification of financial assets

To harmonise accounting practices and ensure consistency with IFRS, ANC Regulation No. 2014-07 reiterates the provisions of Opinion No. 2008-19 of 8 December 2008 related to the reclassification of securities previously accounted for as “Trading securities” or “Available-for-sale securities”.

Reclassification of trading securities as available-for-sale securities or as held-to-maturity securities is now permitted in the following two cases:

- in exceptional market circumstances necessitating a change of strategy;
- where fixed-income securities are no longer, after their acquisition, quoted in an active market, and provided that the Company has the intent and ability to hold them in the foreseeable future or until they reach maturity.

Reclassifications of available-for-sale securities as held-to-maturity securities are effective from the reclassification date in either of the following conditions:

- in exceptional market circumstances necessitating a change of strategy;
- where fixed-income securities are no longer quoted in an active market.

Preparation note: Check that the closing inverted comma below is correctly placed.

In a press release dated 23 March 2009, the *Conseil National de la Comptabilité* (CNC – French National Accounting Board) stated that "the possibility of portfolio transfers, in particular from available-for-sale securities portfolios to held-to-maturity securities portfolios as stipulated in Article 19 of CRB Regulation No. 90-01 before it was updated by CRC Regulation No. 2008-17, remains in force and has not been repealed by ANC Regulation No. 2014-07".

Since CRC Regulation No. 2008-17, replaced by ANC Regulation No. 2014-07, provided for additional possibilities of transfers between portfolios, these new transfer options extend those previously available from the date of the entry into force of the regulation on 1 July 2008.

As a consequence, reclassification of the available-for-sale securities portfolio as held-to-maturity securities remains possible upon a mere change of intent if, at the date of the transfer, all of the criteria for a held-to-maturity portfolio are met.

2.3.5 Intangible assets and property, plant and equipment

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

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are carried at cost (purchase price including costs). These assets are amortised over their estimated useful life.

Software is amortised over a period of no more than five years. The additional share of amortisation that software may benefit from, in application of the tax provisions, is recorded under special amortisation.

Goodwill is not amortised but is tested for impairment, where appropriate.

Leasehold rights are amortised on a straight-line basis over the residual term of the lease and, if necessary, are tested for impairment relative to market value.

Property, plant and equipment

Property, plant and equipment is a physical asset that is: held for use in the production or supply of goods and services, for rental to others or for administrative purposes; and expected to be used over more than one financial year.

Insofar as buildings are assets consisting of a number of components that have different uses at the outset, each component is recognised separately at cost and a depreciation schedule specific to each component is used.

The depreciable amount is the gross value less the residual value where the latter is material, prolonged and can be measured reliably. The main components of buildings are depreciated to reflect the pattern of use of the asset's expected economic benefits, which generally matches the asset's useful life:

- construction, major works: 15 to 50 years;
- plant and equipment: 20 years;
- fixtures and fittings: 10 years;
- furniture and special equipment: 4 to 10 years;
- computer equipment: 3 to 5 years.

Other property, plant and equipment is carried at cost, production cost or remeasured cost. The cost of assets denominated in foreign currencies is translated into euros at the exchange rate ruling at the transaction date. These assets are depreciated to reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity, which generally corresponds to the asset's useful life.

Where applicable, an impairment may be recognised on property, plant and equipment.

Investment property consists of non-operating property, plant and equipment and is accounted for using the component method.

2.3.6 Debt securities

Debt securities are presented by type: cash vouchers, interbank market securities and negotiable debt securities, bonds and similar securities, excluding subordinated notes which are classified in a specific line under liabilities.

Accrued interest not yet due on these securities is recognised under accrued interest as a balancing entry to the income statement.

Issue premiums are recognised in full during the period or on a straight-line basis over the life of the corresponding borrowings. Issue and redemption premiums are recognised on a straight-line basis over the life of the borrowing via a deferred expenses account.

In line with the conservatism principle, only the certain portion of structured debt interest and/or principal payments is recognised. Unrealised capital gains are not recognised. Unrealised losses are provided for.

2.3.7 Subordinated debt

Subordinated debt consists of the proceeds from issues of term and perpetual subordinated debt securities, plus mutual guarantee deposits. Should the debtor be liquidated, subordinated debt may be redeemed only after the claims of all the other creditors have been satisfied.

Accrued interest payable on subordinated debt is disclosed separately as a balancing entry to the income statement.

2.3.8 Provisions

This item includes provisions set up to cover contingencies and losses that are clearly identifiable but of uncertain timing or amount, that are either directly related or unrelated to banking transactions as laid down in Article L. 311-1 and related transactions as laid down in Article L. 311-2 of the French Monetary and Financial Code. Unless covered by a specific text, such provisions may be recognised only if the Company has an obligation to a third party at the end of the financial year and no equivalent consideration is expected in return, in accordance with ANC Regulation No. 2014-03.

In particular, this item includes a provision for employee benefit obligations and a provision for counterparty risk.

Employee benefits

Employee benefits are accounted for in accordance with ANC Recommendation No. 2013-R-02. Employee benefits are classified into four categories:

Short-term employee benefits

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

Long-term employee benefits

Long-term employee benefits are generally linked to seniority, accruing to current employees and payable 12 months or more after the end of the period in which the employee renders the related service; 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 balance sheet date are discounted to present value.

Post-employment benefits

Post-employment benefits include lump-sum retirement bonuses, pensions and other post-employment benefits.

These benefits can be classified into two categories: defined-contribution plans, which do not give rise to an obligation for the Group, and defined-benefit plans, which give rise to an obligation for the Group and are therefore measured and provided for.

Employee benefit obligations not funded by contributions charged to income and paid out to pension funds or insurance companies are provided for.

Post-employment benefits are measured in the same manner as long-term employee benefits.

The measurement of these obligations reflects the value of plan assets as well as previously unrecognised actuarial gains and losses.

Actuarial gains and losses of post-employment benefits, representing differences in calculation assumptions (early retirement, discount rate, etc.) or recognised between actuarial assumptions and actual calculations (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.

2.3.9 Fund for general banking risks

This fund is intended to cover risks inherent in the Company's banking activities, in accordance with the provisions of Article 3 of CRBF Regulation No. 90-02.

2.3.10 Forwards, futures and options

Trading and hedging transactions in interest rate, currency or equity futures and options are recognised in accordance with the provisions of ANC Regulation No. 2014-07.

Commitments arising from these instruments are recorded off-balance sheet at the notional value of the contracts. At the balance sheet date, the amount recognised in respect of these commitments represents the volume of unwound forward transactions at the balance sheet date.

The accounting policies applied vary depending on the type of instrument and the original purpose of the transaction.

Futures and forwards

Interest rate swaps and similar contracts (forward rate agreements, collars, etc.) are classified as follows based on their initial purpose:

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

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

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

Should over-hedging be identified, a provision may be set aside to cover the over-hedged portion of the hedging instrument, if the instrument shows an unrealised loss. In this case, the charge to provisions is made with a corresponding adjustment to “Net gains or losses on trading book transactions”.

Income and expense related to futures and options instruments used for hedging purposes or for managing global interest rate risk is recognised in income on a ***prorata basis*** under “Interest and similar income” and “Interest and similar expenses”. Unrealised gains and losses are not recorded.

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

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

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

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

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

Balances on terminations or transfers are recognised as follows:

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

Options

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

For transactions involving interest rate, currency, or equity options, the premiums paid or received are recognised in a suspense account. At the end of the period, any options traded in an organised or similar market are measured and recognised in income. For over-the-counter (OTC) options, provisions are set aside for capital losses, but unrealised capital gains are not recognised. When an option is sold, repurchased, exercised or lapses, the corresponding premium is recognised immediately in income.

Income and expense arising from hedging instruments are recognised in the same manner and period as those arising on the hedged item. Written options are not eligible for classification as macro-hedging instruments.

Over-the-counter markets may be treated as organised markets when market makers ensure continuous quotations with spreads that reflect market practice or when the underlying financial instrument is itself quoted in an organised market.

2.3.11 Interest and similar commission income

Interest and similar commission income is recognised on a ***prorata basis***.

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

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

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

Other commission income is recognised according to the type of service provided as follows:

- a commission received for an ad hoc service is recognised on completion of the service;
- a commission received for an ongoing or discontinued service paid for through several instalments is recognised over the period that the service is provided for.

2.3.12 Income from securities

Dividends are recognised when the right to receive payment has been decided by the relevant body. They are recognised under "Income from variable-income securities".

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

2.3.13 Income tax

Since 2009, the Caisse d'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.

2.3.14 Contributions to mechanisms for banking resolution

The procedures for feeding the deposit guarantee and resolution fund were amended by an order of 27 October 2015. In 2016, the Prudential Control and Resolution Authority (*Autorité de contrôle prudentiel et de résolution* – ACPR), in its Decision No. 2016-C-51 of 10 October 2016, ordered a method of calculation by stock of contributions for the deposit mechanism. For the deposit guarantee fund, the cumulative amount of contributions paid and available to the fund for deposit, guarantee and security mechanisms represents €9.9 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €2.3 million. Contributions paid in the form of associate or association certificates and cash guarantee deposits that are registered on the asset side of the balance sheet total €7.6 million.

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

In compliance with the 2015/63 delegated regulation and implementing regulation 2015/81 supplementing the BRRD directive on ***ex-ante*** contributions to the systems for financing the resolution, the Single Resolution Board determined the contributions for 2018. The amount of contributions paid and available to the fund represents €4.6 million for the financial year including €3.9 million recognised as an expense and €0.7 million in the form of cash deposit guarantees that are recognised as assets in the balance sheet (15% in the form of cash deposit guarantees). The total contributions that are entered in the balance sheet assets amount to €2.4 million as at 31 December 2018.

Note 3 Information on the balance sheet

Unless stated otherwise, explanatory notes for balance sheet items are presented net of depreciation, amortisation, impairment and provisions.

Certain credit risk disclosures required under ANC Regulation No. 2014-07 are provided in the risk management report. This information forms an integral part of the financial statements audited by the Statutory Auditors.

3.1 Interbank transactions

Assets in millions of euros	31/12/2018	31/12/2017
Current accounts	*14.1*	*18.9*
Overnight loans	*1,332.5*	*1,049.9*
Demand accounts	**1,346.6**	**1,068.8**
Term accounts and loans	*2,418.0*	*2,508.7*
Subordinated and participating loans	*2.5*	*2.5*
Term accounts	**2,420.5**	**2,511.2**
Accrued interest	**16.2**	**17.5**
Doubtful loans and advances	**0.0**	**0.0**
Impairment of interbank loans	**0.0**	**0.0**
TOTAL	**3,783.3**	**3,597.5**

Receivables arising from transactions with the network break down into €1,336.3 million in demand accounts and €2,145.5 million in term accounts, against respectively €1,058.3 million and €2,242.7 million at 31 December 2017.

The funds collected for Livret A and LDD accounts and held centrally by Caisse des dépôts et consignations amounted to €245.2 million at 31 December 2018, up from €257.1 million at 31 December 2017.

Liabilities in millions of euros	31/12/2018	31/12/2017
Current accounts in credit	*18.4*	*60.7*
Overnight deposits	*0.5*	*0.0*
Other amounts due	*18.6*	*10.0*
Demand accounts	**37.5**	**70.7**
Term accounts and loans	*1,575.5*	*2,017.3*
Securities under term repurchase agreements	*5.0*	*0.0*
Accrued interest payable on term loans	*(4.3)*	*0.7*
Term accounts	**1,576.2**	**2,018.0**
TOTAL	**1,613.8**	**2,088.7**

Payables arising from transactions with the network break down into €9.3 million in demand accounts and €1,416.1 million in term accounts, against respectively €30.8 and €1,915.4 million at 31 December 2017.

3.2 Customer transactions

3.2.1 Customer transactions

Assets in millions of euros	31/12/2018	31/12/2017
Current accounts with overdrafts	**468.5**	**589.6**
Trade receivables	**162.5**	**173.1**
Export loans	*86.9*	*78.3*
Short-term and consumer credit facilities	*1,416.9*	*1,443.1*
Equipment loans	*2,101.3*	*2,022.9*
Home loans	*2,251.9*	*1,968.0*
Other customer loans	*2,213.0*	*2,121.8*
Subordinated loans	*0.0*	*2.5*
Other	*129.7*	*77.1*
Other facilities granted to customers	**8,199.6**	**7,713.6**
Accrued interest	**21.5**	**20.7**
Doubtful loans and advances*	**519.7**	**566.0**
Impairment of loans and advances to customers	**(287.8)**	**(260.1)**
TOTAL	**9,084.0**	**8,802.9**
** o/w restructured loans*	*53.0*	*104.7*
o/w restructured loans reclassified as performing	*0.0*	*0.0*

At 31 December 2018, no receivable was provided to Banque de France under the TRICP system.

3.2.2 Breakdown of accounts and loans from customers

in millions of euros	31/12/2018	31/12/2017
Regulated savings accounts	**1,143.8**	**1,046.0**
Livret A savings accounts	*181.1*	*179.9*
PEL/CEL	*214.7*	*231.5*
Other regulated savings accounts	*748.0*	*634.6*
Other accounts and loans from customers[1]	**7,994.6**	**7,331.5**
Guarantee deposits	**0.0**	**0.0**
Other amounts due	**9.5**	**5.9**
Accrued interest	**1.7**	**1.8**
TOTAL	**9,149.7**	**8,385.3**

(1) Breakdown of accounts and loans from customers

	31/12/2018			31/12/2017		
in millions of euros	Demand	Term	Total	Demand	Term	Total
Current accounts in credit	7,418.5		7,418.5	6,910.6		6,910.6
Other accounts and loans		576.1	576.1		420.9	420.9
TOTAL	**7,418.5**	**576.1**	**7,994.6**	**6,910.6**	**420.9**	**7,331.5**

3.2.3 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	7,358.0	456.8	267.6	298.0	198.3
Self-employed customers	2.4	0.5	0.5	0.5	0.5
Individual customers	1,303.6	60.8	18.5	53.0	18.4
Non-profit institutions	26.5	0.4	0.3	0.4	0.3
Government and social security institutions	4.0	0.0	0.0	0.0	0.0
Other	157.7	0.0	0.0	0.0	0.0
TOTAL AT 31 DECEMBER 2018	**8,852.3**	**518.6**	**286.9**	**351.9**	**217.5**
TOTAL AT 31 DECEMBER 2017	**8,496.2**	**566.8**	**260.1**	**367.2**	**211.8**

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

3.3.1 Securities portfolio

in millions of euros	31/12/2018			31/12/2017		
	Available-for-sale securities	Held-to-maturity securities	Total	Available-for-sale securities	Held-to-maturity securities	Total
Gross	1,059.3	0.0	1,059.3	1,062.8	0.0	1,062.8
Accrued interest	18.2	0.0	18.2	17.5	0.0	17.5
Impairment	0.0	0.0	0.0	0.0	0.0	0.0
Treasury bills and similar securities	**1,077.6**	**0.0**	**1,077.6**	**1,080.3**	**0.0**	**1,080.3**
Gross	156.4	442.9	599.3	203.1	424.7	627.7
Accrued interest	1.5	5.4	7.0	3.3	5.1	8.4
Impairment	(6.8)	(1.6)	(8.4)	(6.7)	(1.0)	(7.7)
Bonds and other fixed-income securities	**151.2**	**446.7**	**597.8**	**199.7**	**428.7**	**628.4**
Gross	0.2	0.0	0.2	1.5	0.0	1.5
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**	**1.5**	**0.0**	**1.5**
TOTAL	**1,228.9**	**446.7**	**1,675.6**	**1,281.5**	**428.7**	**1,710.2**

The market value of held-to-maturity securities stood at €443.3 million.

Treasury bills, bonds and other fixed-income securities

in millions of euros	31/12/2018			31/12/2017		
	Available-for-sale securities	Held-to-maturity securities	Total	Available-for-sale securities	Held-to-maturity securities	Total
Listed securities	1,059.3	0.0	1,059.3	1,062.8	0.0	1,062.8
Accrued interest	18.2	0.0	18.2	17.5	0.0	17.5
TOTAL	**1,077.6**	**0.0**	**1,077.6**	**1,080.3**	**0.0**	**1,080.3**
o/w subordinated notes	*0.0*		*0.0*	*5.0*		*5.0*

The change in treasury bills and related securities is explained mainly by the arrival at maturity of sovereign securities in the amount of €290 million and by the acquisition of sovereign securities for €260 million.

Unrealised capital losses subject to an impairment provision on available-for-sale securities amounted to €6.8 million at 31 December 2018, compared with €6.7 million at 31 December 2017.

Unrealised capital gains on available-for-sale securities after deduction of hedging (mostly swapped assets) total €12.8 million at 31 December 2018, compared to €7.2 million at 31 December 2017.

Unrealised capital gains on held-to-maturity securities amounted to €0.7 million at 31 December 2018. At 31 December 2017, unrealised capital gains on held-to-maturity securities amounted to €13.0 million.

Unrealised capital losses on held-to-maturity securities amounted to €0.7 million at 31 December 2018. No unrealised capital loss was recorded at 31 December 2017.

The portion of bonds and other fixed-income securities issued by public bodies amounted to €1,059.3 million at 31 December 2018.

Equities and other variable-income securities

	31/12/2018	31/12/2017
in millions of euros	Available-for-sale securities	Available-for-sale securities
Listed securities	0.2	1.5
TOTAL	**0.2**	**1.5**

Among the shares and other variable-income securities are included €0.2 million in monetary UCITS at 31 December 2018 (against €1.5 million monetary UCITS at 31 December 2017)1

3.3.2 Changes in held-to-maturity securities

in millions of euros	01/01/2018	Purchases	Sales	Redemptions	Discount/premium	Other changes	31/12/2018
Treasury bills	0.0	0.0		0.0	0.0	0.0	0.0
Bonds and other fixed-income securities	428.7	46.0		(28.0)	0.0	0.0	446.7
TOTAL	**428.7**	**46.0**	**0.0**	**(28.0)**	**0.0**	**0.0**	**446.7**

3.3.3 Reclassifications of assets

Reclassification owing to market illiquidity (CRC No. 2008-17 replaced by the French Accounting Standards Authority (ANC) Regulation No. 2014-07).
Pursuant to the provisions of the aforementioned regulation relating to the transfers of securities excluding the “Trading securities” category and excluding the “Available-for-sale securities” category, Banque Palatine carried out an asset reclassification in October 2008.

Type of reclassification in millions of euros	Reclassified amount remaining at the end of FY 2017	Securities that matured during FY 2018	Reclassified amount remaining at the end of FY 2018	Unrealised capital gains and losses that would have been recognised without the reclassifications	Unrealised capital loss that would have been provided for without the reclassifications	Gains and losses during the period on the reclassified securities
From available-for-sale securities to held-to-maturity securities	0.0	0.0	0.0	0.0	0.0	0.0

No reclassification has taken place since then.

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

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

in millions of euros	31/12/2017	Increase	Decrease	Conversion	Other changes	31/12/2018
Investments in subsidiaries and long-term equity investments	7.9	1.3	(0.4)	0.0	0.0	8.8
Investments in associates	10.8	0.0	0.0	0.0	0.0	10.8
Gross	**18.7**	**1.3**	**(0.4)**	**0.0**	**0.0**	**19.6**
Investments in subsidiaries and other long-term equity investments	0.0	0.0	0.0	0.0	0.0	0.0
Investments in associates	(1.5)	0.0	(2.9)	0.0	0.0	(4.4)
Impairment	**(1.5)**	**0.0**	**(2.9)**	**0.0**	**0.0**	**(4.4)**
TOTAL	**17.2**	**1.3**	**(3.3)**	**0.0**	**0.0**	**15.2**

Other long-term equity investments particularly include associate or association certificates with guarantee deposits (€3.5 million).

3.4.2 Subsidiaries and investments

The amounts shown are stated in millions of euros.

Subsidiaries and investments	Share capital at 31 Dec. 2018	Equity other than share capital incl. fund for general banking risks, as appropriate at 31 Dec. 2018	% Interest held at 31 Dec. 2018	Carrying amount of shares held at 31 Dec. 2018	
				Gross	Net
A. DETAILED INFORMATION ON EACH SECURITY WHOSE GROSS VALUE EXCEEDS 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION					
Subsidiaries (over 50%-owned)					
Palatine Asset Management SA 42, rue d'Anjou – 75008 PARIS	1.9	14.0	100.0%	5.8	5.8
B. GENERAL INFORMATION ON OTHER SECURITIES WHOSE GROSS VALUE DOES NOT EXCEED 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION					
French subsidiaries (together)				5.0	0.6
Investments in French companies				5.3	5.3

Subsidiaries and investments	Loans and advances granted by the parent-company and not yet redeemed (incl. perpetual subordinated notes) in 2018	Guarantees and endorsements given by the parent-company in 2018	Net revenue before tax for the year to 31 Dec. 2018	Net income for the year to 31 Dec. 2018	Dividends received by the parent-company in 2018
A. DETAILED INFORMATION ON EACH SECURITY WHOSE GROSS VALUE EXCEEDS 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION					
Subsidiaries (over 50%-owned)					
Palatine Asset Management SA 42, rue d'Anjou – 75008 PARIS	0,0	0,0	30,7	0,0	10,6
B. GENERAL INFORMATION ON OTHER SECURITIES WHOSE GROSS VALUE DOES NOT EXCEED 1% OF THE CAPITAL OF THE COMPANY REQUIRED TO MAKE THE PUBLICATION					
French subsidiaries (together)	0,0	0,0			0,1
Investments in French companies	0,0	0,0			1,1

3.4.3 Subsidiary ventures with unlimited liability

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

3.4.4 Related-party transactions

in millions of euros	31/12/2018			31/12/2017
	Credit institutions	Other businesses	Total	Total
Receivables	0.8	0.0	0.8	0.9
Liabilities	7.9	0.4	8.3	0.8
Guarantee commitments given	0.0	0.0	0.0	0.1
Commitments received	0.0	0.0	0.0	0.0

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

3.5 Finance and operating leases

Banque Palatine only conducts operating lease transactions as a lessee.

3.6 Intangible assets and property, plant and equipment

3.6.1 Intangible assets

in millions of euros	31/12/2017	Increase	Decrease	Other movements	31/12/2018
Leasehold rights and commercial goodwill	106.5	0.0	(0.2)	0.0	106.3
Software	40.3	1.1	0.0	0.0	41.4
Other	6.3	0.0	0.0	(6.1)	0.3
Gross	**153.1**	**1.1**	**(0.2)**	**(6.1)**	**148.0**
Leasehold rights and commercial goodwill	1.1	0.0	0.0	0.0	1.1
Software	30.4	9.6	0.0	0.0	40.0
Depreciation and impairment	**31.5**	**9.6**	**0.0**	**0.0**	**41.1**
TOTAL NET VALUES	**121.6**	**(8.5)**	**(0.2)**	**(6.1)**	**106.9**

3.6.2 Property, plant and equipment

in millions of euros	31/12/2017	Increase	Decrease	Other movements	31/12/2018
Land	19.1	0.0	0.0	(0.3)	18.8
Other	33.0	3.0	(1.0)	(0.3)	34.8
Property, plant & equipment used in operations	**52.2**	**3.0**	**(1.0)**	**(0.5)**	**53.7**
Property, plant & equipment not used in operations	***0.4***	***0.1***	***(0.4)***	***0.4***	***0.5***
Gross	**52.6**	**3.1**	**(1.4)**	**(0.2)**	**54.2**
Land	13.9	0.7	0.0	(0.2)	14.4
Other	20.1	4.6	(1.0)	(0.1)	23.7
Property, plant & equipment used in operations	**34.0**	**5.3**	**(1.0)**	**(0.3)**	**38.0**
Property, plant & equipment not used in operations	***0.1***	***0.0***	***(0.2)***	***0.2***	***0.1***
Depreciation and impairment	**34.2**	**5.3**	**(1.2)**	**(0.1)**	**38.3**
TOTAL NET VALUES	**18.4**	**(2.2)**	**(0.2)**	**(0.1)**	**15.9**

3.7 Debt securities

in millions of euros	31/12/2018	31/12/2017
Certificates of deposit and savings bonds	0.0	0.0
Interbank market instruments and money market instruments	2,918.1	2,821.6
Other debt securities	0.6	0.5
Accrued interest	101.9	83.3
TOTAL	**3,020.6**	**2,905.4**

3.8 Other assets and other liabilities

	31/12/2018		31/12/2017	
in millions of euros	Assets	Liabilities	Assets	Liabilities
Tax and social security receivables and liabilities	0.3	15.3	0.5	12.4
Security deposits paid and received	65.8	3.3	105.6	4.5
Other non-trade receivables, other accounts payable	84.2	20.6	39.0	23.1
TOTAL	**150.3**	**39.2**	**145.2**	**40.0**

Guarantee deposits paid reflect the €60.4 million in cash collateral paid at 31 December 2018, compared to €101 million at the end of 2017.

Guarantee deposits received reflect the €3.1 million in cash collateral collected at the end of 2018, compared with €4.2 million at the end of 2017.

3.9 Accrual accounts

in millions of euros	31/12/2018 Assets	31/12/2018 Liabilities	31/12/2017 Assets	31/12/2017 Liabilities
Foreign exchange commitments	29.1	29.2	55.4	50.7
Deferred gains and losses on forwards, futures and options used for hedging purposes	0.0	8.7	0.0	6.1
Additional paid-in capital and issuance costs	0.0	0.0	0.0	0.0
Prepaid expenses and unearned income	2.6	2.8	4.0	3.1
Accrued income/expenses	19.3	72.6	20.9	61.5
Items in process of collection	19.2	22.8	27.8	52.2
Other(1)	46.4	18.0	55.0	10.4
TOTAL	**116.7**	**154.2**	**163.0**	**184.1**

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

3.10 Provisions

3.10.1 Statement of changes in provisions

in millions of euros	31/12/2017	Charges	Reversals	Uses	Other movements	31/12/2018
Provisions for counterparty risk	**32.6**	**54.8**	**(17.6)**	**0.0**	**0.0**	**69.8**
Provisions for employee benefit obligations	**20.3**	**0.0**	**(1.0)**	**0.0**	**0.0**	**19.3**
Provisions for PEL/CEL regulated accounts	**2.8**	**0.0**	**(0.4)**	**0.0**	**0.0**	**2.5**
Securities portfolio and forwards, futures and options	*0.9*	*0.5*	*(0.3)*	*0.0*	*0.0*	*1.1*
Litigation	*8.2*	*4.8*	*(6.2)*	*(0.2)*	*0.1*	*6.6*
Provisions for contingencies	*1.8*	*0.0*	*(0.1)*	*0.0*	*0.0*	*1.7*
Other	*2.8*	*0.7*	*(0.7)*	*0.0*	*0.0*	*2.9*
Other provisions for contingencies	**13.7**	**6.0**	**(7.3)**	**(0.2)**	**0.1**	**12.3**
TOTAL	**69.4**	**60.8**	**(26.2)**	**(0.2)**	**0.1**	**103.9**

3.10.2 Provisions and impairment for counterparty risks

in millions of euros	31/12/2017	Charges (3)	Reversals (3)	Uses	Translation and other movements	31/12/2018
Impairment of loans and advances to customers	252.1	74.9	(19.1)	(27.2)	0.0	280.7
Impairment of other loans and advances	4.0	0.5	0.0	0.0	0.0	4.5
Impairment of assets	**256.1**	**75.4**	**(19.1)**	**(27.2)**	**0.0**	**285.2**
Provisions for off-balance sheet commitments(1)	18.8	8.2	(3.8)	0.0	0.0	23.2
Provisions for country risks	0.0	0.0	0.0	0.0	0.0	0.0
Provisions for customer counterparty risk(2)	13.8	46.6	(13.8)	0.0	0.0	46.6
Provisions for counterparty risk recognised as liabilities	**32.6**	**54.8**	**(17.6)**	**0.0**	**0.0**	**69.8**
TOTAL	**288.7**	**130.2**	**(36.7)**	**(27.2)**	**0.0**	**355.0**

(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 applies the means of registering the impairment losses and provisions in compliance with the provisions of ANC Regulation No. 2014-07.

3.10.3 Provisions for employee benefit obligations

Post-employment benefits related to defined-contribution plans

Defined-contribution plans refer to mandatory Social security pension schemes as well as those managed by the AGIRC and ARRCO pension funds and the supplementary pension schemes to which the Caisse d'Epargne and the Banque Populaire banks belong. Banque Palatine's obligations under these schemes are confined to the payment of contributions (€10.9 million in 2018).

Post-employment benefits related to defined-benefit plans and long-term employee benefits

Banque Palatine's obligations in this regard relate to the following schemes:

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

These commitments are calculated in accordance with ANC Recommendation No. 2013-R-02.

Analysis of assets and liabilities recorded on the balance sheet

	31/12/2018				31/12/2017			
	Post-employment benefits under defined-benefit plans		Other long-term benefits		Post-employment benefits under defined-benefit plans		Other long-term benefits	
in millions of euros	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total
Actuarial liabilities	0.7	12.7	2.3	15.7	0.5	14.5	2.6	17.6
Unrecognised actuarial gains/(losses)	0.0	0.1	0.0	0.1	0.0	(0.1)	0.0	(0.1)
NET AMOUNT REPORTED ON THE BALANCE SHEET	**0.7**	**12.8**	**2.3**	**15.8**	**0.5**	**14.4**	**2.6**	**17.5**
Employee benefits, liabilities	0.7	12.8	2.3	15.8	0.5	14.4	2.6	17.5

Analysis of the expense for the period

	Post-employment benefits under defined-benefit plans		Other long-term benefits	31/12/2018	31/12/2017
in millions of euros	Supplementary pension benefits and other	Termination benefits	Long-service awards	Total	Total
Service cost	0.1	0.9	0.3	1.3	1.2
Interest cost	0.0	0.2	0.0	0.2	0.2
Benefits paid	0.0	(1.6)	(0.3)	(2.0)	(1.4)
Actuarial gains and losses	0.0	0.1	(0.3)	(0.2)	(0.2)
TOTAL EXPENSE FOR THE PERIOD	**0.1**	**(0.4)**	**(0.3)**	**(0.7)**	**(0.3)**

Main actuarial assumptions

	31/12/2018			31/12/2017		
	Post-employment benefits under defined-benefit plans		Other long-term benefits	Post-employment benefits under defined-benefit plans		Other long-term benefits
	Supplementary pension benefits and other	Termination benefits	Long-service awards	Supplementary pension benefits and other	Termination benefits	Long-service awards
Discount rate	1.66%	1.66%	1.66%	1.38%	1.38%	1.38%
Inflation/wage growth rate	1.52%	1.52%	1.52%	1.52%	1.52%	1.52%
Wage growth rate	0.76%	0.76%	0.76%	0.60%	0.60%	0.60%

The 1.66% rate corresponds to that taken from the composite AA Bloomberg EUR curve for fifteen-year zero-coupon issues.

The life tables used are those established by Insee for men and women in 2002 (TF00/02).

The retirement age was calculated for each employee based on the number of quarters needed to claim a full-rate basic pension and the assumption of a start-of-career age of 24 for managerial-grade and 21 for non-managerial employees.

These calculations also take into account the effects of the most recent pension reform – the increase in the contribution period equal to one quarter every three years from 2020, leading to a total contribution period of 43 years by 2035 (excluding the effect of the Fillon Act of August 2003).

3.10.4 Provisions for PEL/CEL regulated products

Deposit account balances

in millions of euros	31/12/2018	31/12/2017
Deposits held in PEL regulated home savings plans		
• plans in place for less than 4 years	16.4	15.4
• plans in place for more than 4, but less than 10 years	99.1	105.7
• plans in place for more than 10 years	85.4	98.9
Deposits collected via PEL regulated home savings plans	**200.9**	**220.0**
Deposits collected via CEL regulated home savings accounts	**16.9**	**17.5**
TOTAL	**217.9**	**237.5**

Loans granted

in millions of euros	31/12/2018	31/12/2017
Loans granted		
• in respect of PEL regulated home savings plans	0.0	0.0
• in respect of CEL regulated home savings accounts	0.1	0.2
TOTAL	**0.1**	**0.2**

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

in millions of euros	31/12/2017	Charges/ net reversals	31/12/2018
Provisions for PEL regulated home savings plans			
• plans in place for less than 4 years	0.3	0.0	0.3
• plans in place for more than 4, but less than 10 years	0.6	(0.1)	0.5
• plans in place for more than 10 years	1.8	(0.2)	1.5
Provisions for PEL regulated home savings plans	**2.7**	**(0.4)**	**2.3**
Provisions for CEL regulated home savings accounts	**0.2**	**0.0**	**0.2**
Provisions for regulated home savings loans	**0.0**	**0.0**	**0.0**
TOTAL	**2.8**	**(0.4)**	**2.5**

3.11 Subordinated debt

in millions of euros	31/12/2018	31/12/2017
Term subordinated debt	300.0	200.0
Accrued interest	3.5	0.2
TOTAL	**303.5**	**200.2**

These borrowings have the following characteristics:

Currency	Issue date	Outstandings at 31 Dec. 2018 (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	3-month Euribor + 2.29%			Yes	08/12/2025
EUR	21/12/2017	50.0	50.0	3-month Euribor + 0.97%			Yes	22/12/2027
EUR	26/03/2018	100.0	0.0	4.29%		28/03/2023*	no	
TOTAL		**300.0**	**200.0**					

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

3.12 Fund for general banking risks

in millions of euros	31/12/2018	31/12/2017
Fund for general banking risks	1.3	1.3
TOTAL	**1.3**	**1.3**

3.13 Equity

in millions of euros	Share capital	Share premium	Reserves/other	Carried forward	Profit or loss	Total shareholders' equity excl. FRBG
Total at 31 December 2016	**538.8**	**56.7**	**44.6**	**132.9**	**50.6**	**823.6**
Movements in the year	0.0	0.0	2.5	48.0	2.0	52.5
Total at 31 December 2017	**538.8**	**56.7**	**47.2**	**180.9**	**52.5**	**876.1**
Appropriation of 2017 income			2.6	49.9	(52.5)	0.0
Dividend payments						0.0
Capital increase						0.0
Net income for the period					(23.1)	(23.1)
TOTAL AT 31 DECEMBER 2018	**538.8**	**56.7**	**49.8**	**230.8**	**(23.1)**	**853.1**

3.14 Residual maturity of loans and borrowings

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

	31/12/2018						
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	81.0	134.3	92.8	588.5	181.0		1,077.6
Loans and advances due from credit institutions	1,865.8	314.2	938.4	648.3	16.6	0.0	3,783.3
Customer transactions	1,204.0	571.8	1,145.2	3,293.5	2,637.6	231.9	9,084.0
Bonds and other fixed-income securities	9.0	3.1	73.6	416.6	95.6	0.0	597.8
TOTAL USES OF FUNDS	**3,159.8**	**1,023.4**	**2,250.0**	**4,946.9**	**2,930.7**	**231.9**	**14,542.7**
Amounts due to credit institutions	138.2	211.8	350.8	911.3	1.7	0.0	1,613.8
Customer transactions	8,548.4	27.2	119.6	454.5	0.0	0.0	9,149.7
Debt securities	279.8	789.4	1,846.4	67.5	37.5	0.0	3,020.6
Subordinated debt	3.5	0.0	0.0	0.0	0.0	300.0	303.5
TOTAL SOURCES OF FUNDS	**8,969.9**	**1,028.4**	**2,316.7**	**1,433.3**	**39.2**	**300.0**	**14,087.6**

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

4.1 Commitments given and received

4.1.1 Financing commitments

in millions of euros	31/12/2018	31/12/2017
Financing commitments given		
To credit institutions	**0.0**	**0.0**
Documentary credits	*86.2*	*71.6*
Other confirmed credit lines	*1,885.9*	*1,619.6*
Other commitments	*70.1*	*49.9*
To customers	**2,042.2**	**1,741.1**
TOTAL FINANCING COMMITMENTS GIVEN	**2,042.2**	**1,741.1**
FINANCING COMMITMENTS RECEIVED		
From credit institutions	**357.2**	**337.5**
From customers	**0.0**	**0.0**
TOTAL FINANCING COMMITMENTS RECEIVED	**357.2**	**337.5**

4.1.2 Guarantees issued

in millions of euros	31/12/2018	31/12/2017
GUARANTEE COMMITMENTS GIVEN	**0.0**	**0.0**
Confirmed documentary credit lines	48.0	61.9
Other guarantees	6.5	11.8
To credit institutions	**54.5**	**73.7**
Real estate guarantees	159.8	149.2
Government and tax guarantees	89.5	72.5
Other guarantees and sureties given	0.0	0.0
Other guarantees given	754.5	818.0
To customers	**1,003.8**	**1,039.7**
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,058.4**	**1,113.4**
Guarantee commitments received from credit institutions	203.9	237.7
TOTAL GUARANTEE COMMITMENTS RECEIVED	**203.9**	**237.7**

4.1.3 Other commitments not recognised off-balance sheet

	31/12/2018		31/12/2017	
in millions of euros	**Commitments given**	**Commitments received**	**Commitments given**	**Commitments received**
Other securities pledged as collateral to credit institutions	406.7	0.0	373.2	0.0
Other securities pledged as collateral received from customers	0.0	4,856.0	0.0	4,761.6
TOTAL	**406.7**	**4,856.0**	**373.2**	**4,761.6**

At 31 December 2018, amounts pledged as collateral under funding arrangements only concerned securities, for an impact of 357.2 million, compared to €373.2 million at 31 December 2017.

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

4.2 Forwards, futures and options transactions

4.2.1 Financial instruments and currency futures and options

in millions of euros	31/12/2018				31/12/2017		
	Hedge	Other transactions	Total	Fair value	Hedge	Total	Fair value
Futures and forwards							
Interest rate contracts	*0.0*	*8.1*	*8.1*	*0.0*	3.6	3.6	0.0
Currency contracts	*0.0*	*0.0*	*0.0*	*0.0*	0.4	0.4	0.0
Transactions in organised markets	**0.0**	**8.1**	**8.1**	**0.0**	**4.0**	**4.0**	**0.0**
Currency contracts	*0.0*	*18.1*	*18.1*	*0.0*	0.0	0.0	0.0
Interest rate swaps	*4,800.8*	*972.7*	*5,773.5*	*(14.5)*	5,715.7	5,715.7	5.9
Currency swaps	*0.0*	*2,069.3*	*2,069.3*	*0.1*	2,179.6	2,179.6	0.0
Other forward and futures	*0.0*	*297.6*	*297.6*	*0.4*	119.7	119.7	0.0
Over-the-counter transactions	**4,800.8**	**3,357.7**	**8,158.5**	**(14.0)**	**8,014.9**	**8,014.9**	**5.9**
TOTAL FORWARDS AND FUTURES	**4,800.8**	**3,365.8**	**8,166.6**	**(14.0)**	**8,018.9**	**8,018.9**	**5.9**
Options							
Other options	*0.0*	*0.0*	*0.0*	*0.0*	1,295.7	1,295.7	(0.7)
Transactions in organised markets	**0.0**	**0.0**	**0.0**	**0.0**	**1,295.7**	**1,295.7**	**(0.7)**
Interest rate options	*7,394.0*	*58.6*	*7,452.6*	*5.5*	*5,886.0*	*5,886.0*	*3.8*
Currency options	*1,330.0*	*1,784.2*	*3,114.2*	*0.0*	1,116.5	1,116.5	0.0
Over-the-counter transactions	**8,724.0**	**1,842.8**	**10,566.8**	**5.5**	**7,002.5**	**7,002.5**	**3.8**
TOTAL OPTIONS	**8,724.0**	**1,842.8**	**10,566.8**	**5.5**	**8,298.1**	**8,298.1**	**3.1**
TOTAL FINANCIAL INSTRUMENTS AND CURRENCY FUTURES AND OPTIONS	**13,524.8**	**5,208.5**	**18,733.3**	**(8.5)**	**16,317.1**	**16,317.0**	**9.1**

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

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

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

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

in millions of euros	31/12/2018 Micro-hedge	31/12/2018 Macro-hedge	31/12/2018 Isolated open position	31/12/2018 Total	31/12/2017 Micro-hedge	31/12/2017 Macro-hedge	31/12/2017 Total
Interest rate contract	*0.0*	*0.0*	*8.1*	*8.1*	0.0	0.0	0.0
Interest rate swaps	*4,265.0*	*535.8*	*972.7*	*5,773.5*	4,933.0	786.2	5,719.3
Currency contracts	*0.0*	*0.0*	*18.1*	*18.1*	0.0	0.0	0.0
Currency swaps	*0.0*	*0.0*	*2,069.3*	*2,069.3*	2,180.0	0.0	2,180.0
Other interest rate forwards	*0.0*	*0.0*	*297.6*	*297.6*	119.7	0.0	119.7
Futures and forwards	**4,265.0**	**535.8**	**3,365.8**	**8,166.6**	**7,232.7**	**786.2**	**8,018.9**
Interest rate options	*7,394.0*	*0.0*	*58.6*	*7,452.6*	*8,298.1*	*0.0*	*8,298.1*
Currency options	*1,330.0*	*0.0*	*1,784.2*	*3,114.2*	0.0	0.0	0.0
Options	**8,724.0**	**0.0**	**1,842.8**	**10,566.8**	**8,298.1**	**0.0**	**8,298.1**
TOTAL	**12,989.0**	**535.8**	**5,208.5**	**18,733.3**	**15,530.8**	**786.2**	**16,317.1**

No transactions were transferred to another portfolio during the period.

in millions of euros	31/12/2018 Micro-hedge	31/12/2018 Macro-hedge	31/12/2018 Isolated open position	31/12/2018 Total	31/12/2017 Micro-hedge	31/12/2017 Macro-hedge	31/12/2017 Total
Fair value	(11.5)	3.0	0.0	(8.5)	9.1	0.0	9.1

4.2.3 Commitments on forwards, futures and options by maturity

in millions of euros	31/12/2018 Less than 1 year	31/12/2018 1 year to 5 years	31/12/2018 Over 5 years	31/12/2018 Total
Transactions in organised markets	8.1	0.0	0.0	*8.1*
Over-the-counter transactions	2,445.3	3,893.3	1,801.8	*8,140.4*
Futures and forwards	**2,453.4**	**3,893.3**	**1,801.8**	**8,148.5**
Over-the-counter transactions	3,939.5	6,150.0	495.3	*10,584.8*
Options	**3,939.5**	**6,150.0**	**495.3**	**10,584.8**
TOTAL	**6,392.9**	**10,043.3**	**2,297.1**	**18,733.3**

4.3 Breakdown of assets and liabilities by currency

in millions of euros	31/12/2018 Assets	31/12/2018 Liabilities	31/12/2017 Assets	31/12/2017 Liabilities
Euro	14,837.4	14,839.3	14,433.0	14,419.6
Dollar	305.9	303.1	223.3	223.9
Pound sterling	79.0	79.7	70.1	69.9
Swiss franc	3.5	3.5	2.2	2.0
Yen	2.0	0.8	1.6	1.5
Other	11.5	12.9	20.5	33.6
TOTAL	**15,239.3**	**15,239.3**	**14,750.6**	**14,750.6**

4.4 Foreign currency transactions

in millions of euros	31/12/2018	31/12/2017
Spot foreign exchange transactions		
Currencies receivable not received	109.7	60.7
Currencies deliverable not delivered	109.9	60.6
TOTAL	**219.6**	**121.3**

Note 5 Information on the income statement

5.1 Interest, and similar income and expense

in millions of euros	31/12/2018			31/12/2017		
	Income	Expense	Net	Income	Expense	Net
Transactions with credit institutions	33.5	(13.9)	19.6	36.7	(22.4)	14.3
Customer transactions	183.7	(17.4)	166.3	181.4	(16.7)	164.6
Bonds and other fixed-income securities	39.6	(20.6)	19.0	55.3	(38.9)	16.3
Subordinated debt	0.0	(6.6)	(6.6)	0.0	(3.1)	(3.1)
Other	15.3	(0.4)	14.9	14.9	(0.4)	14.5
TOTAL	**272.1**	**(58.9)**	**213.2**	**288.3**	**(81.6)**	**206.6**

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

The provision for the regulated home savings accounts amounted to €2.5 million for 2018, compared with €2.8 million for 2017.

5.2 Income and expenses on finance and operating leases

Banque Palatine only conducts operating lease transactions as a lessee.

5.3 Income from variable-income securities

in millions of euros	31/12/2018	31/12/2017
Investments in subsidiaries and long-term equity investments	0.5	0.1
Investments in associates	11.3	12.2
TOTAL	**11.8**	**12.2**

Including €10.6 million in dividends received from its Palatine Asset Management subsidiary, compared to €11.6 million in 2017.

5.4 Fees and commission

in millions of euros	31/12/2018			31/12/2017		
	Income	Expense	Net	Income	Expense	Net
Cash and interbank transactions	0.1	(0.1)	(0.0)	0.1	(0.1)	0.0
Customer transactions	37.2	0.0	37.2	37.4	0.0	37.4
Securities transactions	7.3	(0.1)	7.2	6.7	(0.2)	6.5
Payment services	9.8	(6.5)	3.3	9.1	(6.1)	3.0
Insurance products	15.6	0.0	15.6	14.9	0.0	14.9
Foreign exchange transactions	0.9	0.0	0.9	0.7	0.0	0.7
Off-balance sheet commitments	0.0	0.0	0.0	0.0	0.0	0.0
Financial services	4.9	(0.3)	4.6	5.1	(0.3)	4.8
Other fee and commission income (1)	2.5	0.0	2.5	2.5	0.0	2.5
TOTAL	**78.3**	**(7.0)**	**71.3**	**76.5**	**(6.7)**	**69.8**

(1) This consists of financial engineering fees.

5.5 Net gains or losses on trading book transactions

in millions of euros	31/12/2018	31/12/2017
Foreign exchange transactions	(2.2)	(1.6)
Forwards, futures and options	15.8	19.6
TOTAL	**13.6**	**18.0**

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

in millions of euros	31/12/2018 Available-for-sale securities	31/12/2017 Available-for-sale securities
Impairment		
Charges	*(2.6)*	*0.0*
Reversals	*0.0*	*0.1*
Net gain/(loss) on disposal	4.0	(0.8)
TOTAL	**1.4**	**(0.7)**

5.7 Other banking income and expense

in millions of euros	31/12/2018			31/12/2017		
	Income	Expense	Total	Income	Expense	Total
Rebilling of banking income and expense	0.5	0.0	0.5	0.6	0.0	0.6
Miscellaneous other activities	2.0	(3.0)	(1.0)	2.7	(2.7)	(0.0)
TOTAL	**2.5**	**(3.0)**	**(0.5)**	**3.3**	**(2.7)**	**0.6**

5.8 General operating expenses

in millions of euros	31/12/2018	31/12/2017
Wages and salaries	(70.1)	(67.6)
Pension costs and similar obligations	(7.2)	(6.9)
Other social security charges	(27.7)	(27.3)
Employee incentive scheme	(9.9)	(6.2)
Employee profit-sharing scheme	(0.6)	(0.6)
Payroll taxes	(12.9)	(12.0)
TOTAL SALARY AND EMPLOYEE BENEFIT EXPENSE	**(128.4)**	**(120.6)**
Taxes other than on income	(6.1)	(6.1)
Other operating expenses	(94.9)	(59.7)
TOTAL OTHER OPERATING EXPENSES	**(101.0)**	**(65.8)**
TOTAL	**(229.3)**	**(186.4)**

The average headcount during the year, broken down by professional category, was as follows: 790 managers and 394 non-managers, representing a total of 1,184 employees.

The Employment Competitiveness Tax Credit is deducted from payroll costs. It amounted to €1 million in 2018. The use made of this tax credit is presented in the “Social, environmental and societal information” section of the registration document.

Banque Palatine undertook a project to migrate towards the i-BP platform by 2020. This tool will replace the Bank's entire information system. The bulk of the IT spending is now charged to expenses, i.e. €34.8 million for financial year 2018. This amount includes expenses relating to the migration project and also the non-current assets being computerised in the balance sheet at 1 January in an amount of €10.4 million.

5.9 Cost of risk

in millions of euros	31/12/2018 Charges	31/12/2018 Reversals and uses of funds	31/12/2018 Losses	31/12/2018 Recoveries of bad debts written off	31/12/2018 Total	31/12/2017 Charges	31/12/2017 Reversals and uses of funds	31/12/2017 Losses	31/12/2017 Recoveries of bad debts written off	31/12/2017 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	(74.9)	46.3	(27.2)	2.2	(53.5)	(52.2)	81.3	(55.9)	1.3	(25.6)
Securities portfolio and other receivables	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2
Provisions										
Off-balance sheet commitments	(51.9)	17.6	0.0	0.0	(34.3)	(6.3)	3.0	0.0	0.0	(3.3)
Provisions for customer credit risks	0.0	4.1	0.0	0.0	4.1	(4.0)	0.3	0.0	0.0	(3.7)
Other	(2.9)	0.0	0.0	0.0	(2.9)	(2.7)	0.0	0.0	0.0	(2.7)
TOTAL	**(129.7)**	**68.0**	**(27.2)**	**2.2**	**(86.7)**	**(65.2)**	**84.8**	**(55.9)**	**1.3**	**(35.0)**
o/w:										
• reversals of obsolete impairment charges	0.0	63.9	0.0	0.0	63.9	0.0	84.6	0.0	0.0	84.6
• reversals of impairment losses used	0.0	27.2	0.0	0.0	27.2	0.0	55.8	0.0	0.0	55.8
• reversals of obsolete provisions	0.0	4.1	0.0	0.0	4.1	0.0	0.3	0.0	0.0	0.3
• 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	(27.2)	0.0	0.0	(27.2)	0.0	(55.8)	0.0	0.0	(55.8)
NET REVERSALS	**0.0**	**68.0**	**0.0**	**0.0**	**68.0**	**0.0**	**84.8**	**0.0**	**0.0**	**84.8**

In compliance with the instructions of Groupe BPCE and with a view to ensuring that the accounting methods applied within the Group are uniform, on 31 December 2018, Banque Palatine aligned the method of determining its collective provisions with French standards on the method of measuring expected credit losses (Stage 2 as defined by IFRS 9). The impact of this change in the calculation methods was recognised in the income statement. The amount calculated, reduced by the collective provision recognised previous to 31/12/17, is €32.7 million.

5.10 Gains or losses on long-term investments

in millions of euros	31/12/2018 Investments in subsidiaries and other long-term equity investments	31/12/2017 Investments in subsidiaries and other long-term equity investments
Impairment		
Charges	(2.9)	0.0
Reversals	0.0	0.0
Net gain/(loss) on disposal	**0.0**	**0.0**
TOTAL	**(2.9)**	**0.0**

Investments in our subsidiary Ariès Assurances were impaired by €2.9 million at 31 December 2018.

5.11 Non-recurring items

No non-recurring items were recorded in 2018.

5.12 Income tax

5.12.1 Breakdown of income tax in 2018

Banque Palatine is a member of the consolidated tax group set up by BPCE. It also heads the consolidated tax sub-group formed of its subsidiaries Palatine Asset Management (PAM), Aries Assurances and Société Immobilière d'Investissement (SII).
Income tax paid to the head company of the Group, which can be broken into income before non-recurring items and non-recurring items, can be analysed as follows:

in millions of euros	31/12/2018
Tax bases at the rate of	**28%**
Tax on income before non-recurring items	0.2
Tax bases	**0.2**
Corresponding tax expense	0.1
Deductions in respect of tax credits	**(0.1)**
Tax expense reported	**0.0**
TOTAL	**0.0**

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

5.12.2 Breakdown of 2018 taxable income – reconciliation from book to taxable income

in millions of euros	31/12/2018	31/12/2017
Net income per the financial statements (A)	**(23.1)**	**52.5**
Corporate tax (B)	**0.0**	**21.4**
Add-backs (C)	**59.0**	**17.5**
Impairment of long-term investments	2.9	0.0
Other impairment losses and provisions	48.2	10.0
Other	7.9	7.6
Deductions (D)	**35.7**	**28.8**
Reversals of impairment losses and provisions	23.4	15.1
Dividend payments	10.6	11.7
Other	1.7	1.9
Tax base at standard rate (A)+(B)+(C)-(D)	**0.2**	**62.7**

This table analyses Banque Palatine's individual taxable income.

Note 6 Other information

6.1 Consolidation

Pursuant to Article 4111-1 of ANC Regulation No. 2014-07, and in accordance with Article 1 of CRC Regulation No. 99-07, Banque Palatine prepares its consolidated financial statements in line with international accounting standards.

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

6.2 Remuneration, advances, loans and commitments

Total remuneration paid in 2018 to members of the management bodies came to €1.2 million.

During 2018, no advances and loans were granted to any one of the members of the administration, management or supervisory bodies.

6.3 Fees paid to Statutory Auditors

	PricewaterhouseCoopers				KPMG				Total			
	Amount		%		Amount		%		Amount		%	
in thousands of euros	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Role of certification of financial statements	301	189	93%	100%	218	257	87%	86%	519	446	93%	92%
- Issuer	301	189			218	257			519	446		
Services other than the certification of the financial statements	23	0	7%	0%	14	39	13%	14%	37	39	7%	8%
- Issuer	23	0			14	39			37	39		
TOTAL	**324**	**189**	**100%**	**100%**	**232**	**296**	**100%**	**100%**	**556**	**485**	**100%**	**100%**
Change (%)	*71%*				*(22)%*				*15%*			

The total fees of PricewaterhouseCoopers Audit included in the parent-company income statement for the year amounted to €324,000, including €301,000 for the certification of the financial statements of Banque Palatine, and €23,000 for services other than the certification of the financial statements (COREP).

The total fees of KPMG included in the parent-company income statement for the year amounted to €232,000, including €218,000 for the certification of the financial statements of Banque Palatine and its subsidiaries, and €14,000 for services other than the certification of the financial statements (COREP and CSR).

6.4 Operations in non-cooperative countries

Article L. 511-45-I of the French Monetary and Financial Code and the decree of 6 October 2009 issued by the French Minister of the Economy require credit institutions to disclose in the notes to their annual financial statements information about their presence and activities in countries and territories that have not entered into an administrative assistance agreement with France for the exchange of information to combat tax fraud and tax evasion.

These obligations fit within the broader scope of global action against uncooperative tax havens, which were defined at OECD meetings and summits, and are also intended to prevent money laundering and terrorism financing.

Since its foundation, Groupe BPCE has adopted a prudent approach. It ensures that entities belonging to its networks are regularly informed of updates to the OECD list of territories that are considered as uncooperative as regards the effective exchange of tax information as well as about the potential consequences of maintaining operations in uncooperative territories. In addition, lists of non-cooperative territories were added in part to the ERP systems used in the fight against money laundering with a view to ensuring an appropriate level of vigilance for transactions with non-cooperative countries and territories (implementation of Decree No. 2009-874 of 16 July 2009). An inventory of the Group's locations and activities in uncooperative territories was drawn up by the central body to keep management bodies informed.

This statement is based on the list of countries named in the 8 April 2016 decree, made in application of Article 238-0-A of the French Tax Code.

At 31 December 2018, 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

IAS 9 presentation at 31 December 2018

in millions of euros	Notes	31/12/2018
Interest and similar income	4.1	274.2
Interest and similar expenses	4.1	(54.8)
Fee and commission income	4.2	106.6
Fee and commission expenses	4.2	(13.8)
Gains or losses on financial instruments at fair value through profit or loss	4.3	15.2
Net gains or losses on financial instruments at fair value through equity	4.4	5.2
Net gains or losses arising from derecognition of financial assets at amortised cost	4.5	1.1
Net gains or losses arising from reclassification of financial assets at amortised cost in financial assets at fair value through profit or loss	5.7	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	5.7	0.0
Income from other activities	4.6	2.0
Expenses from other activities	4.6	(4.3)
NET BANKING INCOME		**331.5**
General operating expenses	4.7	(237.4)
Depreciation and amortisation of intangible assets and property, plant and equipment		(15.0)
GROSS OPERATING INCOME		**79.0**
Cost of credit risk	7.1.1	(41.4)
OPERATING INCOME		**37.7**
Share in net income of associates	11.4.2	0.7
Gains or losses on other assets	4.8	0.0
Changes in the value of goodwill	3.5.1	(3.1)
INCOME BEFORE TAX		**35.3**
Income tax	10.1	(11.9)
Net income after tax from discontinued operations		0.0
NET INCOME		**23.4**
Non-controlling interests	5.18	0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**23.4**

IAS 39 presentation at 31 December 2017

in millions of euros	Notes	31/12/2017
Interest and similar income	4.1	291,7
Interest and similar expenses	4.1	(80.3)
Fee and commission income	4.2	110,6
Fee and commission expenses	4.2	(14.0)
Gains or losses on financial instruments at fair value through profit or loss	4.3	13,5
Gains or losses on financial assets available for sale	4.4	(1.2)
Income from other activities	4.6	3,0
Expenses from other activities	4.6	(4.0)
NET BANKING INCOME		**319,3**
General operating expenses	4.7	(194.7)
Net depreciation and amortisation of intangible assets and property, plant and equipment		(11.8)
GROSS OPERATING INCOME		**112.8**
Cost of risk	7.1.1	(39.5)
OPERATING INCOME		**73.3**
Share in net income of associates	11.4.2	0.6
Gains or losses on other assets		0.0
Changes in the value of goodwill		0.0
INCOME BEFORE TAX		**73.9**
Income tax	10.1	(28.0)
NET INCOME		**45.9**
Non-controlling interests		0.0
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**45.9**

3.2 Comprehensive income

IFRS 9 presentation at 31 December 2018

in millions of euros	31/12/2018
NET INCOME	**23.4**
ITEMS THAT CAN BE RECLASSIFIED IN INCOME	**(2.6)**
Remeasurement of financial assets at fair value through recyclable equity (1)	(3.9)
Related taxes	1.3
ITEMS THAT CANNOT BE RECLASSIFIED IN INCOME	**0.9**
Remeasurement (or actuarial gains and losses) in respect of defined-benefit plans	1.2
Other items recognised through equity of non-recyclable items	(0.1)
Related taxes	(0.2)
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY (AFTER TAX)	**(1.7)**
COMPREHENSIVE INCOME	**21.7**
Attributable to equity holders of the parent	21.7
Non-controlling interests	0.0
For information: amount of non-recyclable items transferred to reserve	*0.0*

(1) Includes available-for-sale assets of insurance subsidiaries maintained in IAS 39

IAS 39 presentation at 31 December 2017

in millions of euros	31/12/2017
NET INCOME	**45.9**
Remeasurement gains and losses on defined-benefit plans	(0.4)
Income taxes	0.0
ITEMS THAT CANNOT BE RECLASSIFIED IN INCOME	**(0.4)**
Change in the value of available-for-sale financial assets	(2.4)
Income taxes	0.6
ITEMS THAT CAN BE RECLASSIFIED IN INCOME	**(1.8)**
GAINS AND LOSSES RECOGNISED DIRECTLY IN OTHER ITEMS OF COMPREHENSIVE INCOME (NET OF TAX)	**(2.2)**
COMPREHENSIVE INCOME	**43.7**
Attributable to equity holders of the parent	43.7
Non-controlling interests	0.0

3.3 Consolidated balance sheet

Assets

in millions of euros	Notes	31/12/2018	01/01/2018 [1]	31/12/2017 IAS 39 after IFRS 9 reclassifications [2]
Cash, central banks	5.1	291.4	174.6	174.6
Financial assets at fair value through profit or loss	5.2.1	203.0	275.5	277.0
Derivative hedging instruments	5.3	2.9	3.5	3.5
Financial assets at fair value through equity	5.4	1,243.2	1,302.6	1,302.6
Securities at amortised cost	5.5.1	446.4	428.6	431.1
Loans and advances due from credit institutions and similar items at amortised cost	5.5.2	3,785.4	3,596.2	3,599.5
Loans and advances due from customers at amortised cost	5.5.3	9,008.1	8,714.1	8,790.5
Remeasurement gains and losses on interest rate risk-hedged portfolios		5.5	6.8	6.8
Current tax assets		18.0	0.0	0.0
Deferred tax assets	10.2	29.0	37.1	12.6
Accrued income and other assets	5.8	107.3	118.3	118.3
Non-current assets held for sale	5.9	0.0	0.0	0.0
Shares in associates	11.4.1.2	3.6	3.5	3.5
Investment property	5.10	0.4	0.3	0.3
Property, plant and equipment	5.11	14.5	17.1	17.1
Intangible assets	5.11	12.2	27.0	27.0
Goodwill	3.5.1	0.0	3.1	3.1
TOTAL ASSETS		**15,170.9**	**14,708.1**	**14,767.5**

(1) The transition from the IAS 39 balance sheet at 31 December 2017 to the IFRS 9 balance sheet at 1 January 2018 is presented in part VI "First time application of IFRS 9".

(2) Amounts at 31 December 2017 correspond to the balance sheet published after reclassifications without change in the methods for measuring the financial assets and liabilities presented in IFRS 9 format (see part VI "First time application of IFRS 9" paragraph 1 "Effect of the adoption of IFRS 9 at 1 January 2018").

Liabilities

in millions of euros	Notes	31/12/2018	01/01/2018 [1]	31/12/2017 IAS 39 after IFRS 9 reclassifications [2]
Cash placed with central banks		0.2	0.1	0.1
Financial liabilities at fair value through profit or loss	5.2.2	95.5	129.2	129.2
Derivative hedging instruments	5.3	31.9	48.4	48.4
Debt securities	5.13	3,020.6	2,905.4	2,905.4
Amounts due to credit institutions and similar items	5.12.1	1,613.8	2,088.7	2,088.7
Amounts due to customers	5.12.2	9,141.7	8,384.7	8,384.7
Remeasurement gains and losses on interest rate risk-hedged portfolios		2.5	4.1	4.1
Current tax liabilities		0.0	0.3	0.3
Deferred tax liabilities	10.2	0.0	2.2	2.0
Accrued expenses and other liabilities	5.14	127.2	124.9	124.9
Provisions	5.15	73.4	75.5	58.8
Subordinated debt	5.16	200.2	200.2	200.2
Equity		**863.9**	**744.5**	**820.7**
Equity attributable to equity holders of the parent		**863.9**	**744.5**	**820.7**
Share capital and share premium	5.17.1	595.5	595.5	595.5
Retained earnings		246.9	149.1	225.8
Gains and losses recognised directly in equity	5.19	(1.9)	(0.2)	(0.6)
Net income for the period		23.4	0.0	0.0
Non-controlling interests	**5.18**	**0.0**	**0.0**	**0.0**
TOTAL LIABILITIES AND EQUITY		**15,170.9**	**14,708.1**	**14,767.5**

(1) The transition of the IAS 39 balance sheet at 31 December 2017 to the IFRS 9 balance sheet at 1 January 2018 is presented in part VI "First time application of IFRS 9".

(2) Amounts at 31 December 2017 correspond to the balance sheet published after reclassifications without change in the methods for measuring the financial assets and liabilities presented in IFRS 9 format (see part VI "First time application of IFRS 9" paragraph 1 "Effect of the adoption of IFRS 9 at 1 January 2018").

3.4 Statement of changes in equity

in millions of euros	Share capital and share premium: Share capital	Share capital and share premium: Premiums	Share capital and share premium: Retained earnings	Perpetual deeply subordinated notes
EQUITY AT 31 DEC. 2017	**538.8**	**56.7**	**228.1**	**0.0**
Appropriation of net income for the financial year			**52.5**	
Effects of changes in accounting methods				
EQUITY AT 1 JAN. 2018	**538.8**	**56.7**	**280.6**	**0.0**
Issue of perpetual deeply subordinated notes				100.0
Remuneration of perpetual deeply subordinated notes				
TOTAL MOVEMENTS RELATED TO RELATIONS WITH SHAREHOLDERS	**0.0**	**0.0**	**0.0**	**100.0**
Gains and losses recognised directly in equity				
Net income				
NET INCOME FROM GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY	**0.0**	**0.0**	**0.0**	**0.0**
EQUITY AT 31 JAN. 2018	**538.8**	**56.7**	**280.6**	**100.0**

	Gains and losses recognised directly in other lines of comprehensive income							
	Recyclable		Non-recyclable					
Retained earnings	Translation differences	Remeasurement of financial assets at fair value through recyclable equity	Remeasurement of own credit risk of financial liabilities subject to an option of recognition at fair value through profit or loss	Remeasurement (actuarial gains and losses) under defined-benefit plans	Net income attributable to equity holders of the parent	Total equity attributable to equity holders of the parent	Non-controlling interests	Total consolidated equity
(49.4)	**(0.1)**	**3.4**	**0.0**	**(2.5)**	**45.9**	**820.9**		**820,9**
(6.6)					(45.9)	0.0		0.0
(75.4)		2.2	(3.2)			(76.4)		(76.4)
(131.4)	**(0.1)**	**5.6**	**(3.2)**	**(2.5)**	**0.0**	**744.5**		**744.5**
						100.0		100.0
(2.3)						(2.3)		(2.3)
(2.3)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**97.7**		**97.7**
		(2.6)		0.9		(1.7)		(1.7)
					23.4	23.4		23.4
0.0	**0.0**	**(2.6)**	**0.0**	**0.9**	**23.4**	**21.7**		**21.7**
(133.7)	**(0.1)**	**3.0**	**(3.2)**	**(1.6)**	**23.4**	**863.9**	**0.0**	**863.9**

3.5 Cash flow statement

in millions of euros	31/12/2018	31/12/2017
Income before tax	**35.3**	**73.8**
Net depreciation and amortisation of property, plant and equipment, and intangible assets	14.9	11.6
Impairment of goodwill	3.1	0.0
Net charges to provisions and impairment losses (including technical insurance provisions)	14.0	(18.2)
Share in net income of associates	(0.1)	(0.2)
Net gains/losses on investment activities	(16.9)	(1.5)
Income/expense from financing activities	0.0	0.0
Other movements	37.7	13.9
Total non-cash items included in net income before tax	**52.7**	**5.6**
Net increase or decrease arising from transactions with credit institutions	(346.0)	(42.1)
Net increase or decrease arising from transactions with customers	442.9	(1,245.3)
Net increase or decrease arising from transactions affecting financial assets and liabilities	174.1	946.6
Net increase or decrease arising from transactions affecting non-financial assets and liabilities	(9.9)	70.2
Tax paid	(22.1)	(28.5)
Net increase/(decrease) in assets and liabilities generated by operating activities	**239.0**	**(299.2)**
NET CASH FLOW FROM OPERATING ACTIVITIES (A) – CONTINUING ACTIVITIES	**327.1**	**(219.7)**
NET CASH FLOW FROM OPERATING ACTIVITIES (A) – ACTIVITIES SOLD	**0.0**	**0.0**
Net increase or decrease related to financial assets and investments	(1.9)	50.9
Net increase or decrease relating to investment property	0.4	1.4
Net increase or decrease related to property, plant and equipment, and intangible assets	2.2	(12.3)
NET CASH FLOW FROM INVESTMENT ACTIVITIES (B) - ACTIVITIES CONTINUED	**0.7**	**40.0**
NET CASH FLOW FROM INVESTMENT ACTIVITIES (B) - ACTIVITIES SOLD	**0.0**	**0.0**
Cash flow received from or paid to shareholders [(1)]	100.0	
Cash flow from financing activities		34.5
NET CASH FLOW FROM FINANCING ACTIVITIES (C) - ACTIVITIES CONTINUED	**100.0**	**34.5**
IMPACT OF CHANGES IN EXCHANGE RATES (D) - ACTIITIES CONTINUED	**0.0**	**0.0**
NET CHANGE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**427.8**	**(145.2)**
Cash and net balance of accounts with central banks	**174.5**	**325.6**
Cash and net balance of accounts with central banks (assets)	174.6	325.6
Cash placed with central banks (liabilities)	(0.1)	
Net balance of demand transactions with credit institutions	**998.1**	**1,002.2**
Current accounts with overdrafts [(2)]	18.9	45.3
Demand accounts and loans	1,049.9	1,306.1
Demand accounts in credit	(70.7)	(349.3)
Demand repurchase agreements		
OPENING CASH AND CASH EQUIVALENTS	**1,172.5**	**1,327.8**
Cash and net balance of accounts with central banks	**291.3**	**174.5**
Net balance of demand transactions with credit institutions	**1,309.1**	**1,008.1**
Current accounts with overdrafts [(2)]	14.2	18.9
Demand accounts and loans	1,332.5	1,049.9
Demand accounts in credit	(37.5)	(60.7)
Demand repurchase agreements		
Closing cash and cash equivalents	**1,600.3**	**1,182.6**
CHANGE IN NET CASH FLOW	**427.8**	**(145.2)**

(1) Cash flow received from or paid to shareholders corresponds to dividends paid.
(2) Current accounts with overdrafts do not include Livret A, LDD and LEP passbook savings accounts centralised with the Caisse des dépôts et consignations.

3.6 First time application of IFRS 9

3.6.1 Effect of the adoption of IFRS 9 at 1 January 2018

Banque Palatine Group applies IFRS 9 relating to financial instruments and replaces IAS 39 since 1 January 2018. The options decided upon are described in Note 2 "Accounting standards applicable and comparability" The following are the main impacts of the first time application of IFRS 9 to the balance sheet at 1 January 2018:

Classification and assessment

Most of the financial assets assessed at amortised cost under IAS 39 continue to meet the conditions to be assessed at amortised cost in accordance with IFRS 9. Similarly, most of the financial assets assessed at fair value in accordance with IAS 39 (assets classified among the financial assets held for sale or among the financial assets at fair value through profit or loss), will continue to be assessed at fair value in accordance with IFRS 9.

The main reclassifications are the following:

- for the retail banking loan portfolios, the impacts will be very limited and primarily concern certain instruments which were assessed at amortised cost and classified as loans and advances in accordance with IAS 39 and which are assessed in accordance with IFRS 9 at fair value through profit or loss because their contractual cash flows do not represent solely repayments of the principal and interest on the principal;
- for the other financing portfolios:
  - repurchase agreements classified as financial assets designated at fair value through profit or loss in accordance with IAS 39 under a comprehensive management model at fair value and falling under a trading business model in accordance with IFRS 9 will be recognised as assets at fair value through profit or loss,
  - repurchase agreements classified as loans and advances and as debts, and assessed at amortised cost in accordance with IAS 39 and under a trading business model in accordance with IFRS 9 will be recognised as assets at fair value through profit or loss;
- for the securities portfolios:
  - in accordance with IAS 39, the liquidity reserve securities are assessed at amortised cost as they were classified among the loans and advances or among the held-to-maturity financial assets, i.e. assessed at fair value as they were classified among the assets available for sale according to their characteristics, the way they were managed and whether or not they were hedged against the rate risk. The breakdown of these debt securities is different under IFRS 9 with a choice, for each group entity, between a classification at amortised cost or at fair value through equity depending on whether they will be managed under a cash flow collection business model or under a cash flow collection and sales business model. For its portfolio of liquidity reserve securities, Banque Palatine Group opted for a combined model,
  - UCIT or VCT shares (excluding those in the insurance business line) that are qualified as equity instruments and classified among the available-for-sale financial assets in accordance with IAS 39, are assessed in accordance with IFRS 9 at fair value through profit or loss due to their debt instrument nature under IFRS 9 and the characteristics of their contractual cash flows which do not solely represent repayments of the principal and interest on the principal,
  - investments in unconsolidated subsidiaries, classified among the available-for-sale financial assets in accordance with IAS 39, by default are classified at fair value through profit or loss in accordance with IFRS 9. When the companies in Groupe BPCE have each made their irrevocable choice, securities are classified at fair value through non-recyclable equity. Banque Palatine Group has decided to classify the securities at fair value through non-recyclable equity

The reclassifications between categories of financial assets assessed at amortised cost and at fair value could potentially have a net impact on Banque Palatine Group's consolidated equity at 1 January 2018 owing to the difference in the method for assessing these assets and to the retrospective application of the standard. However, since these reclassifications are limited or affect assets whose fair value does not differ significantly from the value at amortised cost, notably in view of the residual maturity of the transactions concerned, the impact of these reclassifications on Banque Palatine Group's opening equity at 1 January 2018 represents an amount of €1.5 million.

Again in application of this recommendation, margin calls and collateral deposits paid recorded in accrual accounts at 31 December 2017 (€112.6 million) were reclassified at 1 January 2018, respectively among the assets at fair value through profit or loss at €107.9 million and the loans and advances at €4.7 million. Similarly, margin calls and collateral deposits received recorded in accrual accounts at 31 December 2017 (€4.5 million) were reclassified, respectively among the liabilities at fair value through profit or loss at €4.2 million and the loans and advances at €0.3 million.

Impairment

The new credit risk assessment method introduced by IFRS 9 leads to an increase in the amount of impairments on loans and securities recognised in the balance sheet at amortised cost or at fair value through recyclable equity, and of financing and guarantee commitments. The same applies to receivables arising from leasing agreements, trade receivables and contract assets.

A sole provisioning model now prevails, whereas under IAS 39 there was a separate provisioning model for: (i) instruments valued at amortised cost, (ii) debt instruments valued in "Available-for-sale assets", (iii) equity instruments measured as "Available-for-sale assets" and (iv) instruments maintained at cost. This new model applies in the same way to instruments measured at amortised cost and to debt instruments valued at fair value with a corresponding entry in recyclable "Equity". On the other hand, under IFRS 9, the equity instruments are no longer impaired since they have to be measured at fair value through profit or loss or at fair value through non-recyclable "Equity".

Under IAS 39, ***ab initio*** impairments were strictly prohibited. An asset or a group of assets should only be impaired if:

- there is an objective impairment indication arising from one or more events occurring after the asset is initially recognised (i.e. loss event);
- and, these loss events had an impact on the financial asset's estimated cash flow.

From now on, IFRS 9 requires the entities to acknowledge impairments at an earlier stage, i.e. from the date that the financial instrument is initially recognised. It is the application of this principle that led to an increase in the amount of the impairments recorded on the assets concerned.

The impact of the first time application of IFRS 9 on the opening equity, related to the introduction of the new impairment model, is a decrease of €76.5 million net of tax.

Credit risk impairments henceforth amount to -€407.2 million in accordance with IFRS 9 compared with an amount of €294.4 million at 31 December 2017 in accordance with IAS 39 and IAS 37.

They are broken down into €49.7 million relating to the financial assets and financing and guarantee commitments falling within Stage 1 (Stage 1 corresponding to calculation on the basis of losses expected for the year), €47.4 million falling within Stage 2 (Stage 2 corresponding to calculation on the basis of losses expected at maturity) and €310.1 million falling within Stage 3 corresponding to co-called doubtful/defaulting assets and commitments. Impairments on a portfolio basis constituted in accordance with IAS 39 moreover amount to €16.3 million at 31 December 2017.

In the majority, they relate to loans and advances at amortised cost (€361.2 million) and, to a lesser degree, financing and guarantee commitments (€39.5 million), securities at amortised cost (€6.4 million) and debt instruments at fair value through recyclable equity (€0.1 million).

The effect of these reclassifications between categories of financial assets had no material impact on the equity at 1 January 2018. Most of the financial assets measured at amortised cost under IAS 39 continue to meet the conditions for assessment at amortised cost in accordance with IFRS 9. Similarly, most of the assets assessed at fair value in accordance with IAS 39 (assets classified among financial assets held for sale or among financial assets at fair value through the income statement) continue to be assessed at fair value in accordance with IFRS 9.

The following statement presents the breakdown of the effects of the change related to the reclassifications and to the application of the new provisioning method between IAS 39 and IFRS 9 by class of financial assets and liabilities. The general principles on classification of financial instruments in IFRS 9 are presented in Note 2.5.1 "Classification and assessment of the financial assets".

Assets

in millions of euros	IAS 39 balance sheet standards at 31/12/2017	Reclassifications and restatements	Balance sheet after reclassifications	Effects of the change: Valuation[(1)]	Effects of the change: Value adjustment for credit losses expected at 12 months	IFRS 9 balance sheet standards at 1/1/2018
Cash, central banks	174.6	0.0	174.6	0.0	0.0	174.6
Financial assets at fair value through profit or loss	138.4	(138.4)	0.0	0.0	0.0	0.0
		277.0	277.0	(1.5)	0.0	275.5
Derivative hedging instruments	3.5	0.0	3.5	0.0	0.0	3.5
Financial assets available for sale	1,326.7	(1,326.7)	0.0	0.0	0.0	0.0
		1,302.6	1,302.6	0.0	0.0	1,302.6
Loans and advances due from credit institutions	3,601.6	(3,601.6)	0.0	0.0	0.0	0.0
Loans and advances due from customers	9,221.4	(9,221.4)	0.0	0.0	0.0	0.0
		431.1	431.1	0.0	(2.6)	428.6
		3,599.5	3,599.5	0.0	(3.4)	3,596.2
		8,790.5	8,790.5	0.0	(76.5)	8,714.1
Remeasurement gains and losses on interest rate risk-hedged portfolios	6.8	0.0	6.8	0.0	0.0	6.8
Held-to-maturity investments	0.0	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	12.6	0.0	12.6	0.0	24.6	37.1
Accrued income and other assets	230.9	(112.6)	118.3	0.0	0.0	118.3
Investments in associates	3.5	0.0	3.5	0.0	0.0	3.5
Investment property	0.3	0.0	0.3	0.0	0.0	0.3
Property, plant and equipment	17.1	0.0	17.1	0.0	0.0	17.1
Intangible assets	27.0		27.0	0.0	0.0	27.0
Goodwill	3.1	0.0	3.1	0.0	0.0	3.1
TOTAL ASSETS	**14,767.5**	**0.0**	14,767.5	**(1.5)**	**(57.9)**	**14,708.1**

(1) This concerns the change in the method of measuring the asset. for example, an asset at amortised cost under ias 39 may be measured at fair value under IFRS 9.

Liabilities

IAS 39 in millions of euros	IAS 39 balance sheet standards at 31/12/2017	Reclassifications and restatements	Balance sheet after reclassifications	Effects of the change Valuation[1]	 Value adjustment for credit losses expected at 12 months	IFRS 9 balance sheet standards at 01/01/2018
Cash placed with central banks	0.1	0.0	0.1	0.0	0.0	0.1
Financial liabilities at fair value through profit or loss	125.0	4.2	129.2	0.0	0.0	129.2
Derivative hedging instruments	48.4	0.0	48.4	0.0	0.0	48.4
Amounts due to credit institutions	2,088.7	(2,088.7)	0.0	0.0	0.0	0.0
Amounts due to customers	8,384.5	(8,384.5)	0.0	0.0	0.0	0.0
Debt securities	2,905.4	(2,905.4)	0.0	0.0	0.0	0.0
		2,905.4	2,905.4	0.0	0.0	2,905.4
		2,088.7	2,088.7	0.0	0.0	2,088.7
		8,384.7	8,384.7	0.0	0.0	8,384.7
Remeasurement gains and losses on interest rate risk-hedged portfolios	4.1	0.0	4.1	0.0	0.0	4.1
Current tax liabilities	0.3	0.0	0.3	0.0	0.0	0.3
Deferred tax liabilities	1.8	0.2	2.0	0.0	0.1	2.2
Accrued expenses and other liabilities	129.4	(4.5)	124.9	0.0	0.0	124.9
Liabilities on assets available for sale	0.0	0.0	0.0	0.0	0.0	0.0
Technical provisions for insurance contracts	0.0	0.0	0.0	0.0	0.0	0.0
Provisions	58.8	0.0	58.8	0.0	16.7	75.5
Subordinated debt	200.2	0.0	200.2	0.0	0.0	200.2
Equity	**820.9**	**(0.3)**	**820.7**	**(1.5)**	**(74.7)**	**744.5**
Equity attributable to equity holders of the parent	**820.9**	**(0.3)**	**820.7**	**(1.5)**	**(74.7)**	**744.5**
Share capital and share premium	595.5	0.0	595.5	0.0	0.0	595.5
Retained earnings	178.7	47.1	225.8	(1.5)	(62.4)	161.8
Gains and losses recognised directly in other lines of comprehensive income	0.9	(1.5)	(0.6)	0.0	(12.2)	(12.8)
Net income for the period	45.9	(45.9)	0.0	0.0	0.0	0.0
TOTAL LIABILITIES	**14,767.5**	**0.0**	**14,767.5**	**(1.5)**	**(57.9)**	**14,708.1**

3.6.2 Summary of reclassification between IAS 39 and IFRS 9 by category

Financial assets

Financial assets under IAS 39	Classification under IFRS 9		01/01/2018 Carrying amount under IAS 39	01/01/2018 Carrying amount under IFRS 9
Financial assets at fair value through profit or loss	**Financial assets at fair value through profit or loss**		138.0	275.0
Of which variable-income securities	*Financial assets at fair value through profit or loss*	*(A)*		*24*
Of which loans or receivables	*Financial assets at fair value through profit or loss*	*(B)*		*5*
Of which trading derivatives	*Financial assets at fair value through profit or loss*		*138*	*138*
Of which accrual accounts	*Financial assets at fair value through profit or loss (margin call)*	*(C)*		*108*
Financial assets available for sale			1,327.0	1,303.0
Fixed-income securities	*Financial assets at fair value through equity*		*1,303*	*1,303*
Variable-income securities	*Financial assets at fair value through profit or loss*		*24*	
Loans and advances*			12,823.0	12,739.0
Accounts and loans	*Loans and advances due from credit institutions and similar items at amortised cost*		*3,602*	*3,594*
	Loans and advances due from credit institutions and similar items at amortised cost (guarantee deposit)			*2*
	Securities at amortised cost			*429*
	Loans and advances due from customers at amortised cost		*9,221*	*8,711*
	Loans and advances due from customers at amortised cost (guarantee deposit)			*3*
Accrued income and other assets			231.0	118.0
Accrual accounts	*Accrual accounts*		*118*	*118*
	Financial assets at fair value through profit or loss (margin call)		*108*	
	Loans and advances due from credit institutions at amortised cost (guarantee deposit)		*2*	
	Loans and advances due from customers at amortised cost (guarantee deposit)		*3*	
TOTAL			**14,519.0**	**14,435.0**

** Collective provisions are treated as a reduction in the asset value, similar to individual provisions and therefore included in the net carrying amount of the instruments.*

As a result of application of the IFRS 9 standards (Note 2.5.1 "Classification and assessment of financial assets") relating to the management models and the contractual features of the financial instruments the Group made the following modifications, with regard to the classification of financial assets compared with IAS 39:

(A) Non-consolidated FCPR (venture capital fund) units for €4 million are considered to be non-SPPI (Solely Payments of Principal and Interest) debt instruments under IFRS 9 and are therefore classified among the "Financial assets at fair value through profit and loss". The other variable-income investment securities (excluding investments in non-consolidated subsidiaries), managed according to an economic trading model, are reclassified in "Financial assets at fair value through profit or loss" under IFRS 9 for €20 million.

(B) Debt instruments for €5 million were reclassified in "Financial assets at fair value through profit or loss" under IFRS 9 owing to non-compliance with the SPPI criterion;

(C) Margin calls for €108 million were reclassified in "Financial assets at fair value through profit or loss" under IFRS 9.

Information on the effects of the classification changes and the introduction of the new provisioning method is given in point 3 below, «Statement of effects of the change in impairments or provisions for expected credit losses".

Financial liabilities

in millions of euros Financial liabilities under IAS 39	Classification under IFRS 9	Notes	01/01/2018 Carrying amount under IAS 39	01/01/2018 Carrying amount under IFRS 9
Financial liabilities at fair value through profit or loss			**125,0**	**129,0**
Of which trading derivatives	*Financial liabilities at fair value through profit or loss*		*125*	*125*
	Financial liabilities at fair value through profit or loss (margin call)			*4*
Amounts due to credit institutions and to customers			**10 473,0**	**13 378,0**
Other debts	*Financial liabilities at amortised cost*		*10 473*	*13 378*
Debt securities			**2 905,0**	**0,0**
Accrued expenses and other liabilities			**129,0**	**125,0**
Accrual accounts	*Accrual accounts*		*125*	*125*
Accrual accounts	*Financial liabilities at fair value through profit or loss (margin call)*		*4*	
TOTAL			**13 632,0**	**13 632,0**

3.6.3 "Statement of effects of the change in impairments or provisions for expected credit losses".

This statement presents the breakdown of the effects of the change related to the application of new credit risk impairment or provisioning rules between IAS 39 and IFRS 9.

Financial assets and liabilities in millions of euros	Closing balance of impairments or provisions for credit loss established according to IAS 39 at 31/12/2017	Closing balance of impairments or provisions for credit loss established according to IFRS 9 at 01/01/2018	Effect of the change in assessment classification on the impairments or provisions for credit loss
Loans and advances due from credit institutions	3.0		3.0
Loans and advances due from customers	342.0	266.0	76.0
Debt securities at amortised cost	7.0	4.0	3.0
TOTAL ASSETS	**352.0**	**270.0**	**82.0**
Provisions for off-balance sheet commitments	36.0	19.0	17.0
TOTAL LIABILITIES	**36.0**	**19.0**	**17.0**

As a result of the application of the new IFRS 9 provisioning model, the credit risk provisioning was increased by €99 million broken down as follows:

- €82 million of assets, i.e. €96 million less a collective provision of €14 million;
- €17 million in liabilities.

4 Notes to the Banque Palatine Group 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 Banques Populaires and the 15 Caisses d'Epargne. Each of the two networks owns an equal share in BPCE, the Group's central body.

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

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

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

The share capital of the Caisse d'Epargne banks is wholly-owned by the local savings companies. Local savings companies are cooperative entities with open-ended share capital owned by cooperative members. They are tasked with coordinating the cooperative membership, in line with the general objectives laid down for the individual Caisse d'Epargne with which they are affiliated, and they cannot perform banking transactions.

BPCE

BPCE, a central body as defined by French banking law and a credit institution licensed to operate as a bank, was created pursuant to Act No. 2009-715 of 18 June 2009. BPCE was incorporated as a French société anonyme with a Management Board and a Supervisory Board. Its share capital is owned jointly and equally by the 14 Banque Populaire banks and the 15 Caisses d'Epargne.

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

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

As a holding company, BPCE acts as the ultimate controlling party of the Group and holds the joint ventures between the two networks in retail banking and insurance, corporate banking and financial services, and their production units. It also defines the Group's corporate strategy and growth and expansion policies.

BPCE's network and main subsidiaries, including Natixis, a listed company which is 70.7825% owned, are organised around three major segments:

- retail banking and insurance, comprising the Banque Populaire network, the Caisse d'Epargne network, the specialised financial services and insurance business of Natixis, and the other networks (Crédit Foncier, Banque Palatine and BPCE International);
- Asset and Wealth Management;
- 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 within the Banque Populaire and Caisse d'Epargne networks.

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

BPCE manages the Banque Populaire Network Fund and the Caisse d'Epargne Network Fund and sets up the Mutual Guarantee Fund.

The **Banque Populaire Network Fund** was endowed with a €450 million deposit by the Banques Populaires that was recorded by BPCE as a ten-year term account renewable in perpetuity.

The **Caisse d'Epargne Network Fund** consists of a €450 million deposit made by the Caisses d'Epargne that was recorded by BPCE as a ten-year term account renewable in perpetuity.

The **Mutual Guarantee Fund** was formed through deposits made by the Banque Populaire banks and the Caisse d'Epargne banks. These deposits were booked by BPCE in the form of ten-year term accounts renewable in perpetuity. The deposits by network amounted to €181 million at 31 December 2018.

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

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

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

1.3 Significant events

In 2017, Banque Palatine conducted a long auditing process bringing to light a suspected internal fraud on matters of real estate loan financing. Since then, the bank has lodged a complaint and filed a civil suit. The cases identified were impaired in an amount of €7.2 million.

Since 1 January 2018, the Banque Palatine Group has applied IFRS 9 relating to financial instruments and replacing IAS 39. This change of standard impacted the equity by an amount of -€76.4 million.

During the first half of 2018, the Bank undertook a project to migrate towards the i-BP platform by 2020. This tool will replace the Bank's entire information system. The bulk of the IT spending is now charged to expenses, i.e. €34.8 million for financial year 2018. This amount includes expenses relating to the migration project and also the non-current assets being computerised in the balance sheet at 1 January in an amount of €10.4 million.

1.4 Post-balance sheet events

Since 31 December 2018 and until 8 February 2019, the date on which the Board of Directors approved the financial statements, no event occurred likely to have an notable influence on the financial position or the income of Banque Palatine.

Note 2 Applicable accounting standards and comparability

2.1 Regulatory framework

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

2.2 Standards

The standards and interpretations used and outlined in the financial statements at 31 December 2017 were complemented by standards, amendments and interpretations, application of which is mandatory for reporting periods starting on or after 1 January 2018.

The European Commission adopted the new IFRS 9 "Financial instruments" on 22 November 2016 and it is applicable retrospectively from 1 January 2018.

IFRS 9 replaced IAS 39 and defines the new rules for classifying and assessing financial assets and liabilities, the new impairment methods for the financial assets' credit risk as well as the processing of hedging transactions, except for macro-hedging transactions for which the IASB is studying a project for a separate standard.

Groupe BPCE has chosen the option provided by IFRS 9 not to apply the provisions of the standard relating to hedge accounting and to continue to apply IAS 39 for recognising 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. Conversely, the appended information will comply with the provisions of IFRS 7 amended by IFRS 9.

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 from 1 January 2018. European regulations therefore allow European financial conglomerates to postpone the application of IFRS 9 for their insurance sector until 1 January 2021 (application date for the new IFRS 17 "Insurance contracts") with conditions:

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

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

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

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

In application of the option offered by the provisions of IFRS 9, the group decided not to restate the previous financial years reported as comparative information for its financial statements.

Groupe BPCE has a portfolio of a few fixed-rate loans with symmetrical early repayment clauses. In an amendment to IFRS 9 published in October 2017, the IASB Board clarified that the possibility that an early redemption fee would be negative was not per se inconsistent with the notion of a basic financial instrument. The application of this amendment is mandatory from 1 January 2019, and an early application is possible. The European Union adopted the "Prepayment characteristics with negative remuneration" amendment on 22 March 2018. Groupe BPCE implemented this amendment early at 1 January 2018.

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

IFRS 15 "Revenue from Contracts with Customers" will replace the current standards and interpretations for income recognition. IFRS 15 was adopted by the European Union and published in the Official Journal of the European Union (OJEU) on 29 October 2016. Since 1 January 2018 it has been applicable retrospectively. The "Clarification of IFRS 15" amendment issued by the IASB on 12 April 2016 was adopted by the European Commission on 31 October 2017 and it also applicable retrospectively as from 1 January 2018.

According to this standard, the recognition of income from current activities will henceforth reflect 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. IFRS 15 thus introduces a new general approach to income recognition in five steps:

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

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

This work related to the first application of IFRS 15, was based on self-assessments carried out in a few pilot institutions and subsidiaries in coordination, and subsequently transposed by all of the Group's significant institutions and subsidiaries. It made it possible to identify the main items concerned, notably:

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

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

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

In application of the option offered by the provisions of IFRS 15, the Group decided not to restate the previous financial years reported as comparative information for its financial statements.

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

New standards published and not yet applicable

IFRS 16

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

According to IFRS 16, the definition of the leases involves, on the one hand, identifying an asset and, on the other hand, the lessee's right to use this asset. From the lessor's point of view, the expected impact is limited, the arrangements being substantially unchanged compared with the current standard.

IFRS 16 will mainly affect the recognition of leases as lessor.

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

Conversely, IFRS 16 requires the tenant to recognise leases in the balance sheet in the form of the right to use the asset leased presented in the assets, among the property, plant and equipment, and a rental liability. Rental liabilities correspond to the discounted value of lease payments that have not yet been paid over the lease period. The Group planned to use the exception provided by the standard by not modifying the accounting treatment of short leases (less than 12 months) or relating to low-value underlying assets which will still be recognised in expenses for the period with a specific Note appended. The right of use will be amortised on a straight-line basis and the lease liability actuarially by using, as the discount rate, the Group's incremental borrowing rate.

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

The Group undertook impact analysis work on the application of this standard as soon as it was published by the IASB in early 2016. This work continued during financial year 2018. The structuring choices made in terms of organisation and information systems were carried out during the first half year. The work during the second half year was devoted to the operating implementation phase, currently being completed prior to its being deployed at the beginning of 2019.

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

For the first application of this standard, the Group decided to use the modified retrospective method. This method will lead to the amount of the rental liabilities being measured on the basis of residual payments by using the discount rates relating to the remaining durations of the leases. In particular, the option of not recognising in the balance sheet contracts with a residual duration of less than 12 months at 1 January 2019 will be applied. The rights of use will be measured with reference to the amount of the rental liabilities determined at this date. On initial recognition of the right-of-use asset and lease liability no deferred tax is recognised if the value of the asset is equal to that of the liability. Any net timing differences that subsequently arise due to changes in the right-of-use or liability will give rise to deferred tax.

IFRS 17

IFRS 17 “Insurance Contracts” was published by the IASB on 18 May 2017 and will replace IFRS 4 "Insurance Contracts". Subject to its adoption by the European Commission, this standard will be applicable at 1 January 2021 with a comparative at 1 January 2020.

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.

In view of the scale of the changes made by IFRS 17 and, despite the uncertainties still weighing on the standard, Groupe BPCE's insurance entities have or will shortly have completed their planning phase so as to define their roadmap and the implementation cost. In 2018, they developed project structures enabling them to assess all the dimensions of the standard within the various projects: modelling, adaptation of systems and organisations, production of financial statements and switchover strategy, financial communication and conduct of the change.

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

IFRIC 23

IAS 12 "Income tax" not providing any particular precision on the way in which the 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" of June 2017 has clarified the treatment to be used. This interpretation makes it possible to take account of the possible uncertainty on a company's tax position to measure and recognise payable tax and deferred tax.

This text adopted by the European Commission by a regulation of 23 October 2018 is applicable as from 1 January 2019. The Group has launched a reflection on its approach to identify and document tax uncertainties and risks without however, at this stage, expecting an impact in terms of valuation.

2.3 Use of estimates and judgements

Preparation of the financial statements requires management to make estimates and assumptions in certain areas with regard to uncertain future events.

These estimates are based on the judgment of the individuals preparing these financial statements and the information available at the reporting date.

Actual future results may differ from these estimates.

In the financial statements for the annual period ended 31 December 2018, 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, as well as financing and guarantee commitments (Note 7.1 "Credit risk");
- the provisions recorded under liabilities on the balance sheet and more specifically the provision for regulated home savings products (Note 5.15 – Provisions) and provisions for litigation;
- calculations of the cost of pensions and future employee benefits (Note 8.2 "Employee benefits");
- deferred tax assets and liabilities (Note 10.2 – "Deferred taxes");
- 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").

2.4 Presentation of the consolidated financial statements and reporting date

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

The consolidated financial statements are based on the financial statements at 31 December 2018. The Banque Palatine Group’s consolidated financial statements for the period ended 31 December 2018 were approved by the Board of Directors on 8 February 2019. They will be presented to the annual general meeting on 20 May 2019.

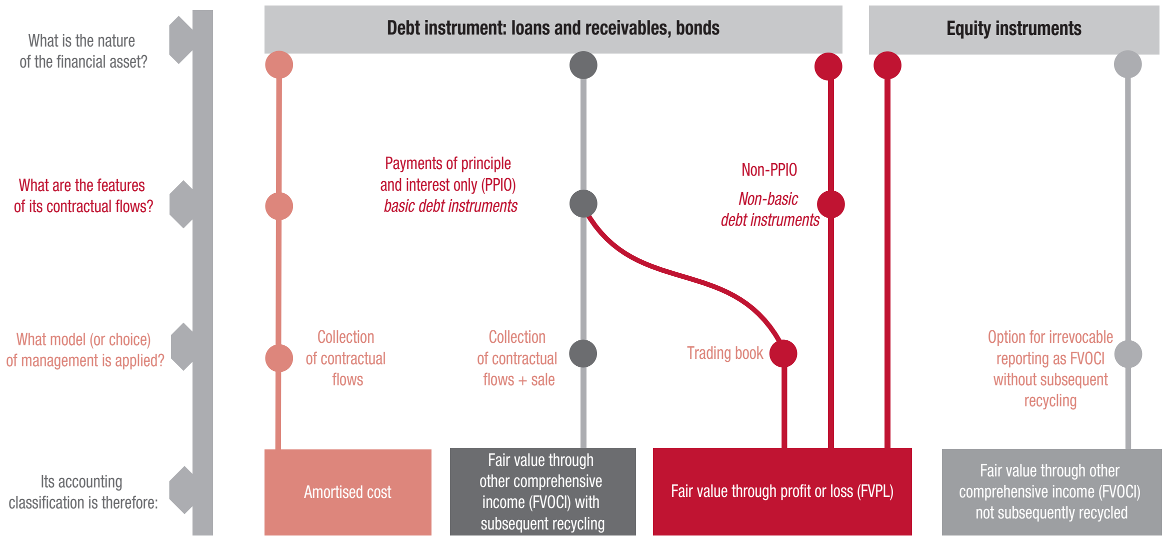
2.5 General accounting principles and basis of measurement

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

2.5.1 Classification and assessment of the financial assets

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

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



Business model

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

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

By way of example, it is worth highlighting:

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

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

The standard recognises three business models:

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

  For Groupe BPCE, the collection model particularly applies to the financing activity (excluding syndication) carried on within the Retail Banking, Major Customers Banking and Specialised Financial Services divisions;

- a combined model where assets are managed with a view to both generating contractual cash flows and selling the financial assets (a collection and sales model).

  Groupe BPCE applies the collection and sale model primarily to the part of the securities portfolio management activities of the liquidity reserve which is not exclusively managed according to a collection model;

- a model specific to other financial assets, particularly transaction, in which the collection of contractual flows is incidental. This business model applies to the syndication activity (for the portion of the outstanding for sale identified at the outset) and the market activities primarily implemented by the Major Customers Banking.

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

A financial asset is 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:

- 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 analyses would not enable a precise result to be obtained, a quantitative analysis (benchmark test) is carried out consisting in comparing the contractual cash flow of the asset studied with that of the benchmark asset;

- the terms of early redemption and extension.

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

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

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

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

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

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

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

Accounting categories

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

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

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

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

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

The equity instruments are recognised by default at fair value through profit or loss except in the case of an irrevocable option for an assessment of the fair value through non-recyclable equity (provided that these instruments are not held for trading and as such are classified as financial assets at fair value through profit or loss) without subsequent reclassification in income. In the case of an option for the latter category, dividends will still be recognised in income.

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

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

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

The provisions of IAS 39 relating to the derecognition of financial assets and liabilities are adopted without change in IFRS 9. The IFRS 9 amendment dated 12 October 2017 clarified the treatment under IFRS 9 of changes in liabilities recognised at amortised cost, in the event that the change does not result in derecognition: the gain or loss resulting from the difference between the original cash flows and the modified cash flows discounted at the original effective interest rate should be recorded in profit or loss.

2.5.2 Foreign currency transactions

The method used to account for assets and liabilities relating to foreign currency transactions entered into by the Group depends upon whether the asset or liability in question is classified as a monetary or a non-monetary item.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the balance sheet on which they appear at the exchange rate on the reporting date. Any foreign currency gains and losses are recognised in income, except in the following two cases:

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

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

Note 3 Consolidation

3.1 Consolidating entity

Banque Palatine is the Banque Palatine Group's consolidating entity.

3.2 Scope of consolidation, consolidation and measurement methods

The Group's financial statements include the financial statements of all the entities over which it exercises control or significant influence, when their consolidation has a material impact on the aforementioned financial statements.

The scope of the entities consolidated by Banque Palatine is shown in Note 13 "Details of the scope of consolidation".

3.2.1 Entities controlled by the Group

The subsidiaries controlled by Banque Palatine are fully consolidated.

Definition of control

Control exists when the group has the power to govern an entity's relevant activities, it is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing control. These potential voting rights may derive, for example, from call options on ordinary shares traded on the market, debt instruments that are convertible into ordinary shares, or equity warrants attached to other financial instruments. However, potential voting rights are not taken into account in calculating percentage ownership.

Exclusive control is presumed to exist when the group holds directly or indirectly either the majority of the subsidiary's voting rights, or at least half of an entity's voting rights and a majority within the management bodies, or is able to exercise significant influence.

Specific case of structured entities

Entities described as structured entities are those organised in such a way that voting rights are not a dominant factor in deciding who controls the entity. This is the case in particular when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

A structured entity frequently has some or all of the following features or attributes:

- restricted activities;
- a narrow and well-defined objective. For example, implementing a lease benefiting from specific tax treatment, carrying out research and development activities, providing an entity with a source of capital or funding, or providing investors with investment options by transferring to them the risks and advantages associated with the structured entity's assets;
- insufficient equity to permit the structured entity to finance its activities without resorting to subordinated financial support;
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit risk or other risks ("tranches").

As structured entities, the group therefore may use collective investment vehicles as defined in the French Monetary and Financial Code and equivalent bodies governed by foreign law.

Full consolidation

A subsidiary in the group's consolidated financial statements is fully consolidated from the date on which the group takes control until it relinquishes control of the entity.

A non-controlling interest is an interest not directly or indirectly attributable to the group.

Income and all components of other comprehensive income (gains and losses recognised directly in equity) are apportioned between the Group and non-controlling interests. The comprehensive income of subsidiaries is apportioned between the group and non-controlling interests, even where this results in the allocation of a loss to non-controlling interests.

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

Exclusion from the scope of consolidation

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

Employee pension funds and supplementary health insurance plans are excluded from the scope of consolidation insofar as IFRS 10 does not apply to either post-employment benefit funds or other long-term employee benefit plans to which IAS 19 "Employee Benefits", applies.

Likewise, interests acquired with a view to their subsequent short-term disposal are recorded as available for sale and recognised in accordance with the provisions of IFRS 5 "Non-current assets held in view of sale and discontinued activities".

3.2.2 Investment in associates and joint ventures

Definitions

An associate is an entity over which the group holds significant influence. Significant influence is the power to participate in the entity's financial and operating policy decisions, but not control them or exercise joint control over these policies. It is presumed to exist if the Group holds, directly or indirectly, more than 20% of the voting rights.

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

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

Equity accounting

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

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

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

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

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

Net investment in an associate or a joint venture is subjected to an impairment test if there is any objective indication of impairment arising from one or more events occurring after the net investment's initial recognition and that these events have an impact on the estimated future cash flow from the net investment, which may be reliably estimated. In such a case, the total carrying amount of the investment (including goodwill) is tested for impairment according to the provisions of IAS 36 "Impairment of Assets".

Exception to the equity method

When an investment is held by a venture capital organisation, mutual fund, unit trust or similar entities including investment-linked insurance funds, the investor may elect not to account for the investment in the associate using the equity method. In fact, revised IAS 28 "Investment in associates", in this case permits the investor to recognise the investment at its fair value (with changes in fair value recognised in profit or loss) in accordance with IFRS 9.

These investments are therefore recognised as "Financial assets at fair value through profit or loss".

3.2.3 Investments in joint operations

Definition

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Accounting for joint operations

An investment in a joint operation is accounted for including all the interests held in the joint operation, i.e. the Group's share in each of its assets and liabilities, income and expense. These interests are allocated by their nature to the various lines of the consolidated balance sheet, the consolidated income statement and the statement of net income and gains and losses recognised directly in equity.

3.3 Consolidation rules

The consolidated financial statements are prepared using consistent accounting policies for reporting similar transactions in comparable circumstances. Where material, consolidation adjustments are made to ensure the consistency of the measurement methods applied by consolidated entities.

3.3.1 Foreign currency translation

The consolidating entity's financial statements are presented in euros.

The consolidated subsidiaries of the Banque Palatine Group are all domiciled in France and the financial statements are prepared in euros.

3.3.2 Elimination of intra-Group transactions

The impact of intercompany transactions on the consolidated balance sheet and consolidated income statement is eliminated. Dividends, as well as gains and losses on intercompany asset disposals, are also eliminated. Where appropriate, capital losses from asset disposals resulting in impairment are maintained.

3.3.3 Business combinations

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

- combinations between mutual insurers are now included in the scope of IFRS 3;
- costs directly associated with business combinations are recognised in income for the period;
- any counterparties to pay are now included in the acquisition cost at their fair value at the time of the business combination, even when they are contingent in nature. Depending on the settlement method, the counterparties transferred are recognised with a corresponding adjustment in:
  - equity and subsequent price adjustments are not accounted for,
  - or debts, and subsequent price adjustments are recognised in the income statement (financial liabilities) or according to the appropriate standards (other financial liabilities outside the scope of IFRS 9);
- at the time of the business combination, non-controlling interests may be measured at:
  - either the fair value (method resulting in the allocation of a share of the goodwill to non-controlling interests),
  - or at their share of the fair value of the identifiable assets and liabilities of the entity acquired (method similar to that applicable to transactions prior to 31 December 2009).

One of these methods must be chosen for each business combination.

Irrespective of the method chosen at the time of the business combination, increases in the percentage ownership of an entity already controlled are recognised systematically in equity:

- any share previously held by the Group at the time of the business combination should be remeasured at fair value through profit or loss. Consequently, in the event of a step acquisition, goodwill is determined with reference to fair value at the time of the business combination;
- when the Group relinquishes control of a consolidated company, any share previously held by the Group should be remeasured at fair value through profit or loss.

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

3.3.4 Reporting date

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

3.4 Changes in the scope of consolidation during financial year 2018

There were no changes in Banque Palatine's scope of consolidation in 2018.

	Country of incorporation or domicile	Consolidation method	Changes in scope compared with 31 December 2017	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	31/12/2018	31/12/2017
Net value at beginning of period	**3.1**	**3.1**
Impairment loss	(3.1)	0.0
Goodwill at end of period, net	**0.0**	**3.1**

Impairment tests

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

Key assumptions used to determine recoverable amount

The following assumptions were used:

- discounted free cash flow method;
- discount rate of 11.2%;
- perpetual growth rate of 2.0%.

Sensitivity of the recoverable amounts

Analyses of the sensitivity are given in the statement below:

	Growth rate over 5 years			
Discount rate	**1.0%**	**2.0%**	**3.0%**	**4.0%**
10.2%	0.61	0.61	0.61	0.61
11.2%	0.59	0.59	0.59	0.59
12.2%	0.58	0.58	0.58	0.58

In view of the key assumptions used, these tests resulting in the Banque Palatine Group recognising an impairment of €3.1 million for the 2018 financial year.

Note 4 Notes to the income statement

Overview

Net banking income combines:

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

4.1 Interest and similar income and expense

Accounting principles

Interest income and expense is 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. The interest accrued and due on fixed-income securities recognised in the portfolio of financial assets at fair value in equity and hedging derivatives, it being specified that accrued interest on cash flow hedges is taken to the income statement in the same manner and period as the accrued interest on the hedged item.

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

The effective interest rate is the rate that exactly discounts estimated future cash inflows or outflows over the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

The effective interest rate calculation takes account of all transaction fees paid or received and any premiums and discounts. Costs and transaction income that form an integral part of the effective rate of the contract, such as set-up fees or commissions paid to business providers, are similar to additional interest.

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

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

	31/12/2018		
in millions of euros	**Interest income**	**Interest expense**	**Net**
Loans / borrowing to credit institutions [1]	33.6	(9.4)	24.2
Loans / borrowing to customers	199.3	(18.6)	180.7
Bonds and other debt securities held/issued	15.3	2.5	17.8
Subordinated debt		(3.3)	(3.3)
Financial assets and liabilities at amortised cost (excluding finance lease contracts)	**248.2**	**(28.8)**	**219.4**
Debt securities	18.5		18.5
Financial assets at fair value through equity	**18.5**		**18.5**
TOTAL FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST AND AT FAIR VALUE THROUGH EQUITY[1]	**266.7**	**(28.8)**	**237.9**
Derivative hedging instruments	**7.5**	**(26.0)**	**(18.5)**
TOTAL INTEREST INCOME AND EXPENSE	**274.2**	**(54.8)**	**219.4**

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

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	31/12/2017		
	Income	Expense	Net
Loans and advances due from/to customers	208.1	(19.8)	188.3
Loans and advances due from/to credit institutions	37.2	(11.1)	26.1
Debt securities and subordinated debt	0.0	(5.9)	(5.9)
Derivative hedging instruments	14.0	(43.5)	(29.5)
Financial assets available for sale	27.6	0.0	27.6
Held-to-maturity investments	0.3	0.0	0.3
Impaired financial assets	4.5	0.0	4.5
TOTAL INTEREST INCOME AND EXPENSE	**291.7**	**(80.3)**	**211.4**

The good performance of customer credit production, the decrease in the cost of financial resources as well as savings related to the macro-hedging of exchange risk, contributed to the increase in the net interest margins in 2018.

4.2 Fee and commission income and expense

Accounting principles

Fee and commission income and expense is recorded based on the type of service rendered and on the method of accounting for the financial instrument to which the service relates.

This line includes mainly fees and commission receivable or payable on recurring services (payment processing, custody fees, etc.) and occasional services (fund transfers, payment penalties, etc.), commission receivable or payable on execution of significant transactions, and commission receivable or payable on trust assets managed on behalf of the Group's customers.

However, fees and commission that form an integral part of the effective yield on a contract are recorded under "Net interest income".

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.

	31/12/2018			31/12/2017		
in millions of euros	Income	Expense	Net	Income	Expense	Net
Cash and interbank transactions	0.1	(0.1)	0.0	0.1	(0.1)	0.0
Customer transactions	36.9	0.0	36.9	37.2	0.0	37.2
Financial services	4.8	(6.9)	(2.1)	4.7	(7.6)	(2.9)
Sales of life insurance products	12.9		12.9	12.3		12.3
Payment services	12.1	(6.5)	5.6	11.4	(6.0)	5.4
Securities transactions	1.6	(0.1)	1.5	2.2	(0.2)	2.0
Fiduciary and trust activities	31.5		31.5	37.2	0.0	37.2
Foreign exchange and arbitrage transactions	0.3	0.0	0.3	0.3	0.0	0.3
Other fee and commission income	6.4	(0.1)	6.3	5.2	(0.1)	5.1
TOTAL FEES AND COMMISSION	**106.6**	**(13.8)**	**92.8**	**110.6**	**(14.0)**	**96.6**

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	31/12/2018
Gains and losses on financial instruments obligatorily measured at fair value through profit or loss	17.4
Change in fair value hedges	11.2
Change in the hedged item	(11.2)
Gains and losses on foreign exchange transactions	(2.1)
TOTAL NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	**15.2**

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in millions of euros	31/12/2017
Gains and losses on financial instruments held for trading	15.4
Gains and losses on hedging transactions	0.0
Ineffective portion of fair value hedges	*0.0*
Change in fair value of hedging instrument	*36.0*
Change in fair value of hedged items attributable to hedged risks	*(36.0)*
Gains and losses on foreign exchange transactions	(1.9)
TOTAL NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	**13.5**

Net gains and losses on financial instruments at fair value by income increased by €1.7 million, as a result of the activity supported by the customer dealing room.

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, the changes in fair value are not transferred to income but directly to retained earnings in equity. Only dividends affecting the income when they correspond to a return on investment.

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

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

in millions of euros	31/12/2018
Gains or losses on debt instruments	0.1
Net gains or losses on equity instruments (dividends)	5.1
TOTAL PROFITS OR LOSSES ON FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**5.2**

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in millions of euros	31/12/2017
Net gain/(loss) on disposal	(1.3)
Dividends received	0.1
Prolonged impairment of variable-income securities	
TOTAL NET GAINS OR LOSSES ON FINANCIAL ASSETS AVAILABLE FOR SALE	**(1.2)**

4.4.1 Profits and losses of basic debt instruments under a business model for collection and sale at fair value through recyclable equity

	31/12/2018		
in millions of euros	Amount recognised as income	Amount recognised in equity for the period	Amount reclassified as equity for the accrual period in net income at recognition
Interest income and expenses and similar items			
Net gains or losses on financial debt assets at fair value through equity	0.1		
Cost of credit risk	0.5		
Gains and losses recognised directly in equity		(3.9)	0.0
TOTAL PROFITS AND LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH RECYCLABLE EQUITY	**0.6**	**(3.9)**	**0.0**

4.4.2 Equity instruments measured at fair value through non-recyclable equity

	31/12/2018		
in millions of euros	Amount recognised as income (dividends)	Amount recognised in equity for the period	Amount reclassified as equity in reserves at recognition
Dividend payments	5.1		
Gains and losses recognised directly in equity			
TOTAL PROFITS AND LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH NON-RECYCLABLE EQUITY	**5.1**	**0.0**	**0.0**

Net gains and losses on instruments at fair value through equity increased by €5.0 million in 2018, as a result of an advance on a liquidation gain from an investment account.

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.

	31/12/2018		
in millions of euros	Gains	Losses	Net
Debt securities	1.1	0.0	1.1
Gains and losses on financial assets at amortised cost	**1.1**	**0.0**	**1.1**
Gains and losses on financial liabilities at amortised cost	**0.0**	**0.0**	**0.0**
TOTAL NET GAINS OR LOSSES ARISING FROM THE DERECOGNITION OF FINANCIAL ASSETS AT AMORTISED COST	**1.1**	**0.0**	**1.1**

Gains recorded for the financial year after the sale of financial assets at amortised cost stood at €1.1 million.

4.6 Income and expense from other activities

Accounting principles

Income and expenses from other activities particularly recorded:

- income and expense on investment property (rental income and expense, gains and losses on disposals, depreciation and impairment);
- income and expenses on operational lease transactions;
- income and expenses on property development (revenue, purchases consumed

in millions of euros	31/12/2018			31/12/2017		
	Income	Expense	Net	Income	Expense	Net
Income and expense on investment property	**0.4**	**(0.0)**	**0.4**	**1.1**	**0.0**	**1.1**
Transfers of expenses and income	*0.2*	*(1.5)*	*(1.3)*	*0.2*	*(1.5)*	*(1.3)*
Other miscellaneous operating income and expense	*1.4*	*(2.0)*	*(0.6)*	*1.7*	*(1.4)*	*0.3*
Additions to and reversals of provisions to other operating income and expense	*0.0*	*(0.8)*	*(0.8)*	*0.0*	*(1.1)*	*(1.1)*
Other banking income and expense	**1.6**	**(4.3)**	**(2.7)**	**1.9**	**(4.0)**	**(2.1)**
TOTAL INCOME AND EXPENSES FROM OTHER ACTIVITIES	**2.0**	**(4.3)**	**(2.3)**	**3.0**	**(4.0)**	**(1.0)**

4.7 General operating expenses

Accounting principles

Operating expenses include mainly payroll costs (wages and salaries net of rebilled amounts), social security charges, and employee benefit expenses such as pension costs. Operating expenses also include the full amount of administrative expenses and other external services costs.

Contributions to mechanisms for banking resolution

The procedures for feeding the deposit guarantee and resolution fund were amended by an order of 27 October 2015. For the deposit guarantee fund, the cumulative amount of contributions paid and available to the fund for deposit, guarantee and security mechanisms represents €9.9 million. The premiums (non-repayable contributions in the event of voluntary withdrawal of approval) represent €2.3 million. Contributions paid in the form of associate or association certificates and cash guarantee deposits that are registered on the asset side of the balance sheet total €7.6 million.

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

In compliance with the delegated regulation 2015/63 and the implementing regulation 2015/81 supplementing the BRRD directive on ***ex-ante*** contributions to the systems for financing the resolution, the Single Resolution Board determined the contributions to the single resolution fund for 2017. The amount of the contributions paid by the Group for the financial year was €4.6 million of which €3.9 was recognised as an expense and €0.7 million in the form of cash deposit guarantees that are recognised on the balance sheet as assets (15% of calls for funds constituted in the form of cash deposit guarantees). The total contributions entered as assets on the balance sheet amounted to €2.4 million at 31 December 2018.

in millions of euros	31/12/2018	31/12/2017
PAYROLL COSTS	**(133.4)**	**(125.9)**
Taxes, levies and regulatory contributions[1]	(11.2)	(10.6)
External services and other general operating expenses	(92.8)	(58.2)
OTHER ADMINISTRATIVE EXPENSES	**(104.0)**	**(68.8)**
TOTAL GENERAL OPERATING EXPENSES	**(237.4)**	**(194.7)**

(1) Taxes, levies and regulatory contributions notably include the contribution to the Single Resolution Fund (SRF) for an annual amount of €3.9 million (compared to €3.5 million in 2017) and the systemic risk tax for banks (TSB) for an annual amount of €1 million (compared to €1.6 million in 2017).

Spending relating to IT migration were charged to expenses in an amount of €34.8 million.
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.
No gain or loss on other assets was recorded in 2018.

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	31/12/2018	31/12/2017
Cash	6.5	8.0
Cash placed with central banks	284.9	166.6
TOTAL CASH AND ASSETS PLACED WITH CENTRAL BANKS	**291.4**	**174.6**

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

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.

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.

	31/12/2018				01/01/2018			
	Financial assets that must be measured at fair value through profit or loss				Financial assets that must be measured at fair value through profit or loss			
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	Financial assets designated at fair value (option)	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 (option)	Total
Bonds and other debt securities		13.8		13.8		28.6		28.6
Debt securities		**13.8**		**13.8**		**28.6**		**28.6**
Loans to customers excluding repurchase agreements						0.6		0.6
Loans						**0.6**		**0.6**
Equity instruments								
Trading derivatives	**103.0**			**103.0**	**138.4**			**138.4**
Security deposits paid	**86.2**			**86.2**	**107.9**			**107.9**
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**189.2**	**13.8**		**203.0**	**246.3**	**29.2**		**275.5**

The financial assets of the trading portfolio mainly consist of securities transactions conducted on its own behalf, repurchase agreements and derivative financial instruments traded as part of the Group's position management activities.

The "Trading derivatives" item includes derivatives whose fair value is positive. These are mainly economic hedging derivatives that do not meet the restrictive hedging criteria required by IFRS 9.

The amount of this item is also reduced by the amount of the value adjustments of the entire CVA (Credit Valuation Adjustment) derivative portfolio (transaction and hedging), i.e. €1.1 million at 31 December 2018.

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.

	31/12/2018			01/01/2018		
in millions of euros	**Financial liabilities issued for trading**	**Financial liabilities designated at fair value (option)**	**Total**	**Financial liabilities issued for trading**	**Financial liabilities designated at fair value (option)**	**Total**
Trading derivatives	92.4		92.4	125.0		125.0
Guarantee deposits received	3.1		3.1	4.2		4.2
TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**95.5**		**95.5**	**129.2**		**129.2**

The "Trading derivatives" item includes derivatives whose fair value is negative. These are mainly economic hedging derivatives that do not meet the restrictive hedging criteria required by IFRS 9.

The amount of this item is also reduced by the amount of the value adjustments of the entire DVA (Debit Valuation Adjustment) derivative portfolio (transaction and hedging), i.e. €0.1 million at 31 December 2018.

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.

	31/12/2018			01/01/2018		
in millions of euros	**Notional**	**Positive fair value**	**Negative fair value**	**Notional**	**Positive fair value**	**Negative fair value**
Interest rate instruments	4,627.4	49.9	45.3	4,045.5	39.3	33.9
Currency instruments	2,366.8	30.4	29.9	2,328.8	58.3	54.3
Futures and forwards	**6,994.2**	**80.3**	**75.2**	**6,374.3**	**97.6**	**88.2**
Interest rate instruments	7,452.6	2.3	(3.2)	2,978.0	5.5	1.7
Currency instruments	1,868.8	20.4	20.4	1,764.5	35.2	35.2
Options	**9,321.4**	**22.7**	**17.2**	**4,742.5**	**40.7**	**36.9**
TOTAL TRADING DERIVATIVES	**16,315.7**	**103.0**	**92.4**	**11,116.8**	**138.4**	**125.0**

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

5.3 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:

- fixed-rate loan portfolios;
- demand deposits;
- PEL-related deposits;
- the inflation component of Livret A savings accounts.

Fair value micro-hedging is used notably to cover:

- a fixed-rate liability;
- securities of the fixed-rate liquidity reserve and securities indexed to inflation.

The cash flow hedges fix or control the variability of cash flows arising from floating-rate instruments. Cash flow hedging is also used to manage the global interest rate risk position.

Cash flow hedges are used notably to:

- hedge variable-rate liabilities;
- hedge the risk of changes in the value of future variable debt flows;
- macro-hedge variable-rate assets.

The main sources of hedge ineffectiveness stem from:

- "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;
- 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);
- 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	31/12/2018 Notional	31/12/2018 Positive fair value	31/12/2018 Negative fair value	01/01/2018 Notional	01/01/2018 Positive fair value	01/01/2018 Negative fair value
Interest rate instruments	1,154.2	2.9	31.9	1,673.8	3.5	48.4
Futures and forwards	**1,154.2**	**2.9**	**31.9**	**1,673.8**	**3.5**	**48.4**
Fair value hedge	**1,154.2**	**2.9**	**31.9**	**1,673.8**	**3.5**	**48.4**
TOTAL HEDGING DERIVATIVES	**1,154.2**	**2.9**	**31.9**	**1,673.8**	**3.5**	**48.4**

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 2018

in millions of euros	Under 1 year	1 year to 5 years	6 years to 10 years	Over 10 years
Interest rate hedges	376.8	489.1	288.3	0.0
Cash flow hedging instruments	0.0	0.0	0.0	0.0
Fair value hedging instruments	376.8	489.1	288.3	0.0
TOTAL	**376.8**	**489.1**	**288.3**	**0.0**

Hedged items

Fair value hedge

	At 31 December 2018								
	Interest rate risk hedge			Exchange rate risk hedge			Hedging of other risks (gold, commodities, etc.)		
Assets 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**
Financial assets at fair value through equity	**587.2**	**15.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Debt securities	587.2	15.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets at amortised cost	**2,061.4**	**5.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Customer loans	2,061.2	5.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL ASSETS	**2,648.6**	**21.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Liabilities									
Financial liabilities at amortised cost	**2,091.2**	**2.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Liabilities portfolio	2,091.2	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL LIABILITIES	**2,091.2**	**2.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**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 4.2 “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".

in millions of euros	31/12/2018	01/01/2018
Loans or advances due from customers	0.1	0.0
Debt securities	1,240.0	1,300.2
Shares and other equity securities (1)	3.1	2.4
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**1,243.2**	**1,302.6**
O/w impairment for expected credit losses	*0.1*	*0.6*
O/w gains and losses recognised directly in equity (before tax)	*3.8*	*7.7*
Debt instruments	*3.8*	*7.7*
Equity instruments	*0.0*	*0.0*

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

At 31 December 2018, gains and losses recognised directly in equity include, in particular, treasury bills, bonds and other investments in unconsolidated subsidiaries.

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 advances are initially recorded at fair value plus any costs directly related to their issue, less any proceeds directly attributable to the issue. For subsequent reporting periods, they 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 issuance 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.

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.

Renegotiation and restructuring

IFRS 9 requires the identification of amended contracts which are financial assets that are renegotiated, restructured or reorganised, whether or not in view of financial difficulties, and which do not give rise to derecognition. A profit or loss is recognised in the income statement in the event of an amendment. The gross carrying amount of the financial asset shall be recalculated so that it is equal to the discounted value of the renegotiated or amended contractual cash flows at the original effective interest rate. An analysis of the substantial nature of the amendments is however to be carried out on a case-by-case basis.

The treatment of restructuring resulting from financial difficulties remains similar to that of IAS 39: in the event of restructuring following an event that generates a credit loss in accordance with IFRS 9, the loan is considered as an impaired outstanding (Stage 3) and is discounted by an amount equal to the difference between the discounting of the initially expected contractual flows and the discounting of expected future cash and interest flows following restructuring. The discount rate used is the initial effective interest rate. This discount is expensed to the “Cost of credit risk” item and offset against the corresponding outstanding on the balance sheet. It is written back to net interest income in the income statement over the life of the loan using an actuarial method. The restructured loan is reclassified as performing (not impaired, Stage 1 or Stage 2) on the basis of an expert opinion when there is no more uncertainty about the borrower’s capacity to honour its commitments.

When restructuring is substantial (such as converting all or part of a loan into an equity instrument), new instruments are recognised at fair value, and the difference between the carrying amount of the derecognised loan (or portion of the loan) and the fair value of the assets received in exchange is recognised in the income statement under "Cost of credit risk". The potential impairment previously constituted on the loan is adjusted and is fully reversed in the event of total conversion of the loan into new assets.

Fees and commissions

External costs consist primarily of commission paid to third parties in connection with the arrangement of loans. They essentially comprise commission paid to business partners.

Income directly attributable to the issuance of new loans principally comprises set-up fees charged to customers, rebilled costs and commitment fees (if it is more likely than unlikely that the loan will be drawn down). The loan commitment fees received that will not result in any drawdowns are apportioned on a straight-line basis over the life of the commitment.

Expenses and income arising on loans with a term of less than one year at inception are deferred on a ***pro rata temporis*** basis with no recalculation of the effective interest rate. For floating or adjustable rate loans, the effective interest rate is calculated at each fixing date.

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 date when these transactions are recognised under "Loans and advances".

5.5.1 Securities at amortised cost

in millions of euros	31/12/2018	01/01/2018
Treasury bills and similar securities	0.4	0.5
Bonds and other debt securities	452.4	434.5
Impairment for expected credit losses	(6.4)	(6.5)
TOTAL SECURITIES AT AMORTISED COST	**446.4**	**428.6**

5.5.2 Loans and advances due from credit institutions at amortised cost

in millions of euros	31/12/2018	01/01/2018
Current accounts with overdrafts	14.2	18.9
Accounts and loans (1)	3,766.6	3,576.2
Other loans and advances due from credit institutions	2.5	2.5
Security deposits paid	2.5	2.0
Impairment for expected credit losses	(0.4)	(3.4)
TOTAL	**3,785.4**	**3,596.2**

(1) Livret A, LDD and LEP savings accounts centralised with Caisse des dépôts et consignations and recorded under “Accounts and loans” amounted to €247.3 million at 31 December 2018, versus €259.7 million at 1 January 2018.

The fair value of loans and advances due from credit institutions is presented in Note 9 "Fair value of financial assets and liabilities".

5.5.3 Loans and advances due from customers at amortised cost

in millions of euros	31/12/2018	01/01/2018
Current accounts with overdrafts	**565.0**	**670.5**
Other facilities granted to customers	**8,797.7**	**8,378.9**
• *Short-term loans*	*1,507.5*	*1,529.3*
• *Equipment loans*	*2,207.8*	*2,134.3*
• *Home loans*	*2,366.7*	*2,088.8*
• *Export loans*	*90.5*	*82.7*
• *Subordinated loans*	*0.1*	*0.1*
• *Other loans*	*2,624.9*	*2,543.6*
Other loans and advances due from customers	**3.3**	**4.0**
Security deposits paid	**2.9**	**2.7**
GROSS LOANS AND ADVANCES DUE FROM CUSTOMERS	**9,368.9**	**9,056.2**
Impairment for expected credit losses	(360.8)	(342.1)
TOTAL	**9,008.1**	**8,714.1**

The fair value of loans and advances due from customers is presented in Note 9 "Fair value of financial assets and liabilities".

5.6 Equity instruments designated at fair value through equity

Accounting principles

Equity instruments designated as at fair value through equity may be:

- investments in unconsolidated subsidiaries;
- shares or other equity securities.

During initial recognition, equity instruments designated as at fair value through equity are measured at fair value plus transactions costs.

On subsequent reporting dates, changes in the fair value of the instrument are recognised in equity (OCI).

The changes in fair value thus accrued in equity will not be reclassified in income during subsequent years (non-recyclable OCI).

Only dividends are recognised in income, when the criteria are met.

	31/12/2018				01/01/2018
		Dividends recognised over the period	Derecognition over the period		
in millions of euros	Fair value	Equity instruments held at the end of the period	Fair value at the disposal date	Accumulated profit or loss at the disposal date	Fair value
Investments in unconsolidated subsidiaries	0.9	0.1	0.0	0.0	0.9
Shares and other equity securities	2.2	5.0	0.0	0.0	1.4
TOTAL	**3.1**	**5.1**	**0.0**	**0.0**	**2.3**

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.

Net gains and losses on instruments at fair value through equity increased by €5.0 million in 2018, as a result of an advance on a liquidation gain from an investment account.

5.7 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 2018.

5.8 Accrued income and other assets

in millions of euros	31/12/2018	01/01/2018
Collection accounts	19.2	27.8
Prepaid expenses	2.9	4.2
Accrued income	18.7	20.4
Other accrual accounts	46.4	55.0
ACCRUAL ACCOUNTS – ASSETS	**87.2**	**107.3**
Settlement accounts in credit on securities transactions	0.0	0.0
Guarantee deposits in respect of DGF	4.1	0.0
Guarantee deposits in respect of SRF	2.4	0.0
Miscellaneous debtors	13.6	11.0
SUNDRY ASSETS	**20.1**	**11.0**
TOTAL ACCRUED INCOME AND SUNDRY ASSETS	**107.3**	**118.3**

The "Collection accounts" line mainly includes checks sent for collection (***via*** the Clearing House), as well as the expected Dailly receivables awaiting settlement.

"Other accrual accounts" mainly include pending transactions in the management modules.

The DGF and SRF guarantee deposits, previously included in the "Miscellaneous debtors" line, are now shown on separate lines.

5.9 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.

5.10 Investment property

Accounting principles

In accordance with IAS 40, investment property is property held to earn rentals or for capital appreciation, or both.

The accounting treatment of investment property is identical to that of property, plant and equipment for Group entities, with the exception of certain insurance entities that recognise their buildings representing insurance investments at fair value with recognition of the change in income. Fair value is based on a multi-criteria approach where rents are capitalised at market rates and compared with the transaction market.

The fair value of the Group's investment property is reported on the basis of the results of regular appraisals, except in special cases significantly affecting the value of the property.

Leased property may have a residual value deducted from the depreciable base.

Gains or losses on the sale of investment property are recorded in the income statement under "Net income or expenses from other activities", with the exception of insurance activities classified as "Income from insurance activities".

	31/12/2018			31/12/2017		
in millions of euros	Gross	Accumulated depreciation and impairment	Net	Gross	Accumulated depreciation and impairment	Net
Property recognised at historical cost	0.5	(0.1)	0.4	0.4	(0.1)	0.3
TOTAL INVESTMENT PROPERTY	**0.5**	**(0.1)**	**0.4**	**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.

5.11 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.

The accounting treatment of operating assets financed by finance leases (lessee lease) is specified in Note 11.2 "Information on finance lease and operating lease transactions".

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.

	31/12/2018			31/12/2017		
in millions of euros	Gross	Accumulated depreciation and impairment	Net	Gross	Accumulated depreciation and impairment	Net
PROPERTY, PLANT AND EQUIPMENT						
• Land and buildings	18.7	(15.3)	3.4	19.0	(14.8)	4.2
• Equipment, furniture and other property, plant and equipment	34.9	(23.8)	11.1	33.1	(20.2)	12.9
TOTAL PROPERTY, PLANT AND EQUIPMENT	**53.6**	**(39.1)**	**14.5**	**52.1**	**(35.0)**	**17.1**
INTANGIBLE ASSETS						
• Leasehold rights	11.6	(1.4)	10.2	11.8	(1.3)	10.5
• Software	42.0	(40.2)	1.8	40.8	(30.6)	10.2
• Other intangible assets	0.3	(0.1)	0.2	6.3	0.0	6.3
TOTAL INTANGIBLE ASSETS	**53.9**	**(41.7)**	**12.2**	**58.9**	**(31.9)**	**27.0**

As part of the IT migration, Banque Palatine chose to accelerate the depreciation and amortisation of software and IT equipment that will no longer be used post-migration.

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”.

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 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

in millions of euros	31/12/2018	01/01/2018
Demand accounts	37.5	70.7
AMOUNTS DUE TO CREDIT INSTITUTIONS - REPAYABLE ON DEMAND	**37.5**	**70.7**
Term deposits and loans	1,575.5	2,017.3
Repurchase agreements	5.0	0.0
Accrued interest	(4.3)	0.7
AMOUNTS DUE TO CREDIT INSTITUTIONS - REPAYABLE AT AGREED MATURITY DATES	**1,576.2**	**2,018.0**
TOTAL AMOUNTS DUE TO CREDIT INSTITUTIONS	**1,613.8**	**2,088.7**

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	31/12/2018	01/01/2018
Current accounts in credit	**7,411.1**	**6,910.6**
Livret A savings accounts	181.1	179.9
Regulated home savings products	214.7	231.5
Other regulated savings accounts	748.0	634.7
Regulated savings accounts	**1,143.8**	**1,046.1**
Demand accounts and loans	9.5	5.9
Term accounts and loans	576.1	420.9
Accrued interest	0.9	1.0
Other customer accounts	**586.6**	**427.8**
Guarantee deposits received	0.2	0.3
TOTAL AMOUNTS DUE TO CUSTOMERS	**9,141.7**	**8,384.7**

The fair value of amounts due to customers is presented in Note 9 "Fair value of financial assets and liabilities".

5.13 Debt securities

Accounting principles

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

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

Debt securities are classified based on the nature of the underlying, except for subordinated notes presented under “Subordinated debt”.

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	31/12/2018	01/01/2018
Interbank market instruments and negotiable debt securities	3,023.0	2,906.9
TOTAL	**3,023.0**	**2,906.9**
Accrued interest	(2.4)	(1.5)
TOTAL DEBT SECURITIES	**3,020.6**	**2,905.4**

The fair value of debt securities is presented in Note 9 "Fair value of financial assets and liabilities".

5.14 Accrued expenses and other liabilities

in millions of euros	31/12/2018	01/01/2018
Collection accounts	23.0	52.4
Prepaid income	3.6	3.1
Accrued expenses	59.2	38.5
Other accrual accounts	18.0	10.4
ACCRUAL ACCOUNTS - LIABILITIES	**103.8**	**104.5**
Settlement accounts in credit on securities transactions	0.2	0.2
Sundry creditors	23.2	20.2
OTHER LIABILITIES	**23.4**	**20.4**
TOTAL ACCRUED EXPENSES AND OTHER LIABILITIES	**127.2**	**124.9**

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.

5.15 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.

Provisions are liabilities of an uncertain timing or amount, which can be estimated reliably. They reflect a present obligation (legal or constructive) as a result of a past event, in respect of which it is probable that an outflow of resources will be required to settle the obligation.

The amount recognised in provisions is the best estimate of the expenditure required to settle the present commitment at the end of the reporting period.

Provisions are discounted when the impact of discounting is material.

Changes in provisions are recognised in income on the line items corresponding to the nature of future expenditure.

Provisions for regulated home savings products

Regulated home savings accounts (*comptes d’épargne logement* – CEL) and regulated home savings plans (*plans d’épargne logement* – PEL) are retail products marketed in France governed by the 1965 law on home savings plans and accounts, and subsequent implementing decrees.

Regulated home savings products give rise to two types of commitments for the Group:

- a commitment to grant a loan to the customer at a future date at a rate set at inception of the contract (for PEL products) or at a rate contingent on the savings phase (for CEL products);
- a commitment to pay interest on the savings at a future date at a rate set at inception of the contract for an indefinite period (for PEL products) or at a rate set on a semi-annual basis according to an indexation formula regulated by law (for CEL products).

Commitments with potentially adverse consequences for the Group are measured for each generation of regulated home savings plans and for all regulated home savings accounts.

A provision is recognised for the associated risks by discounting future potential income from at-risk outstanding:

- at-risk savings correspond to the uncertain future level of savings for plans in existence at the date the provision is calculated. They are estimated on a statistical basis for each future period taking account of savers' historical patterns of behaviour and reflect the difference between the probable outstandings and the minimum expected savings;
- at-risk loans correspond to the loans outstanding granted but not yet due at the calculation date plus statistically probable loans outstanding based on customers' historical patterns of behaviour as well as vested and projected rights from regulated home savings accounts and plans.

Income in future periods from the savings phase is estimated, for a given generation of contracts, on the basis of the difference between the regulated rate offered and the expected interest accruing on a rival savings product.

Earnings for future periods from the loan phase are estimated as the difference between the fixed rate agreed at inception for PEL contracts or a rate contingent on the savings phase for CEL contracts, and the expected interest rate accruing on home loans in the non-regulated sector.

Where the sum of the Group's estimated future commitments in respect of the savings and loan phases of any generation of contracts indicates a potentially unfavourable situation for the Group, a provision is recognised, with no offset between different generations. The commitments are estimated using the Monte Carlo method in order to reflect the uncertainty of future interest rate trends and their impact on customer behaviour models and at-risk outstandings.

The provision is recognised under liabilities on the balance sheet, and changes are recognised in interest income and expense.

Provisions are broken down in the table of changes below, with the exception of provisions for expected credit losses on financing and guarantee commitments, which are shown in Note 7 "Exposure to risks".

in millions of euros	01/01/2018	Increase	Use	Unused reversals	Other changes[1]	31/12/2018
Provisions for employee benefit obligations	24.3	0.0	0.0	(1.2)	(1.2)	21.8
Legal and tax risks	4.4	4.8	(0.2)	(2.3)	0.0	6.7
Loan and guarantee commitments	35.4	9.8	0.0	(7.4)	0.0	37.9
Provisions for regulated home savings products	2.8	0.0	0.0	(0.4)	0.0	2.5
Other operating provisions	8.6	0.7	0.0	(4.7)	0.0	4.6
TOTAL PROVISIONS	**75.5**	**15.4**	**(0.2)**	**(16.0)**	**(1.2)**	**73.4**

(1) Other changes mainly correspond to changes in actuarial liabilities on employee benefit obligations (€1.2 million)

5.15.1 Deposits collected via regulated home savings products

in millions of euros	31/12/2018	01/01/2018
Deposits held in PEL regulated home savings plans		
• plans in place for less than 4 years	16.4	15.4
• plans in place for more than 4, but less than 10 years	99.1	105.7
• plans in place for more than 10 years	85.4	98.9
Deposits collected via PEL regulated home savings plans	**200.9**	**220.0**
Deposits collected via CEL regulated home savings accounts	**16.9**	**17.5**
TOTAL DEPOSITS COLLECTED VIA REGULATED HOME SAVINGS PRODUCTS	**217.9**	**237.5**

5.15.2 Loans granted via home savings products

in millions of euros	31/12/2018	01/01/2018
Loans granted under CEL regulated home savings accounts	0.1	0.2
TOTAL LOANS GRANTED VIA HOME SAVINGS PRODUCTS	**0.1**	**0.2**

5.15.3 Provisions set aside for regulated home savings products

in millions of euros	31/12/2018	01/01/2018
Provisions for PEL regulated home savings plans		
• plans in place for less than 4 years	0.3	0.3
• plans in place for more than 4, but less than 10 years	0.5	0.6
• plans in place for more than 10 years	1.5	1.8
Provisions for PEL regulated home savings plans	**2.3**	**2.7**
Provisions for CEL regulated home savings accounts	**0.2**	**0.2**
TOTAL PROVISIONS SET ASIDE FOR REGULATED HOME SAVINGS PRODUCTS	**2.5**	**2.8**

5.16 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	31/12/2018	01/01/2018
Term subordinated debt	200.0	200.0
SUBORDINATED DEBT AND SIMILAR ITEMS	**200.0**	**200.0**
Accrued interest	0.2	0.2
SUBORDINATED DEBT AT AMORTISED COST	**200.2**	**200.2**
TOTAL SUBORDINATED DEBT	**200.2**	**200.2**

The fair value of subordinated debt is presented in Note 9 "Fair value of financial assets and liabilities".
Changes in subordinated debt over the year:

in millions of euros	01/01/2018	Issuance	Redemption	Other movements	31/12/2018
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".

5.17 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 income is treated as a dividend, and therefore impacts equity, along with the tax relating to such income;
- the instrument cannot be an underlying eligible for hedge accounting;
- if the issue is in a foreign currency, the instrument is kept at its historical value resulting from its conversion to euros at its initial date of transfer to equity.

Lastly, when these instruments are issued by a subsidiary, they are included in “Non-controlling interests”. When their income is cumulative in nature, it is charged to “Net income attributable to equity holders of the parent” and increases the income of “Non-controlling interests”. However, when their remuneration is not cumulative, it is drawn from retained earnings attributable to equity holders of the parent.

5.17.1 Ordinary shares

	31/12/2018			31/12/2017		
in millions of euros	Number	Par value	Share capital	Number	Par value	Share capital
Banque Palatine ordinary shares						
Opening balance	26,940,134	20	538.8	26,940,134	20	538.8
Closing balance	**26,940,134**	**20**	**538.8**	**26,940,134**	**20**	**538.8**

5.17.2 Perpetual deeply subordinated notes classified as equity

							Par value (in millions of euros)	
Issuing entity	Issue date	Currency	Amount (in source currency)	Date of redemption option	Date of interest step-up	Rate	31/12/2018	01/01/2018
BPCE	28/03/2018	EUR	100 million	28/03/2049	28/03/2023*	4.3%	100.0	0.0
TOTAL							**100.0**	**0.0**

** Date of interest step-up or of transition from fixed rate to variable rate.*

5.18 Non-controlling interests

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

5.19 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.

	31/12/2018		
in millions of euros	Gross	Tax	Net
Remeasurement of non-current assets			
Remeasurement (or actuarial gains and losses) in respect of defined-benefit plans	1.2	(0.3)	0.9
Other items recognised through equity of items that cannot be reclassified in net income	(0.1)	0.1	0.0
ITEMS THAT CANNOT BE RECLASSIFIED IN INCOME	**1.1**	**(0.2)**	**0.9**
Remeasurement of financial assets at fair value through recyclable equity	(3.9)	1.3	(2.6)
ITEMS THAT CAN BE RECLASSIFIED IN INCOME	**(3.9)**	**1.3**	**(2.6)**
GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY (AFTER TAX)	**(2.8)**	**1.1**	**(1.7)**
Attributable to equity holders of the parent	(2.8)	1.1	(1.7)
Non-controlling interests	**0.0**	**0.0**	**0.0**

5.20 Offsetting of financial assets and liabilities

Accounting principles

Financial assets and liabilities "under netting arrangements not offset on the balance sheet" comprise transactions under master netting or similar arrangements, which do not meet the restrictive offsetting criteria laid down in IAS 32. This applies to transactions in respect of which offsetting is possible only in the event of the default, insolvency or failure of one of the contracting parties.

For these instruments, the "Associated assets and financial instruments received as collateral" and "Associated liabilities and financial instruments pledged as collateral" include:

- for repurchase agreements;
  - loans or borrowings resulting from reverse repurchase agreements with the same counterparty, and securities pledged or received as collateral (at the fair value of said securities);
  - margin calls in the form of securities (at the fair value of said securities);
- for derivatives, the fair values of the reverse transactions with the same counterparty, as well as margin calls in the form of securities.

Margin calls received or paid in cash are shown in "Margin calls received (***cash*** collateral)" and "Margin calls paid (cash collateral)".

Pursuant to the IAS 32 rules on offsetting, the Banque Palatine Group does not offset financial assets and liabilities on the balance sheet.

5.20.1 Financial assets

Financial assets under netting arrangements not offset on the balance sheet

in millions of euros	31/12/2018 Net amount of financial assets presented on the balance sheet	31/12/2018 Associated financial liabilities and financial instruments received as collateral	31/12/2018 Margin calls received *(cash collateral)*	31/12/2018 Net exposure	01/01/2018 Net amount of financial assets presented on the balance sheet	01/01/2018 Associated financial liabilities and financial instruments received as collateral	01/01/2018 Margin calls received *(cash collateral)*	01/01/2018 Net exposure
Derivatives	22.0	19.2	1.8	1.0	28.1	27.0	1.0	0.1
TOTAL	**22.0**	**19.2**	**1.8**	**1.0**	**28.1**	**27.0**	**1.0**	**0.1**

5.20.2 Financial liabilities

Financial liabilities under netting agreements not offset on the balance sheet

in millions of euros	31/12/2018 Net amount of financial liabilities presented on the balance sheet	31/12/2018 Associated financial assets and financial instruments pledged as collateral	31/12/2018 Margin calls paid (cash collateral)	31/12/2018 Net exposure	01/01/2018 Net amount of financial liabilities presented on the balance sheet	01/01/2018 Associated financial assets and financial instruments pledged as collateral	01/01/2018 Margin calls paid (cash collateral)	01/01/2018 Net exposure
Derivatives	83.8	19.2	52.2	12.5	89.2	27.0	57.1	5.1
Repurchase agreements	5.0	0.0	0.0	5.0	0.0	0.0	0.0	0.0
TOTAL	**88.8**	**19.2**	**52.2**	**17.5**	**89.2**	**27.0**	**57.1**	**5.1**

5.21 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 simple indexing, insofar as both assets are not exposed to the same risks.

Transactions leading to substantial changes in financial liabilities

A substantial change in the terms of a borrowing should be recognised as the extinguishment of the former debt and its replacement with a new debt. The amendment to IFRS 9 dated 12 October 2017 clarified the treatment under IFRS 9 of changes in liabilities recognised at amortised cost, in the event that the change does not result in derecognition: the gain or loss resulting from the difference between the original cash flows and the modified cash flows discounted at the original effective interest rate should be recorded in profit or loss. To determine whether the amendment is of a substantive nature, IFRS 9 sets a threshold of 10% based on discounted cash flows including any potential costs and fees: if the difference is greater than or equal to 10%, all costs or fees incurred are recognised as profit or loss when the debt is extinguished.

The Group believes that other changes may be considered substantial, such as: a change of issuer (even within the same group) or a change of currencies.

5.21.1 Financial assets transferred but not fully derecognised and other financial assets pledged as collateral

	Carrying amount				
in millions of euros	**Loans of "outright" securities**	**Repos**	**Assets transferred or pledged as collateral**	**Securitisation**	**31/12/2018**
Financial assets at fair value through equity	0.0	5.1	406.7	0.0	411.8
TOTAL FINANCIAL ASSETS PLEDGED AS COLLATERAL	**0.0**	**5.1**	**406.7**	**0.0**	**411.8**
o/w financial assets transferred but not fully derecognised	*0.0*	*5.1*	*0.0*	*0.0*	*5.1*

The liability associated with the financial assets pledged as collateral under repurchase agreements amounted to €5 million at 31 December 2018

Repurchase agreements

At 31 December 2018, the Banque Palatine Group carried out repo transactions amounting to €5 million (€0 million at 1 January 2018).

Sales of receivables

The Banque Palatine Group assigns receivables as collateral (Article L. 211-38 or Articles L. 313-23 et seq. of the French Monetary and Financial Code) under guaranteed refinancing operations, with the central bank in particular. This type of transfer as collateral involves the legal transfer of the associated contractual rights, and therefore the "transfer of assets" as defined in the amendment to IFRS 7. Even so, the Group remains exposed to substantially all the risks and rewards of ownership, and as such the receivables remain on the balance sheet.

At 31 December 2018, amounts pledged as collateral under funding arrangements only concerned advances provided to Banque de France under the TRICP system amounting to €406.7 million, compared to €337.5 million at 31 December 2017.

5.21.2 Financial assets received as collateral that may be sold or repledged

The Banque Palatine Group did not recognise assets received as collateral in connection with financial guarantee agreements plus a right of re-use.

Note 6 Commitments

Accounting principles

Commitments are characterised by the existence of a contractual obligation and are irrevocable.

The commitments that feature in this item should not qualify as financial instruments falling within the scope of IFRS 9 in terms of classification and measurement. However, the financing and guarantee commitments given are subject to the IFRS 9 provisioning rules as presented in Note 7.

The effects of the rights and obligations of these commitments are subject to the fulfilment of subsequent conditions or transactions. These commitments break down into:

- financing commitments (confirmed credit line or refinancing agreement);
- guarantee commitments (signed commitments or assets received as collateral).

The amounts disclosed represent the nominal value of commitments given.

6.1 Financing commitments

in millions of euros	31/12/2018	31/12/2017
Financing commitments given to:		
• credit institutions	0.0	0.0
• customers	2,042.2	1,741.1
Confirmed credit lines	**1,972.1**	1,691.2
Other commitments	**70.1**	49.9
TOTAL FINANCING COMMITMENTS GIVEN	**2,042.2**	**1,741.1**
Financing commitments received:		
• from credit institutions	357.2	337.5
• from customers	0.0	0.0
TOTAL FINANCING COMMITMENTS RECEIVED	**357.2**	**337.5**

6.2 Guarantee commitments

in millions of euros	31/12/2018	31/12/2017
Guarantee commitments given to:		
• **credit** institutions	**54.5**	**73.7**
• customers	**1,003.8**	**1,039.5**
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,058.4**	**1,113.3**
Guarantee commitments received:		
• from credit institutions	203.9	237.7
• from customers	488.8	560.5
TOTAL GUARANTEE COMMITMENTS RECEIVED	**692.7**	**798.2**

Guarantee commitments are primarily off-balance sheet commitments.

The "securities pledged as collateral" are presented in Note 5.21 "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 5.21 "Transferred financial assets, other financial assets pledged as collateral and assets received as collateral that may be sold or repledged".

Note 7 Exposure to risks

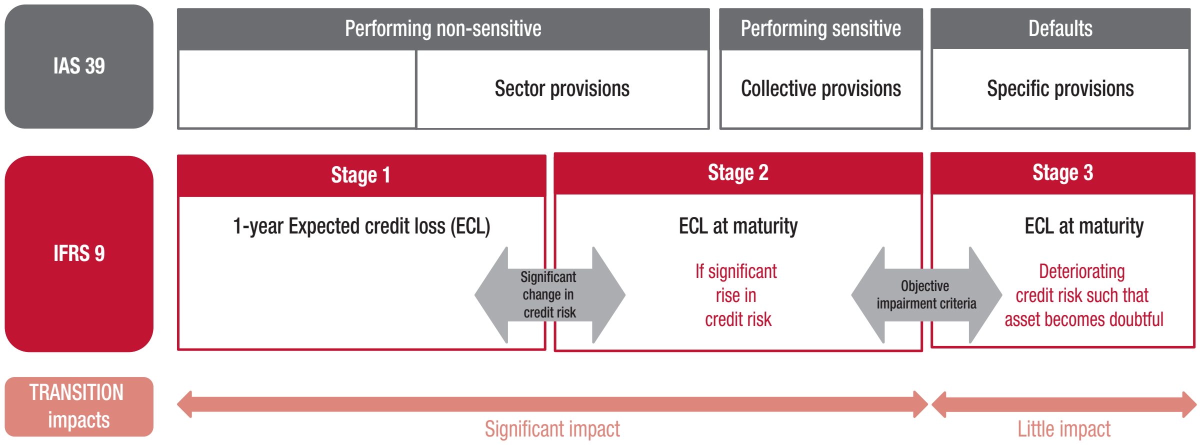
The risk exposures addressed below comprise credit risk, market risk, global interest rate risk, exchange rate risk and liquidity risk.

Information on capital management and regulatory ratios is presented in the "Risk management" section.

7.1 Credit risk

Overview

Credit risk is the risk that a party to a financial instrument will default on one of its obligations and thereby cause the other party to incur a financial loss.



Certain disclosures relating to risk management required by IFRS 7 are also provided in the risk management report. These include:

- the breakdown of gross exposure by category and by approach (credit risks including counterparty risk);
- the breakdown of the gross exposures by geographic zone;
- the concentration of the credit risk by borrower;
- the breakdown of the exposures by loan quality;
- the risk mitigation techniques.

This information forms an integral part of the financial statements audited by the Statutory Auditors.

7.1.1 Cost of credit risk

Accounting principles

The cost of risk relates to debt instruments classified as financial assets at amortised cost or financial assets at fair value through recyclable equity as well as to financing commitments and financial guarantee contracts not recognised at fair value through profit or loss. It also relates to receivables arising from lease agreements, trade receivables and contract assets.

This item thus covers the net cost of impairments and provisions made for credit risk.

Credit losses related to other types of instruments (derivatives or securities recognised at fair value through option) recorded after default by credit institutions are also included in this item.

Unrecoverable loans not covered by impairments are receivables that have acquired a definitive loss status prior to being the object of a provision in Stage 3.

in millions of euros	31/12/2018	31/12/2017
Net impairment losses and provisions	(38.3)	(37.3)
Recoveries of bad debts written off	2.2	1.3
Unrecoverable loans and receivables not covered by impairment losses	(5.3)	(3.5)
TOTAL COST OF CREDIT RISK	**(41.4)**	**(39.5)**

Cost of credit risk for the period

Cost of credit risk for the period by type of asset

in millions of euros	31/12/2018	31/12/2017
Interbank transactions	3.0	0.0
Customer transactions	(49.1)	(39.5)
Other financial assets	4.7	0.0
TOTAL COST OF CREDIT RISK	**(41.4)**	**(39.5)**

7.1.2 Change in gross carrying amounts and expected credit losses of financial assets and commitments

Accounting principles

Expected credit losses comprise impairment losses on assets at amortised cost and in fair value through equity, and provisions for financing and guarantee commitments.

From the date of initial recognition, the financial instruments concerned (see 7.1.1 "Cost of credit risk") are subject to an impairment or provision for expected credit losses (ECL).

Where there is no objective evidence of individual losses by financial instruments, the expected impairments or provisions for credit losses are measured on the basis of historical loss information and reasonable and justifiable forecasts of discounted future cash flows.

Financial instruments are divided into three categories (stages) according to the deterioration of credit risk observed since their initial recognition. Each loan category corresponds to a specific credit risk measurement method:

Stage 1 (or S1):

- these are performing loans where there is no significant increase in credit risk since the initial recognition of the financial instrument;
- an impairment or provision for credit risk corresponds to the credit losses expected at one year;
- interest income is recognised in income according to the effective interest method applied to the gross carrying amount of the instrument before impairment.

Stage 2 (or S2):

- performing loans where a significant increase in credit risk has been observed since the initial recognition of the financial instrument are transferred to this category;
- the impairment or provision for credit risk will then be calculated on the basis of expected credit losses over the residual life of the financial instrument (expected credit losses at maturity);
- interest income is recognised in income, as is this case for Stage 1 loans, according to the effective interest method applied to the gross carrying amount of the instrument before impairment.

Stage 3 (or S3):

- these are loans where there is objective evidence of impairment in relation to an event that characterises a proven credit risk and occurs after the initial recognition of the instrument concerned. This category covers, as under IAS 39, loans where a default event has been identified as defined in Article 178 of the European regulation of 26 June 2013 on prudential requirements applicable to credit institutions;
- the impairment or provision for credit risk is calculated for the expected credit losses over the remaining 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 taking into account the impact of collateral;
- interest income is recognised as income according to the effective interest method applied to the carrying amount of the instrument after impairment.

Also included in Stage 3 are financial assets acquired or created and impaired for credit risk upon initial recognition, the entity not expecting to fully recover contractual cash flows (purchased originated credit impaired or POCI). These assets can be transferred to Stage 2 in the event of an improvement of the credit risk.

For loans stemming from operating leases or financial leases that fall under IAS 17, the Group has decided not to retain the option of applying the simplified method proposed by paragraph 5.5.15 of IFRS 9.

Methodology for measuring the deterioration of credit risk and expected credit losses

The principles for measuring the deterioration of credit risk and expected credit losses which are applicable to the vast majority of Group exposures are described below. Only BPCE International and some portfolios of Group institutions – corresponding to a limited volume of exposures – cannot be treated according to the methods described below and may be subject to ***ad hoc*** measurement techniques.

Apart from these rare cases, a 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 if it leads to similar effects. In the vast majority of cases, the degree of risk degradation makes it possible to record a degradation to Stage 2 before the transaction is impaired individually (Stage 3).

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 since initial recognition (probability of default measured at average cycle). 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 Banque Palatine Group does not benefit from Groupe BPCE's internal rating system. The process chosen is therefore based on qualitative criteria (past-dues, open incidents, Watch List contracts, forbearance) to differentiate between Stages 1 and 2. It uses a simplified matrix for calculating the probabilities of default;
- for the Large Corporates, Banks and Sovereign portfolios: the quantitative criterion is based on the level of variation of the rating since initial recognition. The same qualitative criteria as for Individual Customers, Professionals and Small and Medium Enterprises apply, as well as additional criteria depending on changes in sector rating and the level of country risk;
- for Specialised Finance: the criteria applied vary according to the characteristics of the exposures and the corresponding rating system. Exposures rated under the mechanism dedicated to large exposures are treated in the same way as Large Corporates; the other exposures are treated like Small and Medium Enterprises.

For all of these portfolios, the ratings on which the measurement of the risk degradation is based correspond to ratings from internal systems, when these are available, as well as to external ratings, notably in the absence of internal rating.

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

For financial instruments in Stage 1 or Stage 2, expected credit losses are also measured primarily on an individual basis, depending on the characteristics of each contract. Collective provisions can be defined by the Group's various institutions, corresponding to so-called "segment" provisions. The Group's institutions are thus responsible for assessing the consistency of the provisioning level determined for the Group with regard to the local and segment characteristics of their portfolio and for defining additional segment provisions if necessary. The few portfolios not covered by the methodologies described below (non-material at the Group level) may also lead to collective measurement.

The expected credit losses of Stage 1 or Stage 2 financial instruments are measured on the basis of several parameters:

- expected cash flows over the useful life of the financial instrument, discounted at valuation date – these flows being determined according to the characteristics of the contract, its effective interest rate and the early redemption level expected 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.

To define these parameters, the Group relies on the existing concepts and devices used notably for the internal models developed in the framework of the calculation of regulatory capital requirements and on the projection models used in the context of stress tests. Specific adjustments are made to comply with the specificities of IFRS 9:

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

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 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 definition of these scenarios follows 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. For the sake of consistency with the budget scenario, the central scenario corresponds to the budget scenario. Two variants – an optimistic outlook and a pessimistic outlook – are also defined around this scenario. 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 rated exposures, whether they belong to a scope certified through the internal method or one treated as standard for the calculation of risk-weighted assets. In the case of unrated exposures, inherently prudent rules apply (issues of little significance to the Group) – rules that involve awarding the best rating of the internal scale where no rating was provided at the grant date and the lowest rating of the scale before sensitive status where there is no rating to date.

The IFRS 9 parameter validation system is fully integrated into the model validation system already in place within the Group. The validation of the parameters follows a review process involving an independent internal model validation unit.

Measurement of loans falling under Stage 3

Loans and advances are considered as impaired and falling under Stage 3 if the two following conditions are met:

- if there is objective evidence of impairment on an individual basis or on a portfolio basis: “triggering events” or “loss events” that characterise a counterparty risk and occur after the initial recognition of the loans concerned. Objective evidence of impairment is, notably, the existence of an amount past-due for at least three months or, independently of any past-due amount, with the identification of financial difficulties for the counterparty leading to the conclusion that all or part of the amounts due will not be recovered, or to recourse to litigation procedures;
- these events are likely to result in incurred credit losses, in other words, expected credit losses for which the probability of occurrence has become absolute.

Debt securities such as bonds or securities resulting from securitisation (ABS, CMBS, RMBS, CDO cash) 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.

For debt instruments recognised on the balance sheet under financial assets at amortised cost, the impairments recorded correct the original item of the asset presented in the balance sheet for its net value (regardless of the asset's status: S1, S2 or S3). Impairment charges and reversals are recognised in the income statement under "Cost of credit risk".

For debt instruments recognised in the balance sheet as financial assets at fair value through equity, impairment losses are recognised as balance sheet liabilities at the level of recyclable equity, as the counterpart of the "Cost of credit risk" item in the income statement (regardless of the asset's status: S1, S2 or S3).

For financing and financial guarantee commitments given, provisions are recorded under "Provisions" on the liabilities side of the balance sheet (regardless of the status of the commitment given: S1, S2 or S3). Provision charges and reversals are recognised in the income statement under "Cost of credit risk".

Change in gross carrying amounts and expected credit losses of financial assets

Change in impairments for credit losses of financial assets through equity

in millions of euros	Stage 1	Stage 2	Stage 3	Total
BALANCE AT 01/01/2018	**(0.4)**	**(0.1)**	**0.0**	**(0.6)**
Production and acquisition	(0.1)	0.0	0.0	(0.1)
Transfers between stages	0.0	0.1	0.0	0.1
Other changes	0.4	0.0	0.0	0.4
BALANCE AT 31/12/2018	**(0.1)**	**0.0**	**0.0**	**(0.1)**

Change in impairments for credit losses of debt securities at amortised cost

in millions of euros	Stage 1	Stage 2	Stage 3	Total
BALANCE AT 01/01/2018	**(1.2)**	**(1.4)**	**(3.9)**	**(6.5)**
Production and acquisition	(0.3)	0.0	0.0	(0.3)
Derecognition and redemption	0.1	0.8	0.0	0.8
Transfers between stages	0.1	(0.2)	0.0	(0.1)
Other changes	0.5	(0.4)	(0.5)	(0.4)
BALANCE AT 31/12/2018	**(0.8)**	**(1.2)**	**(4.4)**	**(6.4)**

Change in impairments for credit losses on loans and advances to credit institutions at amortised cost

in millions of euros	Stage 1	Stage 2	Stage 3	Total
BALANCE AT 01/01/2018	**(3.4)**	**(0.0)**	**0.0**	**(3.4)**
Derecognition and redemption	0.0	0.0	0.0	0.0
Transfers between stages	2.3	(0.4)	0.0	1.9
Other changes	1.0	0.0	0.0	1.0
BALANCE AT 31/12/2018	**(0.0)**	**(0.4)**	**0.0**	**(0.4)**

Change in impairments for credit losses on loans and advances to customers at amortised cost

in millions of euros	Stage 1	Stage 2	Stage 3	Total
BALANCE AT 01/01/2018	**(51.0)**	**(39.3)**	**(251.9)**	**(342.1)**
Production and acquisition	(26.8)	(3.3)	(9.8)	(39.9)
Derecognition and redemption	16.8	8.6	34.8	60.2
Transfers between stages	3.3	(4.8)	(4.9)	(6.4)
Other changes	13.4	3.1	(49.1)	(32.6)
BALANCE AT 31/12/2018	**(44.3)**	**(35.7)**	**(280.8)**	**(360.8)**

Change in gross carrying amounts and provisions for commitment losses

Change in provisions for credit losses of financing commitments given

in millions of euros	Stage 1	Stage 2	Stage 3	Total
BALANCE AT 01/01/2018	**6.6**	**0.3**	**0.0**	**6.8**
Production	2.9	0.3	0.0	3.2
Derecognition	(2.5)	(0.5)	0.0	(3.0)
Transfers between stages	(0.3)	0.6	0.0	0.3
Other changes	(2.6)	1.4	0.0	(1.3)
BALANCE AT 31/12/2018	**4.1**	**1.9**	**0.0**	**6.0**

Change in provisions for credit losses of guarantee commitments given

in millions of euros	Stage 1	Stage 2	Stage 3	Total
BALANCE AT 01/01/2018	**4.9**	**4.9**	**18.8**	**28.6**
Production	1.3	0.0	0.1	1.3
Derecognition	(0.7)	(1.0)	(1.3)	(3.0)
Transfers between stages	(0.2)	1.6	3.2	4.6
Other changes	(2.9)	0.7	2.5	0.3
BALANCE AT 31/12/2018	**2.4**	**6.2**	**23.3**	**31.8**

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 statement below shows the credit and counterparty risk exposure of all the Banque Palatine Group's financial assets. The credit risk and counterparty risk exposure is calculated on the basis of the carrying amount of the financial assets without taking into account the impact of any unrecognised netting or collateral agreements.

in millions of euros	Maximum exposure to risk	Impairment	Maximum exposure net of impairment	Guarantees
Type of financial instrument impaired (S3)				
Debt securities at amortised cost	6.0	(4.4)	1.5	0.0
Loans and advances to customers at amortised cost	512.6	(280.8)	231.8	114.9
Financing commitments	22.1	0.0	22.1	0.0
Guarantees issued	52.9	23.3	29.6	0.0
TOTAL	**593.6**	**(261.9)**	**285.0**	**114.9**

7.1.5 Guarantees received on instruments not subject to IFRS 9 impairment rules

in millions of euros	Maximum exposure to risk	Guarantees
Financial assets at fair value through profit or loss		
Debt securities	**13.8**	**0.0**
Trading derivatives	103.0	0.0
TOTAL	**116.8**	**0.0**

7.1.6 Credit risk reduction mechanism: assets obtained by taking possession of collateral

The Banque Palatine Group did not obtain any assets by taking possession of collateral.

7.1.7 Financial assets amended since the start of the year, whose impairment was calculated on the basis of expected credit losses at maturity at the start of the period

Accounting principles

Amended contracts are renegotiated, restructured or adjusted financial assets, whether or not in view of financial difficulties, which do not give rise to derecognition because the amendments made are not significant.

A profit or loss is recognised under "Cost of credit risk" in the income statement in the event of an amendment.

The gross carrying amount of the financial asset shall be recalculated so that it is equal to the discounted value of the renegotiated or amended contractual cash flows at the original effective interest rate.

Certain financial assets, whose impairment was calculated on the basis of expected credit losses at maturity, were amended since the start of the period. However, these financial assets are insignificant with regard to the balance sheet and the income statement.

7.1.8 Financial assets amended since their initial recognition, whose impairment was calculated on the basis of expected credit losses at maturity, and whose impairment was remeasured on the basis of expected credit losses at one year since the start of the period

Certain financial assets, whose impairment was calculated on the basis of expected credit losses at maturity, were amended since their initial recognition and their impairment was remeasured on the basis of expected credit losses at one year since the start of the period due to an improvement of their credit risk. However, these financial assets are insignificant with regard to the balance sheet.

7.1.9 Restructured loans

Adjustment in view of financial difficulties

	31/12/2018			31/12/2017		
in millions of euros	Loans and advances	Off-balance sheet commitments	Total	Loans and advances	Off-balance sheet commitments	Total
Impaired restructured loans	44.1	0.0	44.1	52.6	0.0	52.6
Performing restructured loans	8.9	0.0	8.9	52.1	0.0	52.1
TOTAL RESTRUCTURED LOANS	**53.0**	**0.0**	**53.0**	**104.7**	**0.0**	**104.7**
Impairment	**(28.3)**	**0.0**	**(28.3)**	**(27.5)**	**0.0**	**(27.5)**
Guarantees received	**12.2**	**0.0**	**12.2**	**15.1**	**0.0**	**15.1**

Analysis of gross loans

	31/12/2018			31/12/2017		
in millions of euros	Loans and advances	Off-balance sheet commitments	Total	Loans and advances	Off-balance sheet commitments	Total
Adjustments: amendments to the terms and conditions	6.2	0.0	6.2	7.4	0.0	7.4
Adjustments: refinancing	46.8	0.0	46.8	97.2	0.0	97.2
TOTAL RESTRUCTURED LOANS	**53.0**	**0.0**	**53.0**	**104.7**	**0.0**	**104.7**

Counterparty region

	31/12/2018			31/12/2017		
in millions of euros	Loans and advances	Off-balance sheet commitments	Total	Loans and advances	Off-balance sheet commitments	Total
France	53.0	0.0	53.0	104.7	0.0	104.7
Other countries	0.0	0.0	0.0	(0.0)	0.0	(0.0)
TOTAL RESTRUCTURED LOANS	**53.0**	**0.0**	**53.0**	**104.7**	**0.0**	**104.7**

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 2018.

7.3 Global interest rate risk and exchange rate risk

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

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

7.4 Liquidity risk

Liquidity risk is the risk that the Group will be unable to honour its obligations or make repayments as they fall due.

The funding procedures and liquidity risk management arrangements are disclosed in the risk management report.

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

Analysis by remaining term to maturity

The table below shows the amounts by contractual maturity date:

in millions of euros	No fixed maturity, non-standard	Less than 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Indeterminate	Total at 31 Dec. 2018
Cash, central banks	0.0	291.4	0.0	0.0	0.0	0.0	0.0	291.4
Financial assets at fair value through profit or loss	203.0	0.0	0.0	0.0	0.0	0.0	0.0	203.0
Debt securities at fair value through equity	0.0	94.5	135.7	129.1	662.8	218.0	0.0	1,240.0
Shares and other equity instruments at fair value through equity	0.0	0.0	0.0	0.0	0.0	0.0	9.9	9.9
Hedging derivatives	2.9	0.0	0.0	0.0	0.0	0.0	0.0	2.9
Securities at amortised cost	1.5	0.0	3.1	38.2	346.0	57.5	0.0	446.4
Loans and advances due from credit institutions and similar items at amortised cost	0.0	1,873.7	314.2	938.4	648.3	19.1	0.0	3,793.7
Loans and advances due from customers at amortised cost	198.0	1,201.5	571.8	1,145.2	3,293.5	2,598.0	0.0	9,008.1
Remeasurement gains and losses on interest rate risk-hedged portfolios	5.5	0.0	0.0	0.0	0.0	0.0	0.0	5.5
FINANCIAL ASSETS BY MATURITY	**410.9**	**3,461.1**	**1,024.8**	**2,251.0**	**4,950.6**	**2,892.5**	**9.9**	**15,000.9**
Cash placed with central banks	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.2
Financial liabilities at fair value through profit or loss	95.5	0.0	0.0	0.0	0.0	0.0	0.0	95.5
Hedging derivatives	31.9	0.0	0.0	0.0	0.0	0.0	0.0	31.9
Debt securities	0.0	256.3	788.0	1,867.7	67.9	40.7	0.0	3,020.6
Amounts due to credit institutions and similar items	18.6	119.6	211.8	350.8	911.3	1.7	0.0	1,613.8
Amounts due to customers	0.2	8,548.2	26.7	119.1	455.7	0.0	0.0	9,149.9
Subordinated debt	0.0	0.2	0.0	0.0	0.0	200.0	0.0	200.2
Remeasurement gains and losses on interest rate risk-hedged portfolios	2.5	0.0	0.0	0.0	0.0	0.0	0.0	2.5
FINANCIAL LIABILITIES BY MATURITY	**148.8**	**8,924.5**	**1,026.5**	**2,337.6**	**1,434.9**	**242.4**	**0.0**	**14,114.6**
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	22.1	288.3	98.1	24.4	1,609.2	0.0	0.0	2,042.2
TOTAL FINANCING COMMITMENTS GIVEN	**22.1**	**288.3**	**98.1**	**24.4**	**1,609.2**	**0.0**	**0.0**	**2,042.2**
Guarantee commitments given to credit institutions	0.0	2.9	0.6	0.7	2.4	0.0	0.0	6.5
Guarantee commitments given to customers	52.9	18.9	31.1	111.5	608.9	180.6	0.0	1,003.8
TOTAL GUARANTEE COMMITMENTS GIVEN	**52.9**	**21.8**	**31.6**	**112.2**	**611.2**	**180.6**	**52.9**	**1,010.4**
Guarantee commitments given to credit institutions	0.0	17.3	11.3	19.3	0.1	0.0	0.0	48.0
TOTAL OTHER AMOUNTS PLEDGED AS COLLATERAL	**0.0**	**17.3**	**11.3**	**19.3**	**0.1**	**0.0**	**0.0**	**48.0**

Financial instruments at market value through profit or loss relating to differences in standards (transition from IAS 39 to IFRS 9) are shown in the "Not determined" column.

These financial instruments are:

- either held for sale or redeemed prior to their contractual maturity;
- or held for sale or redeemed at an indeterminable date (particularly where they have no contractual maturity);
- or measured on the balance sheet for an amount impacted by remeasurement effects.

Accrued interest not yet due is shown in the “Less than 1 month” column.

The amounts shown are contractual amounts excluding projected interest.

Note 8 Employee benefits and similar items

Accounting principles

Employee benefits are classified in four categories:

- 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;
- 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	31/12/2018	31/12/2017
Wages and salaries	(74.4)	(70.8)
Defined-contribution plan expenses	(8.3)	(8.3)
Defined-benefit plan expenses	1.2	0.0
Other tax and social security charges	(41.1)	(39.6)
Profit-sharing and incentive plans	(10.8)	(7.2)
TOTAL PAYROLL COSTS	**(133.4)**	**(125.9)**

The Group’s average headcount during the year, broken down by professional category, was as follows: 817 managers and 211 non-managers, representing a total of 1,144 employees.

The Employment Competitiveness Tax Credit is deducted from payroll costs. It amounted to €1 million in respect of 2018, compared with €1.2 million in respect of 2017.

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

8.2 Employee benefit obligations

The Banque 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**	**31/12/2018**	**31/12/2017**
Actuarial liabilities	0.5	13.5	2.3	5.5	21.8	24.2
Asset cap effect	0.0	0.0	0.0	0.0	0.0	0.0
Net amount reported on the balance sheet	**0.5**	**13.5**	**2.3**	**5.5**	**21.8**	**24.2**
Employee benefits, liabilities	0.5	13.5	2.3	5.5	21.8	24.2
Employee benefits, assets	0.0	0.0	0.0	0.0	**0.0**	0.0

8.2.2 Change in amounts recognised on 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**	**31/12/2018**	**31/12/2017**
Actuarial liabilities at start of year	**0.5**	**15.1**	**2.7**	**5.9**	**24.2**	**22.8**
Service cost	0.0	1.0	0.2	0.0	1.2	1.3
Interest cost	0.0	0.2	0.0	0.0	0.2	0.2
Benefits paid	(0.0)	(1.7)	(0.3)	0.0	(2.1)	(1.6)
Other	0.0	0.0	(0.3)	(0.4)	(0.7)	1.0
Remeasurement gains and losses – Demographic assumptions	0.0	(0.3)	0.0	0.0	(0.3)	0.4
Remeasurement gains and losses – Financial assumptions	(0.0)	(0.4)	0.0	0.0	(0.4)	0.1
Remeasurement gains and losses – Experience adjustments	(0.0)	(0.4)	0.0	0.0	(0.4)	0.0
Changes recognised directly in equity that cannot be reclassified	0.0	0.0	0.0	0.0	0.0	0.5
ACTUARIAL LIABILITIES AT END OF PERIOD	**0.5**	**13.5**	**2.3**	**5.6**	**21.8**	**24.2**

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

	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	31/12/2018	31/12/2017
Service cost	0.0	1.0	0.2	0.0	1.2	1.3
Net financial cost	0.0	0.2	0.0	0.0	0.2	0.2
Benefits paid	(0.0)	(1.7)	(0.3)	0.0	(2.1)	(1.5)
Other (including income ceiling)	0.0	0.0	(0.3)	(0.4)	(0.7)	1.0
TOTAL EXPENSE FOR THE PERIOD	**0.0**	**(0.6)**	**(0.4)**	**(0.4)**	**(1.3)**	**1.0**

Gains and losses recognised directly in equity of defined-benefit plans

in millions of euros	Supplementary pension benefits and other	Termination benefits	31/12/2018	31/12/2017
Cumulative remeasurement gains and losses at start of period	**(0.6)**	**4.0**	**3.4**	**3.0**
Remeasurement gains and losses in reporting period	(0.1)	(1.1)	(1.2)	0.4
CUMULATIVE REMEASUREMENT GAINS AND LOSSES AT END OF PERIOD	**(0.7)**	**2.9**	**2.2**	**3.4**

8.2.4 Other information

Main actuarial assumptions

	31/12/2018	31/12/2017
Discount rate	1.66%	1.38%
Inflation rate	1.52%	1.52%
Life tables used	INSEE (TH 00-02 and TF 00-002)	INSEE (TH 00-02 and TF 00-002)

The 1.66% rate corresponds to that taken from the composite AA Bloomberg EUR curve for fifteen-year zero-coupon issues.

The retirement age was calculated for each employee based on the number of quarters needed to claim a full-rate basic pension and the assumption of a start-of-career age of 24 for managerial-grade and 21 for non-managerial employees.

These calculations also take into account the effects of the most recent pension reform – the increase in the contribution period equal to one quarter every three years from 2020, leading to a total contribution period of 43 years by 2035 (excluding the effect of the Fillon Act of August 2003).

Sensitivity of actuarial liabilities to changes in key assumptions

At 31 December 2018, a 1% change in the discount rate would have the following impact on actuarial liabilities:

in millions of euros	End-of-career benefits	Restated supplementary healthcare	Long-service awards
Discount rate		1.66%	
Central scenario	13.5	0.5	2.4
1% increase	12.2	0.4	2.2
1% decrease	15.0	0.6	2.6

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 for derivatives an assessment of counterparty risk (or CVA – Credit Valuation Adjustment) and of the risk of non-performance (or DVA – Debit Valuation Adjustment). These valuation adjustments are measured using market inputs.

In addition, derivatives that are traded with a counterparty belonging to Groupe BPCE's share support mechanism (see Note 1.2 – Solidarity mechanism) are not subject to the CVA or DVA valuation adjustments in the Group's financial statements.

Fair value upon initial recognition

For the majority of transactions, the price of trades (i.e. the value of the consideration paid or received) provides the best estimate of the fair value of the transactions at the initial recognition date.

Fair value hierarchy

Level 1 fair value and active market concept

For financial instruments, prices quoted in an active market ("level 1 input") represent the most reliable evidence of fair value. They should be used without adjustment to measure fair value.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume.

A decline in the level of market activity may be evidenced by indicators including:

- a significant decline in the primary market for the financial asset or liability (or for similar assets or liabilities);
- a significant decline in transaction volumes;
- price quotations are not updated very frequently;
- there is significant dispersion in prices available over time between the various market participants;
- there is a loss of correlation with indices that previously displayed a high level of correlation with the fair value of the asset or liability;
- there is a significant increase in prices or implied liquidity risk premiums, yields or performance indicators (such as delinquency rates and loss severities) when compared with the Group's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability;
- there is a very wide bid-***ask*** spread.

Instruments measured using (unadjusted) prices quoted in an active market (level 1)

These are mainly equities, government or corporate bonds, certain derivatives traded in organised markets (e.g. plain vanilla options on CAC 40 or Eurostoxx indices).

In addition, the fair value of mutual funds is considered as being level 1 if net asset value is calculated on a daily basis and if this represents a value at which an order can be placed.

Level 2 fair value

Where there is no quotation in an active market, fair value may be measured using appropriate methodology, in line with the generally accepted measurement methods in the financial markets, based on inputs observable in the markets ("level 2 fair value").

If the asset or liability has a specific (contractual) term, a level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- quoted prices for similar assets or liabilities in active markets or markets that are not active;
- inputs other than quoted prices that are observable for the asset or liability, for example:
  - interest rates and yield curves observable at commonly quoted intervals,
  - implied volatilities,
  - credit spreads;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means ("market-corroborated inputs").

Instruments measured using recognised models and underpinned by directly or indirectly observable inputs (level 2)

Level 2 derivatives

The following items will be classified in this category:

- plain vanilla and Constant Maturity Swaps (CMSs);
- Forward Rate Agreements (FRAs);
- standard swaptions;
- standard caps and floors;
- forward purchases and sales of liquid currencies;
- currency swaps and options on liquid currencies;
- liquid credit derivatives on a single name issuer or on the Itraax or Iboxx indices, etc.

Level 2 non-derivatives

Certain hybrid and/or long-maturity financial instruments are measured using a recognised model on the basis of market inputs derived from observable data such as yield curves, implied volatility layers of options, market consensus data or active over-the-counter markets.

For all such instruments, inputs were demonstrated to be observable. From a methodology perspective, observability is based on four inseparable criteria:

- inputs come from external sources (***via a*** recognised contributor);
- the input is supplied periodically;
- the input is representative of recent transactions;
- the input's characteristics are identical to those of the transaction.

The margin generated when these instruments begin trading is immediately recognised in income.

Those instruments classified in level 2 include:

- securities not listed on an active market whose fair value is determined on the basis of observable market data (for example: use of market data from comparable listed companies or earnings multiple method);
- shares in UCITS, the net asset value of which is not calculated and published on a daily basis, but are subject to regular reporting or offer observable data from recent transactions.

Level 3 fair value

Lastly, if there are not sufficient observable inputs available in the markets, fair value may be measured using a method based on internal models ("level 3 fair value") using unobservable inputs. The model adopted must be calibrated by reconciling its results with recent transaction prices.

Over-the-counter instruments measured using infrequent models or using unobservable inputs to a great extent (level 3)

When the measurements obtained are not supported by observable inputs or models recognised as market standards, the measurement obtained will be considered as unobservable.

Instruments measured using specific models or using unobservable parameters include:

- unlisted equities, generally investments in unconsolidated investments;
- certain UCITS for which net asset value is an indicative value (in the event of illiquidity, in the event of liquidation, etc.) and where there are no prices to support this value;
- FCPRs (venture capital funds): net asset value is frequently indicative 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:

	30/06/2018			
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	86.2	0.0	86.2
Loans due from credit institutions and customers	*0.0*	*86.2*	*0.0*	*86.2*
Derivatives	0.0	47.2	0.0	47.2
Interest-rate derivatives	*0.0*	*11.6*	*0.0*	*11.6*
Currency derivatives	*0.0*	*35.6*	*0.0*	*35.6*
Financial assets at fair value through profit or loss - Held for trading	**0.0**	**133.4**	**0.0**	**133.4**
Derivatives	0.0	55.8	0.0	55.8
Interest-rate derivatives	*0.0*	*40.5*	*0.0*	*40.5*
Currency derivatives	*0.0*	*15.3*	*0.0*	*15.3*
Financial assets at fair value through profit or loss – Economic hedging	**0.0**	**55.8**	**0.0**	**55.8**
Debt instruments	0.2	8.9	4.6	13.8
Debt securities	*0.2*	*8.9*	*4.6*	*13.8*
Financial assets at fair value through profit or loss – Non-standard	**0.2**	**8.9**	**4.6**	**13.8**
Debt instruments	1,240.0	0.0	0.1	1,240.1
Loans due from credit institutions and customers	*0.0*	*0.0*	*0.1*	*0.1*
Debt securities	*1,240.0*	*0.0*	*0.0*	*1,240.0*
Equity instruments	0.0	0.0	3.1	3.1
Shares and other equity securities	*0.0*	*0.0*	*3.1*	*3.1*
Financial assets at fair value through equity	**1,240.0**	**0.0**	**3.2**	**1,243.2**
Interest-rate derivatives	*0.0*	*2.9*	*0.0*	*2.9*
Hedging derivatives	**0.0**	**2.9**	**0.0**	**2.9**

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	47.7	0.0	47.7
Interest-rate derivatives	*0.0*	*12.5*	*0.0*	*12.5*
Currency derivatives	*0.0*	*35.3*	*0.0*	*35.3*
Other financial liabilities	0.0	3.1	0.0	3.1
Financial liabilities at fair value through profit or loss - Held for trading	**0.0**	**50.8**	**0.0**	**50.8**
Derivatives	0.0	44.7	0.0	44.7
Interest-rate derivatives	*0.0*	*29.6*	*0.0*	*29.6*
Currency derivatives	*0.0*	*15.1*	*0.0*	*15.1*
Financial liabilities at fair value through profit or loss – Economic hedging	**0.0**	**44.7**	**0.0**	**44.7**
Interest-rate derivatives	*0.0*	*31.9*	*0.0*	*31.9*
Hedging derivatives	**0.0**	**31.9**	**0.0**	**31.9**

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	01/01/2018	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	31/12/2018
Financial assets										
Loans due from customers	*0.6*	*0.0*	*(0.6)*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Debt securities	*0.0*	*0.6*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*4.0*	*4.6*
Financial assets at fair value through profit or loss – Excluding trading	**0.6**	**0.6**	**(0.6)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**4.0**	**4.6**
Loans due from customers	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*	*0.1*
Investments in unconsolidated subsidiaries	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*3.1*	*3.1*
Equity instruments	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.2**	**3.2**

9.1.3 Analysis of transfers between levels of the fair value hierarchy

No transfers were made between levels in the value hierarchy.

9.1.4 Sensitivity of Level 3 fair value to changes in principal assumptions

Financial instruments measured at Level 3 fair value mainly concern investments in unconsolidated subsidiaries and related certificates.

9.2 Fair value of financial assets and liabilities carried at amortised cost

For financial instruments not measured at fair value on the balance sheet, fair value calculations are disclosed for information purposes and should be interpreted as estimates.

In most cases, the values indicated are not likely to be realised and, generally speaking, are not actually realised.

These fair values are thus only calculated for information purposes in the notes to the financial statements. They are not indicators used in the interest of overseeing retail banking activities, for which the management model is mainly based on collection of the expected cash flows.

The simplified assumptions used to measure the fair value of instruments at amortised cost are presented in Note 9.1 "Fair value of financial assets and liabilities".

	31/12/2018			01/01/2018		
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)	Price quoted in an active market (Level 1)	Valuation techniques using observable inputs (Level 2)	Valuation techniques using unobservable inputs (Level 3)
FINANCIAL ASSETS AT AMORTISED COST	**0.0**	**1,832.0**	**11,416.4**	**0.0**	**1,661.4**	**11,161.7**
Loans and advances due from credit institutions	0.0	1,357.0	2,436.3	0.0	1,068.8	2,532.8
Loans and advances due from customers	0.0	475.0	8,533.7	0.0	592.6	8,628.9
Debt securities	0.0	0.0	446.4	0.0	0.0	0.0
FINANCIAL LIABILITIES AT AMORTISED COST	**0.0**	**7,462.1**	**6,522.4**	**0.0**	**6,981.3**	**6,597.5**
Amounts due to credit institutions	0.0	42.6	1,571.2	0.0	70.7	2,018.0
Amounts due to customers	0.0	7,419.5	1,730.4	0.0	6,910.6	1,473.9
Debt securities	0.0	0.0	3,020.6	0.0	0.0	2,905.4
Subordinated debt	**0.0**	**0.0**	**200.2**	0.0	0.0	200.2

Note 10 Taxes

10.1 Income tax

Accounting principles

Income tax comprises:

- current taxes which are calculated on the basis of the taxable profits over the period of each consolidated tax entity by applying the tax rates and rules in effect;
- deferred taxes.

in millions of euros	31/12/2018	31/12/2017
Current tax	(3.8)	(27.1)
Deferred tax	(8.0)	(0.9)
INCOME TAX	**(11.9)**	**(28.0)**

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

	31/12/2018		31/12/2017	
	in millions of euros	tax rate	in millions of euros	tax rate
Net income attributable to equity holders of the parent	23.4		45.9	
Changes in the value of goodwill	3.1		0.0	
Share in net income of associates	(0.7)		(0.6)	
Taxes	11.9		28.0	
Income before tax and changes in the value of goodwill (A)	**37.7**		**73.3**	
Standard tax rate in France (B)		**34.43%**		**34.43%**
Theoretical tax expense/(benefit) at the tax rate applicable in France (A × B)	**(13.0)**		**(25.2)**	
Impact of permanent differences	(2.4)		(2.2)	2.98%
Tax on prior periods, tax credits and other taxes	(0.0)		0.6	0.81%
Other items	3.4		(0.1)	
Tax expense/(profit) recognised	**(11.9)**		**(28.0)**	
EFFECTIVE TAX RATE (INCOME TAX EXPENSE DIVIDED BY TAXABLE INCOME)		**31.56%**		**38.20%**

10.2 Deferred tax

Accounting principles

Deferred tax assets and liabilities are recognised when temporary differences arise between the carrying amount of assets and liabilities at the reporting date and their tax base, irrespective of when the tax is expected to be recovered or settled.

Deferred tax assets and liabilities are measured at the tax rates and based on the tax rules in force and that are expected to apply to the period when the asset is recovered or realised.

Deferred tax liabilities and assets are offset at the level of each tax entity. The tax entity may either be a single entity or a tax consolidation group. Deferred tax assets are recognised only if it is probable that the entity concerned can recover them over a given period.

Deferred tax assets and liabilities are recognised as a tax profit or expense in the income statement, except for those relating to:

- remeasurement gains and losses on post-employment benefits;
- unrealised gains and losses on financial assets at fair value through equity;
- changes in the fair value of derivatives used as cash flow hedges;

for which the corresponding deferred tax assets and liabilities are recognised as gains and losses recognised directly in equity.

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

Deferred tax assets and liabilities on temporary differences arise from the recognition of the items listed in the statement below (positive figures indicate deferred tax assets, while negative figures in brackets represent deferred tax liabilities):

in millions of euros	31/12/2018	01/01/2018
Unrealised capital gains on UCITS	0.0	0.0
Tax EIGs (Economic Interest Groups)	0.0	0.0
Provisions for employee benefit obligations	4.2	4.3
Provisions for regulated home savings products	0.9	1.0
Non-deductible impairment in respect of credit risk	13.3	4.7
Other non-deductible provisions	0.5	0.4
Fair value of financial instruments with changes recognised in other retained earnings	(0.7)	(1.9)
Other temporary differences[(1)]	10.4	26.0
Deferred tax assets and liabilities related to temporary differences	**28.6**	**34.5**
Deferred taxes related to the activation of tax losses carried forward	**0.0**	**0.0**
Deferred tax assets and liabilities on consolidation adjustments and eliminations	**0.4**	**0.4**
Deferred taxes not recognised for the sake of prudence	**0.0**	**0.0**
NET DEFERRED TAXES	**29.0**	**34.9**
Recognised		
As an asset	29.0	37.1
As a liability	**0.0**	(2.2)

(1) At 31 December 2018, 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 Banque Palatine Group presents information for the following three segments:

- retail banking;
- asset management;
- other activities.

The “Retail banking” segment encompasses all the activities of the Banque Palatine entity.

“Asset management” encompasses all the activities of the “Palatine Asset Management” subsidiary.

These two segments are complemented by the “other activities” segment encompassing Ariès Assurances and the share in the income of associates (*Conservateur Finance*).

The geographic analysis of segment results is based on the location where business activities are accounted for, with the Banque Palatine Group's net banking income deriving in full from France.

	Retail banking		Asset management		Other activities		Total Group	
in millions of euros	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**
Net banking income	311.4	294.0	19.5	24.7	0.5	0.5	331.4	319.2
Operating expenses	(243.7)	(197.5)	(8.5)	(8.6)	(0.3)	(0.4)	(252.5)	(206.5)
Gross operating income	**67.7**	**96.5**	**11.0**	**16.1**	**0.3**	**0.1**	**79.0**	**112.7**
Cost/income ratio	*78.3%*	*67.2%*	*43.6%*	*34.8%*	*51.4%*	*73.4%*	*76.2%*	*64.7%*
Cost of risk	(41.3)	(39.5)	0.0	0.0	0.0	0.0	(41.3)	(39.5)
Share in net income of associates	0.0	0.0	0.0	0.0	0.7	0.6	0.7	0.6
Net gains or losses on other assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in value of goodwill	0.0	0.0	0.0	0.0	(3.1)	0.0	(3.1)	0.0
Income before tax	**26.4**	**57.1**	**11.0**	**16.1**	**(2.2)**	**0.8**	**35.2**	**73.8**
Income tax expense	(8.0)	(22.4)	(3.7)	(5.5)	(0.1)	(0.0)	(11.8)	(28.0)
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	**18.3**	**34.7**	**7.3**	**10.6**	**(2.2)**	**0.7**	**23.4**	**45.9**
TOTAL ASSETS	**15,154.4**	**14,747.2**	**12.6**	**18.6**	**3.9**	**1.6**	**15,170.9**	**14,767.5**

11.2 Information on finance lease and operating lease transactions

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 essentially transfers virtually all the risks and benefits of the ownership of an asset to the lessee. It is classified as an acquisition of a non-current asset by the lessee financed by a credit granted by the lessor.

IAS 17 on leases contains five examples of situations that distinguish a finance lease from an operating lease:

- the lease transfers the ownership of the asset to the lessee at the end of the term of the lease;
- the lease gives the lessee the option of purchasing the 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 life of the asset, even if there is no transfer of ownership;
- at the start of the lease, the present value of the minimum lease payments amounts to at least most of the fair value of the leased asset;
- the leased assets are of such a specific nature that only the lessee can use them without major changes.

In addition, IAS 17 describes three indicators of situations that, individually or collectively, may lead to a finance lease classification:

- if the lessee can terminate the lease and 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 for a second period at a rent substantially below market price.

On activation of the contract, the finance lease receivable is entered in the lessor's balance sheet in an amount equal to the net investment in the lease corresponding to the value discounted at the lease's implicit rate for minimum payments due from the lessee increased by any unguaranteed residual value due to the lessor

In accordance with IAS 17, unguaranteed residual values are subject to regular review. A decrease in the estimated unguaranteed residual value results in a change in the income allocation profile over the entire duration of the contract (calculation of a new depreciation and amortisation plan) and an expense is recorded to correct the amount of the financial income already recognised.

Impairments on finance leases are determined in accordance with IFRS 9 using the same method as the one described for financial assets at amortised cost (Note 4.1.10) and are recognised in "Cost of credit risk".

Income from finance leases corresponding to the amount of interest is recognised in the income statement under "Interest and similar income". Income from the finance lease is recognised in income through 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 discounted value of the minimum payments due to the lessor increased by the unguaranteed residual value;
- and the starting value of the asset (starting fair value plus starting direct costs, i.e. the costs incurred specifically by the lessor in order to set up a lease).

In the lessee's accounts, the finance lease and the lease with an option to purchase translate into the acquisition of a loan-financed non-current asset.

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 on the assets side of the balance sheet 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".

11.2.1 Leasing transactions as lessor

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

11.2.2 Leasing transactions as lessee

Non-current assets by category

	31/12/2018			01/01/2018		
in millions of euros	Fixed assets	Moveable assets	Total	Fixed assets	Moveable assets	Total
Finance lease						
Carrying amount	**0.0**	**0.0**	**0.0**	0.0	0.0	0.0

Minimum future payments

	31/12/2018				01/01/2018			
	Residual maturity				Residual maturity			
Lessee (in millions of euros)	< 1 year	≥ 1 year to < 5 years	Over 5 years	Total	< 1 year	≥ 1 year to < 5 years	Over 5 years	Total
Operating leases								
Minimum future payments to be paid under non-terminable agreements	6.6	18.5	2.0	27.2	(7.4)	(20.0)	(3.6)	(30.9)
Minimum future payments to be received under non-terminable sub-leases								

Amounts recognised as net income

in millions of euros	31/12/2018	01/01/2018
Operating leases		
Minimum payments	(10.1)	(11.0)
Conditional rents included in the expenses for the period	0.0	0.0
Income from sub-leasing	**0.0**	0.0

11.3 Related-party transactions

Parties related to the Banque Palatine Group are considered to be all 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 Banque Palatine Group exercises significant influence and are recognised using the equity method (associates).

	31/12/2018		01/01/2018	
in millions of euros	**BPCE**	**Associates**	**BPCE**	**Associates**
Loans	3,484.4	0.0	3,280.6	0.0
Other financial assets				
Other assets				
TOTAL ASSETS WITH RELATED ENTITIES	**3,484.4**	**0.0**	**3,280.6**	**0.0**
Liabilities	1,625.5	3.4	2,124.2	4.1
Other financial liabilities				
Other liabilities			0.3	0.0
TOTAL LIABILITIES WITH RELATED ENTITIES	**1,625.5**	**3.4**	**2,124.5**	**4.1**
Interest and similar income and expense	24.2	0.0	23.1	0.0
Fees and commission	(1.2)	0.0	(0.9)	0.0
Net income from financial transactions				
Net income from other activities				
TOTAL NET BANKING INCOME WITH RELATED ENTITIES	**23.0**	**0.0**	**22.2**	**0.0**
Commitments given				
Commitments received	45.1	0.0	46.5	0.0
Commitments on forward financial instruments				
TOTAL COMMITMENTS WITH RELATED ENTITIES	**45.1**	**0.0**	**46.5**	**0.0**

A list of fully consolidated subsidiaries is presented in the scope of consolidation section (see Note 13 "Details of the scope of consolidation").

11.3.2 Transactions with senior executives

The main senior executives are members of Banque Palatine's general Management Committee and Board of Directors.

Short-term employee benefits

Short-term benefits paid to senior executives came to €1.8 million in 2018 (€1.8 million in 2017).

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	**31/12/2018**	**31/12/2017**
Overall amount of the loans granted	0.0	0.0
Overall amount of the pledges granted	**0.0**	0.0

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

The amount provisioned by the Banque Palatine Group for senior executives in respect of retirement benefits amounted to €0.05 million at 31 December 2018 (versus €0.12 million at 31 December 2017).

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

11.4 Joint arrangements and associates

Accounting principles

See Note 3 "Consolidation".

11.4.1 Shares in associates

11.4.1.1 Joint arrangements and other associates

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

in millions of euros	31/12/2018	01/01/2018
Conservateur Finance	3.6	3.5
Financial companies	**3.6**	**3.5**
TOTAL INVESTMENTS IN ASSOCIATES	**3.6**	**3.5**

11.4.1.2 Financial data for the main joint arrangements and associates

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

	Associates	
	Conservateur Finance	
in millions of euros	31/12/2018	01/01/2018
Dividends received	**0.6**	**0.4**
MAIN AGGREGATES		
Total assets	22.6	32.0
Total debt	4.4	14.2
Income statement		
Net banking income	25.0	24.2
Income tax expense	1.7	(1.7)
Net income	3.4	3.0
RECONCILIATION WITH THE BALANCE SHEET VALUE OF ASSOCIATES		
Equity of associates	18.1	17.7
Percentage interest	20.00%	20.00%
Value of shares in associates	**3.6**	**3.5**

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	31/12/2018	31/12/2017
Conservateur Finance	0.7	0.6
Financial companies	**0.7**	**0.6**
SHARE IN NET INCOME OF ASSOCIATES	**0.7**	**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 Banque 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 Banque 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 Banque Palatine Group shows all transactions recorded on its balance sheet in respect of interests held in unconsolidated structured entities.

Structured entities may be classified into four categories: entities involved in asset management, securitisation vehicles, entities created as part of structured financing and entities created for other types of transactions.

Asset management

Asset management consists in managing the capital or funds entrusted by investors by investing in equities, bonds, cash SICAVS or hedge funds, etc.

The asset management line of business using structured entities is represented by collective management or fund management. It encompasses collective investment vehicles within the meaning of the French Monetary and Financial Code (other than securitisation vehicles) as well as equivalent bodies governed by foreign law. These notably include entities such as UCITS, real estate funds and private equity funds.

Securitisation

Securitisation transactions generally consist of structured entities ring-fencing assets or derivatives representing credit risk.

These entities serve to diversify the underlying credit risks and to split them into various levels of subordination (tranches), in most cases to sell them to investors seeking a certain level of return, according to the degree of risk accepted.

These vehicles' assets and the liabilities they issue are rated by the rating agencies, which monitor the level of risk associated with each tranche of risk sold in relation to the rating they are given.

The securitisation approaches used involving structured entities are as follows:

- transactions in which the Group (or a subsidiary) sells on its own behalf to a dedicated vehicle, in cash or synthetic form, the credit risk associated with one of its asset portfolios;
- securitisation transactions on behalf of third parties. These transactions consist in housing assets belonging to another company in a dedicated structure (generally a special purpose entity (SPE). The SPE issues shares that may, in certain cases, be subscribed for directly by investors or by a multi-seller conduit, which refinances the acquisition of these shares through the issue of short-term notes (commercial paper).

Structured (asset) financing

Structured financing is a term encompassing the range of activities and products set up to provide financing to economic participants, while reducing risks through the use of complex structures. This concerns the financing of movable assets (related to aeronautical, maritime or land transport, telecommunication, etc.) and fixed assets and the acquisition of targeted companies (LBO financing).

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

Other activities

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.

At 31 December 2018:

in millions of euros	Securitisation	Asset management	Structured financing	Other activities
Financial assets at fair value through profit or loss	**0.0**	**9.0**	**0.0**	**0.0**
Financial instruments classified at fair value (option)	0.0	9.0	0.0	0.0
TOTAL ASSETS	**0.0**	**9.0**	**0.0**	**0.0**
Maximum exposure to the risk of loss	**0.0**	**9.0**	**0.0**	**0.0**
Size of structured entities	**0.0**	**6,830.8**	**0.0**	**0.0**

IAS 39 presentation at 31 December 2017:

in millions of euros	Securitisation	Asset management	Structured financing	Other activities
Financial assets available for sale	0.0	17.6	0.0	0.0
TOTAL ASSETS	**0.0**	**17.6**	**0.0**	**0.0**
Maximum exposure to the risk of loss	**0.0**	**(17.6)**	**0.0**	**0.0**
Size of the structured entity	**0.0**	**7,069.1**	**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.
For the unconsolidated structured entities that the Group sponsored without holding any interests, the impact on the financial statements is presented below:

	Asset management	
in millions of euros	31/12/2018	31/12/2017
Income from entities	**21.0**	**26.2**
Net fee and commission income	21.0	26.2

11.6 Fees paid to Statutory Auditors

	PricewaterhouseCoopers				KPMG				Total			
	Amount		%		Amount		%		Amount		%	
in thousands of euros	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Role of certification of financial statements	**341**	**224**	**94%**	**98%**	**226**	**266**	**94%**	**87%**	**567**	**490**	**94%**	**92%**
• *Issuer*	301	189			218	257			519	446		
• *Fully consolidated subsidiaries*	40	35			8	9			48	44		
Services other than the certification of the financial statements	**23**	**4**	**6%**	**2%**	**14**	**39**	**6%**	**13%**	**37**	**43**	**6%**	**8%**
Issuer	23	0			14	39			37	39		
Fully consolidated subsidiaries	0	4			0	0			0	4		
TOTAL	**364**	**228**	**100%**	**100%**	**240**	**305**	**100%**	**100%**	**604**	**533**	**100%**	**100%**
Change (%)	**60%**				**(21)%**				**13%**			

The total fees of PricewaterhouseCoopers Audit included in the consolidated income statement for the year amounted to €364,000, including €341,000 for the certification of the financial statements, and €23,000 for services other than the certification of the financial statements;

The total fees of KPMG included in the consolidated income statement for the year amounted to €240,000, including €226,000 for the certification of the financial statements, and €14,000 for services other than the certification of the financial statements (CSR).

Note 12 Preparation of comparative data

Accounting principles and scope

The accounting principles and methods used to prepare ***pro forma*** data are those used by the Group to prepare its consolidated financial statements as described in Note 2 "Applicable accounting standards and comparability" and Note 3 "Consolidation" of this appendix.

The ***pro forma*** scope of consolidation includes the entities consolidated by the Group over 2018. It has been supplemented to take into account the effects of the transactions mentioned above.

Note 13 Details of the scope of consolidation

13.1 Scope of consolidation at 31 December 2018

Entities whose contribution to the consolidated financial statements is not significant are not eligible to enter the scope of consolidation. For entities that meet the definition of financial sector entities of Regulation (EU) no. 575/2013 of the European Parliament and Council of 26 June 2013 (so-called "CRR" regulation), the accounting consolidation thresholds are aligned, from 31 December 2017, to those selected for the prudential consolidation scope. Article 19 of the CRR refers to a €10 million threshold of total balance sheet and off-balance sheet items. For entities in the non-financial sector, materiality is assessed at the level of the consolidated entities. According to the principle of ascending significance, any entity included in a lower-level scope is included in higher-level consolidation scopes, even if it is not significant for them.

For each of the entities in the scope of consolidation, the percentage interest is indicated. The percentage interest expresses the share of capital held by the Group, directly and indirectly, in the companies in the scope of consolidation. The percentage interest makes it possible to determine the Group's share of the net assets of the company held.

	Country of incorporation or residence	Consolidation method	Changes in scope compared with 31 December 2017	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 Companies not consolidated at 31 December 2018

French Accounting Standards Authority regulation no. 2016-09 of 2 December 2016 requires companies that prepare their consolidated financial statements in accordance with international standards as adopted by the European Union to publish additional information relating to companies not included in their scope of consolidation, as well as investments in unconsolidated subsidiaries of a significant nature.

The companies not consolidated comprise:

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

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

Companies	Location	stake	Reason for not consolidating
GIE GDS 24	France	50	Not significant
GIE GDS GESTION DELEGUE SOCIALE	France	100	Not significant
JARDINS D'ARCADIE GRASSE	France	55	Not significant
STE IMMOBILIERE D'INVESTISSEMENT	France	100	Not significant

3

REPORTS BY THE STATUTORY AUDITORS

1 Statutory Auditors' report on the parent-company financial statements

Year ended 31 December 2018

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

Opinion

Pursuant to the mission entrusted to us by your General Meeting, we conducted an audit of the parent-company financial statements of Banque Palatine S.A. for the year ended 31 December 2018, as annexed to this report.

In our opinion, the parent-company financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company, and of the results of its operations for the year then ended in accordance with French accounting principles.

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

Basis of opinion

Audit standards

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

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

Independence

We conducted our audit in accordance with applicable standards of independence between 1 January 2018 and the date of our report. We did not provide any services prohibited under Article 5, paragraph 1 of Regulation (EU) no. 537/2014 or the French Statutory Auditors' Professional Code of Conduct.

Justification of our assessments – Key audit matters

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

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

Credit risk - Impairments and provisions for customer credit

Assessed risk

Banque Palatine constitutes impairments and provisions to cover the risks of losses resulting from the inability of its customers to meet their financial commitments. These impairments and these provisions are recorded in default loans (doubtful loans) as well as in non-doubtful loans identified as sensitive or degraded.

At 31 December 2018, Banque Palatine wanted to converge its methods for estimating impairments and provisions for these two categories of loans with the expected loss calculations that are now carried out in accordance with IFRS 9, which came into force at the start of the financial year for the Group's consolidated financial statements. This convergence thus covers:

- The identification of the two categories of loans: doubtful loans (classified as doubtful at 90 days) and degraded (using the methods for identifying a significant increase in credit risk "SICR" defined for first-time adoption of IFRS 9).
- The estimation of provisions for the two categories of loans.

The impact of this convergence was treated as a change in estimates in Banque Palatine's parent-company financial statements.

The valuation of provisions requires the exercise of judgement in classifying exposures (non-doubtful or doubtful loans) and assessing recoverable future cash flows and recovery periods.

In view of the importance of judgements made in determining these impairments and the complexity of the new estimates made under IFRS 9, we considered that the estimated expected losses on loans to individual customers was a key audit matter

At 31 December 2018, outstanding customer loans came to €9,371.8 million, and gross doubtful loans to €519.7 million. Impairments and provisions taken in respect of credit risks amounted to €334.7 million, of which €46.6 million were impairments in respect of significant increases in credit risk on performing receivables.

For further details on accounting principles and exposures, see Notes2.

Our response

We examined the system set up by the risk management to classify loans (non-doubtful or doubtful) and to assess the amount of expected or established losses on these loans.

We tested the controls implemented by the management to identify non-doubtful or doubtful loans and to assess the likelihood of recovery and impairment. We also took note of the main conclusions by the specialised committees responsible for monitoring these loans.

With regard to impairments of non-doubtful loans identified as sensitive or degraded:

- we conducted a critical review of the methods used to determine the various parameters and models for calculating expected loss and their compliance with the accounting standards in force;
- we also examined the methods for identifying significant increases in credit risk "SICR";
- we also took note of the system for the periodic review of the main parameters of the models used;
- we tested the data spill controls used to calculate expected losses, reconciliation between the bases used for these calculations and accounting, as well as the general controls of the dedicated applications;
- lastly, we made independent calculations of expected loss on a sample basis.

In view of how the BPCE group is organised, we carried out a critical review of the work conducted by the BPCE's college of auditors.

For impairments of doubtful loans:

- we conducted control tests on the system for identifying and monitoring doubtful and non-performing counterparties, on the credit review process and on the guarantee appraisal mechanism;
- lastly, we checked the impairment calculations on a portfolio basis;
- on the basis of a statistical sample of credit files, we carried out counter analyses of the impairment amounts;
- we took note of the main conclusions of the specialised committees responsible for monitoring these receivables and checked, on a sample of files, their due consideration in the estimation of impairments.

We also ensured that the information presented in the notes was appropriate.

Specific checks

We also performed, in accordance with the professional standards applicable in France, the specific checks required by law and regulations.

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

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

The sincerity and consistency with the parent-company financial statements of the information on payment periods mentioned in Article D.441-4 of the French Commercial Code require that we make the following observation:

As indicated in the management report, this information does not include banking and related transactions, as your Bank considers that they do not fall within the scope of the information to be disclosed.

Corporate governance report

We certify that the section of the Board of Directors' management report devoted to corporate governance contains the information required by Articles L.225-37-3 and L.225-37-4 of the French Commercial Code.

Regarding the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code on the remuneration and benefits paid to corporate officers and on the commitments made in their favour, we have verified its consistency with the financial statements and with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by the Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

Information required by other legal and regulatory obligations

Appointment of Statutory Auditors

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

At 31 December 2018, KPMG Audit FS I had conducted its duties for 12 years without interruption and PricewaterhouseCoopers Audit had done so for 18 years.

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

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

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

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

The parent-company financial statements were approved by the Board of Directors.

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

Audit objectives and procedures

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

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

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

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

Report to the audit committee

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

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

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

Paris-La Défense and Bordeaux, 19 April 2019

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 2018)

To the Shareholders

BANQUE PALATINE

42 rue d'Anjou

75382Paris Cedex 08

In our capacity as Statutory Auditors of your Company, we hereby present our report on regulated agreements and commitments.

It is our responsibility to inform you, on the basis of the information provided to us, of the characteristics, the essential terms and the justifications of the agreements 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 and commitments subject to shareholder approval

Agreements authorised and concluded during the past year

Pursuant to Article L.225-40 of the French Commercial Code, we have been informed of the following agreements entered into during the past financial year which have been subject to the prior authorisation of your Board of Directors.

1. Agreements with executives

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

a. Retirement benefits

- **Persons concerned:**
Patrick Ibry (Executive Vice-President of Banque Palatine S.A. since 8 February 2018).

- **Nature and purpose:**
This agreement was approved by the Board of Directors on 8 February 2018.

Executive Vice-Presidents holding both an employment contract and corporate office qualify for a retirement benefit under the same terms and conditions as Banque Palatine S.A.'s employees.

Arrangements for payment of the benefit: the retirement benefit may be paid only when the social security pension rights are claimed and provided that the beneficiary is a Banque Palatine employee when the claim is made.

- **Terms:**
Determination of the benefit: the reference salary used to calculate the benefit is 1/12 of the beneficiary's most recent annual full-time salary, including any 13th month payment.

The amount of the retirement benefit may be up to 8.4 months of the reference salary depending on his or her length of service with Groupe BPCE.

This commitment had no impact on the Banque Palatine S.A. financial statements at 31 December 2018

b. Supplementary pension plans for the Executive Vice-President

- **Persons concerned:**
Patrick Ibry (Executive Vice-President of Banque Palatine S.A. since 8 February 2018).

- **Nature and purpose**
Supplementary pension plans for the Chief Executive Officer and the Executive Vice-Presidents

- **Terms**
This agreement was approved by the Board of Directors on 8 February 2018.

Banque Palatine S.A.'s Chief Executive Officer and Executive Vice-Presidents are eligible, subject to the same conditions as employees, for the defined-contribution pension plan applicable to unclassified executives (Réunica). This plan is funded through a 10% contribution (7.5% at Banque Palatine S.A.'s expense and 2.5% at the expense of the Chief Executive Officer and the Executive Vice-Presidents) on remuneration falling within tranches A+B.

The financial impact for the 2018 financial year was a €14,701.04 expense.

Agreements and commitments already approved by the shareholders

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

Pursuant to Article R.225-30 of the French Commercial Code, we have been informed that the execution of the following agreements, already approved by the General Meeting in previous financial years, continued during the past year.

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

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

- **Persons concerned:**
  - BPCE S.A. (Director and Shareholder of Banque Palatine S.A. and Natixis S.A.);
  - Sylvie Garcelon (Director of Banque Palatine S.A. from 5 October 2016 and of Natixis S.A. 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 S.A. relies on a third-party service provider outside Groupe BPCE, and also its competitor, to keep the financial instruments that belong to its customers (in the form of an extended mandate). In 2015, in order to strengthen synergies within Groupe BPCE, Banque Palatine S.A. decided to modify the organisation of this activity as follows:

- for institutional customers, Banque Palatine S.A., in agreement with Palatine Asset Management S.A, decided to outsource the custody account-keeping of the financial instruments held by the UCITS and customers whose portfolios are managed by Palatine Asset Management S.A. to a new service provider: Caceis, the main custody services provider to Groupe BPCE, in which Natixis S.A. holds an equity stake.
- Caceis took charge of custodial functions for institutional customers in July 2015;
- for Retail customers, Banque Palatine S.A. chose to grant custodial functions for financial instruments held by its customers to the Groupe BPCE service provider specialised in these activities, Natixis S.A. (EuroTitres department).
The migration of custodial services for Retail customers to Natixis EuroTitres took effect in November 2017.

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

After withdrawing from its agreements with its previous service providers, Banque Palatine S.A. was obliged to bear the additional costs of the new IT developments required for the IT migration of the Banque Palatine S.A. Retail customers' account custodial service to Natixis S.A. (Eurotitres department). Natixis S.A. agreed to compensate Banque Palatine S.A.in consideration of this withdrawal in the following amounts and terms (amounts expressed inclusive of tax, paid by NatixisS.A. to Banque Palatine S.A.):

- and, on completion of the migration to Natixis EuroTitres, €345,000 to be paid annually from June 2018 (inclusive) until June 2022 (inclusive).

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

The financial impact on the 2018 financial year was income of €345,000 excluding tax.

2. Agreements with shareholders and their subsidiaries

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

- **Nature and purpose:**

An invoicing agreement was signed on 11 December 2007 with CNCE S.A. (central body of the former Groupe Caisse d'Épargne). This agreement continued to produce its effects up to 30 June 2010 and was replaced by the invoicing agreement signed on 21 December 2010 with BPCE S.A. The purpose of this was to set the amount of the payment remunerating the assignments carried out by BPCE S.A. as part of the affiliation of Banque Palatine S.A.:

- guaranteeing Banque Palatine S.A.'s liquidity and solvency;
- exerting administrative, technical and financial control over its organisation and management;
- ensuring compliance with legislative and regulatory provisions.

A new agreement, authorised by the Supervisory Board on 17 February 2012, was 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 S.A. on the basis of the actual cost of the public policy assignments carried out on behalf of Banque Palatine S.A.

The financial impact on the financial year ended on 31 December 2018 was an expense of €2,500,000, excluding tax.

3. Agreements with executives

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

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

a. Enforced loss of office benefit relating to the Chief Executive Officer

- **Nature and purpose:**

Arrangements for payment of the benefit: the enforced loss of office benefit may be paid only if the term in office was terminated (dismissal by the governing body) other than for serious misconduct or transfer within Groupe BPCE. It may not be paid if the officer initiates his or her own departure.

Payment of the enforced loss of office benefit causes the former Director to lose any entitlement to the specific supplementary pension schemes or to the retirement benefit that he or she may otherwise have claimed.

In the event of a transfer within Groupe BPCE under an employment contract, notification of the termination of this employment contract more than 12 months after the enforced loss of office, carries a right, except in the event of gross or wilful misconduct, to payment of merely the redundancy benefit laid down in the applicable collective agreement. Conversely, should notification that this employment contract has been terminated come less than 12 months after his or her enforced loss of office, termination gives a right, except in the event of gross negligence or wilful misconduct, to payment of the enforced loss of office benefit, less any benefit paid in respect of termination of the employment contract.

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

Determination of the benefit: the enforced loss of office benefit is due only if the Group generated positive net income for accounting purposes over the financial year preceding the termination of the relevant corporate office.

The amount of the benefit is equal to the reference monthly remuneration × (12 months + 1 month per year of service within the Group). The reference monthly remuneration used for the calculation, is equal to 1/12 of the aggregate fixed remuneration (not including any benefits in kind) paid in respect of the most recent calendar year of service and the average variable remuneration (whether paid immediately or deferred) in respect of the three most recent calendar years of service. The remuneration used to calculate reference remuneration consists of the amounts paid in respect of the relevant corporate office.

The amount of the benefit is capped at 24 times the monthly benchmark pay, which corresponds to a period of 12 years of seniority within the Group.

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

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

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

Banque Palatine S.A.'s Chief Executive Officer may not claim any automatic payment of a benefit should he or she not be reappointed. However, the Board of Directors, acting on the advice of the Remuneration Committee, may decide to pay an enforced loss of office benefit, taking into consideration the circumstances of the non-renewal of the term in office and his or her past career with the Group. Such non-renewal must not be followed by retirement or by a redeployment within Groupe BPCE.

This commitment did not have any financial effect on the financial statements of Banque Palatine S.A. closed on 31 December 2018.

b. Retirement benefits

i. Chief Executive Officer

If so decided by the Board of Directors, the Chief Executive Officer may be granted a retirement benefit equal to no less than 6 months' and no more than 12 months' remuneration for 10 years of service, without any minimum attendance requirements within Groupe BPCE.

- **Nature and purpose:**

Arrangements for payment of the benefit: The payment of the retirement benefit is subject to the same conditions as those which apply to the enforced loss of office benefit:

- it is contingent on Banque Palatine S.A. generating positive net income in the financial year preceding the end of the term of corporate office; and
- it is subject to a minimum variable portion during the three most recent years of the current term of corporate office.

The retirement benefit may be paid only when the social security pension rights are claimed and provided that the beneficiary is a Banque Palatine S.A. corporate officer when the claim is made.

Should the enforced loss of office benefit or non-renewal of office benefit be paid upon non-renewal of a corporate office, the executive director loses any entitlement to the defined-benefit pension plan that he or she may claim and may not benefit from any retirement benefit.

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

Determination of the benefit: the reference monthly remuneration used for the calculation, is equal to 1/12th of the aggregate fixed remuneration (not including any benefits in kind) paid in respect of the most recent calendar year of service and the average variable remuneration (whether paid immediately or deferred) in respect of the three most recent calendar years of service.

The remuneration used to calculate reference remuneration consists of the amounts paid in respect of the relevant corporate office. The amount of the benefit is then equal to the reference monthly remuneration × (6 + 0.6 y), where y is the number, and where appropriate a fractional number, of years of service within the relevant scope.

It is capped at 12 times the reference monthly remuneration, which is earned through ten years of service with the Group.

In any event, this benefit is paid less any retirement benefit paid under an employment contract.

The benefit is excluded from the base used to calculate the annuities due under the defined-benefit pension plans of which the Director is a beneficiary.

This commitment did not have any financial effect on the financial statements of Banque Palatine S.A. closed on 31 December 2018.

ii. Executive Vice-Presidents

- **Nature and purpose:**

Executive Vice-Presidents holding both an employment contract and corporate office qualify for a retirement benefit under the same terms and conditions as Banque Palatine S.A.'s employees

Arrangements for payment of the benefit: the retirement benefit may be paid only when the social security pension rights are claimed and provided that the beneficiary is a Banque Palatine employee when the claim is made.

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

Determination of the benefit: the reference salary used to calculate the benefit is 1/12 of the beneficiary's most recent annual full-time salary, including any 13th month payment.

The amount of the retirement benefit may be up to 8.4 months of the reference salary depending on his or her length of service with Groupe BPCE.

This commitment did not have any financial effect on the financial statements of Banque Palatine S.A. closed on 31 December 2018.

c. No employment contract or suspended employment contract – Unemployment insurance

- **Nature and purpose:**

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

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

For the year ended 31 December 2018, the amount of the expense is €12,515.58.

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

- **Nature and purpose:**

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

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

This agreement had no financial impact on Banque Palatine S.A.'s 2018 financial statements.

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

- **Nature and purpose:**

Banque Palatine S.A.'s Chief Executive Officer and Executive Vice-Presidents are eligible, subject to the same conditions as Banque Palatine S.A.'s employees, for the defined-contribution pension plan applicable to unclassified executives (Réunica). This plan is funded through a 10% contribution (7.5% at Banque Palatine S.A.'s expense and 2.5% at the expense of the Executive Vice-President) on remuneration falling within tranches A and B, i.e. €158,928 in 2018.

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

For 2018, the amount of Réunica contributions (employee and employer) paid by Banque Palatine S.A. to the Chief Executive Officer and the Executive Vice-Presidents was as follows:

- **Pierre-Yves Dréan, from 1 January to 31 December 2018: €15,839.04;**
- **Bertrand Dubus, from 1 January to 31 December 2018: €15,839.04.**

Paris-La Défense and Bordeaux, 19 April 2019

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 2018

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

Opinion

Pursuant to the mission entrusted to us by your General Meeting, we conducted an audit of the consolidated financial statements of Banque Palatine S.A. for the year ended 31 December 2018, as annexed to this report.

In our opinion, the consolidated financial statements give a true and fair view of the operating results for the year then ended and of the financial position, assets and liabilities of the companies and entities included in the consolidated group in accordance with IFRS standards as adopted in the European Union.

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

Basis of opinion

Audit standards

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

Our responsibilities under these standards are explained in the section on "Auditor's responsibilities for the Audit of the consolidated financial statements" in this report.

Independence

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

Observations

Without calling into question the opinion expressed above, we would draw your attention to the change in the accounting method resulting from first-time application of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, as explained in Note 2.2 to the consolidated financial statements.

Justification of our assessments – Key audit matters

In application of the provisions of Articles L. 823-9 and R. 823-7 of the French Commercial Code on the justification of our assessments, your attention is drawn to the key audit matters relating to the risks of material misstatement which, in our professional judgement, were the most significant for the audit of the consolidated financial statements for the year, and our responses to these risks

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

Credit risk - Impairment losses and provisions for customer credit

Assessed risk

The Banque Palatine Group constitutes impairments and provisions to cover risks of losses arising from the inability of its customers to meet their financial commitments. In accordance with IFRS 9, since 1 January 2018, the Banque Palatine Group recorded an expected credit losses (ECL) on performing loans ("stage 1"), loans with a significant increase in credit risk ("stage 2") or non-performing loans (stage 3).

Impairment for expected loss (on stage 1 and 2 loans) is determined mainly on the basis of models developed by the group incorporating various parameters - probability of default (PD), loss given default (LGD), forward-looking data, etc.) - adjusted where necessary.

Impairment of non-performing loans (stage 3) is determined on an individual or collective basis. Individual impairment charges are assessed by the management according to estimates of recoverable future cash flows taking available guarantees into account or using IFRS 9 parameters for collective impairments.

The assessment of the provisions requires judgement to be exercised to classify exposures (stage 1, 2 or 3) or to estimate recoverable future cash flows or recovery times.

In view of the importance of judgement in determining these impairments, on the one hand, and changes brought about by the implementation of the new standard, on the other hand (changes to the operational system for calculating expected loss, new calculation engine, parameters, new control framework, etc.), we considered that the estimation of the expected losses on loans, both on the date of first-time application of the new standard and at 31 December 2018, was a key audit matter.

At 31 December 2018, outstanding customer loans came to €9,368 million. Impairment recorded on loans and other receivables outstanding came to €360.8 million, of which €44.3 million for stage 1, €35.7 million for stage 2 and €280.8 million for stage 3.

For further details on accounting principles and exposures, see Notes 5.5.3 and 7.1 to the consolidated financial statements.

Details on the options selected and the effects of first-time application of IFRS 9 at 1 January 2018 are given in section VI of the Notes and the accounting principles in Note 7.1. The impact of first-time application of IFRS 9 on equity at the start of the year, due to introduction of the new impairment model, is a decrease of €99 million before tax.

Our response

We examined the system set up by the risk management division to classify loans (non-doubtful and doubtful) and to assess the amount of expected or established losses on these loans.

We tested the controls implemented by the management to identify non-doubtful or doubtful loans and to assess the likelihood of recovery and impairment. We also took note of the main conclusions by the specialised committees responsible for monitoring these loans.

For impairment of stage 1 and 2 loans:

- we conducted a critical review of the methods used to determine the various parameters and models for calculating expected loss and their compliance with the accounting standards in force;
- we also examined the methods for identifying significant increases in credit risk "SICR";
- we also took note of the system for the periodic review of the main parameters of the models used;
- we tested the data spill controls used to calculate expected losses, reconciliation between the bases used for these calculations and the accounting as well as the general controls of the dedicated applications;
- lastly, we made independent calculations of expected loss on a sample basis.

In view of how the BPCE group is organised, we carried out a critical review of the work conducted by the BPCE's college of auditors.

For impairment of defaulting loans (stage 3):

- we carried out control tests on the system for identifying and monitoring doubtful and non-performing counterparties, of the credit review process and of the guarantee appraisal system;
- lastly, we checked the impairment calculations on a portfolio basis;
- on the basis of a statistical sample of credit files we carried out contradictory analyses of the amounts of impairments;
- we also took note of the main conclusions by the specialised committees responsible for monitoring these loans and checked, on a sample of cases, that they were correctly included in the estimated impairments.

Finally, we examined the information provided on coverage of credit risk in the notes to the consolidated financial statements, including with regard to the effects of first-time application of IFRS 9.

Specific verifications

We also carried out a specific verification, as required by law and regulations, of information about the Group provided in the Board of Directors' management report, in accordance with professional standards applicable in France.

We have no comments to report with respect to the fairness of its presentation and consistency with the consolidated financial statements.

Information required by other legal and regulatory obligations

Appointment of Statutory Auditors

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

At 31 December 2018, KPMG Audit FS I had conducted its duties for 12 years without interruption and PricewaterhouseCoopers Audit had done so for 18 years.

Responsibilities of the management and those charged with corporate governance in relation to the consolidated financial statements

It is the management's responsibility to prepare the consolidated financial statements in accordance with IFRS as adopted by the EU and to put in place the internal controls it deems necessary to ensure the consolidated financial statements are free of material misstatement, whether as a result of fraud or error.

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

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

The consolidated financial statements were approved by the Board of Directors.

Responsibilities of the Statutory Auditors in relation to the audit of the consolidated financial statements

Audit objectives and procedures

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

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

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

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

Report to the audit committee

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

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

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

Paris-La Défense and Bordeaux, 19 April 2019

Satuatory Auditors

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

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2018 RISK MANAGEMENT

Internal control procedures

General organisation

Groupe BPCE's internal control framework is structured to comply with all laws and regulations applicable to the Group and its activities and also with the Group's own principles and governance framework.

Groupe BPCE's internal control is organised around four principles:

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

Under this structure, the Bank's control framework is based on three levels of control: two levels of permanent control and one level of periodic control.

This framework operates in functions integrated within Banque Palatine and overseen by two BPCE divisions:

- the Group risk management, compliance and permanent control division (GRCPCD), responsible for permanent control;
- and the Group general inspection division, responsible for periodic control.

Strong functional ties with BPCE

The permanent and periodic control functions, which are located within the Bank and its subsidiaries, have a strong functional link, as consolidated control functions, to BPCE's corresponding central control divisions. In particular, the link encompasses:

- Group approval of the appointments and dismissals of managers responsible for permanent or periodic control functions at the institution;
- reporting, information and early warning obligations for the institution;
- standards issued by BPCE;
- definition or approval of control plans by BPCE.

These links have been formally defined in charters covering each function. These charters or their implementation have been validated by the Executive Management Committee and then by the Risk Committee before being adopted by the Board of Directors.

The Bank's specific organisation

The permanent control framework in place at Banque Palatine has several levels of controls:

First level

All operational divisions are responsible for this first level of control, which forms the cornerstone of the control framework. As part of the self-assessment process, every employee takes part in the first-level permanent control framework through their use of the controls embedded in the operational procedures and of the automated transaction processing controls.

Every line manager, who is responsible for all the risks related to the entity he oversees, makes sure that employees under his charge comply with the procedures. As a function of changes in the business, regulations, professional standards and transaction processes, he makes adjustments to these processes, by adding in more controls.

First-level controls help to ensure:

- compliance with transaction processing procedures and their conformity;
- disclosure of operational risk incidents detected and the development of activity indicators for assessing operational risk;
- justification of the balances of the accounts affected by the transactions performed.

First-level controls are reported formally to the compliance and permanent controls division using the Group permanent control monitoring (PILCOP) tool.

Second level

Second-level permanent control is provided by units dedicated solely to this function, described below:

- the risk management division, in charge of second-level permanent control of credit risks, financial and market risks, and operational risks;
- the compliance and permanent controls division, including information systems security;
- accounting review;
- security of assets and of employees (reporting to the human resources and services division).

The role of these units is to prevent and control risks, supplementing the first-level controls performed by operational divisions and subsidiaries. They perform their duties as part of internal control functions coordinated by BPCE.

More specifically, the compliance division's permanent control steering department supervises the operational divisions' control framework:

- centralising the key controls for the divisions, departments and services;
- providing a reporting system;
- making sure the control frameworks of the different entities are updated as required, and providing support for them.

Third level

Third-level periodic control is the responsibility of the internal audit division. This division operates under rules defined by Groupe BPCE for the audit function and a multi-year audit plan, which is reviewed annually in light of the audit scope and risk assessment defined by the Group's general inspection division.

In accordance with the regulations, this division conducts on-site and off-site investigations led by agents possessing the requisite independence. The resulting reports go to the Bank's corporate officers and executive management and are analysed quarterly at the Board of Directors' meeting via the Risk Committee.

This work aims to assess the compliance of operations, the level of risk actually incurred, compliance with procedures, and the effectiveness and appropriateness of the risk measurement and management system as well as of the internal control system. The work to set up these systems is supervised and their implementation is monitored by the permanent control functions.

Governance

Governance of the internal control framework is predicated on:

- executive management, which defines and implements organisations and resources to ensure the proper assessment and management of risks in a comprehensive and efficient manner and ensure that its control framework is appropriate to the Bank's and Groupe BPCE's financial position and strategy.

  It is responsible for day-to-day risk management and reports to the Board of Directors. It defines risk tolerance through general objectives on administration and risk management, the relevance of which is regularly assessed. It ensures regular monitoring of the implementation of the policies and strategies defined. It keeps the Audit Committee, Risk Committee and Board of Directors regularly informed of the key developments and main conclusions drawn from the analysis and monitoring of risks associated with the Bank's activities and results.

  Executive management is present or represented by at least one member and naturally has a right to vote on all the Bank's Committees. This configuration is used to ensure adequate steering by the executive body of the effectiveness of the internal control framework.

- the Board of Directors, which oversees the management of the principal risks incurred, approves the main risk limits and approves the internal control framework in accordance with the regulatory framework. It is supported in this work by the Audit Committee and Risk Committee.
- the Audit Committee is responsible for preparing the decisions of the Board of Directors, in particular concerning the issues of follow up on preparation of financial information, on legal control of the parent-company and consolidated financial statements by the Statutory Auditors and of the independence of the Statutory Auditors, in accordance with the French Commercial Code.
- the Risk Committee issues opinions to the Board of Directors on the quality of internal control and in particular the consistency of risk measurement, monitoring and control systems, and proposing additional measures, where required. Pursuant to Articles L. 511-92 et seq of the French Monetary and Financial Code and the order of 3 November 2014 on internal control of banking firms, the Risk Committee is also responsible for assessing the effectiveness of internal control systems.

Coordination committee for internal control functions (CCICF)

Permanent control, periodic control and compliance functions are all represented on the CCICF, which is chaired by the Chief Executive Officer. It met twice in 2018.

The other committee members are: Executive vice-presidents, the heads of audit, central risk, compliance, permanent controls and financial security, and risk management. Other members of the Executive Management Committee can always attend as guest members. The Head of internal audit acts as secretary.

The main duties of this committee are to:

- approve the Bank's control charters;
- approve the charters of the committees and the Bank's committee system;
- approve risk maps;
- approve the control frameworks and any changes made;
- approve regulatory risk control reports;
- oversee the proper execution of controls.

To this end, it deals with any inconsistency and any inefficiency in the organisation of the permanent controls identified by the Head of risk management or by the Head of compliance and permanent controls.

In particular, the Committee makes sure that mapping exists identifying the key controls, their frequency and the assignment of each activity to named individuals, as well as the upgrade of the permanent control framework in the event of regulatory changes, organisational changes or information system upgrades. It reviews annual control plans and their consistency.

It examines the annual regulatory reports on risk control and ensures proper implementation of the control frameworks and remedial measures needed for their operation.

The Audit and Internal Control Committee

This quarterly committee meeting is chaired by the Chief Executive Officer and composed of two Executive Vice-Presidents and the heads of audit, risk management, compliance and permanent controls as well as the representative of Group risk management. Where the agenda demands, the Committee may also call in the head of legal affairs, the head of finance, the head of information systems or the head of lending.

Its 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 2018.

The Control Committees common to the various permanent control functions within Banque Palatine are as follows:

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

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

Disclosures by the governing body within the meaning of Article 98 of the order of 3 November 2014 on internal control

Operational risk

The process provides for immediate reporting to the Bank's executive management and Board of Directors, to BPCE, and to the *Autorité de contrôle prudentiel et de résolution* of any loss that is provisioned or definitive of more than 0.5% of its capital (i.e. €3.9 million) in relation to operational risks, in accordance with Article 98 of the order of 3 November 2014 on internal control, and with BPCE's decisions.

In this regard, an incident was reported in 2018.

Credit risks

Banque Palatine is subject to the Groupe BPCE order on credit risks of 2 December 2015, which sets an alert threshold of 2% of capital. This threshold, calculated on the basis of capital at 31 December 2017, is therefore €15.7 million.

No incident was declared in 2018.

Permanent control

The Groupe BPCE system

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

The work of the Group RCPCD is carried out independently from operational divisions. Its procedures, particularly with respect to functions, are set out in the Group risk and compliance charters and other texts, approved by the BPCE management board on 7 December 2009, last updated on 29 March 2017.

The central risk management, compliance, permanent control and financial security division (RC^2S)

At Banque Palatine, the RC^2S central division, created in October 2017, reports hierarchically to the Chief Executive Officer and functionally to Group RCPCD.

This division, like Group RCPCD, covers all risks: credit risks, financial risks, operational risks, and risks of non-compliance. In accordance with Article 75 of the order of 3 November 2014 regarding internal control, it provides for the measurement, monitoring and control of risks.

The RC^2S division comprises the risk management division and the compliance and permanent control division. In risk management, Banque Palatine applies all principles of the Group's risk, compliance and permanent controls charters. RC^2S independently controls the correct application of standards and methods of risk measurement, including limits and delegation frameworks. It makes sure the risk policy is respected within the framework of its second-level permanent controls.

The workforce managers ensure that the risk management systems implemented are adequate for the risk profile and business strategy of the institution, in accordance with Article 435 1 e) of EU regulation no. 575/2013 regarding prudential requirements applicable to credit institutions and investment companies (CRR).

Risk appetite system

The risk appetite is the Bank's risk strategy, in a specific context, to generate recurrent and resilient returns while offering the best service to its customers and maintaining its solvency, liquidity and reputation.

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

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

The system is based on:

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

The Risk Appetite Framework (RAF) and Risk Appetite Statement of Banque Palatine were approved by the Board of Directors in February 2016 and are regularly updated. Any crossing of the quantitative limits defined in the RAF is the object of an alert and an appropriate remediation plan that can be decided by the Executive Management Committee and communicated to the Board of Directors if necessary, which was the case in establishing a comprehensive RCF (regulatory customer file) in 2018 (see below).

In 2018, the system was developed through limits on the scope of risks of non-compliance: one frames the rate of training of MRTs (material risk takers) and the other the rate of comprehensiveness of RCFs on the private banking scope.

To ensure the latter, an action plan was put in place during the year, validated by the Risk Committee and presented to the Board of Directors in July. After a vast effort to dematerialise client files in 2017 and early 2018, the objective of this plan was to enforce the limits defined by the Group in terms of RCF (on private banking), which was the case at 31 December 2018.

Risk measurement and monitoring

The risk management division:

- proposes Banque Palatine's risk policy, in line with the Group's risk policy (limits, ceilings, etc.);
- identifies risks and maps them;
- contributes to the development of systems to control the risks of the management policies regarding operational activities (quantitative limits, framework for delegations of authority, analysis of new products or new activities);
- confirms and ensures second-level control of risks (standards for valuing transactions, provisions, risk control systems);
- contributes to the definition of standards for the first level of permanent risk control excluding compliance and oversees their correct application (Group standards and methods are defined by BPCE);
- is in charge of supervising risks, notably with respect to the reliability of the system for detecting breaches of limits and monitors and controls their resolution;
- evaluates and controls the level of risk (stress scenarios, etc.);
- prepares risk reports for the executive bodies (the workforce managers and the Board of Directors), contributes to the legal or regulatory reports and alerts the workforce managers and the Board of Directors in the event of a significant incident (Article 98 of the order of 3 November 2014 regarding internal control).

The risk management division is made up of four departments whose duties notably are to:

Credit risk management department:

- carry out daily dialectic analyses of cases presented to the Banque Palatine umbrella committee;
- carry out ex-post controls of other cases and a number of themed controls approved by the Coordination committee for internal control functions;
- propose modifications to risk policy;
- develop risk culture by leading a number of training programmes;
- control the correct application of the Group's rating system for corporate customers;
- analyse the main sensitive cases on the watch list and report on its most important work to the Watch List Committee and quarterly forecasts.

Reporting and steering department:

- produce reports on the loan book for the Audit and Internal Control Committee and Risk Committee;
- contribute to legal and regulatory reports;
- Calculate and analyse the RWAs (risk-weighted assets), on a quarterly basis.

Operational risk department:

- map operational risks;
- report major incidents to the Operational Risks and Security Committee (ORSC) and propose action plans for efficient risk management procedures that reduce observed risk;
- calculate COREP (Common Solvency Ratio Reporting) of operational risk.

Financial risk department:

- control results from the dealing room and positions taken by the room with commercial and interbank counterparties;
- perform a second-level control of ALM;
- carry out the second-level controls required by the different regulations (SRAB, Volcker, Lagarde, EMIR, etc.) that frame dealing room activities.

Credit and counterparty risks

Selection and decision-making process

The Executive Management Committee, on proposal of the Audit and Internal Control Committee and in line with the defined risk appetite, approves Banque Palatine's credit risk policy, sets internal ceilings and credit limits, approves delegations of authority, and examines large exposures and the results of risk measurement.

Rating policy

The measurement of credit and counterparty risk is based on rating systems adapted to each type of customer or transaction; the risk management division monitors the performance of these systems.

Rating is a fundamental element of risk assessment.

As part of the permanent control process, the Group RCPCD has, notably, implemented a centralised monitoring procedure to verify the quality of data and the due application of the Group's standards in terms of segmentation, ratings, guarantees, defaults and losses.

Within Banque Palatine, a rating monitoring service is part of the risk management division, which checks at local level that the rating system has been correctly applied by the network and business lines.

Commitment procedures and monitoring of transactions

The institution's credit "risk management" function, in the framework of its risk appetite system:

- proposes delegation systems to undertake transactions to the workforce 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 workforce managers;
- registers loans ***that are*** alarming or deteriorated on the watch list;
- controls the implementation of risk reduction plans and participate in defining the level of necessary provisions if applicable.

Banque Palatine has a lending division that reports to the executive vice-president for finance, which has a second say on loan requests processed by the Bank's operational bodies. It has delegated authority for files under the Bank's delegation of powers framework and acts as secretary for the Development Credit Committees and the Credit Committee.

The credit risk department scrutinises major proposals from the Development Credit Committee and all Credit Committee proposals, except where they are subject to a circularisation procedure (used where the request is minor or technical in nature).

The selection and decision-making process is thus organised around various levels of responsibility:

- the network is responsible for conducting analysis and permanent control of first-level risks and collates from the customer the explanatory materials and supporting documentation required to complete the file;
- the lending division is involved in selecting transactions. It carries out a second analysis of credit applications, takes decisions on the applications within its remit, issues a formal opinion and presents the application to the Development Credit Committee or, where appropriate, to the Bank's Credit Committee;
- the risk management division carries out a dialectic analysis, independently of the operational functions, of credit applications put forward by the Bank's operational entities and issues a formal opinion on applications presented to the Credit Committee. It also runs ***a posteriori*** controls on applications decided by the branches, the lending division and the Development Credit Committee.

The delegation system consists of six tiers of delegation, the last being the "Credit Committee" of Groupe BPCE subsidiaries.

BPCE's Executive Management Committee, at its meeting on 3 July 2017, delegated new and expanded lending powers to Banque Palatine. These delegations form part of the global framework for limits, current or future caps and freezes, and rules on internal and regulatory ceilings in Groupe BPCE and at Banque Palatine. They are broken down by segment and rating. The Bank was informed of these new delegations on 10 July 2017.

New IFRS 9

The new IFRS 9 "Financial instruments" standard is applied to Banque Palatine since 1 January 2018, except for the provisions relating to financial liabilities designated at fair value through profit or loss, which were applied in advance to Groupe BPCE's financial statements from 1 January 2016.

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

Internal organisation of risk monitoring

The committees for follow-up and monitoring of commitments (commercial bank, real estate, regulated real estate professionals) regularly bring together the development unit and the lending division to analyse problematic cases, propose whether or not to downgrade them and allocate them to one of the internal risk categories and, lastly, whether they should be handled by the Provisions Committee.

The risk management division produces and analyses a quarterly watch list. The results are reported up to the Watch List and Provisions Committee. It checks that sensitive or doubtful cases are reviewed in a timely manner.

Finally, the risk management division analyses the annual cost of risk, which allows it to identify trends and take remedial action, particularly in the field of risk policy.

Work done in 2018

In 2018, the Bank managed to achieve a rating in the Group's best standards, and more specifically the regulatory threshold of 95% at 31 December 2018.

The implementation of IFRS 9 has been the subject of a dedicated project led by the accounting department. Specific work was done to factor in the specific architecture of Banque Palatine’s IT systems and its retail rating models, which ***are*** currently different from those used by Groupe BPCE. All this work was done in close collaboration with Groupe BPCE. The accounting department and the risk management division provided training for the entire support network and functions. Data quality work, notably on rating, was carried out.

After rolling out an appraisal-based detection system for cases of forbearance in 2017, the risk management division ensured it was duly assimilated by all the relevant stakeholders.

Preparatory work for the operational implementation of the Leverage standard was launched. The implementation of this standard is underway at Banque Palatine, in close collaboration with BPCE, which coordinates this work for the entire Group.

Part of the standard has been implemented, notably as regards the framework for LBO financing. This work was carried out jointly with the Corporate division and its outcome was an update of the risk policy on LBOs.

In addition, Banque Palatine's risk policy was updated by proposing specific risk policies. Thus, the risk policies on international financing, renewable energy financing, senior executive financing and the recovery standard were updated.

Moreover, work was done to improve COREP production, including efforts to make the reconciliation of accounting items more reliable.

Lastly, RWA optimisation work was initiated and led to a downward revision of capital requirements.

Market risks

Decision-making committees

The decision-making committees are the Audit and Internal Control Committee, discussed above, and the Finance Committee.

The latter, which meets at least every month, is tasked with:

- deciding the specific implementation methods for programmes defined by the ALM Committee for market transactions where it is responsible for execution (timing, level, breakdown, etc.) including transactions in the securities portfolio;
- reviewing the execution of past plans and amending them as necessary, reporting to the ALM Committee;
- examining market conditions and indicators (rates, cash ***spreads***, etc.);
- reviewing major transactions with customers and deciding, where appropriate, to arrange cover;
- monitoring liquidity and rate management risks;
- manage regulatory ratios, BPCE ratios and monitor compliance with internal limits;
- take allocation decisions for the HQLA securities reserve, creditworthiness reviews, responsibility for creditworthiness having now passed to the Credit Committee;
- managing and monitoring the LBF/Volcker procedures, including reviewing any significant quarter-on-quarter change in indicators with an analysis from the risk management division;
- monitoring trading portfolio business, including calculations of VaR sent by the risk management division and cash monitoring;
- addressing problems in financial management in the framework of Groupe BPCE;
- dealing with any other matters directly or indirectly related to financial activities (accounting treatment, data management, etc.).

Law on the separation and regulation of banking activities

Mapping of market activities is regularly updated. Necessary indicators, in accordance with Article 6 of the order of 9 September 2015, are calculated quarterly. All the work is collected by Groupe BPCE.

At the same time as the work in relation to the French law on the separation and regulation of banking activities took place, the reinforced programme on compliance with the Volcker Rule (sub-section of the American Dodd-Frank Act) was certified on 31 March 2017 for the second time on BPCE’s and its subsidiaries’ scope (considered as a “small group”).

An approach that goes beyond the French law, this programme aims to map all the financial and commercial activities of the "small group", notably in order to ensure that they are in line with the two main proscriptions laid out in the Volcker regulations, which are a ban on Proprietary Trading activities, and a ban on certain activities in relation to covered entities as defined by American law, the so-called Covered Funds.

At 31 December 2018, the mapping of the institution’s market activities revealed, as in previous years, five internal units that were the object of an exemption as defined by Act No. 2013-672 of 26 July 2013 on the separation and regulation of banking activities (and four complementary units within the meaning of the Volcker law). These units are covered by a mandate that defines healthy and prudent management and risk characteristics.

In addition, Banque Palatine, through its membership of the "small BPCE group", signed, in 2018, certifications attesting its compliance with the US Legal Entity Management regulation. The date of the latest certification, pursuant to Group procedure, is 29 October 2018.

Market risk measurement and surveillance

The overall limits of market risk are set and reviewed, as often as necessary and at least once per year, by the workforce managers and by the Board of Directors, taking into account the company’s equity and, if necessary, consolidated equity and its distribution within the Group adapted to the risks incurred.

The limit system

Trading book limits

Authorised products are defined as those in the Banque Palatine “financial risks” database of 30 June 2016. All instruments in this portfolio are marked-to-market in terms of their results and positions.

Position limits (by currency, intraday or overnight, by product family - currency swaps, spot trades, etc.) are approved by the Audit and Internal Control Committee.

Customer business limit

Authorised products are also defined in the Banque Palatine financial risks database and all instruments in this portfolio are also monitored on a marked-to-market basis.

There is no specific limit for this internal unit as all its transactions come under the trading book. However, individual customer-by-customer authorisations are defined and approved by the Credit Committee. Where the trading unit is responsible for hedging, monitoring indicators for this internal unit allows it to frame the activity of two internal units (trading and customers).

Exposure limits per bank counterparty

The list of banks with which the trading floor is authorised to deal is proposed by the finance division to the risk management division, which reviews the request in the light of BPCE rules on the delegation of authority.

Corporate exposure limits

Every corporate counterparty trading with the dealing room is given a limit, compliance with which is monitored at first and second level.

Sovereign exposures limits

Limits on sovereigns are defined by Groupe BPCE. Banque Palatine draws on the available Group limit for any investments. Monitoring of such uses is presented to the Audit and Internal Control Committee.

Stress limits on held-to-maturity securities (including the liquidity reserve)

The Group sets limits for Banque Palatine as a percentage of capital. It then runs monthly tests of limit consumption based on a number of stress scenarios.

In addition, where there is no set limit, VaR is stress-tested by Groupe BPCE. The components of these stress tests may be based on equity, interest-rate, credit, currency or commodity factors. Eleven historical stress scenarios have been devised for the Group and are calculated on a weekly basis.

Limit controls

Roles and responsibilities

Trading staff conduct first-level permanent control of limits under individual limits restricting their actions. Desk managers and the Head of finance have responsibility for first-level control.

The risk management division’s financial risk department performs second-level controls.

The final element in the structure is the back office and middle office who report to the banking services division and carry out permanent administrative controls.

All financial transactions are covered by controls and limit monitoring. No new activities may be started up unless the limits and resources used to monitor them have been defined in advance.

Frequency of limit reviews in terms of market risks

Market risk limits are reviewed and adjusted at least once per year, together with limits for banks and brokers. The brokers with which the Bank is authorised to work were approved by the Group RCPCD on 20 September 2011. A new broker was recently approved.

Possible breaches of limits

The risk management division makes sure breaches are rectified and informs the Executive Management Committee and/or the Chief Executive Officer, directly or via the Audit and Internal Control and Finance Committees, and the Board of Directors via the Risk Committee.

Regulatory requirements for market risks

“Market risk” RWA, which measure exposure to market risk (interest rate, currency, option and basis risk, etc.) are calculated by Banque Palatine using software provided by an external publisher. The risk management division carries out some controls on data quality on input and output from the application.

Simulation of market risk crisis

The stress test consists of simulating on the portfolio large variations in the market parameters in order to calculate the potential loss, in the event of such situations.

Since 2009, the Group's RCPCD is charged with defining and implementing the stress scenarios in collaboration with the Group's entities.

Stress tests are calibrated based on the severity and likelihood of 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 stress scenarios are 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;
- 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 were defined and applied jointly to the entire Group so that the BPCE's Group RCPCD could establish consolidated monitoring. The other stress scenarios are specific scenarios, applied at Group or at entity level as best reflects the specific risk profile of each portfolio.

Work done in 2018

The financial risk department notably worked on IT and regulatory projects.

IT projects

The dispatch of transactions to the RCPCD for the calculation of VaR (Scenarisk), for reporting held-to-maturity securities and for European regulatory reporting has been recast as part of the Group Financial Risk Project and of the Basic Positions sub-project, in order to respond to an ECB recommendation for the Group. The scope of these daily data flows has been expanded to include all transactions in the dealing room systems and new data domains (notably on collateral exchange) to inform Group Financial Risk of all the day-to-day positions and to allow it to conduct analyses and simulations autonomously, without having to organise specific and dedicated collections at the institutions.

Maintenance was performed on the automated monthly Front-to-Back reconciliation process between Kondor (front-end system) and ECM (back-office system).

Lastly, the financial risk department participated in gap identification and analysis and specification work as part of the Banque Palatine information system migration project, including dealing room activities.

In 2018, a working group looked into solutions to reduce counterparty risk limits for non-renewed corporate customers in Kondor/KGR.

Regulatory projects

Work has been conducted or new controls introduced regarding developments in relation to the SRAB/Volcker and EMIR regulations, under the guidance of the ACPR and the AMF, and steered by the Group's risk management and compliance division (Volcker Office).

Other projects or work

The financial risk department led a mission to identify and redefine the control plan of the dealing room, making it possible to consolidate all the thematic (regulatory) control plans and those of the Group's financial risk segment. This mission clarified the roles of Level 1 and Level 2 control personnel for 272 control points and made it possible to restate the control plan(s) according to the organisation and activity of Banque Palatine.

The financial risk department intervened to address a cross-cutting issue relating to the management of the bond portfolio at Group level. Particular attention is required to qualify the business relationship with the customers from whom we acquired securities (EuroPP and Schuldschein). This qualification (established business relationship or relationship without side business) impacts the allocation of these securities according to the Group business segmentation standard, which is used for Risk and Management Control monitoring and reporting.

Information-gathering work with the Banque Palatine network allowed the reallocation of securities whose issuers are without side business to the medium/long-term investment compartment. A EuroPP and Schuldschein Monitoring Committee was set up and met for the first time in November 2018.

Balance sheet management risks

Decision-making committees

Finance committee

As part of its risk management responsibilities, the finance committee is competent to carry out the tasks described in the section on "Market risk" above.

Asset-liability management committee

The Asset-Liability Management Committee, chaired by the Chief Executive Officer, meets at least once every quarter. This includes at the very least analysis and measurement of Banque Palatine's interest-rate and liquidity risk at the quarterly reporting date.

Under this regulation, the Asset-Liability Management Committee is competent to conduct the following main tasks:

- it sets the terms of the Balance Sheet Management Charter for the Banque 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.

Work done in 2018

In 2018, the financial risk department worked on the due roll-out of changes to the ALM limits system of Groupe BPCE's GAP and on the reinforcement of controls, pursuant to the RCPCD's indications.

Non-compliance risks

The compliance function participates in Groupe BPCE's permanent control process. It brings together all the compliance functions as defined in the Groupe BPCE Compliance Charter and has a set of dedicated resources, which the Group companies are provided with. The compliance function is part of the Group's risk management, compliance and permanent controls division (Group RCPCD).

As regards the organisation of the Groupe BPCE internal controls, Article L. 512-107 of the French Monetary and Financial Code makes BPCE responsible for "7° Defining the principles and terms of the internal control framework for the Group and networks as well as of controlling the organisation, management and quality of the financial position of the affiliated institutions and companies, notably through on-site checks within the scope of intervention defined in the fourth sub-section of Article L. 511-31".

Against this backdrop, the compliance function applies any measures likely to reinforce the compliance of operations conducted within the Groupe BPCE companies, their affiliates and their subsidiaries, while at all times working in the interest of its customers, employees and partners.

The compliance function is in charge of ensuring the coherence of the compliance system as a whole, in the knowledge that each operational or control function remains responsible for the compliance of its own activities and operations.

It also coordinates the Products and Partnerships Approval Committee in charge of validating the marketing process of any new product and service among customers.

Within the central risk management, compliance and permanent control and financial security division (RC^2S), the compliance functions in Banque Palatine are distributed as follows:

- a compliance-ethics department which ensures, in particular, the implementation of systems intended to guarantee the protection of customers and the integrity of the financial markets in compliance with the regulations in force. To this end, this department is in charge of analysing, measuring and monitoring non-compliance risks and monitors action plans designed to better frame them. Of special Note in 2018 is the project to implement the MiFID2, IDD and PRIIPS regulations. The reliability and confidentiality of data have also been given particular attention in the context of the implementation of the General Data Protection Regulation (GDPR) within the Bank;
- a financial security service (LAB FT – anti-money laundering and terrorist financing) which works with the Group's behavioural watch system, integrated in the IT system. This service is the main contact point for the Tracfin body, to which it reports on a regular basis. In 2017, the main work undertaken related to the management of alert processing to reduce time-lags. In 2018, it mainly focused on the reinforcement of operational controls in the context of trade activities and the updating of all the operating procedures specific to the department;
- a permanent controls department, which provides second-level control, with the exception of IT, which falls under the scope of the HISS (see paragraph on "Information systems security"), and control in relation to loans, accounting and the safety of property and persons (see paragraph on "Emergency and business continuity plan").

Following the work conducted in 2017, which focused on the implementation of a risk-based approach, in 2018 the Bank rolled out the Group's sampling standard, and contributed to the establishment of a common set of controls at Group level, which will be rolled out in early 2019.

In 2018, permanent controls also took a themed approach, particularly on the duty to advise.

Climate risks

Groupe BPCE is profoundly aware of its major role in the migration to a smaller carbon footprint and is continuing its actions to take account of the risks posed by climate change and put in place measures to reduce them. The risk in relation to climate change is included in the identification and management of its risks in the same manner as other types of risks and forms part of the TEC 2020 strategic plan.

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

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

Climate change and corporate and social responsibility are increasingly important themes in the risk management policies of financial institutions and also commercially in terms of meeting customer expectations.

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

Indirect impact:

- completion of an inventory of green growth markets, through the identification and evaluation ***of*** the various economic functions involved, analysis of the positioning and the current performance of the Group's banks in these markets as well as evaluation of their commercial development potential for the Group's banks;
- financing of renewable energies and of thermal renovation, through all the Group's principal commercial networks;

Direct impact:

- the annual measurement of the carbon footprint of all the Group companies, linked to energy, travel, real estate and procurement;
- the implementation of action plans targeting, for example, energy efficiency of buildings and reducing the impact of employee travel.

Banque Palatine is included in the Group policy. It is notably active in the renewable energy financing sector, and in particular in photovoltaic initiatives.

Emerging risks

Groupe BPCE pays particular attention to the anticipation and management of emerging risks in view of the constant evolution of the environment in which it operates.

The international geopolitical environment remains under vigilance, with certain regions marked by political instability and budgetary imbalances. In Europe, the rise of populism in many countries, Italian stress in relation to the sustainability of its debt, as well as the post-Brexit negotiations with the United Kingdom pose risks to the stability of the European Union and its currency, and represent a source of risk for the Group's exposures.

The particularly low interest rate context weighs on the profitability of commercial banking activities, in view of a preponderance of fixed-rate housing loans, and on life insurance activities. The rise in interest rates, which has already begun in the United States, represents a major challenge for Groupe BPCE, requiring an anticipation and diversification of its sources of financing.

The digitisation of the economy and of banking transactions across the Group is accompanied by rising cyber-risks for information systems and customers, with greater vigilance required to anticipate and guard against attacks.

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 an oversight by regulators that are particularly close.

Emergency and business continuity plan (EBCP)

The Group's EBCP is organised as a subsidiary, managed by Group business continuity (within the compliance, security and operational risks department of Group RCPCD).

The Group head of business continuity (HBC) manages the business continuity department, bringing together the heads of the business continuity plan/emergency and business continuity plan (HBCP/HEBCP) of *Banques Populaires, Caisses d'Epargne*, IT structures, BPCE, Natixis and other subsidiaries including Banque Palatine.

The HBCP/HEBCP of the Group's institutions report functionally to the Group's HBC. This functional link notably implies that:

- any HBCP/HEBCP appointment is notified to the Group HBC;
- compliance with the Group's Risk, Compliance and Permanent Controls Charter is ensured.

The Group's security and business continuity unit draws up, implements and develops, as needed, the Group's business continuity policy. The governance of the EBCP function is undertaken by bodies at three levels, which are called upon according to the nature of the measures to be taken or the validations to be made:

- the Group EBCP COPIL (steering committee), whose duties are to coordinate EBCP work and to validate the scope to be covered by the EBCP mechanisms and the continuity strategy;
- the Business Continuity Function Committee, an operational coordination body;
- the Group business continuity plenary, a national plenary body to exchange information and collect issues.

Bodies and participants in charge of business continuity planning at Banque Palatine

The EBCP Steering Committee defines and validates the EBCP and action plan mechanisms for the current year in accordance with the Group's best practice guidelines.

The Banque Palatine HBCEP reports to the head of human resources and services, who sits on the Executive Management Committee which also chairs the Operational Risks and Security Committee (ORSC). The EBCP Steering Committees, integrated into ORSC, meet quarterly. Exceptional meetings may be held where an urgent decision is required. A progress monitoring meeting between the HEBCP and his or her manager is held on a bi-monthly basis.

Composition of the business continuity plan mechanisms

Banque Palatine's EBCP consists of the following plans:

- the alerts and crisis management plan which organises alerts and crisis management;
- the internal and external crisis communication plan which puts in place crisis communication tools;
- hosting and repopulation plans which provide for the equipment and organisation of the backup sites;
- the human impacts management plan which manages competences and human resources in the event of a crisis;
- the IT recovery plan which gets IT hardware started up again, and is under the responsibility of BPCE-IT;
- the business line continuity plans which describe bypass procedures for each critical activity and for each of the crisis scenarios considered: e.g. IT systems unavailable, premises unavailable, skills unavailable, floods, pandemic;
- the through-life maintenance plan which lays down the policy for reviewing cross-functional and business line plans.

Information systems security

Groupe BPCE's information systems security (ISS) is organised as a function, and steered by the Group's information systems security division. The division defines, implements and develops the Group's ISS policies. It reports functionally to the Group's risk management, compliance and permanent controls division.

Within this framework, the Group's information systems security division (G-ISSD):

- leads the ISS function bringing together: the HISSs (heads of information systems security) of parent company affiliates, subsidiaries and IT EIGs;
- carries out the second-level permanent control and the consolidated control of the ISS function, as well as technical and regulatory monitoring, with the other RCPCD departments;
- initiates and coordinates Group projects to reduce risks in its field;
- represents the Group when dealing with the competent interbank or public authorities in its field.

Banque Palatine's HISS and more generally the HISS of all affiliates (parent companies, direct subsidiaries and IT EIGs) report functionally to the Group HISS. This functional link notably implies that:

- any HISS appointment is notified to the Group HISS;
- the Group's information systems security policy is adopted by the institutions and each local ISS policy is submitted to the opinion of the Group HISS, prior to its implementation in the institution;
- reporting in relation to the level of compliance of the institutions with the Group's ISS policy, the permanent ISS control, the level of ISS risks, the main ISS incidents and the actions undertaken are communicated to the Group HISS.

At Banque Palatine, the ISS team is part of the compliance and permanent controls division (CPCD) 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. The HISS position remained vacant following a resignation in 2018 and will be filled in February 2019.

Legal risks

The legal affairs division is responsible for preventing and controlling Banque Palatine's legal risks and litigation risks. It also helps to prevent image risks.

Organisation of the legal affairs service

The legal department is made up of five people reporting directly to the head of legal and tax affairs and their deputy.

For the service to operate smoothly, priority skills units have been set up:

- two employees are primarily tasked with handling legal consultations;
- the main role of two employees and the head of legal and tax affairs is to handle major projects and the legal watch;
- lastly, another employee has special responsibility for managing claims made against the Bank while also handling legal consultations.

Given their respective workloads, every employee may act on behalf of other skills units.

Duties of the legal affairs service

The main responsibilities of the service are as follows:

- provide legal assistance to Banque Palatine's various units;
- monitor changes in the regulations and case law that may affect Banque Palatine's activities;
- draft legal circulars and master and specific contracts used by Banque Palatine;
- study and negotiate from a legal perspective the contracts proposed by customers or service providers;
- review the new commercial products that the Bank envisages circulating to its customers;
- give a legal opinion on complaints made by customers;
- manage complaints brought by lawyers and claims made against the Bank;
- participate in cross-functional projects (effective interest rate, Eckert law, consumer loans, international desks, mortgages, vulnerable customer offer, unbundling of products, basic banking services, etc.).

Organisation of legal watch activities

Any changes in the legislation, regulations or case law with potential implications for the Bank are analysed to determine whether a specific procedure needs to be drafted or whether new documents used by the Bank need to be drafted or existing documents amended.

Legal watch findings are disseminated within the Bank in the following ways:

- general or targeted information on all legislative, regulatory and case-law developments;
- publication of new or updated procedures when there are changes in the legislative, regulatory or case-law environment;
- alignment with the standards of document frameworks following these changes;
- publication of a monthly legal bulletin covering problems encountered by the Bank, jurisprudence of interest for the profession or new regulations;
- participation at subsidiaries' meetings so they can raise issues considered important by regional directors and flag up problems arising with respect to consultations or claims (in 2018, the main theme of these meetings was the termination of loans to individual customers and corporates);
- support for network training by interventions during the credit career path.

Consultations

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

In conjunction with conducting its legal watch, major projects, telephone consultations and direct conversations with user services, the legal affairs service answered 1,700 questions in 2018.

In conjunction with the compliance and permanent controls division, it also plays a role in ensuring the consistency and effectiveness of controls on non-compliance risks arising from laws and regulations specific to banking and financial activities. Under the aegis of the Product and Services Approval Committee, it is solicited for its opinion on any legal risks potentially arising from new products and services that the Bank is considering marketing.

The legal affairs division operates independently of the operational divisions.

Periodic control

Internal audit assignments

Banque Palatine's internal audit activities operate within the organisational framework established for Groupe BPCE's internal audit function. It is responsible for verifying from time to time the operation of all the units within the scope of Banque Palatine. It upholds the quality, effectiveness, consistency and smooth operation of the permanent control framework and the risk administration and measurement framework at the Bank and its subsidiaries. It encompasses all risks and all activities, including those that may be outsourced.

Pursuant to the order of 3 November 2014 on internal control and the Audit Charter drafted by Groupe BPCE, the priority objectives of Banque Palatine's internal audit function are to assess and report in respect of all the units falling within its audit scope on:

- the quality of the financial position;
- the level of risk actually incurred;
- the quality of the organisation and management;
- the consistency, suitability and effectiveness of risk assessment and control frameworks;
- the reliability and integrity of accounting and management information;
- compliance with the laws, regulations and Groupe BPCE's rules, and the effective implementation of the recommendations issued at the end of its assignments and those performed within the scope of the Bank by Groupe BPCE's general inspection division and by regulators.

The internal audit division reports hierarchically to the Bank's Chief Executive Officer and functionally via a strong tie to Groupe BPCE's general inspection division. This entire framework is intended to safeguard the independence required by the regulations vis-à-vis auditees.

The strong functional ties with the Group's general inspection division are evident from factors including:

- the assent given by Groupe BPCE's Head of general inspection for the appointment and scrapping of the position of Banque Palatine's Head of internal audit;
- approval by BPCE's general inspection division, prior to approval by the Bank's Risk Committee, of the resources allocated to the internal audit function, enabling it to perform its duties and to cover the audit scope with sufficient regularity;
- the existence of a single Audit Charter within BPCE, approved by the Chairman of BPCE's Management Board on 9 July 2018;
- provision of suitable standards, training and tools for auditors to perform their tasks;
- communication of all the reports prepared by Banque Palatine's internal audit division to Groupe BPCE's general inspection division.

Scope of action

To fulfil its duties, Banque Palatine's internal audit function draws up and maintains an inventory of its audit scope corresponding to the division of the auditable scope established within Groupe BPCE's internal audit function and supplemented by the Bank's specific characteristics.

This scope consists of the various units that make up Banque Palatine and its subsidiaries and the service providers it calls upon that make an essential contribution to its banking activities. This scope may also include processes, frameworks or themes that, owing to their significance, need to be audited from a cross-functional perspective in relation to the units that are involved in their execution, construction and/or data supply.

The internal audit function covers the entire scope by means of a cycle of full audits at a frequency determined based on the estimated level of risk for each unit within the scope using criteria set by Groupe BPCE's audit function and representing a risk map prepared by the internal audit function. In any event, the maximum frequency set within Groupe BPCE for audits of banking activities is four years.

The audit cycle agreed on takes into account inspections carried out within the Bank by Groupe BPCE's general inspection division or by regulators, complementing coverage of the scope by internal audit.

The annual and multi-year audit plans drawn up by the internal audit function to implement the cycle are determined, after their approval by the Bank's Chief Executive Officer and Groupe BPCE's Head of general inspection, as approved by the Bank's Audit Committee.

Reporting

Reports are prepared on the assignments performed by Banque Palatine's internal audit function under a process giving the audited party a right to reply. These reports set out the observations made and findings formulated during assignments, leading to the issuance of recommendations also presented in the report. Each recommendation is given a priority level determined using a scale laid down by the recommendation standard issued by Groupe BPCE's general inspection division. The level of priority set is determined based on the underlying importance of the finding leading to the recommendation and takes into account the risks of any kind the Bank needs to guard against.

Reports are circulated to the heads of the audited units, the Chief Executive Officer and members of the General Management Committee, as well as to the Head of risk management and Head of compliance and permanent controls.

Implementation of the stated recommendations is followed up on a quarterly basis.

The internal audit function reports to the Bank's Risk Committee every quarter on:

- assignments performed in connection with the implementation of its audit plan;
- implementation within the agreed time frames of the recommendations at the end of its assignments at the Bank and its subsidiaries and also of those performed by Groupe BPCE's general inspection division and by regulators on the same scope.

The internal audit function ensures proper implementation of the stated recommendations and is authorised to refer the matter to the Risk Committee where remedial action is not taken within the agreed time frame.

Representation on Banque Palatine's governing bodies

To be in a position to fulfil his duties and promote a control-based culture, the Head of internal audit, a member of the Bank's Executive Committee, participates without having the right to vote at meetings of its key committees. More generally, he is invited to attend all of Banque Palatine's existing committees and may be represented by another person at them.

He/she maintains regular contact with the heads of the Bank's permanent control functions (head of risk management, head of compliance and permanent controls). They should quickly report any major incident that comes to their attention. They themselves are aware of the audit plan and receive all the reports issued by the internal audit division.

Work performed in 2018 and future plans

The 2018 audit plan was given the go-ahead by the Group general inspection division (IGG) and presented to the Risk Committee. In accordance with this plan and including the key decisions made during the year, the following units were audited:

- 10 units in the auditable head office scope established by the Group general inspection division;
- 26 units in the commercial network;
- Regulatory **Volcker rule** and **MRT** controls;
- 3 essential outsourced services;

The supervisory authority (ACPR/JST) carried out no specific missions in the Bank in 2018. The Group general inspection division performed an inspection on its subsidiary, Palatine Asset Management. An audit of the implementation of **Leveraged Finance** regulations was also conducted across the whole Groupe BPCE scope by the Group general inspection division. In accordance with its audit cycle, the Group general inspection division will review Banque Palatine's scope as from January 2019.

The 2019 audit plan must be validated by the executive management and Group general inspection before going to the Bank's Board of Directors for final approval on proposal of the Risk Committee. It includes:

- 17 units in the auditable head office scope established by the Group general inspection division;
- 12 units in the commercial network;
- Regulatory **Volcker rule** and **MRT** controls;
- Palatine Asset Management;
- 1 assignment coordinated by the Group general inspection division.

Organisation of internal control at consolidated companies of the Banque Palatine Group

The whole internal control system applies to Banque Palatine's consolidated subsidiaries:

- Ariès Assurances, collective social insurer and insurance broker;
- Palatine Asset Management, asset management company.

Palatine Asset Management has a head of compliance and internal control who oversees second-level controls. He reports back to the Palatine Asset Management Audit Committee which includes, as permanent guests:

- Banque Palatine's head of risk management;
- Banque Palatine's head of compliance;
- Banque Palatine's head of internal audit;
- the head of Group general inspection.

The minutes of the meeting of Palatine Asset Management's Audit Committee are systematically sent to Banque Palatine's Audit Committee and Risk Committee.

In addition, the head of compliance and internal control attends meetings of Banque Palatine's Operational Risks and Security Committee.

Finally, the Bank's head of information systems security fulfils the same role at Palatine Asset Management.

Quality controls on accounting and financial information

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

Accounting and financial information is prepared and processed by the finance department headed by the Executive Vice-President, Finance. The accounting, legal and disputes department also comes under their responsibility.

Accounting

Main duties of the accounting division:

- preparation of the parent-company financial statements;
- preparation of the consolidated financial statements for Banque Palatine Group in accordance with the standards governing Groupe BPCE;
- production of regulatory reports and ratios;
- accounting frameworks, ensuring compliance with Group accounting standards and guides;
- identification and quantification of the accounting impacts of company projects;
- contribution of expertise for the development of the accounting IT system;
- responsibility for accounts payable and paying supplier invoices.

Presentation of the accounting division's internal control framework

Banque Palatine prepares IFRS consolidated financial statements on a quarterly basis and also publishes interim financial statements. Data is consolidated based on the financial statements of each entity in the scope of consolidation.

Data is added to a central database and consolidation adjustments are then made. Banque Palatine uses the Group system maintained by the central body, which ensures the internal consistency of the various scopes, charts of accounts, processes and analyses across the Banque Palatine Group's and Groupe BPCE's entire scope of consolidation.

Banque Palatine's internal control framework plays an instrumental role in risk management and contributes to the quality of its accounting and regulatory information.

It is organised in accordance with the legal and regulatory requirements arising from the French Monetary and Financial Code and the order of 3 November 2014 on internal control.

The "Quality control framework for accounting and financial information" was approved by the Group Internal Control Coordination Committee on 9 June 2016. This is a single unified framework and applies to all Groupe BPCE entities in the consolidated supervisory scope, replacing the Group's old Accounting and Regulatory Review Charter.

To comply with the deadlines set by the Group, on 1 January 2018, accounting review was removed from the accounting division and placed under the direct authority of the central head of C2JC (the accounting, legal and disputes division) with the appointment of a separate head of accounting. This retains the strict separation of accounting preparation and review.

Application of the control framework to accounting and financial data

Accounting and regulatory controls are carried out by various internal and external parties to maintain the segregation of tasks in line with a three-level control hierarchy.

First-level controls

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

First-level controls on accounting and regulatory aspects help to verify the compliance of transactions processed with the accounting standards and procedures in force. As far as possible, they rely on enterprise resource planning systems.

All operational services and/or divisions are responsible for the first-level controls on activities within their scope and responsible for maintaining and demonstrating the audit trail, from the original document through to the corresponding entry in the relevant internal accounts. First-level control is completed with the process of justifying internal accounts.

Justification of the internal accounts takes place in the Group's Comptabase system. The system was deployed in 2014 and is now fully on-stream. It was upgraded to a new version in 2016. A group of requests developed based on the tool's data allowed for better steering of the justification of accounts and measuring customer feedback in quantitative and qualitative terms. The Group Committee for Oversight of Financial Review is still conducting a review to log requests for future developments to the Comptabase tool and automation of certain controls.

Second-level controls

The intermediate stage of the system, called "second-level control" is organised and implemented by a specialist dedicated department: review. Review conducts second-level independent permanent controls to enhance the reliability of processes and reinforce the quality of accounting and regulatory disclosures, in connection with the other permanent control functions.

The role of accounting review is focused predominantly on three general assignments:

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

On this last point, the review focuses primarily on:

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

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

As from 1 January 2018, the head of review reports:

- hierarchically, to the central head of C2JC;
- functionally to the compliance and permanent controls division. To this end, the Audit and Internal Control Committee approves the annual control plan and reads the accounting review's report on activity;
- functionally to Groupe BPCE's financial review department.

Third-level controls

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

- periodic controls organised under the authority of the internal audit function or Groupe BPCE's general inspection;
- controls performed by external parties from outside the Group (Statutory Auditors and the *Autorité de contrôle prudentiel et de résolution*).

Within BPCE

To respond to certain ECB recommendations, in February 2016 Groupe BPCE created a risk management, compliance and permanent controls division (RCPCD) which encompasses the risk, compliance, security and review functions.

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

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

In conjunction with the shareholding institutions and Group subsidiaries, the main role of the financial review division is to maintain a strong functional link between the function within the Group institutions and that of the central body in order to safeguard the quality of Groupe BPCE's accounting information and regulatory reporting.

In 2018, accounting review introduced new reporting software (Pilcop Finrep 2018). Also, a standardised guide to control of accounting for financial instruments was developed and introduced. First-time application of these first- and second-level control standards will come into force for the financial statements for the year ended 31 December 2018. In respect of the introduction of IFRS 9, new controls were defined for provisions for performing loans.

Management control

The management control function is responsible for preparing management information. The management control function is governed within Groupe BPCE by an operating charter stating the duties of management control.

Within Banque Palatine, this function is performed by the management control division, the head of which reports to the Executive Vice-President, Finance.

Its main duties are as follows:

Support strategic oversight and earnings management

This task is performed on behalf of Banque Palatine's executive management. It extends to financial planning, earnings management and the publication of financial information.

It draws on the planning cycle established centrally by BPCE's management control unit, incorporating medium- to long-term projections (strategic plan), a one-year horizon (budget) and mid-year updates (reforecasts/estimates).

It also includes occasional studies to enrich management discussions concerning the merits of setting up new activities or to decide between investment options.

It aims to produce the most relevant information in the form of performance indicators for executive management (e.g. commercial briefings, financial dashboard).

Measure, analyse and help to optimise performance

This role encompasses shedding light on contributions to Group results made by each business line, product and sales network. It uses valuation and income and expense apportionment methods and techniques deriving from management accounting in line with the agreements in force at Groupe BPCE.

Design new management standards and systems for the Company

Management control has a standard-setting role, devising and implementing management indicators. It is responsible for the reliability of the management data contained in reporting and financial releases. It is involved in the preparation of activity and management reporting used to steer the Group.

Communication

The communication division, which reports to the Chief Executive Officer, is responsible for distributing financial information, which is published and made available to financial analysts and institutional investors on Banque Palatine's website and in documents updated annually and filed, where necessary, with the *Autorité des marchés financiers*.

The validation process implemented is geared to the nature of each individual publication.

The communication function's duties in relation to accounting and financial information are to coordinate and prepare presentations of the Bank's results and developments concerning it to give third parties an idea of its financial strength, profitability and outlook.

Risk management

Risk and compliance culture

In carrying out their different tasks, Groupe BPCE's entities are guided by the Group's Internal Control Charter and Charter of Risks, Compliance and Permanent Controls. These charters specify in particular that the supervisory body and the workforce managers of each institution, including Banque Palatine, promote the risk and compliance culture at all levels of their organisation, and that the risk management and compliance divisions coordinate the dissemination of the risk and compliance culture among all employees, in coordination with all the other functions.

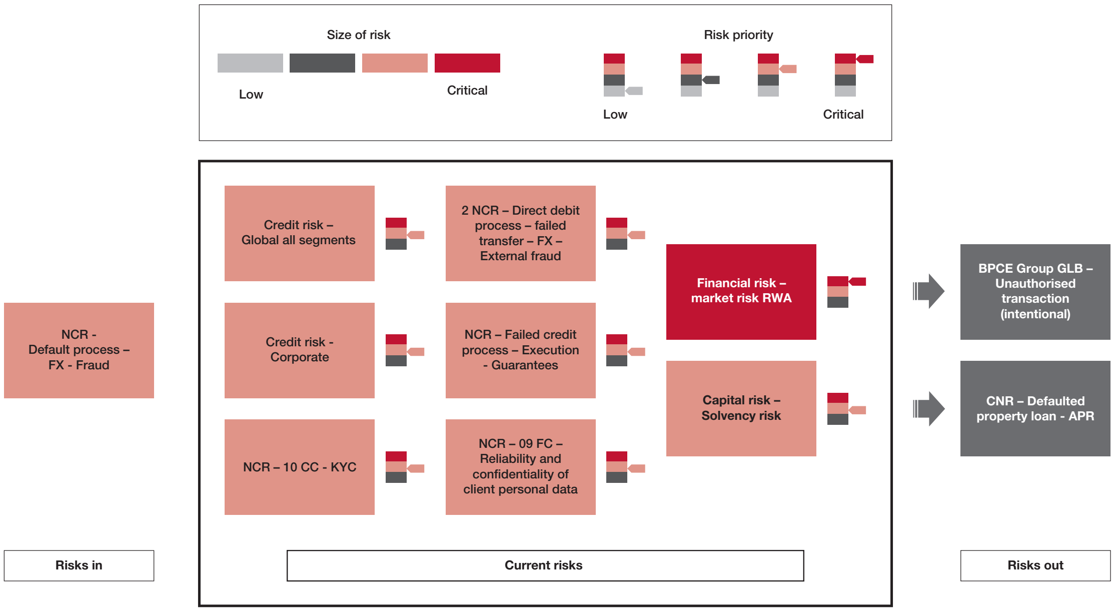
In general, the risk management and compliance division:

- takes part in training days for risk management and compliance functions;
- enhances its regulatory expertise, notably by receiving and circulating regulatory training documents and taking part in regular sessions in the Bank's various departments;
- contributes to decisions taken by the dedicated risk management committees at Group level;
- benefits from the annual training programme run by BPCE, in which its employees can take part, and which is complemented by internal training programmes;
- prepares the macro-risk map for the institution, assessing its risk profile and identifying the main high-priority risks;
- disseminate the risk and compliance culture and share best practices with the other Groupe BPCE institutions.

The risk management division was heavily involved in this issue, leading numerous training sessions on a range of issues such as Forbearance, IFRS 9, ROE, and RWA.

Banque Palatine macro-risk map

The global risk profile of Banque Palatine is that of a retail bank. Risks mainly derive from its lending to sustain and finance the economy.



Main risks to Banque Palatine and the Group in 2018

Risk factors for Groupe BPCE

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

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

Some of the risks to which Banque Palatine is exposed are identified below. It is not an exhaustive list of all these risks, nor those of Groupe BPCE (see annual registration document), that may arise in the course of their activities or from their environment.

The risks below, and other risks that have not been identified to date or are currently seen as not significant, could have a serious negative impact on their business, financial position and/or results:

- risks arising from macro-economic conditions, the financial crisis and the strengthening of regulatory requirements;
- risks relating to Groupe BPCE's 2018-2020 Strategic plan for digital transformation, engagement and growth:
  - the strategic plan will focus on digital transformation to seize ongoing opportunities created by the tech revolution, (ii) engagement with our customers and employees, and growth of all Groupe BPCE core businesses. As part of the plan, Groupe BPCE announced a set of financial objectives for capital and liquidity ratios and cost reductions;
  - actual results of the Group may vary and this may affect its financial position and the value of its financial instruments;
- risks arising from Groupe BPCE business and the wider banking sector;
  - Groupe BPCE, including Banque Palatine, is exposed to several categories of risk inherent to banking activities: credit, market, interest rate, liquidity and non-financial risks including operational, non-compliance and insurance risks;
  - Groupe BPCE must maintain high credit ratings in order to avoid affecting its profitability and business. Credit ratings have a significant impact on BPCE's liquidity and that of its affiliates, parent companies and subsidiaries, including Banque Palatine, which operate in the financial markets;
  - a substantial increase in expenses, for the impairment of assets, recognised under the Groupe BPCE loans and advances portfolio could weigh on its results and financial position;
- future events could differ from the assumptions used by senior executives to prepare the Groupe BPCE financial statements, which could expose it to unforeseen losses;
- any interruption or failure of Groupe BPCE's IT systems or those of a third party could lead to losses, notably commercial. Unforeseen events can cause an interruption of Groupe BPCE's activities and lead to substantial losses as well as additional expenses;
- Groupe BPCE's hedging strategies do not remove all risk of loss;
- the risks in relation to reputation, misconduct and legal affairs could weigh on the profitability and business outlook of Groupe BPCE.

Risk factors for Banque Palatine

Aside from the above-mentioned risks, Banque Palatine is also exposed to a number of risks identified by its macro-map:

- credit risk in various markets but most prominently the corporate market. The other big credit risks relate to the retail banking segment, particularly the private banking market. Concentration risk is one of the risks monitored within credit risk. Finally, areas of operational risk may threaten the use of guarantees (current action plan: specific risk-mapping of events related to guarantees and implementation of controls);

  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: external fraud, credit frontier and non-compliance risks, particularly regarding KYC where the actions taken in 2018 (exhaustiveness of documentation, etc.) will continue in 2019;
- finally, risks from cash flows via EDI and online, and SEPA direct debits present particular risk. This was an area of special attention for the Palatine Fraud Committee, for instance by enhancing the PRISMop flow control software and reviewing the availability agreements related to flows.

Banque Palatine is exposed to a number of other risk factors which are complementary, and sometimes similar, to those of Groupe BPCE:

- changes in fair value of Banque Palatine's securities and derivatives portfolios and own debt could negatively affect the carrying amount of its assets and liabilities and hence its net income and equity;
- future events may diverge from the assumptions used by management preparing Banque Palatine's financial statements and could cause unexpected losses in the future;
- Banque Palatine could suffer a fall in fee income during a market slowdown;
- as a result of its business, Banque Palatine is particularly sensitive to the national economic climate;
- Banque Palatine may also face a shortage of liquidity should any of the Groupe BPCE entities in the financial solidarity mechanism get into financial difficulties;
- Banque Palatine is subject to the European Bank recovery and resolution directive (BRRD): the directive imposes a framework for recovery and resolution of credit institutions and investment firms and may have an impact on their management and, in certain circumstances, the rights of their creditors. Specifically, potential bond investors must consider the risk that they could lose all or part of their investment, including both principal and interest, most notably if the bail-in measures are triggered. If the competent resolution authority decides to impose resolution, this could have a negative impact.

Internal capital adequacy and capital requirements

Composition of regulatory capital

The Basel III agreement, transposed into European legislation through the Capital Requirements Regulation (CRR) *and the* Capital Requirements Directive (CRD) which *were passed* by the European Parliament on 16 April 2013 and published in the Official Journal of the European Union on 26 June 2013 defined the prudential supervision rules applicable to credit institutions and investment companies.

Institutions concerned are required to maintain an overall capital adequacy ratio of at least 8% at all times.

This capital adequacy ratio is equal to the ratio between total equity and the sum of:

- assets weighted by credit, counterparty and dilution risk;
- capital requirements with respect to the prudential supervision of market, operational and credit valuation adjustment (CVA) risk multiplied by 12.5.

Article 92(1) of the CRR sets a minimal Common Equity Tier 1 ratio of 4.5% and a minimal Tier 1 capital ratio of 6%.

Regulatory capital and Basel III capital adequacy ratios

in millions of euros	31/12/2018	31/12/2017
Consolidated equity	863.92	820.92
Perpetual deeply subordinated notes classified as equity	(100.0)	0.00
Consolidated equity excluding perpetual deeply subordinated notes classified as equity	763.92	820.92
Non-controlling interests		
Common Equity Tier 1 (CET1) capital before deductions	763.92	820.06
Deductions from common equity		
• Goodwill		
• Other intangible assets	**(12.23)**	**(26.98)**
Other prudential adjustments	(1.40)	(5.22)
Common Equity Tier 1 (CET1) capital	750.30	787.86
Deeply subordinated notes		
Other Additional Tier 1 (AT1) capital	100.00	
Tier 1 capital (A)	**850.30**	**787.86**
Tier 2 capital	200.00	200.00
Tier 2 capital (B)	**200.00**	**200.00**
TOTAL REGULATORY CAPITAL (A + B)	**1,050.30**	**987.86**
Credit risk-weighted assets	8,759.66	8,834.07
Market risk-weighted assets	0.79	0.21
Operational risk-weighted assets	592.69	585.48
CVA risk-weighted assets	38.14	38.29
TOTAL BASEL III RISK-WEIGHTED ASSETS	**9,391.27**	**9,458.05**
Capital adequacy ratios		
Core Tier 1 ratio	7.99%	8.33%
Tier 1 ratio	9.05%	8.33%
Total capital adequacy ratio	**11.18%**	10.44%

Composition of capital

Regulatory capital is determined in accordance with EU Regulation No. 575/2013 (CRR) of 26 June 2013 on prudential requirements for credit institutions and investment firms.

It is divided into three broad categories: **Common Equity Tier 1** ("CET1"), **Additional Tier 1** ("AT1") and Tier 2 capital.

Common Equity Tier 1 (CET1) capital

Common equity tier 1 capital consists of the share capital and related share premiums, reserves, retained earnings, the fund for general banking risks, subject to adjustments and regulatory deductions (e*.g.* elimination of minority interests, deductions of goodwill and intangible assets).

The CET1 capital of €750.3 million includes the following elements:

- share capital, reserves, and undistributed profits: €763.9 million;
- prudential adjustments (including intangible assets, AVA): -€13.6 million.

Additional Tier 1 (AT1) capital

Additional tier 1 capital corresponds to perpetual debt instruments that feature no redemption incentive or obligation. AT1 instruments are subject to a loss-absorption mechanism that is triggered when the CET1 ratio falls below a threshold, which must be at least 5.75%.

In March 2018, Banque Palatine held a €100 million issue of the most deeply subordinated perpetual debt qualifying for AT1 equity.

Tier 2 capital

Tier 2 capital represents, in particular, subordinated instruments issued, respecting the restrictive eligibility criteria pursuant to Article 63 of the CRR regulation.

Tier 2 capital of Banque Palatine is composed of two eligible fixed-term subordinated Note issues in the amount of €200 million.

Capital requirements and risk-weighted assets

The Bank calculates its risk-weighted exposures using the standardised approach for credit, market, operational and CVA risk.

Credit, market, operational and CVA risk-weighted assets

in millions of euros	Weighted exposures 31/12/2018	Weighted exposures 31/12/2017
Central governments and central banks	77	30
Public sector entities	2	3
Institutions	94	89
Corporates	6,569	6,711
Retail customers	472	340
Exposures guaranteed by a mortgage on a real estate asset	1,077	1,001
Exposures in default	362	495
Collective investment undertakings	9	21
Exposures in the form of equities	10	12
Other items	89	132
Credit risk exposures	8,760	8,834
Market risk exposures	0.8	0.2
Operational risk exposures	593	585
CVA risk exposures	38	38
TOTAL AMOUNT OF RISK EXPOSURES	**9,391**	**9,458**
CET1 capital	750	788
CET1 RATIO	**7.99%**	**8.33%**
T1 capital	850	788
AT1 RATIO	**9.05%**	**8.33%**
Total capital	1,050	988
TOTAL RATIO	**11.18%**	**10.44%**

At 31 December 2018, risk-weighted assets calculated in accordance with Basel III amounted to €9,391 million.

Since 1 January 2014, the “Basel III” capital adequacy ratio has been defined in accordance with EU Directive 2013/36/EU and EU Regulation No. 575/2013, and with the technical standards of the European Banking Authority that supplement them as the ratio between total prudential capital and the sum of:

- credit risk-weighted exposures calculated by Banque Palatine using the standardised approach;
- capital requirements with respect to the prudential supervision of market, operational and credit valuation adjustment (CVA) risk multiplied by 12.5.

At 31 December 2018:

- the Common Equity Tier 1 ratio was 7.99%;
- the Tier 1 equity ratio was 9.05%;
- the total equity ratio was 11.18%.

Leverage ratio

The leverage ratio is an additional measure of risk designed to complement capital requirements. Article 429 of the CRR, which specifies the methods used to calculate the leverage ratio, was amended by the European Commission’s delegated rule 2015/62 of 10 October 2014. Banks have had to publish their leverage ratios since 1 January 2015. Integration of the Pillar I requirements is planned as from 1 January 2018.

The leverage ratio is Tier 1 capital divided by exposures, which means on- and off-balance sheet assets, restated for derivatives, securities financing transactions and assets deductible from capital. The minimum leverage ratio is currently 3%.

Banque Palatine's leverage ratio, calculated in accordance with the European Commission delegated regulation of 10 October 2014, was 5.02% at 31 December 2018, based on phase-in Tier 1 capital.

in millions of euros	31/12/2018
TOTAL CONSOLIDATED ASSETS (PUBLISHED)	**15,171**
Adjustment for financial derivatives	104
Adjustment for commitments given (conversion of loan-equivalent amounts of off-balance sheet exposures)	1,664
Adjustments for capital assets	(12)
TOTAL LEVERAGE EXPOSURE	**16,927**

Credit and counterparty risks

Definition

Credit risk is the risk of default by a debtor or counterparty or a set of debtors or counterparties considered to be a single group of related customers as defined in Article 4, paragraph 1, point 39 of EU Regulation No. 575/2013. This risk can also result in impairment losses to securities issued by a defaulting counterparty.

The counterparty risk is defined as the risk that the counterparty to a transaction defaults before the final payment of all the cash flows linked to the transaction.

The system for the supervision of credit and counterparty risks

The credit risk management function implements the credit risk framework, which is regularly updated and disseminated by Group RCPCD. This credit risk framework covers the standards and best practices to follow in each of the Groupe BPCE institutions and the management and reporting standards established by the BPCE Supervisory Board or Management Board upon the recommendation of the Group's Risk Committee. It is a work tool for risk management division participants within the Group and represents an element of the permanent control system of the Group's institutions.

Banque Palatine's risk management division has strong functional ties with the Group RCPCD, which is in charge of:

- defining customer risk standards;
- evaluating risks (definition of concepts);
- preparing methodologies, models and risk rating systems (**scoring** or expert systems);
- developing and deploying monitoring systems, standards and data quality;
- conducting performance tests of the rating systems (**back-testing**);
- conducting credit risk stress scenarios (which may be completed with complementary scenarios that are defined locally);
- approval of evaluation, permanent control and reporting standards;

In addition, BPCE centralises monitoring of the risk management divisions' control. The supervision of risks relates to data quality and the quality of exposure. It is steered through indicators for each class of assets.

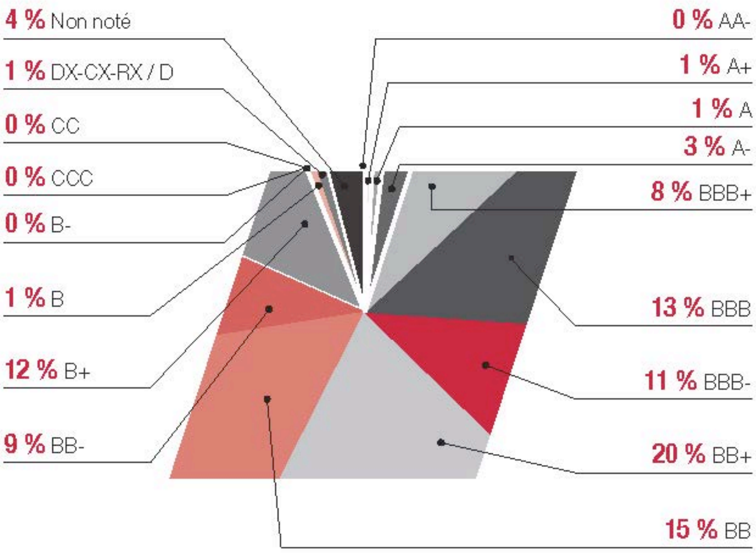
Risk-weighted assets of Banque Palatine at 31 December 2018

in millions of euros	Gross exposures 31/12/2018	Gross exposures 31/12/2017	Weighted exposures 31/12/2018	Weighted exposures 31/12/2017	Weighting 31/12/2018
Central governments	1,649	1,539	77	30	4.66%
Public sector entities	24	27	2	3	7.14%
Institutions	3,941	3,619	94	89	2.40%
Corporates	9,041	8,906	6,569	6,711	72.66%
Balance sheet	*6,131*	*6,365*	*5,258*	*5,541*	*85.75%*
Off-balance sheet items	*2,910*	*2,541*	*1,311*	*1,170*	*45.06%*
Retail customers	774	550	472	340	60.92%
Balance sheet	*655*	*464*	*433*	*312*	*66.08%*
Off-balance sheet items	*119*	*87*	*39*	*29*	*32.67%*
Exposures guaranteed by a mortgage on a real estate asset	2,602	2,444	1,077	1,001	41.39%
Exposures in default	630	695	362	495	57.50%
Collective investment undertakings		20		21	
Equities	19	12	19	12	99.12%
Other items	107	230	89	132	82.55%
TOTAL	**18,787**	**18,043**	**8,760**	**8,834**	**46.63%**

Monitoring concentration risk

Monitoring of concentration risk by counterparty

Exposures to third parties belonging to groups above €10 million according to internal rating



The concentration of risks is stable while maintaining a good quality of risks.

Concentration of exposures by segment

Breakdown of commercial banking risks at 31 December 2018 using BPCE segmentation

	31/12/2018		31/12/2017	
	TOP 10	TOP 50	TOP 10	TOP 50
Retail individual customers	3%	9%	3%	9%
Retail professionals	5%	16%	5%	15%
Corporate	5%	15%	6%	16%

Disclosure in accordance with IFRS 7.

A distinction is made within the Bank between:

- overall risk limits (by risk segment, by rating, by sector of activity, by market or even by product category), which are risk division rules stated, for example, as a percentage of outstandings or of capital. These are ex post limits, which are observed and analysed at Audit and Internal Control Committee meetings and, where appropriate, a plan should be drawn up to mitigate the breaches observed;
- individual risk limits on exposure to a single counterparty or group of counterparties based on the nature of the counterparty in question and its rating: these are ***ex ante*** limits, applied on the grant of a loan and determine, where applicable, the level of delegation.
- Individual limits take into account the Bank's level of capital and its capacity to generate profits, being indirectly correlated with gross operating income. They are reflected in the regulatory maximum norms limiting weighted risks to 25% of net equity and the internal upper limit set by BPCE.

Monitoring of concentration rates for on- and off-balance sheet exposures

Basel classification	Group name	Gross exposures (in thousands of euros)
CORPORATE	Counterparty 1	100,161
CORPORATE	Counterparty 2	80,000
CORPORATE	Counterparty 3	58,151
CORPORATE	Counterparty 4	56,122
CORPORATE	Counterparty 5	53,249
CORPORATE	Counterparty 6	50,920
CORPORATE	Counterparty 7	50,051
CORPORATE	Counterparty 8	50,000
CORPORATE	Counterparty 9	48,658
CORPORATE	Counterparty 10	46,443
CORPORATE	Counterparty 11	46,367
CORPORATE	Counterparty 12	44,524
CORPORATE	Counterparty 13	44,049
CORPORATE	Counterparty 14	43,856
CORPORATE	Counterparty 15	43,629
CORPORATE	Counterparty 16	42,872
CORPORATE	Counterparty 17	40,860
CORPORATE	Counterparty 18	39,746
CORPORATE	Counterparty 19	39,361
CORPORATE	Counterparty 20	38,828
TOTAL		**1,017,847**

Geographic exposure

The geographic exposure of outstanding loans primarily concerns the euro zone, and in particular France.

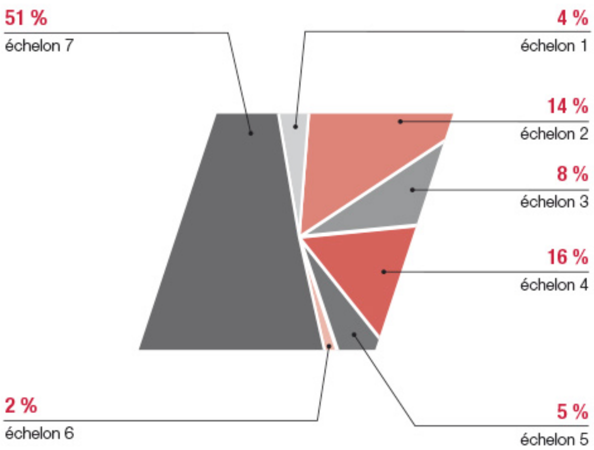
Total country risk exposure was €1,957 million, up from €1,810 million at 31 December 2017. These exposures mostly comprise securities (€939 million).

The Bank has sovereign risk exposure to the following countries: United Kingdom (314 million), Luxembourg (€259 million), Italy (€251 million), Belgium (€153 million), the Netherlands (€152 million) and Austria (€145 million).

The Bank's exposure to sovereign risk was €1.47 billion at 31 December 2018. Aside from French government and equivalent exposures, the main sovereign risks borne by Banque Palatine are the following: Italian Republic (€186 million), Austrian Republic (€128 million), and the Netherlands (€127 million).

Breakdown of exposures to rated corporates by credit segment

Breakdown of credit risk exposures by credit segment (corporates only):



Disclosure in accordance with IFRS 7

Only the Banque de France’s external ratings are used to calculate the breakdown of exposures by credit segment, as defined in the capital adequacy ratio calculation and reporting arrangements of Segment 1 is the least risky, with ratings of 3++.

Numbers presented this year reflect greater granularity than the previous year by adding Segment 7 (unrated companies).

For comparative purposes, at present value and including Segment 7 in the breakdown, Segments 1 and 2 remained stable between 2017 and 2018 at 4% and 14% respectively. The scope of unrated companies (Segment 7) is 51%, in 2018, as in 2017.

Note that this data comes from Groupe BPCE's RWA calculation tool.

Loans in forbearance are, logically, distributed more towards the lower credit segments: 29% in Segment 4, 18% in Segment 5, and 29% in Segment 6. Banque Palatine has no cases of forbearance on its Segment 1 and 2 assets. Note that 22% of forbearance loans are in Segment 7.

Impaired assets, past due payments and credit risk hedging

Stages 1 and 2

The revival of €16.3 million in 2018 was due to improving probability of default in the corporate segment and better information, particularly, on formerly rated but now unrated loans.

Stage 3

Doubtful loans and commitments totalled €593.6 million and represent 4.7% of total customer loans. These loans and commitments are covered by provisions totalling 52.3% of their outstanding amount vs. 44.0% in 2017. This increase is largely due to the resolution of a number of loans of material amount but only slightly impaired.

Cost of risk was €41.4 million, 0.33% of the commercial banking loan book.

The change in individual (Stage 3) and collective (Stages 1 and 2) impairment over the period breaks down as follows:

in millions of euros	Impairment for expected credit losses (Stages 1 and 2)	Specific impairments (Stage 3)	Total
Balance at 31/12/2017	(113.5)	(280.2)	(393.7)
Charges	0.0	(88.8)	(88.8)
Reversals used	0.0	25.5	25.5
Unused reversals	16.3	33.5	49.8
Other changes		0.0	0.0
BALANCE AT 31/12/2018	**(97.2)**	**(310.1)**	**(407.2)**

"Disclosure in accordance with IFRS 7."

Specification on IFRS 9 Stage 3 provisioning rate

	2018			2017		
in millions of euros	Loan book - carrying amount	Provisions - carrying amount	Provision rate - carrying amount	Loan book - carrying amount	Provisions - carrying amount	Provision rate - carrying amount
Loans and advances due from credit institutions in default						
Loans and advances due from customers in default	512.5	280.8		557.8	251.8	
Debt securities at amortised cost in default	6.0	4.4		6.1	3.9	
DOUBTFUL BALANCE SHEET LOANS	**518.5**	**285.2**	**55.0%**	**563.8**	**255.7**	**45.4%**
Doubtful financing commitments given	22.1			13.9		
Doubtful guarantees given	52.9	23.3		59.7	18.8	
DOUBTFUL EXPOSURES, ON- AND OFF-BALANCE SHEET	**593.5**	**310.1**	**52.3%**	**637.4**	**280.2**	**44.0%**

Collective provisions at 31 December 2018

Following the adoption of IFRS 9 as from 1 January 2018, collective provisions on performing assets are calculated using the new standard.

Risk mitigation techniques

Providers of sureties

Taking guarantees (or risk mitigation techniques) into account represents one of the important factors in reducing capital requirements.

Banque Palatine is responsible for the system to oversee the undertaking of guarantees, their validity, and their registration. The registration of guarantees follows procedures in force. Safe-keeping and archiving of our guarantees is done pursuant to the internal procedures in force.

The departments responsible for granting guarantees carry out first-level controls.

The cross-cutting divisions, including the risk management division, perform second-level controls on the validity and registration of the guarantees.

In 2018, work was done to improve the treatment of collateral received in respect of guarantees and sureties. These projects have reduced the Bank's exposure to credit risk and hence capital requirements.

Groupe BPCE's RCPCD performs crisis simulations relating to the credit risk of Groupe BPCE and, therefore, of all institutions including Banque Palatine. The goal of the resistance tests is to measure the sensitivity of the various portfolios, to a deteriorated situation, in terms of cost of risk, weighted assets and expected losses.

The resistance tests are performed on the basis of the Group's consolidated exposures. The specificities of each major area of group business are factored in when risk parameters are calibrated. Tests cover all portfolios subject to credit and counterparty risks, irrespective of whether weightings are calculated by the standardised or internal ratings-based approach. Banque Palatine applies the standardised approach. They are carried out on the basis of detailed information framed by the information that feeds into COREP group prudential reporting and the risk analyses of the portfolios. They integrate the following hypotheses on the change in the credit quality of the portfolio:

- migration of counterparty ratings on the basis of migration matrices, with impact on RWA for assets using the standardised or IRB approach and expected loss for those using the IRB approach only;
- change in the cost of risk by portfolio, with a part of the exposures being transferred to default with the corresponding provision charges, as well as, where necessary, complementary provisions charges for exposures in default as of the reporting date of the test.

Market risks

Definition

Market risks are defined as the risk of loss related to changes in market parameters.

Market risks include three main elements:

- interest rate risk: the risk incurred by the bearer of a receivable or a debt security when there is an interest rate change; this risk can be specific to a given issuer or to a given category of issuers whose rating is downgraded (credit spread risk);
- exchange rate risk: the risk that affects receivables and securities denominated in foreign currencies and held as part of capital market activities, resulting from the volatility of the foreign exchange rate expressed in national currency;
- risk of a change in market price: price risk on the position held on a given financial asset, in particular equities, but for Banque Palatine more importantly securities held in the liquidity reserve.

Market risk monitoring organisation

The scope covered by market risk monitoring includes all market activities, i.e. cash transactions, financial business of the trading portfolio, as well as medium-long term investment transactions on products generating market risk, whatever their accounting classification.

Activities falling within this scope are not included in the ALM function.

Within this scope, the market risk function carries out the following tasks, defined in the Group Charter of Risks, Compliance and Permanent Controls:

- identifying the various risk factors and mapping and updating financial products and instruments, covering market risks;
- implementing a system to measure market risks;
- examining global and operational limit requests, and the list of authorised market products submitted to the relevant Risk Committee;
- checking the consistency of positions and their allocation in the correct management compartment (Group business line segmentation standards);
- cross-discipline analysis and back-testing of market risks and their development given the business strategy decided by the governing bodies and policies for managing operating activities;
- checking the implementation of risk-mitigation action plans, if applicable.

These duties are carried out together with the Group's risk management, compliance and internal controls division. The latter notably handles:

- the definition of the market risk measurement system: VaR (value at risk), stress tests, etc.;
- the evaluation of this system's performance (back-testing) notably in the context of reviews of annual limits;
- the reporting standard for monitoring market risks consolidated at the different levels of the Group;
- the examination of matters brought to the Group's Risk Committee.

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

The financial risk department, reporting to the risk management division, performs second-level controls. The handbook of procedures for financial activities specific to the trading floor and its risk exposure, which is reviewed on an ongoing basis by the financial risk department, provides a comprehensive and consistent picture of all the activities.

Market risks are monitored in the following areas: Corporate and investment banking (capital markets) and financial business (liquidity reserve and medium- and long-term investments). The customer segment is monitored by the ALM risk department.

Group-wide monitoring of controls on recommendations made by the “Lagarde” report

To ensure the best practices listed in the “Lagarde” report are applied by banks, specific controls are monitored by the risk management department. BPCE’s RCPCD follows up every half-year on the “Lagarde” report recommendations using a control grid prepared centrally.

The market risk monitoring system is accordingly based on qualitative and quantitative risk indicators. The frequency of monitoring of these indicators varies according to the financial product monitored. Qualitative indicators chiefly comprise the list of authorised products, behavioural indicators and content of legal documents.

To complete this qualitative monitoring, market risk monitoring is conducted through the calculation of complementary quantitative indicators.

In the framework of market risk monitoring, the BPCE’s RCPCD:

- calculates daily 99% 1-day VaR on the Bank’s trading book;
- calculates daily sensitivities by risk category, on the Banque Palatine trading scope.

Daily VaR calculation according to the “Monte Carlo” method

Segment	Sub-segment	VaR at 31/12/2017	VaR at 31/03/2018	VaR at 30/06/2018	VaR at 30/09/2018	VaR at 31/12/2018	Change in VaR between 31/12/2017 and 31/12/2018
Capital markets	Currency, interest rates...	€12,378	€15,179	€17,229	€16,622	€16,462	+33%

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 2018.

Balance sheet management risks

Definition

Structural balance sheet risks translate into a risk of immediate or future loss, related to changes in commercial or financial parameters and the balance sheet structure of banking book activities.

Structural balance sheet risks have three main components:

- liquidity risk is the risk that an institution will be unable to meet its commitments or unwind or offset a position due to market circumstances or specific factors, within a fixed time and at a fair price (order of 3 November 2014 on internal control). Liquidity risk is also associated with the inability to convert illiquid assets into liquid assets;
- global interest rate risk, which is the risk incurred in the event of changes in interest rates resulting from on and off-balance sheet transactions as a whole, with the exception, if applicable, of transactions subject to market risks (order of 3 November 2014 regarding internal control);
- exchange-rate risk is the risk that impacts receivables and securities denominated in foreign currencies; it stems from changes in the price of these currencies as expressed in local currency.

Limits for and monitoring of balance sheet management risks

The financial risk department performs a second-level control of the structural risks of the balance sheet.

To that end, it is in particular responsible for the following tasks:

- applying the Group level limit system internally;
- checking the indicators calculated according to the standards of the Group’s ALM framework;
- checking that limits are respected, on the basis of prescribed data feedback;
- checking the implementation of action plans for returning within the limits, where necessary.

Banque Palatine controls are formalised in a second-level risk control report. It includes qualitative data on the market risk framework system, the respect of limits and the monitoring of the return within the limits if necessary, as well as analysis of the change in the balance sheet and the risk indicators.

These tasks are carried out under the management of Group RCPCD, which is, with the Group finance division, in charge of the critical review or validation:

- of the ALM agreements submitted to the Balance Sheet Management Committee (releasing rules, separation of *trading/banking books*, definition of instruments accepted as hedges against balance sheet risks;
- of the monitoring indicators, and of the rules and frequency of reporting to the Balance Sheet Management Committee;
- of agreements and processes for information feedback;
- of control standards on the reliability of evaluation systems, on the procedures for setting limits and managing breaches, on the monitoring of action plans to return within the limits;
- of the choice of model retained to evaluate the Group’s economic capital requirements regarding structural balance sheet risks, where necessary.

Monitoring and measuring liquidity and interest rate risks

Banque Palatine manages its balance sheet independently within the standardised Group ALM framework, set by the Operational Group ALM Committee and approved by the Group Risk Committee or by the Strategic Group ALM Committee.

Groupe BPCE institutions share the same management indicators, the same risk modelling integrating the specificity of their activities, and the same limits rules, which makes it possible to consolidate their risks.

Thus, the limits observed by Banque Palatine are in line with those included in the Group's asset-liability management framework.

The elaboration of scenarios is necessary to properly evaluate the interest rate and liquidity risks incurred by the institution, assessed individually, and by the Group as a whole.

In order to make it possible to consolidate information on a homogeneous basis, it was agreed that "Group" scenarios would be developed and applied by all the institutions.

At Banque Palatine, liquidity risk is the responsibility of the Asset-Liability Management Committee and Finance Committee. These committees monitor liquidity risk and take financing decisions, the Finance Committee acting on delegation from the ALM Committee.

Accordingly, the finance division's ALM department handles interest-rate risk management in concrete terms, and this is monitored by risk management division throughout preparation of the indicators through to implementation of the transactions decided on by the Asset-Liability Management Committee and its implementation by the Finance Committee.

The scope of balance sheet management includes all on- and off-balance sheet transactions. The finance division, which is responsible for ALM metrics and management, systematically reconciles transactions recorded in the ALM tool with the accounting system. This reconciliation is checked by the risk management division.

Banque Palatine has various sources of funding from its customer business (credits), in descending order of importance:

- customer deposit accounts;
- issues of negotiable certificates of deposit;
- bonds issued by BPCE;
- customer savings in non-centralised regulated savings accounts, other savings plans and accounts and term deposits;
- where necessary, centralised market refinancing at the Group level optimising the resources brought into the Bank, including through the TLTRO programme (Targeted Longer-Term Refinancing Operations).

Monitoring liquidity risk

Static liquidity risk is measured by the liquidity gap. The liquidity gap for a given period (t) is equal to the difference between the assets and liabilities for the period (t). It is calculated using average assets for period (t).

Banque Palatine ensures that it sufficiently balances its assets and liabilities in the long term, to avoid finding itself in a position of disequilibrium in terms of liquidity.

Dynamic liquidity risk is measured by a stressed gap indicator calculated on the basis of one-, two- and three-month periods, and is subject to limits.

Limits are reviewed and adjusted annually. Where a breach occurs, the risk management division informs the Executive Management Committee and the internal audit division. The finance division is in charge of presenting, as swiftly as possible, an action plan tracked by the risk management division. Executive management monitors the Bank's liquidity through a number of committees: the Finance Committee, the ALM Committee and the Audit and Internal Control Committee. The Risk Committee is also kept informed of its liquidity risk exposure every quarter.

Over the last financial year, Banque Palatine respected its limits.

Monitoring interest rate risk

The following have been calculated:

- a regulatory indicator with a mandatory limit: SOT (Supervisory Outlier Test) indicator, used for financial communications (market benchmark). This indicator was not retained as a management indicator even if the regulatory limit of 20% regarding it should be respected. It is accompanied in the ALM system by a static interest rate gap indicator;
- two interest-rate risk indicators with mandatory limits:
  - on a static basis, a fixed-rate gap limit system,
  - the Bank's gap position is measured and is subject to limits. Initially, the analysis relates to on- and off-balance sheet transactions existing at the balance-sheet date, as part of a static approach,
  - on a dynamic basis, the sensitivity of the interest margin is measured over a rolling future four-year period.

Over a management horizon (a rolling four-year period), the Bank measures the sensitivity of our results to possible movements in interest rates, business forecasts (new business and changes in customer behaviour) and sales margins.

In 2018, the rate gap limit was breached at March and June reporting dates. The plan to remedy this, drawn up in collaboration with Groupe BPCE at end-2017, reduced the breach and brought the gap back within bounds by the September 2018 reporting date.

Operational risk

Definition

The definition of operational risk is given in point 52 of paragraph 1 of Article 4 of EU Regulation No. 575/2013: “It concerns the risk of loss resulting from an inadequacy or failure attributable to internal procedures, staff and systems or to external events, including legal risk.” Operational risks include in particular risks linked to events that are unlikely to occur but have a large impact, the risks of internal and external fraud defined in Article 324 of EU Regulation No. 575/2013, and risks linked to the model.

Operational risk monitoring organisation

The framework for managing operational risks is part of the Group's Risk Assessment Statement (RAS) and Risk Assessment Framework (RAF) schemes. These provisions and indicators are broken down for each of the Group's establishments and subsidiaries.

Operational risk function covers:

- all entities consolidated or controlled by the establishment or subsidiary (bank, financial firm, insurer, etc.);
- all the activities having operational risks, including outsourced activities as defined by Article 10 q) and 10 r) of the order of 3 November 2014 "outsourced activities and provision of services or other essential or important operational tasks".

The operational risk department of Banque Palatine relies on a decentralised system of correspondents deployed throughout the Bank. The operational risk department leads its operational risk correspondents.

The operational risk department provides the first step in permanent second-level control of the operational risk management division. The second step is done by Group RCPCD.

The role of the correspondents is to:

- regularly identify and rate, as “business line” experts, operational risks liable to impact their scope/field of activity;
- provide and/or produce information to inform the operational risk management tool (incidents, indicators, action plans, mapping);
- mobilise implicated/authorised persons when an event occurs in order to undertake, as soon as possible, mitigation measures and then define or implement necessary actions to limit the impacts;
- limit the re-occurrence of incidents/risks through the definition and implementation of preventative action plans;
- handle and manage incidents/risks in conjunction with the heads of activity.

The operational risk management division of our institution, by its action and organisation, contributes to financial performance and to the reduction of losses, ensuring that the system for controlling operational risk within our institution is reliable and effective.

The Operational Risks and Security Committee of Banque Palatine meets quarterly and is chaired by a member of the Executive Management Committee (head of resources and services). It has five permanent members including the Chairman.

The Committee makes a proposal to executive management concerning the implementation of the operational risk management policy and ensures the relevance and effectiveness of the framework for controlling these risks in relation to the Bank’s risk profile. It steers the operational risk control framework and monitors the level of risk, provides second-level approval and monitors action plans to reduce exposure. It reviews identified incidents and controls follow-up of the resulting action plans. It reviews the contribution of the risk management function to permanent controls and, if necessary, decides measures to improve procedures.

The head of operational risk reports to the Banque Palatine head of risk management. He/she is responsible for the different elements of the operational risk system: mapping, incidents, indicators, action plans, and reporting within the scope concerned. He/she also participates in the internal control framework of Banque Palatine. In this role, he/she has to:

- deploy among users the Group methodologies and tools, with necessary adjustments arising from the specific characteristics of certain institutions, subsidiaries and business lines, applied in conjunction with Group RCPCD;
- formalise or update procedures;
- guarantee the quality of data inputs to the operational risks system;
- check the completeness of data collected, mainly ***via*** accounting reconciliation of losses and provisions for incidents arising from operational risks;
- control the business lines and functions in implementing corrective actions and/or action plans;
- carry out a periodic review, using an operational risk management tool, of the status of incidents, progress of action plans and their recording in the operational risks tool;
- ensure regular updating of the risk indicators and track changes so that they can trigger the necessary actions in the event their worsening;
- periodically update the risk map for presentation to the Committee;
- produce reports (Risk Assessment Framework - RAF and presentation of Group alerts and Art. 98);
- lead the committee in charge of operational risks;
- participate, where necessary, in committees associating other cross-cutting functions or business lines (quality, for example).

Within Banque Palatine, the guidelines and governance rules are defined in the following manner:

- Banque Palatine has opted for a decentralised system;
- the workforce managers are informed of major incidents through two channels:
  - the Audit and Internal Control Committee which deals with key points from the Operational Risks and Security Committee,
  - any alerts triggered under Article 98 of 3 November 2014.

Banque Palatine now uses the Group's new OSIRISK system to apply the methodologies of Group RCPCD and collect the information necessary to effectively manage operational risks.

This system makes it possible to:

- identify and evaluate operational risks, making it possible to define Banque Palatine's risk profile;
- collect and manage incidents generating or liable to generate a loss in accordance with new standards;
- update the rating of risks in the risk map and monitor the action plans.

Banque Palatine also has reporting items feeding into the Risk Assessment Framework - RAF.

Lastly, as part of the capital requirement calculation process, Groupe BPCE uses the Basel II standardised approach. COREP regulatory reporting documents are produced in this respect.

At 31 December 2018, capital requirements for covering operational risk were €47.4 million.

The duties of the operational risk department of Banque Palatine are carried out with the Group RCPCD, which oversees the effectiveness of the systems deployed within the Group and analyses the principal demonstrated and potential risks identified in the institutions, notably during the Group's Operational Risk Committee Meetings.

Operational risk measurement system

In accordance with the Group's Risk Charter, Banque Palatine's operational risk management division is responsible for:

- the development of systems allowing the identification, evaluation, oversight and control of operational risk;
- the definition of policies and procedures for the management and control of operational risk;
- the design and implementation of an operational risk evaluation system;
- the design and implementation of the operational risk reporting system.

The duties of the operational risk division are:

- to identify operational risks;
- to map these risks by process, and update the map, working with the business lines concerned, including compliance;
- to collect and consolidate operational incidents and evaluate their impact, working with the business lines in conjunction with the mapping used by the permanent and periodic control functions;
- to implement warning procedures, and notably inform the operational managers according to the action plans implemented;
- to monitor the corrective action plans defined and implemented by the operational units concerned in the event of a severe or significant incident.

Work done in 2018

2018 was strongly marked by the multiple changes flowing from the change of operational risk software at end-2017 and new regulations.

These affected the whole operational risk system, the procedures, collection, risk-mapping, operational risk indicators and Risk Assessment Framework (RAF), controls and reporting.

The new standards were incorporated into 2018 operational risk mapping in consultation with the experts in each business line.

More than 1,778 incidents were collected over the year (incidents created in 2018). Some, dating from before 2018 and reassessed in 2018, are still being dealt with.

Bank's cost of risk for operational risks

In 2018, the Bank recognised losses for the year of €3,183,123. Under the new regulations, frontier credit incidents are no longer included in the cost-of-risk scope.

Legal risks

The inventory of loans being processed by the non-performing loans division at the end of 2018 was 570 loans subject to recovery in the gross amount of €181 million. New loans in 2018 represented 123 loans totalling €25.2 million, broken down as follows: 91 loans to private individuals for a total of €15.7 million and 32 loans to companies for a total of €9.4 million.

Within the Bank, the inventory of loans in dispute at the end of 2018 was 135 loans broken down between 99 subpoenas totalling €26.3 million, and 36 claims filed by lawyers seeking a total of €2.7 million.

New loans in dispute in 2018 include 17 subpoenas amounting to €3.5 million and 21 claims filed by lawyers amounting to €2.3 million.

The supervisory and special affairs department tracked and managed 1,044 loans at the end of 2018 totalling €430 million including 80 new loans in 2018 totalling €73 million.

Emergency and business continuity plan – EBCP

Monitoring and steering

A detailed progress update is given at the quarterly ORSC meeting.

There are two regular annual operations:

- a through-life maintenance campaign by all the business line correspondents makes sure that business line planning is monitored;
- a second-level business continuity permanent controls campaign, organised by the Group Safety and Business Continuity Division (SBCD-G), conducted by the HBCP and registered in the Group's PILCOP tool.

Highlights of the year and areas for improvement identified

In 2018, the improvement and reinforcement of the EBCP system continued by embracing the best possible practices, in accordance with Groupe BPCE's guide to best business continuity practices.

The highlights included:

- replacement of the HEBCP by internal promotion from 1 June;
- implementation of the CrisisCare crisis management software, chosen by the Group. The app was installed on the work mobiles of all members of crisis units and regional directors;
- test of the "Application recovery plan" on 10 June 2018, in a scenario where the IT system went down. This test of the system for restoring IT activity was the second since the Bank migrated its IT operations to the Group's BPCE-IT entity in October 2016. This time, the preliminary phase to secure production by isolating the production site from the back-up site flagged up a number of bugs in the sequencing of operations. It was agreed to set a date for another technical migration exercise;
- war-gaming on 24 September 2018 by the Crisis Decision Unit of a scenario where the BCP is triggered following the physical sites becoming inaccessible. Among other benefits, this ensured that all CDU members were up-to-speed on the CrisisCare app;
- test of BCP, on 11 October 2018, in a scenario where the physical sites were inaccessible "transfer of users from offices", including moving the user and restarting their production activity on the IT equipment at the back-up sites in Noisy-le-Grand and Val de Fontenay (for employees at the rue d' Anjou head office). Around 65 people took part, including 51 at the Noisy-le-Grand site. This exercise validated the crisis management and communication tools;
- on 29 November 2019, a crisis management test was run on a scenario where skills became unavailable to test the Human Impact Management Plan (HIMP). This exercise validated the crisis management and communication tools;
- on 11 December 2018, a test of another inaccessibility of premises scenario, this time focusing on users of the middle-office of the regulated real-estate professions department and the *PalatineEtVous* call centre. Users were successfully transferred to the back-up site at the Saint-Lazare branch;
- continued work to implement the human resources guidelines for the EBCP. The guidelines have two aims: to create a system for managing movements of BCP correspondents and to allow management of scenario 3, unavailability of employees, by incorporating the map of key competences. Drafting of business line business continuity plans following closure of the site for automated management of the system plans;
- annual review of the business line impact analyses (BIA) for 47 of the Bank's critical activities.

The action plan for 2019 also includes:

- training BCP correspondents (and deputies) in the roles, issues and responsibility of their function;
- continuing to improve monitoring of EBCPs at external service providers of critical activities, based on work done by the Group to monitor its own suppliers;
- conducting a business recovery plan exercise simulating "Unavailability of IT systems" in coordination with BPCE-IT, with recovery of Bank activities from the back-up site. This exercise will involve final users;
- going ahead with a business continuity plan exercise simulating "Unavailability of premises" with a transfer of users and the resumption of activity on the back-up site's IT infrastructure, with user involvement;
- running a crisis management exercise simulating the scenario of unavailability of key competences.

Information systems security (ISS)

Risk monitoring in relation to information systems security

Groupe BPCE has drawn up a Group Information Systems Security Policy (G-ISSP). This policy defines the guiding principles for the protection of the information systems (IS) and specifies the provisions to be respected, on the one hand, by all the Group's institutions in France and abroad and, on the other, by any third-party entity as of the moment it accesses the information systems of one or various Group institutions.

The G-ISSP materialises the Group's security requirements. It includes an ISS Charter, with 430 rules classified under 19 themes and three organisational instruction documents. It is subject to an annual review as part of a continuous improvement process. These documents and their reviews are regularly approved by the BPCE management board or Executive Management Committee, then circulated among all the Group institutions. Changes made in 2017 reassigned responsibilities for carrying out controls. From now on, the Group's "IT factories" will be responsible for implementing and controlling the ISSP in their institutions, instead of the financial institutions themselves.

Banque Palatine's IT operations were outsourced to BPCE-IT. As a result, all controls over IT security are delegated to the expert departments of BPCE-IT who are clearly identified and segregated from the operational teams.

Permanent ISS controls are carried out by BPCE-IT and reported quarterly to the Bank.

Furthermore, the methodology of the operational risk map, which articulates the ISS approaches with those of the business lines, was integrated in the Group's operational risk mapping mechanism. It was rolled out across the institutions.

Lastly, in order to address the sophistication of cyber security attacks, in a context where the Group's information systems are increasingly open to the outside world, the Group set up, at the end of 2014, a cyber security vigilance system, called VIGIE.

This exchange of information among Group institutions and their peers makes it possible to anticipate, as early as possible, potential incidents and avoid their dissemination.

In the event of an ISS incident classified as major, the alerts and crisis management process is activated, as defined by the Head of the Emergency and Business Continuity Plan.

5

NOTES TO THE MANAGEMENT REPORT

1 Declaration of extra-financial performance

Banque Palatine, a hybrid business model within Groupe BPCE

For over 230 years, Banque Palatine has established a relationship of excellence and partnership with each of its corporate customers, senior executives, and private banking. Value added: close relations, recognised expertise in business lines and customised solutions based on a singular business model.

1

A REASONABLY SIZED BANK

→ A network of **46 branches** in France, working with specialist business lines (private banking, corporate finance, real estate, international, dealing room, etc.), today supports **12,800 companies and 64,000 private customers.**

2

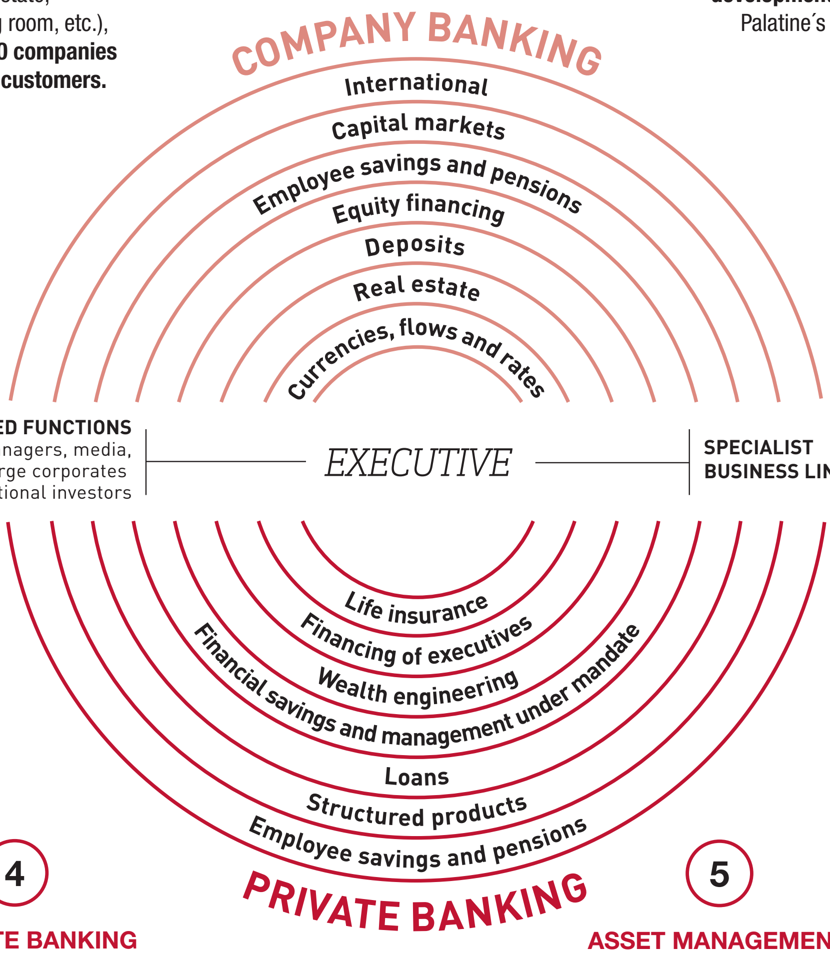
THE STRENGTH OF THE 2ND-LARGEST FRENCH BANKING GROUP

→ As a wholly-owned subsidiary of Groupe BPCE, Banque Palatine generates **synergies** in terms of resources and benefits from the Group´s **expertise.**

3

CORPORATE BANKING

→ Mid-sized companies offer the main growth potential for the French economy. **Fostering their development** is Banque Palatine´s priority.



4

PRIVATE BANKING

→ Providing bespoke solutions and high added-value advice on the global **management of private and professional** wealth is also an area of Banque Palatine specialisation.

5

ASSET MANAGEMENT

→ Palatine Asset Management offers **its private and institutional customers management** that has proven its strength over the last 30 years. For over 10 years, it has also consolidated its choice of values in view of sustainable development issues.

A CSR strategy at the heart of its Envol strategy

Banque Palatine's social responsibility strategy reflects the overhaul of its commitments in 2008. Compliance requirements are strictly applied consistent with the sustainable development policy of BPCE, of which Banque Palatine is a wholly-owned subsidiary.

Apart from compliance, Banque Palatine, a human-scale bank, regards social responsibility as a key issue based on 3 principles:

- first of all human: maintain a sustainable and bespoke relationship with customers and employees;
- support: to stay close to customers not only as a financier but also as a true partner going beyond the role of banker;
- collective working: favour co-construction and collective intelligence to incite creativity, pro-activity and enrich the solutions offered.

Key principles

The CSR process is built around 5 principles:

- guaranteeing the ethics and transparency of our practices:
  - by acting in a responsible manner and as a bank that keeps its promises,
  - to create the conditions for the development of a relationship of trust with our stakeholders;
- supporting players in the real economy:
  - by engaging alongside medium-sized businesses and encouraging socially responsible investment,
  - to help finance companies with the best social, environmental and governance practices;
- fostering diversity every day:
  - by taking care of our human capital and our gender mix, and committing ourselves to people with disabilities,
  - to increase creativity and performance;
- caring for the environment:
  - by mobilising to reduce our environmental footprint and by encouraging the transition towards a more sustainable economy,
  - to help reduce greenhouse gas emissions;
- cultivating our commitments in the city:
  - through philanthropy, by supporting the arts, strengthening our partnership for equal opportunities and working through the Fondation Palatine with medium-sized companies,
  - to strengthen the sense of our actions.

CSR at the heart of the Envol strategic plan

The Envol 2018-2020 strategic plan sets out the vision of a specialist, efficient, forceful, committed and human-scale bank. It is structured around five measures:

"Accelerate our development and adapt our distribution model"

Banque Palatine will strengthen its position with medium-sized businesses and their senior executives, and continue to develop in the private banking market. This will enhance the value generated by its goodwill, create new sources of revenue, while controlling its level of risk.

"Strengthen our operational efficiency"

Migration to the Equinoxe platform will allow us to become more efficient, offer more digital services and in so doing, better meet the needs of customers and employees. Banque Palatine will streamline its processes and develop project culture and continuous improvement.

"Put faith in our human capital and pursue excellence"

Banque Palatine's human capital is a differentiating factor. The courage, commitment and expertise of its employees has allowed the Bank to achieve its past ambitions and must now allow it to accelerate its transformation and development.

"Strengthen our commitment to society"

To establish its unique position as partner of medium-sized companies and a "real economy player", Banque Palatine is determined to meet the challenge of fully integrating social concerns into our everyday work.

"Develop synergies within Groupe BPCE"

Being part of Groupe BPCE allows Banque Palatine to combine the flexibility of a medium-sized company with the power of the second-largest banking group in France. It expands our scope for intervention in the market and means we can pool operating expenses.

The *"Strengthen our commitment to society"* principle embodies the CSR process in four main projects:

- creation of the Fondation Palatine des ETI;
- SRI offer;
- renewable energies offer;
- reducing environmental footprint.

Analysis of CSR issues, risks and opportunities

Gross/net risk matrix

To identify the most strategic CSR issues, the Group drew on work done in 2017 for the TEC 2020 plan, and in 2018 on mapping key ESG risks.

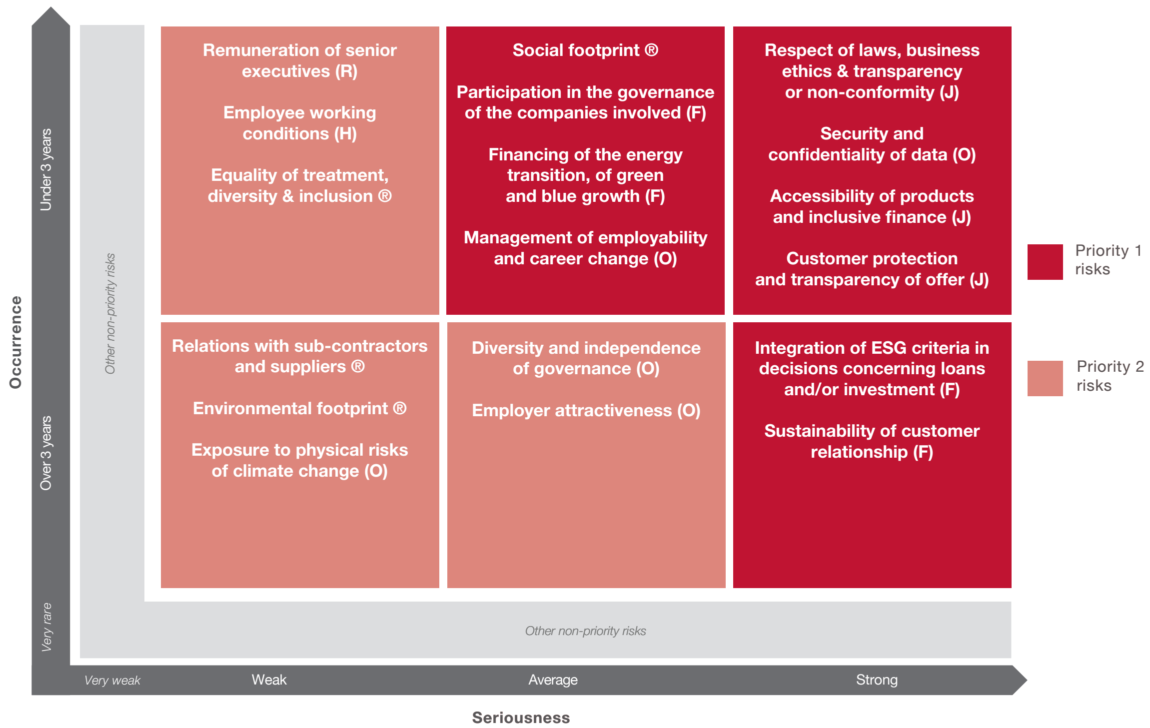
This analysis is founded on the risk analysis methodology of the Group's Risk management, compliance and permanent control division and defined:

- a universe of twenty CSR risks of three types; governance, products and services, internal procedures. They were defined based on regulations, market practice, rating agency valuation criteria and CSR and reporting standards (e.g.: Task Force for Climate); each risk is precisely defined;
- a methodology for ranking these risks based on their frequency and severity;
- a methodology for reviewing risk management procedures;

The ranking of risks was based on interviews with business line experts to whittle the universe down to ten major risks that Banque Palatine is exposed to.

As set out below, all environmental, social and governance risks are addressed through specific commitments in the Envol strategic plan or in the business line action plans presented in this declaration. Key performance indicators to track progress of these projects are included in the Appendix.

Gross risk matrix (or risks inherent to Banque Palatine)



Closeness to customers

Data security and IT integrity

Information systems reliability

Banque Palatine created a governance department in 2017 supported by data correspondents in each business line. The comprehensiveness and reliability of data in strict compliance with personal data protection regulations is a major concern for the Bank to meet the needs of its customers and legal and regulatory constraints.

Collect and use personal data

Following implementation of the General Data Protection Regulation on 25 May 2018, Banque Palatine appointed a *Data Protection Officer (DPO). The DPO can call on a Data Protection structure within the Bank's business lines. The DPO oversees implementation of the Privacy by Design and* Accountancy programmes, by being consulted on new Bank projects and products, analysing risks and controlling protection and risk reduction measures.

All employees were trained in data protection awareness.

The required mapping of personal data processing and impact analyses have been carried out.

Data protection charters are available to customers and employees of Banque Palatine and procedures are in place to enforce their data rights.

The Bank has made the following commitments to customers and employees:

- to use their data solely to provide personalised advice and marketing, higher-quality service and the necessary information to support good decision-making;
- that data security will be at the heart of its procedures, data storage and processing solutions and be subject to rigorous validation and certification procedures;
- not to sell personal data, never to collect or process data without their owners' knowledge and respect their choices on soliciting and canvassing;
- to explain how personal data are used at Banque Palatine;
- to inform them regarding the relevant rights.

The data is only ever communicated, on the basis of clear information, in accordance with regulatory obligations or to enable the provision of defined services with organisations that have been through rigorous validation and certification procedures.

Exposure to risks of climate change/inaccessibility of buildings

In 2018 the Bank adopted an analysis of exposure to the physical risks of climate change into its internal processes. This risk is defined as the deterioration of the premises used by the Bank due to extreme climate events:

- inaccessibility of premises (head office, administrative and branch offices) and professional tools would prevent Bank employees from trading on its own account or for its customers;
- the risk analysed is that of a 100-year flood, as the Bank's buildings are all in France, they are not particularly exposed to other risks, such as extreme heat or cold, hurricanes or tsunamis.

Risk of flood rendering buildings inaccessible is considered to be low for all buildings in use as it would only affect two branches in an area that might flood in the event of exceptional flooding near the Seine.

Intrusion in the IT system - cybercrime

Groupe BPCE has developed a Group information systems security policy (G-ISSP) including a collective system for cybercrime vigilance. This policy defines the guiding principles for the protection of the information systems (IS) and specifies the provisions to be respected, on the one hand, by all the Group’s institutions in France and abroad and, on the other, by any third-party entity as of the moment it accesses the information systems of one or various Group institutions.

The G-ISSP materialises the Group’s security requirements. It comprises an ISS Charter with 430 rules and is reviewed annually as part of a continuous improvement process.

Modifications made in 2017 made changes to 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 methodology of the operational risk map, which articulates the ISS approaches with those of the business lines, was integrated in the Group’s operational risk mapping mechanism. It has been rolled out across all Group entities since 2015. 16 operational risks have some security element, broken down into 27 risk scenarios, and these have been identified and are reviewed from year to year.

Lastly, in order to address the sophistication of cyber security attacks, in a context where the Group’s information systems are increasingly open to the outside world, at the end of 2014, the Group set up a cyber security vigilance system called VIGIE. We have continued to mature and industrialise this system, obtaining the “CERT” label which means it can be internationally recognised. This gain in visibility allows secure exchanges with any other “CERT” certified institution worldwide.

This exchange of information among Group institutions and their peers makes it possible to anticipate, as early as possible, potential incidents and avoid their dissemination. In the event of an ISS incident classified as major, the alerts and crisis management process is activated, as defined by the Head of the Emergency and Business Continuity Plan.

Banque Palatine’s IT operations were outsourced to BPCE-IT. As a result, all controls over IT security are delegated to the expert departments of BPCE-IT who are clearly identified and segregated from the operational teams. Permanent ISS controls are carried out by BPCE-IT and reported quarterly to the Bank.

Business practice led by ethics and example

Corruption

The prevention of corruption is part of a financial security system that reflects the commitment of Groupe BPCE, as a member of the United Nations Global Compact. Since 16 September 2017, the provisions of the Sapin 2 Act provide a regulatory framework for the anti-corruption combat with preventive and repressive arms.

Employees are asked to be extremely vigilant with regard to the demands and pressures to which they may be subjected, or situations where unusually high commissions or overcharging in particular are involved, as well as informal and private meetings with public companies.

At Banque Palatine, in accordance with internal control measures and the Group’s compliance charter, the compliance and permanent controls division has set up several controls under its financial security and ethics and compliance frameworks.

These arrangements are reflected in the Bank's procedures and documentation, including in the following areas:

- financial security: efforts to combat money laundering and terrorist financing and internal and external fraud;
- embargo management;
- establishing relations with third parties/intermediaries (customer/intermediary insight, commercial practice ethics, transparency of the legal structure, lack of any known links of interest between the third party and a public official (PPE);
- procurement policy, selection of suppliers, consultants, etc.;
- prevention and management of conflicts of interest;
- gifts, benefits, invitations, travel, donations, expense claims;
- selection of intermediaries and financial partners;
- confidentiality;
- employee training and awareness-raising for professional ethics;
- internal whistle-blowing system;
- control systems;
- monitoring and reporting.

In 2018, Banque Palatine did not receive any penalty for any anti-competitive, anti-trust or monopolistic behaviour.

Anti-money laundering/terrorist financing

Efforts to combat money laundering and terrorist financing are based on a mapping of non-compliance risks by process and a risk management system whose financial security component includes:

- procedures on the efforts to combat money laundering and terrorist financing and internal and external fraud (including appendices dedicated to cheques and transfers);
- an AML/TF training programme;
- interventions and awareness-raising actions and regular meetings of an anti-external fraud committee bringing together all departments concerned (financial security, operational risks, IT, etc.);

Fraud

A process is in place to deal with any cases of fraud detected. It is led by representatives of the operational risk, AML-TF and anti-fraud coordination departments and of the business lines affected by each type of fraud.

In 2018, a fraud awareness module was included in the training for new employees as part of their classroom-based welcome programme.

Conflicts of interest

In accordance with regulation, Banque Palatine has established and maintained a policy to identify, prevent, and manage conflicts of interest.

The policy seeks to ensure that Banque Palatine complies with best professional practice and carries on its business in an honest, fair and professional manner that puts their customers' interests first.

Accordingly, organisational measures and rules were put in place to prevent conflicts of interest, specifically:

- ethical rules imposing a privacy or confidentiality obligation on all information collected during customer transactions which seek to ensure the requisite equity and fairness for customers;
- the hierarchical and physical separation between activities that could raise conflicts of interest by limiting access to confidential and insider information;
- identification and control of remuneration received and paid by Group entities during transactions with customers;
- transparency in respect of gifts or benefits received during the course of professional activities;
- transparency of corporate offices exercised by senior executives of entities or their employees either professionally or in private life;
- monitoring and control of the quality and compliance of commitments and services provided by external service providers.

Investors: transparency

New regulations on markets in financial instruments, MiFID2 and PRIIPS (Packaged Retail Investment and Insurance-Based Products) have been a particular subject of attention for Banque Palatine. Both sets of regulations seek to reinforce market transparency and investor protections and impact the Bank as a distributor of financial instruments by improving the quality of the customer journey for financial and insurance products:

- adaptation of customer data collection and know-your-customer documentation (customer profile, customer projects classified in terms of their objectives, risks and investment horizon) and IT developments to provide appropriate support when giving advice;
- formal documentation of customer advice (suitability report) and acceptance of advice (issue of disclaimers to customers if applicable).
- structuring of relations between producers and distributors to meet the new regulatory requirements;
- integration of provisions for transparency of costs and expenses;
- development of value added reporting to customers and recording of discussions in the framework of customer relationships and advice;
- transaction reporting to regulators and for the market, best-execution and best-selection obligations;
- training for employees in change management related to these new processes.

Inclusive finance

In 2018, Banque Palatine continued to implement the AFECEI (French association of credit institutions and investment companies) Charter on banking inclusion and the prevention of excessive borrowing which is recognised for regulatory purposes. The Charter covers individuals with bank accounts or non-professional beneficiaries of financial services. As required by the French banking law of 26 July 2013, creating an offering for disadvantaged customers, Banque Palatine has a specific product range.

Customer protection

Banque Palatine has a dedicated team dealing exclusively with legal trustees and protection of vulnerable adults. Wealth management advisers specialising in vulnerable adult customers support trustees in structuring the most appropriate solutions for the protection of their clients.

Ethics and governance

In line with its strategic plan Groupe BPCE introduced a Group Code of Conduct in 2018. This was approved by the Executive Management Committee and the Supervisory Board's Cooperative and CSR Committee.

The Code is:

- based on international values and standards;
- practical, with specific case studies;
- a three-stage process: a message from executive management and principles of good conduct, an approach by business line to develop case studies (customer interest, employer responsibility, social responsibility) and a validation and deployment phase in the entities and subsidiaries.

Action principles

The Code of conduct and ethics, developed collaboratively within the Group, sets out the principles that should guide the actions of employees in the interest of their company, economy and society and professional rules of conduct.

This code was presented to the Banque Palatine Social and Economic Committee in December 2018.

Following publication of this Code, there are plans to train all employees to apply ethical governance, integrate ethics into the human resources process and ensure consistency between the code and internal procedures.

A "fundamentals of ethics" training programme is already deployed in the Group and will be enhanced.

Also, to apply these rules at the top levels of Banque Palatine, the Board of Directors unanimously adopted the Director's Ethics Charter of Banque Palatine. In accordance with Articles L. 511-51 and L. 511-52 of the French Monetary and Financial Code transposing the CRD IV directive, the Director undertakes:

- to maintain at all times their integrity, knowledge, skills and experience required to carry out their functions;
- to devote sufficient time to fulfil their functions;
- to respect rules limiting the number of simultaneous offices that can be held;
- to know the functional rules of the Bank's legal form, regulations governing their function and the internal rules of procedure of the Board;
- to be part of the economic, social and institutional environment at the national and international level, and to keep their knowledge and skills current;
- to intervene and clearly express their point of view and questions;
- not to seek, receive or accept any direct or indirect benefits in relation with the office they exercise within the Bank;
- to strive to avoid any conflict between their interests and those of the Bank.

to ever better serve customers over the long term

Quality of client relationships

Banque Palatine puts service quality and customer satisfaction at the heart of its strategy and its new ENVOL strategic plan.

Its quality policy enacts a permanent focus on customer satisfaction and translates internally as a constant drive for continuous improvement of its processes. Its ENVOL strategic plan reflects two strong ambitions, the ramp-up of customer service and acceleration of process improvements

Banque Palatine's quality process is designed to work across the Group and involves all Bank employees. It is a process which encourages the commitment of employees by investing in their expertise and relational qualities and by remunerating performance related to customer satisfaction.

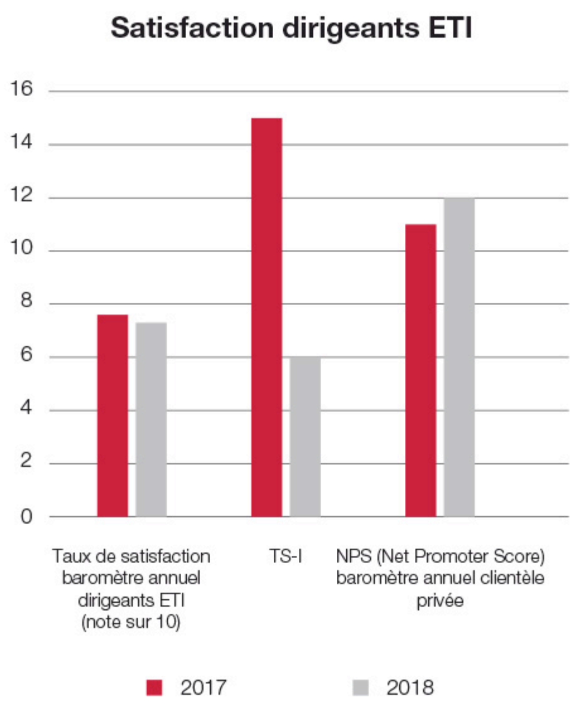
Listening to customers is one of the founding principles which allows Banque Palatine to better understand its customers and better serve their interests. Listening to customers allows the Bank not only to measure customer satisfaction, but also the effectiveness of the actions undertaken to improve service quality.

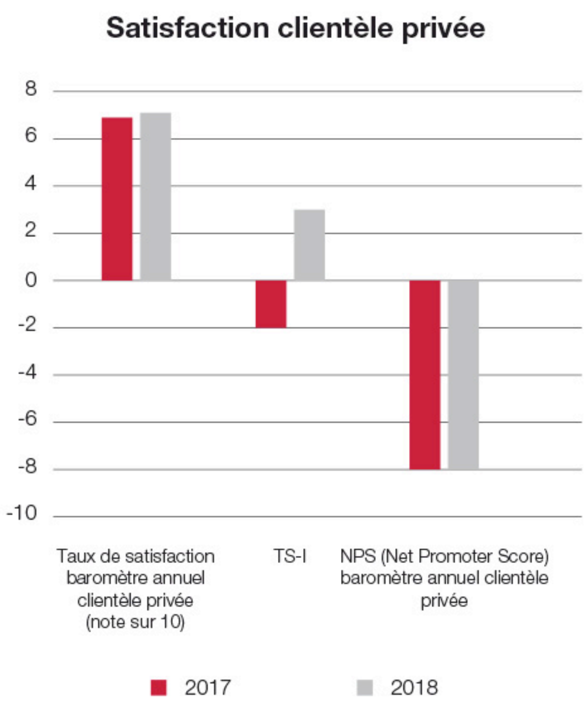
In 2018, the Bank carried out:

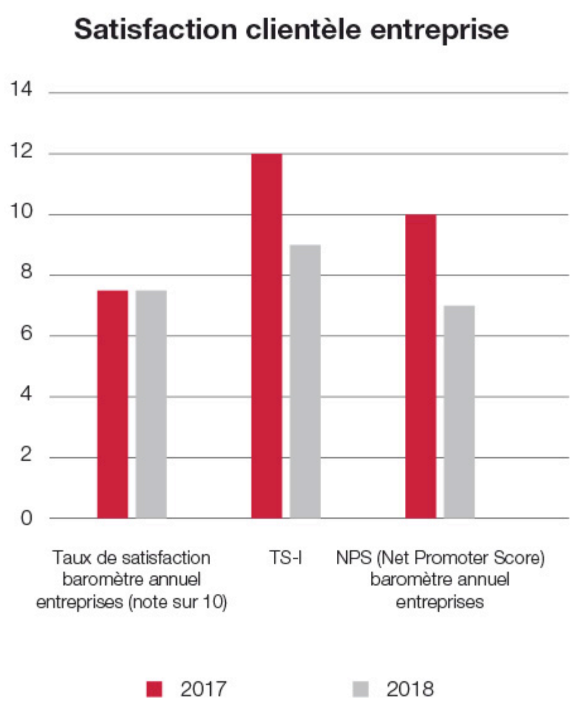
- three satisfaction surveys: one for private banking customers, one for corporate customers and one for senior executives;
- four quarterly surveys by market, on key processes: customer relations, loans, life insurance, and financial flows;
- five annual surveys of the company’s specialised business lines: real estate, dealing room, regulated real estate professions, international activities, and Palatine Asset Management (market survey).

The Groupe BPCE and Banque Palatine have adopted NPS (Net Promoter score) as a key indicator, as it makes it possible to compare customer experience with other banks and service companies. This indicator is internationally recognised and, in addition to measuring customer satisfaction, it gauges the likelihood of their recommending the bank to their friends and family.

NPSs in 2018 were positive for the different target customer groups, confirming the relationship of excellence and partnership that Banque Palatine has with its customers, particularly the dual-relationship model with senior executives.







An enterprise culture based on human capital

Context

In a highly varied banking environment and with ambitions to move upmarket, the human resources department is working to support the roll-out of the Envol 2018/2020 strategic plan.

One of the ways it does this is through the "Put faith in our human capital and pursue excellence" programme. The key challenges are to:

- give employees the resources to do their job in the best possible conditions;
- allow everyone to direct their professional development;
- clarify the principles of change, promotion and internal mobility to guarantee equal opportunities and fair career paths;
- give everyone the support and resources to better control their career;
- recruit staff internally and externally;
- pursue and develop our diversity and gender equality policy.

By supporting the professionalism and skills of staff, we can promote loyalty and develop all our employees to improve the Bank's performance and support the coming transformation in a digital era that will accelerate productivity processes and change the business lines. In 2018/2020, development of the banking sector will undoubtedly have an impact on employees and jobs.

Signing the GPEC agreement on 20 April 2018 represents an important stage for the Bank and its employees: this agreement envisages a 12% reduction in staff numbers by 2020. In light of this trend, Banque Palatine will only partly replace departing employees and consider hirings on fixed-term contracts. Once the ambitions of the agreement are met, front-office functions will make up 65% of staff, and middle-office, back-office and support functions 35%.

Accordingly, resources will be made available to make staff more employable and adaptable through a genuinely dynamic management of businesses and skills.

Workforce structure

Following the reduction in 2017 and in line with the commitment made in 2014 to bring the workforce down to comparable levels, headcount at 31 December 2018 was 1,205 employees, of which 91.12% are on permanent contracts.

Women are still in the majority and represent 52.45% of the total workforce. This indicator has been stable over the last three years.

The proportion of managers rose again in 2018 from 64.39% in 2017 to 66.42% in 2018.

The policy of recruiting on work-study contracts continued with 47 young employees taken on apprenticeships or professional development contracts, 4 more than at 31 December 2017.

Breakdown of workforce by contract type, status and gender

As Banque Palatine has no presence outside France, no geographical breakdown is included here.
Nr: not relevant
Na: not available

	31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Total permanent and fixed-term staff including those on work-study programmes	1,205	27	1	1,215	26	1
Total permanent and fixed-term staff (not including work-study and internship programmes)	1,158	27	1	1,172	26	1
Number of permanent employees	1,098	26	1	1,134	26	1
Permanent employees as a % of the total workforce	91.12	96.30	100.00	93.33	100.00	100.00
Fixed-term employees, including those on work-study programmes	107	1	0	81	0	0
Fixed-term employees as a % of the total workforce	8.88	3.70	0	6.67	0.00	0
Total managers	794	27	0	807	26	0
Managers as a % of the total workforce	65.89	100.00	0	66.42	100.00	0
Total non-managerial employees	411	0	1	408	0	1
Non-managerial employees as a % of the total workforce	34.11	0.00	100	33.58	0.00	100
TOTAL FEMALE EMPLOYEES BREAKDOWN BY AGE CATEGORY	**632**	**9**	**1**	**640**	**8**	**1**
18-26 years of age	48	1	0	44	0	0
26-31 years of age	87	0	0	85	0	0
31-36 years of age	99	1	1	106	1	1
36-41 years of age	89	0	0	83	1	0
41-46 years of age	67	1	0	75	1	0
46-51 years of age	49	1	0	44	1	0
51-56 years of age	89	3	0	103	3	0
56-61 years of age	91	2	0	86	1	0
61 years of age and older	13	0	0	14	0	0
Women as a % of the total workforce	52.45	33.33	100	52.67	30.77	100
TOTAL MALE EMPLOYEES BREAKDOWN BY AGE CATEGORY	**573**	**18**	**0**	**575**	**18**	**na**
18-26 years of age	35	1	na	29	1	na
26-31 years of age	88	2	na	85	2	na
31-36 years of age	78	0	na	84	0	na
36-41 years of age	81	1	na	70	1	na
41-46 years of age	55	1	na	72	3	na
46-51 years of age	73	3	na	63	2	na
51-56 years of age	58	4	na	71	4	na
56-61 years of age	80	4	na	70	3	na
61 years of age and older	25	2	na	31	2	na
Men as a % of the total workforce	47.55	66.67	na	47.33	69.23	na

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 2018 financial year, the total number of people recruited on permanent contracts was 106, while the number of people recruited on fixed-term contracts was 91. Total hirings rose 20% compared to 2017.

The majority of these recruitments on permanent contracts were at management level (64% of permanent recruitments in 2018 against 67% in 2017). Fixed-term contracts still make up more than 20% of management-grade recruitments.

In line with the gender breakdown of the permanent workforce, the majority of new hires on permanent contracts (52%) were women.

By age, the breakdown was unchanged in 2018 compared to 2017. Most permanent contracts are given to employees under 30 (57%). In contrast, hirings of employees over 40 slowed down.

In 2018, 12 new jobs were created under the strategic business development plan, and two of these new permanent employees were taken on from Groupe BPCE. These figures should be read in the context of the launch of the new ENVOL strategic plan, with its focus on our commitments to employee career paths and efforts to support the move upmarket in two segments: corporates and private banking customers.

Banque Palatine has accelerated its development and reinforced its role as a dynamic economic player in its business sector and in its core business (medium-sized companies and senior executives). At the same time, as part of the launch of its employer brand in September 2018, Banque Palatine has launched a recruitment policy focusing on social networks, expanding the number of ambassadors and expanding our programmes of co-option and employees sponsoring candidates:

- co-option: over the 2016-2018 period, 30 recruitments, of whom 18 were on permanent contracts. Of all sponsorships, only one was unsuccessful (a 3.3% failure rate). This confirms the importance of this qualitative and commitment-based programme which achieves a transformation rate of nearly 100%;
- publication of vacancies: advertisements appear on the Group website with a rapid acceleration of advertising also on Linkedin & Indeed; they are also passed on by our ambassadors or the managers directly concerned by the recruitment. Distribution on highly specialised sites is being used less and less.

	31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Total number of managers hired on permanent contracts	68	3	0	60	1	0
Total number of managers hired on fixed-term contracts	19	1	0	17	0	0
Total number of non-managerial employees hired on permanent contracts	38	0	0	30	0	0
Total number of non-managerial employees hired on fixed-term contracts	72	0	0	57	0	0
Total number of women hired on permanent contracts	55	2	0	49	1	0
Total number of women hired on fixed-term contracts	55	0	0	50	0	0
Total number of men hired on permanent contracts	51	1	0	41	0	0
Total number of men hired on fixed-term contracts	36	1	0	24	0	0

Breakdown of departures by contract, reason and gender

Like the number of hirings, the number of departures also rose in 2018: 142 from permanent contracts, compared to 101 in 2017. 34 Banque Palatine employees retired in 2018, 5 more than in 2017. Reflecting a more dynamic job market in commercial jobs, resignations also rose in 2018.

	31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Number of employees on permanent contracts leaving Banque Palatine	142	3	0	101	1	0
of which number of people retiring	34	2	0	29	0	0
People retiring as a proportion of total permanent staff	3.10	7.69	0	2.56	0.00	0
of which redundancies	11	0	0	6	0	0
redundancies as % of total permanent employees	1.00	0.00	0	0.53	0.00	0
Average length of service of permanent employees leaving Banque Palatine	14.48	19.32	0	13.70	5.60	0
DEPARTURES OF PERMANENT FEMALE STAFF BY REASON	**73**	**1**	**0**	**52**	**1**	**0**
Resignation	*32*	*0*	0	*15*	*0*	*0*
Termination	*6*	*0*	0	*5*	*0*	*0*
Transfer within the Group	*6*	*0*	0	*4*	*0*	*0*
Retirement	*19*	*0*	0	*16*	*0*	*0*
Voluntary redundancy	*8*	*1*	0	*9*	*1*	*0*
End of probation period	*2*	*0*	0	*3*	*0*	*0*
Other reason	*0*	*0*	0	*0*	*0*	*0*
DEPARTURES OF PERMANENT MALE STAFF BY REASON	**69**	**2**	0	**49**	**0**	**na**
Resignation	*33*	*0*	0	*16*	*0*	*na*
Termination	*5*	*0*	0	*1*	*0*	*na*
Transfer within the Group	*10*	*0*	0	*10*	*0*	*na*
Retirement	*15*	*2*	0	*13*	*0*	*na*
Voluntary redundancy	*3*	*0*	0	*5*	*0*	*na*
End of probation period	*3*	*0*	0	*3*	*0*	*na*
Other reason	*0*	*0*	0	*1*	*0*	*na*

Quality of life in the workplace

The Bank and its unions signed an agreement on 23 November 2017 on quality of life in the workplace following a consultation process. This agreement includes 44 measures on 5 essential themes to the development of well-being at work. The agreement was accompanied by 4 other specific agreements: an agreement on variable working hours providing more flexibility on starting, leaving and recovering times, an agreement on sharing time off with company support of 20%, an agreement on the 4-day week and another agreement on exercise of the right to free expression.

2018 was the first year with the quality of life in the workplace policy in force. At 31 December 2018, of 44 planned measures, 22 were achieved, 13 implemented on an ongoing basis, 3 nearing completion and 6 not yet deployed. This record, one year in, shows genuine commitment to implementation and the need to track welfare-at-work actions over time to sustain our continuous improvement policy.

Flagship actions included:

- the creation of an intranet site on quality of life in the workplace, providing information particularly on risk prevention and key contacts;
- sharing of Bank strategy for making work meaningful;
- development of a culture of continuous improvement, strengthening operational efficiency, and in so doing, contributing to the well-being of teams and customer satisfaction;
- development of autonomy, cross-group functions and discussions by the deployment of visual management and co-development;
- deployment of spaces of expression with 100 CR and 441 actions reported;
- training in well-being at work in a changing environment, return from maternity leave;
- a leisure facility budget for each department;
- communications on living well together and targeted sessions (sleep, carers, etc.);
- an appeal for sharing of days off in September 2018, in which employees donated 30 days (with the Bank contributing another 6 days).

Compliance with labour law

Like all responsible employers, the Bank complies with the requirements of labour law. No collective disputes were mounted and a number of differences of interpretation were dealt with by dialogue with the unions.

On this point, the Bank has signed an agreement with all its unions on the law on staff representation and union law. The agreement improves the legal resources available to representative bodies in terms of hours off, additional members or respect for multiple unions.

In 2018, 8 collective agreements were signed, one on forward-looking management of jobs and skills which is fundamental in terms of the responsibility for employability.

Ethics and employees

Regarding professional ethics, the Bank has amended its internal regulations in March 2018 and implemented a whistleblowing procedure that protects whistleblowers; rights (to confidentiality, salary, etc.)

Psycho-social risks - harassment

As part of its policy for preventing psycho-social risks, the Bank has put in place a procedure (tertiary prevention) for handling situations of violence at work and psycho-social risks. The procedure, created in July 2015, has been widely publicised and has a dedicated page on the quality of life in the workplace intranet site. It includes an interview and fact-finding phase and a diagnostic with recommendations. In general, it is run in tandem with representatives of staff (CHSCT) specially trained in conducting difficult interviews. The procedure was used three times in 2018, once for an individual and twice for a collective (dispute involving a working group).

In the case of collective communication problems and interpersonal tensions, the Bank can also invoke mediation, conducted by an external consultant, with the aim of empowering the working group to define better ways of working and communicating. This type of mediation made it possible to resolve difficulties and pacify tensions. It forms part of the executive management's commitment to support the quality of life in the workplace by responding to whistleblowing.

Any new employee also goes through an awareness session on the prevention of psycho-social risks, which highlights operational points to watch in terms of roles and commitment to the quality of life in the workplace.

Accidents at work, occupational health and safety

By the nature of its business, the Bank has relatively little exposure to occupational risks as shown by the frequency and severity rates. Most accidents relate to commuting (home to workplace and vice versa). Just one claim for professional illness was made in 2018 and is currently under investigation.

In 2018, therefore, the Bank decided to review the risk assessment methodology to incorporate a weighting criteria based on actions taken. The aim is to make risk scoring more efficient and more dynamic.

Probability of occurrence is assessed on a scale from 1 to 4:

- 1 = weak: less than 1 time per month;
- 2 = average: 1/4 times per month;
- 3 = high: 1 time per week;
- 4 = very high: more than 1 time per week.

Severity is rated by 4 criteria:

- 1 = inconvenience or material damage;
- 2 = slight injury (with no working time lost);
- 3 = injury (less than 3 months lost);
- 4 = severe injury (more than 3 months lost, invalidity, death).

Finally, the risks are weighted by procedures at the Bank, on the principle that the more automatic the protection provision the more favourable its impact on residual risk.

This new method seeks to better account for existing accident prevention measures in the interest of continuous improvement and set priorities for the prevention plan.

The number of accidents at work rose from 7 in 2017 to 13 in 2018. However, the rise needs to be understood in light of the severity of the accidents declared. As in 2017, only 2 resulted in the employee taking time off work.

	31/12/2018			31/12/2017		
Indicators	BP	PAM	ARIES	BP	PAM	ARIES
Number of accidents at work recorded during the year with and without lost time	13	0	0	7	0	0
Number of fatal accidents recorded during the year	0	0	0	0	0	0
Number of work days lost	93	0	0	7	0	0
Severity rate	0.0449	0	0	0.0034	0	0
Frequency rate	6.27	0	0	3.45	0	0

The number of work days lost is stated as the number of calendar days. It relates solely to workplace accidents, and excludes travel accidents.

Absenteeism

The overall rate of absenteeism at Banque Palatine was 4.82% in 2018, after 5.04% in 2017. Since 2014, this indicator has been the subject of specific monthly monitoring[(1)], with discussion in the Executive Management Committee led by the human resources department, which presents a breakdown of absences by reason, by department and, for the development division, by region.

	31/12/2018			31/12/2017		
Indicators	BP	PAM	ARIES	BP	PAM	ARIES
% absenteeism: days of absence/(days worked × employees on the payroll at 31/12)	4.82	2.29	na	5.04	3.47	na

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. In 2018, 71 employees on permanent contracts had adjusted working hours as part-time work. 91.5% were women, making up 6.5% of all employees on permanent contracts. The number of part-time employees fell in 2018, partly due to retirements.

In accordance with agreements on quality of life in the workplace and GPEC, Banque Palatine initiated new ways of organising working time: the 4-day week and end-of-career leave were put in place in 2018.

(1) This monitoring focuses on absences relating to collective agreements (sickness, maternity, accidents).

These ways of organising working time were in addition to provisions already in place offering variable hours to non-management employees in the offices in Val de Fontenay and rue d'Anjou.

	31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Breakdown of female permanent employees on the payroll at 31/12 by working hours (% of full time)	65	3	na	74	3	na
20%	0	0	na	0	0	na
30%	0	0	na	0	0	na
40%	1	0	na	1	0	na
50%	11	0	na	11	0	na
60%	1	0	na	4	0	na
70%	1	0	na	2	0	na
80%	42	1	na	47	1	na
85%	0	0	na	0	0	na
90%	9	2	na	9	2	na
Breakdown of male permanent employees on the payroll at 31/12 by working hours (% of full time)	6	1	na	46	0	na
20%	0	0	na	0	0	na
30%	0	0	na	0	0	na
40%	0	0	na	0	0	na
50%	3	0	na	3	0	na
60%	0	0	na	1	0	na
70%	0	0	na	0	0	na
80%	3	0	na	3	0	na
90%	0	1	na	0	0	na
Number of women on permanent contracts working part-time, non-managerial	34	0	na	39	0	na
Number of women on permanent contracts working part-time, managers	31	3	na	35	3	na
Number of men on permanent contracts working part-time, non-managerial	0	0	na	1	0	na
Number of men on permanent contracts working part-time, managers	6	1	na	6	1	na

On 16 September 2018, the Work/Life Balance Charter was signed by members of the Executive Committee. The purpose of this charter, designed by the *Observatoire de l'équilibre des temps et de la parentalité en entreprise*, is to recognise the fundamental importance of work/life balance by promoting a managerial culture that respects this, a way to support a better quality of life in the workplace and better performance by the company.

4 themes were addressed:

- exemplary managers;
- respect for work-life balance;
- optimisation of meetings;
- good use of email.

The signing of this charter is a symbolic move which forms part of the dynamic quality of life in the workplace procedure begun in 2017 at UES Banque Palatine.

	31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Permanent contract male/female ratio, non-managerial (average male salary/average female salary)	1.01	nr	nr	1.02	nr	nr
Permanent contract male/female ratio, managerial (average male salary/average female salary)	1.12	1.03	nr	1.14	0.99	nr
Number of women employees taking parental leave in the last year	7	0	nr	7	0	nr
Number of men employees taking parental leave in the last year	0	0	nr	1	0	nr
Number of women employees returning to work after parental leave	5	0	nr	4	0	nr
Number of men employees returning to work after parental leave	0	0	nr	1	0	nr

Overtime (hours)

Regular awareness training for managers and research into new ways of organising working time have helped the Bank reduce the number of overtime hours worked for the fourth consecutive year.

Between 2015 and 2018, there has been a 61% fall in hours paid.

	31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Overtime (hours)	5,166	22	nr	7,172	42	nr
Number of persons concerned	180	1	nr	173	1	nr

Working environment

Work began on the Val de Fontenay office to improve comfort at work and also transformations of the working structures and technological improvements. Working environments were rethought with better lighting and acoustics. Meeting spaces and bubbles were strengthened and cafeteria spaces were completely re-equipped.

This project, whose cost was more than €2.5 million, included several phases. Work began in October 2016 and ended in October 2017.

In 2018, to further improve the working environment and respond to suggestions garnered from right to expression meetings, deliveries of organic dried fruit as well as fresh fruit began in December at the rue d' Anjou and Val de Fontenay offices and all branches.

Finally, regarding working environment, a new branch model was identified. The bank of tomorrow must deliver better, innovative services tailored to the needs of each customer. The new concept will have a dual aim: more convivial spaces to refocus on advisory services and making the most of new technologies. The Banque Palatine branch must ensure the customer can take their own banking in hand (using digital technology), but also offer personalised support, retaining the human touch. This will create comfortable enclosed private spaces where clients can talk easily with their advisor (via video-conferencing if necessary). Reception rooms are 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.

Our employer brand, an asset to recruit and retain talent

To confront our recruitment issues linked to the strategic plan now that the social basics are in place, the "employer brand" project was launched in September 2018. It involves strong slogans:

"Make your talent your biggest asset"

"Stand out with the most demanding senior executives"

"Live excellence without limits"

Today, it is possible to recruit and retain employees with a realistic message and verifiable promise: "the good inside, comes through on the outside".

By highlighting our values, corporate culture and HR policy, based on tangible points: the possibility to change function or location, personalised career paths, support, training, etc. You can make the difference.

Having identified clear visual messages, its media dissemination was defined internally and externally.

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Talent management, career management

Feeling wanted, supported, sustained... The first steps in a company are important for a new employee. This is why Banque Palatine has put in place a comprehensive integration system, which has been built up over the years:

- a digital welcome guide introduces them to practical information on the company;
- an integration day is held at head offices to create links and promote awareness of the Bank's issues and contacts with presentation of the management team;
- a specially tailored introduction programme, with immersion in business lines, encourages cross-group working and meetings with employees: the Palatine Tour.

In addition, "job start kits" for new managers and branch managers were designed in 2018. They summarise the points to master when taking up the job, what is expected of them and how to put these into practice broken down by theme (process, tools, contacts, etc.).

Since the summer of 2018 the "Welcom'In" application has been in place. It supports the employee before he or she physically arrives in exploring the company, allowing them to be rapidly operational. Through a series of mini-challenges, the app helps new employees learn about their new environment.

Besides these integration processes, specific tools have been designed for managers. They are a key population for passing on the company's strategy to teams, and Banque Palatine has chosen to support them.

Forward-looking career management

Commensurate with its size, the diversity of its activities and business lines, Banque Palatine wants to offer everyone the opportunity of a motivating and dynamic career path: developing expertise in their area, switching between businesses, for instance by becoming a manager, changing business line or changing region, etc... giving everyone their own professional project.

To support the construction of these projects, Banque Palatine applies various processes: personalised support from a dedicated human resources officer:

- business line pathways which help identify various possible professional pathways in multiple types of business line pathways. In 2018, this tool was enriched by presentation of an associated training pathway, supporting transfer from one job to another (training in the business line, regulations, required skills);
- short videos of company business lines: a dynamic presentation of missions, required skills and business challenges to meet by 2020;
- internal events to promote mobility and support career planning: business line forum (new in 2018):
  - an initial day, based on dialogue and conviviality, was held in June 2018 to inform employees and set out their career options in the Bank. This day brought together 55 employees and obtained a 95% satisfaction rate. It included a group session led by a career development coach, a presentation of the Bank's mobility tools and procedures, presentations by employees, CV/covering letter workshops and introductory meetings with business lines,
  - a second day on external mobility was held on 21 September. With more than 60 participants, this day revolved around conferences and interactive workshops;
- the posting of 30 model CVs on PLATEFORME CV (for jobs at Banque Palatine) which employees can use and personalise as they wish;
- the Mobiliway website, compiled by BPCE's group HR department, pulls together useful information and practical advice to prepare career paths;
- geographical mobility support measures: attractive measures within Banque Palatine (finding accommodation, help with housing, temporary transfer costs, etc.). Implemented in 2015, they were updated in 2018;
- the "Vis ma vie" programme: an exploratory placement (a maximum of 5 days) is offered to all employees considering a career switch to another area of business. This immersion must be approved in advance by the HR officer, depending on the profile and skills required for the target job.

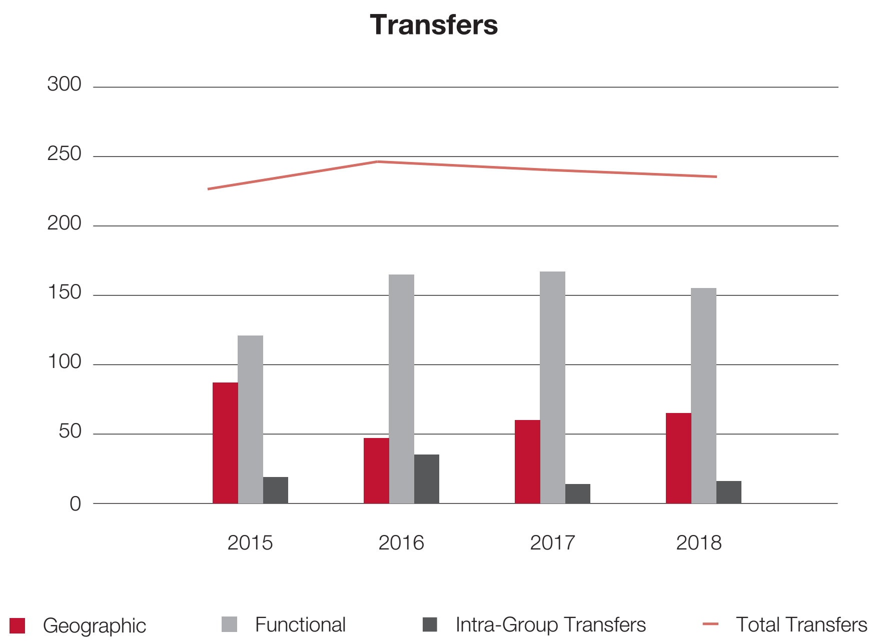
In 2018, 21 employees took advantage of an immersion placement in a new department. The "Vis ma vie" experience totalled 51 days, an average of 2.5 days per employee. This experience helps employees who want to develop their career to discover the teams and content of a professional area from the inside and endorse their career plan;

- finally, annual staff reviews allow the drafting of individual and/or collective action plans for skills and future career paths. This tool, and the use to which it is put, provides a comprehensive and qualitative overview of the company's skills and performance and is crucial to implementation of the GPEC policy.

Employee mobility

Banque Palatine has 46 branches throughout France and 2 head offices near Paris. By using geographical mobility, the company can provide a host of opportunities to exploit the wealth of human capital and skills of each employee. Mobility has numerous benefits. At key life moments, it can be a source of motivation, professional enrichment and career management.

The *Agence Française Bancaire* (AFB) method distinguishes between geographical and functional mobility. Geographical mobility is recognised when an employee moves to a different *département* (French administrative region), while functional mobility is defined where there is a change of job. Figures for 2018, on employee mobility, follow a similar trend to recent years and remain strong with 236 movements recorded.



The practical guide to geographical mobility was updated in September 2018 and accessible to all employees via the intranet.

A total of €123,991 was committed to support the 65 geographical transfers in 2018.

Training: supporting the development of skills and employability

The training policy fully supports the Group's ambitions for the training and skills development of its employees.

In a fast-changing and demanding banking environment, with an ambition to move up market and nearly 31,173 training hours delivered in 2018 (29,611 hours in 2017), Banque Palatine continues to invest in developing the skills of its employees.

Training programmes in 2018 were implemented as follows:

- continuing support for the commercial network, banking services and business lines;
- embedding and renewing support for the whole of management;
- supporting the high-quality social environment and the quality of life in the workplace programme;
- promoting appropriation of new processes;
- maximising staff employability and making them actors in their career development:
  - enhancing the skills of everyone,
  - moving from an exclusively prescriptive approach to training to a mixed model that encourages employee proactivity and commitment,
- ensure that we meet our obligations relating to regulatory training;
  - compliance;
  - operational risks/BCP;
  - security of people and property;
  - Mortgage credit directive (MCD);
  - Market in financial instruments directive (MiFID2), Insurance Distribution Directive (IDD) and the Packaged Retail and Insurance-Based Investment Products (PRIIPs) Regulation;
  - IFRS 9;
  - the SRAB law and Volker rule.

Two meetings were held during the last quarter of 2018 to better inform employees about the personal training account, recognition of experience gained and competence statements, and to promote these systems to employees.

As regards training plans, Banque Palatine has adopted the following transformative initiatives:

Shared actions in private banking and corporate customer markets

O2S training

This new tool for branch network employees means we can get to know our saver customers better, offer them investment solutions that best fit their financial circumstances and risk profile, and monitor their investments over time. To support adoption of this new tool, contacts were appointed, trained and sent out to spread their know-how in the branches.

Targeted actions in the private banking market

Inheritance planning training

The "Inheritance planning and gifts" module, based around commercial techniques, was implemented to support private banking employees in tracking successions.

Targeted actions in the corporate banking market

Relational approach to the senior executive during the conquest and retention phase and excellent service.

This training seeks to support the upskilling of our sales force in how to approach our senior executives.

Syndicated loans

The aim is to introduce employees to understanding and managing syndicated loans to offer and distribute this type of finance to customers.

Roll-out of the new leadership and management offer

Support for management was continued, extending the actions of the last few years through a new format:

- a shared base of 2 modules: "incorporating soft skills in your management" and "Encouraging collective intelligence and synergies";
- co-development workshops for all the network's commercial regions and regulated real estate professions;
- a 360° system for the executive committee and self-assessment for head office managers, followed by 2 half-days of coaching.

Regulatory training

@ – MiFID2/ DDA/ PRIIPS – corporate and private banking customers

To support employees in the new regulatory environment an e-learning campaign was rolled out for the employees concerned, on best practice in savings interviews.

Mortgage credit directive (MCD)

Mandatory support in this area continued in 2018 via a campaign launched late in the year.

Skills development training

- "Bachelor" branch wealth manager course (January to June 2018)
- All 8 of the 8 employees who signed up successfully passed the wealth management bachelor diploma (first degree equivalent)
- Private banking branch manager to combined branch manager

2 employees took this training programme qualifying them for a post as combined branch manager.

Training hours

	31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Average hours of training per employee, “managers”	26.6	8.6	nr	28	30	nr
Average hours of training, “non-managerial” staff	17.6	0	nr	18	0	nr
Average number of hours of training per employee	23.6	8.6	nr	24	24	nr
Average number of hours of training by gender			nr			nr
Men	25.5	9.7	nr	27	33	nr
Women	21.8	6.5	nr	22	12	nr

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).

It has versions for each of the company's business lines, and a human resources action plan: the Human Impacts Management Plan (HIMP). It will be automatically triggered if the EBCP is launched.

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 December 2018, the skills map for the whole company identified 96 critical activities and the associated critical procedures. 155 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 2018, the percentage of female directors on the Board of Directors was 62.5%.

On 18 December 2018, Banque Palatine held a conference led by Emmanuelle Gagliardi, Chairman of the **Connecting Women** agency and a specialist in gender balance and social networks, to share with her audience her 9 key ways to boost your career. From setting career aims to building networking links, the programme was richly informative.

Also, a guide to parenting was implemented in 2018 setting out the legal and conventional provisions available.

Disability

In 2018, in France, the obligations to employ workers with disabilities were streamlined with the law on freedom to choose your professional future. A second consultation period will pave the way in 2019 for an updated service offering to support career paths for workers with disabilities.

Since 2014, Banque Palatine has taken concrete steps to hire people with disabilities. It provides local confidential support to meet the demands of employees.

In 2018, 4 new statements recognising workers with disabilities were recorded, including 2 in respect of newly hired people. Banque Palatine allowed 6 employees in 2018 to benefit from individual working time and workstation arrangements (bigger screens, ergonomic seats, teleworking, etc.) to keep them in employment.

On the action front, following the agreement on quality of life in the workplace signed in November 2017, including 44 measures, some either directly or indirectly supportive of people with disabilities (sharing of days off, guide for carers, etc.), Banque Palatine was able to provide concrete support to employees dealing with difficult circumstances.

The partnership with Made In TH, initiated during 2017, was not continued in 2018 due to the low number of interviews carried out by the Ambassador for this company, who is a recognised disabled worker, despite plenty of communications, notification of availability and an absolute commitment to confidentiality.

In light of changes to the regulatory framework around disability, the Bank delayed the signing of an agreement with AGEFIPH, expected in 2018, to analyse the focus on the direct employment rate (including a substantial number of new hirings) and work-study placements it could offer.

	31/12/2018*			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Number of employees with disabilities excluding ESAT	31	1	na	45	1	0
% of employees reported as disabled excluding ESAT/total workforce (permanent)	2.82	3.85	na	3.97.	3.85.	0

** 2018 data will be reported following the DOETH declaration due by 01/03/2019.*

Based on its use of the STPA (protected and adapted work) sector, Banque Palatine forecasts a beneficiary unit score just above its target of four in 2018.

One beneficiary unit is the full-time equivalent of one disabled worker. The number of beneficiary units in a company is obtained by converting the amount of the supply or service provision contracts concluded with organisations helping disabled people into employment. This number is deducted from the compulsory disabled employment figure (DOETH – *Déclaration obligatoire d'emploi des travailleurs handicapés*) for this company.

Therefore, Banque Palatine is successfully continuing to support the protected and adapted sector.

	31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Proportion of the total workforce consisting of disabled employees (resulting in tax reductions), including those working for disability-oriented social enterprises (DOETH figures)	0,036	0,059	?	0,039	0,059	?

Anti-discrimination policy

At end-2017, the executive management signed a new agreement on professional gender equality with the unions.

This agreement, as an extension of previous agreements, sets out the actions and objectives for growth in the following areas:

- recruitment;
- professional training;
- professional development and career path;
- effective remuneration;
- work-life balance;
- awareness-raising and communications.

It extends the provisions of the previous agreement and sets up new measures to strengthen the Bank's professional equality policy in terms of quality of life in the workplace process, such as:

- long-term sustainability of the agreement by the body examining individual situations;
- maintaining employees' remuneration when on paternity leave;
- developing so-called employee development training programmes and setting up training specific to the return from maternity leave;
- a partnership with a network of nationwide day-care centres to facilitate employees' access to this type of care (the "Les Petits Chaperons Rouges" system will be presented in January);
- the increase in the employer's contribution to the CESU cheques (change from 80 to 90%).

All these provisions came into force on 1 January 2018.

The universal employment services cheque (CESU) set up through a collective agreement on 25 November 2016, was initially paid by the employer up to 80% of the exemption ceiling authorised by the URSSAFs (social security contribution collection offices).

In 2018, coverage was raised to 90%. This equates to a contribution of €1,647 for employees:

- who are parents of children under eight, with the aim of participating in the childcare costs incurred;
- who are disabled according to the DOETH definition (mandatory declaration of the employment of disabled workers).

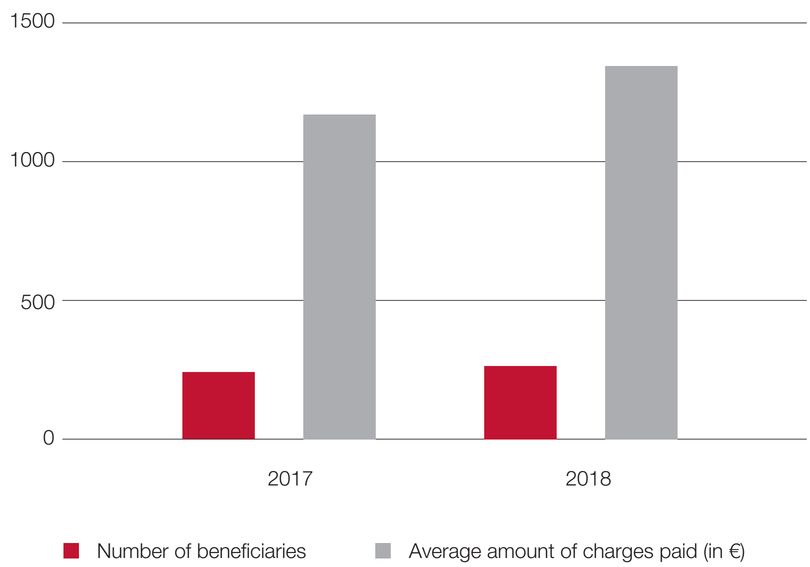
It enables participation in the financing of the following services:

- childcare for children under eight in the home and outside the home (day-care centre, day nursery, kindergarten, extra-curricular child-minding, outdoor centre for children under six);
- assistance services for disabled employees.

The system benefited 264 employees in 2018, 23 more than in 2017. Payments increased by 25%, in line with the increase in employer participation.

	31/12/2018	31/12/2017
	BP	BP
Total amount paid	€355,070	€281,940

Chèque Emploi Service Universel (CESU)



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 2018, 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.).

13 Banque Palatine employees signed up to be sponsors, supporting 14 young graduates.

A remuneration system aligned with the Bank's interests

Basic remuneration

In an environment of heavy employee turnover (see above, 1- General HR Policy: more than 12% of the permanent headcount was renewed in 2018), the average basic salary for men was stable: +0.2% for managers, +0.3% for non-managerial staff. For women, basic salary grew 1.2% for non-managerial staff and 1.9% for managers.

Median salary readings confirms the effectiveness of the remuneration policy on basic salaries as, despite a high turnover of employees, median salary rose significantly: +2.1% for non-managerial men, +1.58% for non-managerial women and +2.2% for women managers. Only the median salary of men managers fell slightly: -0.3%.

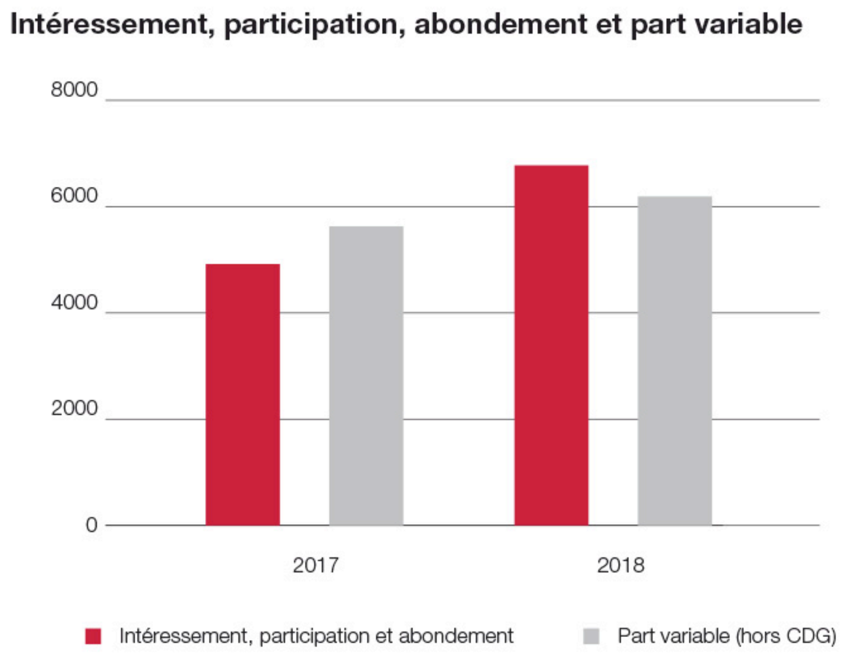
This shows that new hirings were on good salaries and that existing employees were able to raise their earnings thanks to the increase and support measures put in place by the Bank.

Additional remuneration

Ever since the new variable remuneration systems for all employees of Banque Palatine was launched, amounts paid out under the scheme have been growing. Between 2017 and 2018, payments rose again by 10%. Compared to the last payment under the previous scheme, this is a 20% increase.

Amounts distributed as incentives, shareholding and employer's contributions are also rising, partly due to the employer's incentive contribution being paid into the PEE and/or the PERCO.

Profit-sharing, incentive plans, employer's contribution and variable portions



In 2018, employees working the full year once again received their individual employee statement. The statement lays out all direct or indirect components of remuneration received by each employee:

- training passport;
- direct and additional remuneration;
- deferred remuneration;
- Employer's contribution to financing social security.

The individual employee statement also included information on the “apetiz” digital lunch voucher system, benefits for employees from the staff agency with the CESU (cheques for universal employment services), and a list of useful contacts (mutual insurance, personal protection, works council, housing promotion scheme, etc.). The change in remuneration between 2014 and 2017 is also given, in this way creating a four-year trend.

	31/12/2018			31/12/2017		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Average basic salary for men on permanent contracts, “managers” (in thousands of euros)	58	68	nr	58	68	nr
Average basic salary for men on permanent contracts, “non-managerial” (in thousands of euros)	33	0	nr	33	0	nr
Average basic salary for women on permanent contracts, “managers” (in thousands of euros)	52	66	nr	51	68	nr
Average basic salary for women on permanent contracts, “non-managerial” (in thousands of euros)	33	0	43	32	0	43
Median basic salary for men on permanent contracts, “managers” (in thousands of euros)	53	63	nr	53	60	nr
Median basic salary for men on permanent contracts, “non-managerial” (in thousands of euros)	33	0	nr	32	0	nr
Median basic salary for women on permanent contracts, “managers” (in thousands of euros)	48	59	nr	47	60	nr
Median basic salary for women on permanent contracts, “non-managerial” (in thousands of euros)	33	0	43	32	0	43
Year-on-year change in median basic salary for male “managers” on permanent contracts	1.00	1.05	nr	1.00	0.92	nr
Year-on-year change in median basic salary for male “non-managerial” on permanent contracts	1.02	nr	nr	0.99	nr	nr
Year-on-year change in median basic salary for female “managers” on permanent contracts	1.02	0.98	nr	1.00	1.01	na
Year-on-year change in median basic salary for female “non-managerial” on permanent contracts	1.02	nr	1,00	1.01	nr	1.03

Banque Palatine's national footprint

Socio-economic footprint as buyer

Ethics and suppliers, subcontractors, service providers

In 2018, Banque Palatine created a procurement unit within the procurement and real estate department to cover all the Bank's expenses. The procurement unit undertook to respect an ethical charter by defining 9 commitments:

- to select the best suppliers through a transparent and equitable process based on clear selection criteria;
- to treat suppliers fairly and never consider personal interests to prevent any risk of conflict of interest or corruption arising;
- to contribute to the company's commitment by paying special attention to suppliers with strong CSR programmes;
- to maintain an atmosphere of mutual respect with suppliers and inform suppliers who have not been selected;
- to promote loyalty among strategic and local suppliers and foster partnerships;
- to respect the confidentiality of commercial and technical information provided by suppliers;
- to listen to the market to identify innovative companies (in social or technological areas);
- to actively promote ways to improve performance;
- to limit business lunches/dinners when these are wholly paid for by the supplier.

These commitments allow Banque Palatine's buyers to develop sustainable and equitable relationships with suppliers.

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.

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.

The unit may also act as whistleblower when investigating issues affecting the candidate's reputation. Where doubts arise, the issues identified are notified to the end-user who is invited to continue the investigations into questions of reputation, social or environmental attitude, or other issues.

Also, during each call for tenders, Banque Palatine includes the social policy that the Bank wants the candidate to follow.

At each call for tender, Banque Palatine commits its candidates and future suppliers to comply with the various CSR standards and regulations in force and relevant to each suppler. 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 at tenders 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. CSR considerations make up 5% of the final score when choosing each candidate.

BPCE Achats measured the social and economic footprint of its worldwide purchases using the Local Footprint® model which simulated as closely as possible the economic performance of a supplier in 380 business activities based on updated national and international statistics.

This measure highlighted the positive impact of purchases made by Groupe BPCE, including Banque Palatine, in France and the regions in terms of jobs and wealth creation over a €3.5 billion spending scope with 98,702 FTE jobs supported in France and €5 billion of wealth generated in the French economy.

Banque Palatine spends 98.3% of its total procurement budget with suppliers whose billing address is on French territory.

BPCE Achats, on behalf of Groupe BPCE, in accordance with law on its due diligence obligations, draws up a common map of CSR risks for each procurement category. This allows the Bank to quickly identify risks of serious violations of human rights and fundamental freedoms, risks to health and safety and to the environment and to prioritise the actions to take by procurement category. This risk map, still under study at Banque Palatine, seems to us to be a tool to develop with each tender process as part of our Responsible Procurement process. In 2019, we plan to present and include it throughout the Procurement process.

Procurement unit and the PHARE process

Banque Palatine has for many years taken part in the PHARE talks organised by Groupe BPCE, and in 2012 was awarded a special jury prize.

In 2018, Banque Palatine played an active part in the regional format of the PHARE talks. The fourth year of this new format was held in the Paris region, bringing together 13 companies with a focus on innovation. For Banque Palatine, this talk allowed it to showcase its partnerships with the STPA (protected and adapted work) sector, which has continued to grow over recent years. Also, 4 of Banque Palatine's suppliers have made pitches or provided feedback. Partnerships have diversified over the years and Banque Palatine has developed its network and adapted its needs to new demands.

During most tenders for service providers, companies from the protected sectors are invited to bid alongside other companies, either directly or indirectly as co-providers, under three-way contracts, etc.

Groupe BPCE and Banque Palatine have undertaken a number of actions to encourage the use of STPA firms and simplify procedures.

At Group level, e-learning programmes have been made available to buyers in a learning pathway format to raise awareness of the subtleties of regulations in the French Labour Code, the calculation of UBs (profit units) and other issues related to the protected and adapted work sector. Disabled contacts have also been appointed to answer questions from Group employees.

Banque Palatine has subscribed to the Gesat network so that buyers can access discussions, training and information and meet new players in the field.

Taken together, these measures have helped increase purchase volumes from companies in the protected sector: in 2015, Banque Palatine had 12 contracts with protected sector companies compared to 20 in 2019.

Use of protected and adapted work sector

	2018	2017	2016
Volume of purchases (in euros excl. tax)	113,000	81,306	94,630
Number of UBs[1]	**5.73**	4.13	4.30

Banque Palatine's target is to be dealing with six profit units (UBs) by 2020. To achieve this, sustainable contracts have been put in place and companies are encouraged to form three-way contracts or create an agreement.

Socio-economic footprint as investor

Bids that favour energy, ecological and solidarity transition: renewable energy and SRI

The Groupe BPCE is a French leader in renewable energy finance. The regional roots of the Group make it an essential financier of local projects. Its two networks are based on the expertise of several specialist subsidiaries which develop solutions to meet the requirements of this fast-changing market.

Groupe BPCE's loan book to renewable energies totalled €7.5 billion at 30 June 2018. The portfolio is concentrated on solar energy (42%) and wind (33%) and mostly located in France (63%).

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-fueled generation. These energies are also known as green energies in contrast to fossil fuels (oil, coal, gas, etc.) and nuclear (due to problems with its waste).

Banque Palatine, as part of Groupe BPCE's commitments, has included in its Envol strategic plan an aspiration to significantly reduce CO_2 emissions from its activities. The decision to finance renewable energy projects is intended not only to support its customers but also to encourage the design of energies that generate little CO_2 in use. Green offering - Renewable energies are therefore an essential component and consistent with Banque Palatine's CSR policy.

The differentiating offer department of the corporate market department investigates the renewable energy market as well as the economic, legal and technical features of each proposed funding project, to make safe and profitable loans. Most financing goes to wind or solar projects as these are the best established technologies.

(1) One beneficiary unit is the full-time equivalent of one disabled worker.

The 2018-2020 targets mainly pursue the acceleration of structured finance, relying on a competitive benchmark, to study new renewable generation sources and expand the portfolio, while still taking into account regulatory changes and market trends.

Socially responsible investing	31/12/2018	31/12/2017	31/12/2016	31/12/2015
SRI investment outstanding (in millions of euros)	66.7	30.1	26.7	59.2
Share of installed capacity				
Wind MWp	9.28	17.22	10.70	8.38
Photovoltaic (MWp)	33.80	8.06	20.86	6.71
Hydro-electric (MWp)			9.76	0.66
Investment (in millions of euros)	**70.7**	59.5	82.8	20.8

Responsible investment at Palatine Asset Management

Incorporating environmental, social and governance (ESG) criteria into the analysis makes it possible not only to better analyse the risks and opportunities linked to a stock but also, on a wider perspective, to combat global warming (manage climate risks and contribute to funding the green economy). Banque Palatine thus offers the possibility to invest in three SRI certified themed funds (Palatine Or Bleu, Palatine Actions Défensives Euro, Palatine Entreprises Familiales ISR) and one generalist fund (Palatine Actions Europe) managed by its portfolio management subsidiary Palatine Asset Management.

Palatine Asset Management has for years been committed to factoring climate risks into its investment. Ever since 2005 when it launched its renewable energies fund, anticipating the interest of investing in sustainable development and low-carbon models to combat global warming. It subsequently developed its range of environmental impact savings products with the creation in 2006 of Palatine Or Bleu.

The PEA-eligible Actions Monde fund invests in companies involved in water-related activities. This natural resource comes under increasing pressure every day due to climate disturbances and ceaseless growth in demand from demographic trends.

The theme favouring sustainable development solutions was enhanced with the incorporation of the socially responsible investment element. In 2007, the Palatine Or Bleu investment process was refined by adding an environmental, social and governance (ESG) filter. This filter is a tool for risk management, competitive strategy and stakeholder management.

The SRI principles were subsequently applied to two other funds: Palatine Actions Défensives Euro and Palatine Entreprises Familiales ISR.

Finally, since December 2018, the generalist fund Palatine Actions Europe was transformed into an SRI fund. As part of the Envol strategic plan and "Green Business - SRI Offering" project, Palatine Asset Management is committed to gradually disseminate SRI principles throughout its traditional asset management portfolio. Similarly, major communication and educational programmes will be deployed with the sales force to publicise this type of investment to savers.

An SRI investment policy for the four funds, and the Transparency codes, were drafted and are available on the Palatine Asset Management website.

Three of the four SRI funds (Palatine Or Bleu, Palatine Entreprises Familiales ISR and Palatine Actions Défensives Euro) were SRI certified by Novethic from 2009 to 2016 and in 2017 were SRI certified by Ernst & Young. This ensures that savers have better visibility of SRI products, while guaranteeing that their management is based on sound methodologies with a requirement for substantial transparency and high-quality information.

All investment managers have direct access to ESG research (data provided by Vigeo, ETHIFINANCE and internal ESG ratings) as well as to Trucost environmental data. This is an instructive starting point which forces them to lay special emphasis on certain non-financial issues, such as environmental and social impacts, in their analyses and decisions.

This commitment takes the form of a dialogue with companies in all fields of ESG through seminars, informative meetings and one-to-one meetings.

Since the end of 2016, Article 173, particularly clause 6 of the Energy Transition for Green Growth law imposes, for the first-time, obligations to report on how climate risks are managed and the environmental impacts of investments. These indicators have been published in the report of 31 December 2018 for:

- the four SRI funds with outstandings of €66.7 million, i.e. 2.1% of total outstandings;
- Ocirp Actions, a euro zone equity fund within the framework of our customer relations; and
- Palatine Moma, a short-term money market fund with net assets of more than €500 million.

There are plans for a substantial increase in SRI equities under management to near 10% of total equities by end-2020.

Carbon footprint measurements of investments incorporate companies' carbon emissions (Scope 1[(1)] + First Tier Indirect). This is presented compared to revenue to gauge the operational efficiency of companies in the same sector. Similarly, the proportion of investment dedicated to solutions focused on a low-carbon economy (the proportion of "green" versus fossil investments) is also calculated to help concentrate on the least polluting sectors – renewable energies, energy efficiency, etc.

PAM does not aim to concentrate on sectors with low carbon issues, but rather to select those companies most committed to reducing carbon emissions.

(1) Scope 1 is the most restricted scope for calculating GHG emissions in a carbon or GHG assessment. When measuring Scope 1 GHG emissions we only measure emissions that are a direct consequence of the activities controlled by the company.

Voting policy (PAM)

Finally, Palatine Asset Management votes on all the shares in its portfolio.

For this, the investment management company has since 2015 been able to call on the expertise of the ISS (Institutional Shareholder Services Europe SA) voting consultancy to expand its voting scope. In 2018, Palatine Asset Management has exercised its voting rights at 320 AGMs across the whole of Europe, not including countries where it has granted powers of attorney. The aim is to promote good ESG practices in companies where Palatine Asset Management is a shareholder to encourage them to implement forward-looking socially responsible processes. The global participation rate was 94.1%.

The principles underpinning this voting policy are available at: www.palatine-am.com.

Our social footprint as sponsor

Fondation Palatine des ETI

The foundation project was born of Banque Palatine's ambition to strengthen its sponsorship while directing it more concretely towards a social project close to its core business: entrepreneurship. Its primary aim is to build, alongside senior executives of medium-sized companies, a shared and collaborative sponsorship policy to cultivate different relationships between the Bank and its customers by showcasing their shared ideas. This initiative will also support mid-sized companies in growing their social contributions. In this framework, the Movement of mid-sized companies (***Mouvement des entreprises de taille intermédiaire***, METI), which Banque Palatine has belonged to for many years, has an active role in the foundation and sits on its decision-making bodies.

The mission of this foundation is to spread the entrepreneurial commitment to service through better social integration in whatever field of expression. The collaborative aspect is the main driver of the project with, notably, the pooling of the companies' resources for action, specific involvement of senior executives, but above all, support programmes over the long term. These support programmes, which may be financial or skills sponsorship, are a source of support for associations dedicated to promoting entrepreneurship and essential missions. The associations are selected based on the strategic choices made by the Steering Committee.

To facilitate its creation and concentrate on concrete solutions, Banque Palatine opted to use the model of a "sheltered foundation" under the aegis of Fondation Entreprendre, which shares its mission to develop entrepreneurship in France. The Fondation Entreprendre has been recognised as a public benefit foundation since 2011 and provided valuable support in setting up the Fondation. La ***Fondation Palatine des ETI, Mécènes ensemble*** (sponsorship together) is the eighth foundation under the aegis of Fondation Entreprendre.

The ***Fondation Palatine des ETI, Mécènes ensemble*** is a structure created and managed by Banque Palatine. It fits naturally into the Envol strategic plan and its CSR programme. Therefore, it is essential that the foundation become the flagship for Banque Palatine's social commitment, externally but also to its own employees. This support tool shows a real desire to make Banque Palatine an indispensable player in sponsorship of mid-sized companies, allowing employees to feel involved in its actions.

The foundation's strategy is set by a Steering Committee bringing together senior executives of medium-sized companies and community leaders. The Committee met for the first time on 26 October 2018 and laid down two lines of action that will guide the foundation in 2019. Donors, including Banque Palatine, will finance the associations who will in turn offer long-term support to entrepreneurial projects in disadvantaged regions or to support the return to work of ex-prisoners.

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, Mécènes ensemble*** will support associations that support entrepreneurial projects in these difficult zones.

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.

This is a real social issue and the ***Fondation Palatine des ETI, Mécènes ensemble*** will support associations that support in turn projects that offer second chances through entrepreneurship.

To bolster collaboration, the ***Fondation Palatine des ETI, Mécènes ensemble*** offers its donors the chance to help select projects by voting at each call for proposals.

A call for proposals will be launched at the start of 2019 to allow invited associations interested in working in the pre-defined action themes to submit their bids for one of the grants created by the foundation.

Other partnerships and sponsorships

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 way of contributing once again to encouraging talent and diversity in film.

Social integration

Eager to encourage social and geographic diversity within higher educational institutions, since 2010 Banque Palatine has forged a partnership with the Institut d'études politiques (Sciences Po) under the priority education agreements.

The two institutions are committed to diversified recruitment taking social and geographic criteria into account. Banque Palatine provides assistance in the form of grants and tutorials to deserving pupils.

It also proposes:

- having several of the Bank's managers serve on the panels selecting pupils from priority education areas;
- tutoring of pupils from the priority education agreements by the Bank's managers;
- internships;
- setting up presentations of business lines for pupils.

Environmental footprint

Environmental footprint and the group

Reducing the Group's environmental footprint in its own operations is one of the pillars of its CSR strategy for 2018-2020: the Group has set itself the objective of a 10% reduction in its carbon emissions by 2020.

This intention is reflected by a robust and proven system for Group environmental reporting and the many campaigns to raise awareness of good practices.

With this in view, awareness raising sessions were run, open to all business lines:

- awareness of CSR, energy and climate issues: in 2018, two sessions were held with Group employees;
- training in CSR reporting: one session was held to inform the employees concerned about the system for collecting indicators and using IT tools for inputting and reporting on CSR issues;
- training in the Group's GHG emissions measurement software: two training sessions were run for all employees who would be using the tool, as well as a panel of correspondents from General Resources. These training sessions were accompanied by a welcome pack.

The Bank's environmental approach

In its Envol strategic plan, Banque Palatine decided to step up its commitment to the environment. One project is dedicated to reducing its environmental footprint to build on and extend actions already under way.

Methods of action

Banque Palatine chose to act through:

- maintaining the supply of green energy (including Direct Energie via a Call for Tenders);
- transport modes other than the private car - Online car-sharing site on the intranet: http://palatine.trajetalacarte.com;
- re-use of materials replaced by associations (blue circuit);
- continuing awareness-raising among employees and reporting progress on this front;
- responsible procurement: under the PHARE programme, expanding the proportion of environmentally responsible suppliers of goods and/or services.

Banque Palatine, with the encouragement of Groupe BPCE, is also continuing to implement actions intended to reduce its carbon footprint:

- by reducing its energy consumption;
- by improving the energy efficiency of its buildings;
- by encouraging its staff to limit their energy consumption at its main sites.

The principle of a compulsory energy audit, stipulated by European Directive 2012/27/EU relating to energy efficiency, was enshrined in Act No. 2013-619 of 16 July 2013. Article 40 of the Law inserts a new chapter devoted to the energy performance of companies in title III of book II of the French Energy Code, with four Articles, L. 233-1 to L. 233-4, which constitute the legislative basis of the compulsory energy audit and which set out the sanctions mechanism.

A decree from the Council of State of 4 December 2013 sets thresholds beyond which a legal entity must carry out an energy audit. Decree No. 2014-1393 and its implementation order of 24 November 2014 stipulate the terms for exemption in the case of an energy management system, audit scope and methodology, procedures for sending documents authenticating regulatory compliance, terms and qualification criteria for external service providers, and criteria for the recognition of the internal auditor's competence.

In accordance with regulations, Banque Palatine carried out its energy audit before 5 December 2015. It was studied with a view to developing an energy efficiency strategy for all buildings occupied by Banque Palatine with action plans to be rolled out as from 2017. This was reflected when the Val de Fontenay buildings were being modernised by changing from fluo compacts to the more energy-efficient leds, for lighting in corridors, offices and conference rooms. Furthermore, automatic light detectors were installed on the landings and in the toilets. Lastly, for switching on the lights, clocks were installed to work from 7.30 a.m. to 9 p.m.

The circular economy aims to produce goods and services while limiting consumption and wastage of raw materials, water and energy sources. For Banque Palatine, this means prevention and management of waste and sustainable use of resources (water, raw materials, etc.).

With regard to environmental information, it was decided from now to ensure that the information is correct. Consequently, environmental information is provided for a period from 1 November of year n - 1 to 31 October of year n.

Energy consumption

As regards business travel, Banque Palatine encourages its employees to use the cleanest forms of transport, particularly trains and other public transport.

Furthermore, a driving booklet, produced in-house, was given to users of company and/or fleet vehicles.

	31/10/2018			31/10/2017			31/10/2016		
Indicators	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**	**BP**	**PAM**	**ARIES**
Petrol consumed by company cars	7,815	2,453	nr	4,162	3,679	nr	4,699	4,158	nr
Petrol consumed by fleet cars	2,726	nr	nr	1,709	nr	nr	33	nr	nr
Diesel consumed by company cars	49,945	nr	nr	35,714	nr	nr	39,038	nr	nr
Diesel consumed by fleet cars	70,325	nr	nr	61,154	nr	nr	71,457	nr	nr
Business travel in private cars (km)	167,308	nr	20,462	182,010	nr	21,104	212,397	nr	23,795
Average grams of CO_2 per km for company and fleet cars	95	nr	nr	93	nr	nr	na	nr	nr
Business travel by train (km)	2,711,684	15,688	nr	3,059,820	25,377	1,348	na	16,582	2,634
Business travel by air, short-haul (km)	675,842	6,104	1,176	761,776	6,028	nr	na	na	nr
Business travel by air, medium- and long-haul (km)	31,983	nr	nr	19,680	nr	nr	na	na	na

Most meeting rooms have videoconferencing or conference call equipment to limit and optimise travel between the two head offices. All branches were also equipped with screens to allow remote conferencing.

Continuing optimisation of travel planning in partnership with service providers remains a permanent priority to reduce greenhouse gas emissions and the number of deliveries. Since 1 June 2016, the network has had only one mail collection/delivery per day to optimise transporter rounds without impairing the quality of service to our branches.

All journeys made inside Paris itself are exclusively by bicycle or electric vehicle, which helps reduce the Bank's carbon footprint. In addition, fleet vehicles are selected on the basis of their low emission of CO_2.

The corporate travelling plan (PDE) or mobility plan encourages the use of transport modes other than the private car. Its implementation is encouraged by the public authorities. It has a large number of advantages for employees and companies.

Banque Palatine is in line with this approach for the two central sites with more than 100 employees on each one. The analysis of accessibility and the survey carried out in October 2017 on commuting enabled us to study alternative solutions for more economic and more ecological travel.

Some actions are already in place: repayment of cycling mileage allowances, driver's booklet, travel policy, fleet of clean vehicles.

In 2018, other actions were carried out as an extension of the corporate travel plan:

- teleworking;
- a site for employees for carpooling and encouragement to use Citymapper (urban travel mobile application and route calculations);
- increased amount paid for transport season tickets for employees in the two head offices.

Water management

Banque Banque Palatine Group indicators	31/10/2018		31/10/2016
Total water consumption (m^3)	286,936	275,234	277,446
Total water consumption per m^2	9.58	8.92	9.00
Total spending on water (in thousands of euros)	4.44	8.28	7.26

** This figure corresponds to the amounts of bills paid directly by Banque Palatine. Water consumption included in building charges is not recognised.*

Raw materials consumption

Better management of printing and the use of EDM explains why the number of reams of paper used continues to decline, by more than 42.5% since 2016. The paper used is now entirely recycled or certified.

Banque Banque Palatine Group indicators	31/10/2018	31/10/2017	31/10/2016
Total paper consumption (tonnes)	46	51	80
Total paper consumption for the total workforce (tonnes)	37.50	40.94	53.00
Of which total consumption of recycled paper or FSC or PEFC-certified paper (tonnes)	**46.16**	50.94	65.29

Energy consumption

Total electricity consumption continues to fall, which is a positive and virtuous trend.

Gas consumption is declining sharply. Three branches have converted to electricity.

Since 2016, 99% of the network's branches and the two head offices have changed over to green energy. Only four branches are retaining regional providers (Metz, Grenoble, Strasbourg and Saint-Etienne) in order to maintain contracts with local businesses and hence preserve the economic fabric of these cities.

Banque Banque Palatine Group indicators	31/10/2018	31/10/2017	31/10/2016
Total final energy consumption (kWh)	3,029,535.41	3,561,155.00	3,454,172.00
Total energy consumption per heated/occupied m^2 (kWh)	99.67	155.00	116.80
Total natural gas consumption (kWh)	43,921.22	151,402.00	64,825.74
Total electricity consumption (kWh)	2,985,614.18	3,409,752.00	3,389,346.00
Share of renewable energy in total final energy consumption (blue meters) (kWh)	2,700,036.00	3,141,681.00	3,238,299.60

Spending on energy

A process to stabilise spending on cleaning services has begun, while still retaining:

- quality of service to ensure the highest level of wellbeing at work for employees;
- use of green and certified products only;

optimised management of sanitary consumables by on-site service providers. Banque Banque Palatine Group indicators.

Banque Banque Palatine Group indicators	31/10/2018	31/10/2017	31/10/2016
Total spending on cleaning services	783	807.00	790.00

Pollution and waste management

Resources used to prevent environmental risks and pollution

For 2018, Banque Palatine recorded no provisions or guarantees to cover environmental risks in its financial statements.

Its activities have no major direct impact on the environment. Environmental risk mainly arises from its banking business. This risk arises when environmental criteria are not taken into account in the projects being financed.

Banque Banque Palatine Group indicators	31/10/2018	31/10/2017	31/12/2016
Total spending on waste management services by provider (in thousands of euros ex-VAT)	132	113	121
Total Ordinary Industrial Waste (OIW) (tonnes)	526	523	733
Total waste produced by the Bank (tonnes)	61	1,151	733
Total recycled waste (tonnes)	587	1,674	na

In accordance with the provisions of Decree 2005-829 of 20 July 2005, all electrical and electronic equipment waste generated by Banque Palatine activities is recycled by the company RECYCLEA.

Banque Banque Palatine Group indicators	2018	2017	2016
Total recycled WEEE waste (tonnes)	3.1	4.3	2.8

Recycling

The volume of recycled cartridges and toner has fallen continuously since 2017. This reduction shows the more exact control of the printing services and the virtuous start to printing lesser volumes.

The ambition of Banque Palatine is still to recover and recycle all cartridges and toner waste generated by the Company making Banque Palatine a positive contributor to the circular economy.

Banque Banque Palatine Group indicators	31/10/2018	31/10/2017	31/12/2016
Number of recycled ink and toner cartridges (number)	121	300	502
Number of neon fluorescent tubes collected (in number)	521	1,791	451
Batteries collected (kg)	21	14	0

Waste

The Bank complies with regulations on recycling and ensures that its subcontractors are also compliant with respect to the following:

- waste arising from work on Group buildings;
- Waste Electrical and Electronic Equipment (WEEE);
- office furniture;
- light bulbs;
- management of liquid refrigerants;
- office consumables (paper, printed material, ink cartridges, etc.).

Furthermore, to improve waste management, the Bank has asked its provider to manage the destruction of confidential documents across its whole network, which explains the increase in the expenditure on this service.

Waste management Banque Palatine implements measures to avoid all forms of pollution and damage to natural resources caused by its operations. It is committed to reducing and streamlining the consumption of raw materials and seeks to maximise the efficiency of its waste management system in order to produce less waste.

Waste generated by the cafeterias in the two head offices is recycled following the installation of Canibal machines. When disposing of their waste, employees are given the chance to win: either a different prize depending on Canibal's partnerships, or the possibility of making a donation to replant a tree.

Voluntary contribution centres were set up as part of the renovation of the platforms of the administrative head office which was a step farther toward selective sorting, traceability and recycling of this waste. In fact, the sorting process is even more refined: paper, other waste, goblets, small cans/bottles, toner. So that this implementation is even more virtuous, Banque Palatine is working with an adapted business (EA), the company TRIETHIC, which collects waste other than household waste and, if necessary, sorts the bags collected again. As a result, all the waste produced is recycled.

Preventing and managing climate risks: carbon footprint

Greenhouse gas emissions

The Group's objective with regard to the fight against climate change is to reduce its greenhouse gas emissions by 10% between 2018 and 2020.

To monitor that the processes undertaken with precise objectives are being carried out, from 2013, the sustainable development division has strengthened the robustness of its tool dedicated to establishing the Group's carbon footprint. This tool allows the greenhouse gas emissions statement to be drawn up, using a method compatible with that of the ADEME (the French Agency for the environment and energy resources), the ISO 14064 standard, and the GHG Protocol (***Greenhouse Gas Protocol***).

After six years of carbon data collection on a stable repository common to all the companies in the Group, the methodology allows the following to be provided:

- an estimate of the greenhouse gas emissions per company;
- mapping of these emissions:
  - per item: energy, purchases of goods and services, movement of people, fixed assets and others,
  - per scope[(1)]. However, direct emissions caused by bank products and services are excluded from the analysis;

Each year, the Group, as a whole and for each of its entities, has stable reference indicators which are used to establish local plans to reduce greenhouse gas emissions and the impetus for national measures.

Since 2013, Banque Palatine has been able to regard its carbon indicator as reliable. The indicator is monitored with the intention of reducing it over the years.

Banque Banque Palatine Group indicators	31/10/2018	31/10/2017	31/10/2016
Scope 1: direct combustion of fossil fuels plus leaks of refrigerant gases (CO_2 eq tonnes)	339.50	292.16	301.79
Scope 2: electricity consumption and the heating network (CO_2 eq tonnes)	182.56	187.88	217.84
Scope 3: all emissions other than use (in CO_2 eq tonnes)	7,225.54	4,679.19	4,348.68

(1) The GHG Protocol lays down the operational scope of the GHG emissions of an entity (or organisation) as follows:

- *Scope 1: direct emissions caused by fossil fuels (oil, gas, coal, etc.) and emissions from leaks of liquid refrigerants from resources owned or controlled by the company;*
- *Scope 2: indirect emissions caused by the purchase or production of electricity, steam, heat or cold;*
- *Scope 3: all other indirect emissions (logistics chain, transport of goods and people). Note that regulatory requirements under Article 75 of the Grenelle de l'Environnement law cover Scope 1 and Scope 2.*

Appendix

Key performance indicators

A review of the degree of control of our 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.

Major risks	Risk management/commitment systems	KPI
Social footprint	See section: Our social footprint as sponsor	Number of projects completed by Fondation Palatine des ETI
Participation in the governance of the companies involved	See section: Voting policy (PAM)	Number of AGMs where PAM voted
Financing of the energy transition, and of green and blue growth	See section: Bids that favour energy, ecological and solidarity transition: renewable energy and SRI	Total financing of the ecological and energy transition
Management of employability and career change	See section: Training: supporting the development of skills and employability	Number of hours training by FTE employee
Respect of laws, business ethics & transparency or non-compliance	See section: Business practice led by ethics and example	Existence of an Ethical Code and dissemination among employees, steering and governance
Security and confidentiality of data	See section: Ensure data security and IT integrity	GDPR systems
Accessibility of products and inclusive finance	See section: Inclusive finance	Number of customers with "vulnerable customer offering"
Customer protection and transparency of offer	See section: Customer protection	Systems for Customer protection and transparency of offer
Integration of ESG criteria in decisions concerning loans and/or investment	See section: Responsible investment at Palatine Asset Management	Proportion of sector lending policies that include CSR criteria
Sustainability of customer relationships	See section: Quality of customer relationships	Annual customer Net Promoter score and trend

Banque Palatine Group's CSR reporting methodology

Information in the report is the result of a group effort by all Banque Palatine departments (resources and working environment, compliance and permanent controls, operational risks, quality and process, communications). Those efforts have resulted in CSR indicators that are relevant to the activities, specific features and aims of the Banque Banque Palatine Group.

The information published reflects Banque Banque Palatine Group's desire to achieve transparency and describe objectively its most relevant actions, undertaken in the past as well as new ones, which show its ongoing commitment to CSR.

Reporting period

The published data covers the period from 1 January 2018 to 31 December 2018.

Reporting scope

In 2018, the CSR reporting scope covered, besides Banque Palatine, its wholly owned subsidiaries: Palatine Asset Management and Ariès Assurances.

Details on workforce-related data

- Total staff figures are a snapshot at 31 December 2018 of people linked to each entity by an employment contract or corporate office (permanent, fixed-term, professional development, and apprenticeship contracts), including those leaving on that date and employees whose employment contracts have been suspended. Fixed-term contracts do not include fixed-term work-study contracts (professional development contracts and apprenticeships).
- Hires include external hires and people moving from fixed-term contracts or work-study programmes to permanent contracts. People moving from fixed-term to permanent contracts are recorded as a departure from the fixed-term category and a new hire in the permanent category. If a person goes from one fixed-term contract to another with no break, only the first is recorded as a hire.
- Departure data take into account people on permanent contracts leaving between 31 January 2017 and 30 December 2018 for any reason. Breakdowns are given for the following reasons: resignation, termination, transfer within the Group, retirement, voluntary redundancy, end of probation period and other reasons.
- Average basic salary (permanent contract): this is the theoretical gross annual salary taken into account. Variable remuneration is not taken into account in the calculation. The headcount figure used is the number of people on permanent contracts at 31 December 2018. Corporate officers are not included in the indicator.
- Absences used to calculate the indicator are: illness, long illness without permanent disability, maternity and paternity leave, accidents at work, accidents while travelling, authorised leave (family events, time in lieu, over-55 leave) and exceptional authorised absences (recuperation).
- Training: figures include face-to-face training hours, 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

- Paper consumption: data were obtained for the period from November 2017 to October 2018. All paper consumed is in A4 format and the calculation procedure is unchanged.
- Water consumption is estimated from the financial amounts and at an average price of €1.01 per m3.
- Energy consumption: data were obtained for the period from November 2017 to October 2018. It includes consumption via the district heating/cooling network for the two central buildings, which account for 44% of the Group's floor space. Only those two buildings use that kind of energy.
- Fuel consumption: data were obtained for the period from November 2017 to October 2018.
- Waste: some data are now accessible with the new service provider TRIETHIC.

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 the group'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 Groupe BPCE 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	2014	2015	2016	2017	2018
• **SHARE CAPITAL AT YEAR-END**					
Share capital	538,803	538,803	538,803	538,803	538,803
Number of shares [(1)]	26,940	26,940	26,940	26,940	26,940
• **OPERATIONS AND RESULTS FOR THE YEAR**					
• Revenues	498,169	495,554	543,001	542,453	527,355
Income before tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	133,810	128,578	114,673	69,948	67,802
Income taxes	(21,864)	(25,675)	(19,441)	(21,497)	(17)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	53,505	50,734	50,555	52,514	(23,072)
• Dividend payments [(2)]	39,602	27,748	-	-	-
• **EARNINGS PER SHARE (IN EUROS)**					
Revenues	18.49	18.39	20.16	20.14	19.58
Income after tax, employee profit-sharing, but before depreciation, amortisation, and impairment and provisions	3.93	4.77	4.26	1.55	2.13
Income taxes	(0.81)	(0.95)	(0.72)	(0.80)	(0.00)
Income after tax, employee profit-sharing, depreciation, amortisation, impairment and provisions	1.99	1.88	1.88	1.95	(0.86)
Dividend per share [(2)]	1.47	1.03	-	-	
• **EMPLOYEE DATA**					
Average headcount	1,193	1,202	1,213	1,170	1,184
o/w managerial	*770*	*767*	*781*	*793*	*790*
o/w non-managerial	*423*	*435*	*432*	*377*	*394*
Total payroll	64,478	66,008	68,138	66,166	69,268
Amount of employee benefits during the period	32,474	33,214	34,213	34,918	36,205

(1) Earnings per share are calculated based on the number of shares outstanding at the date of the Annual General Meeting.
(2) Subject to approval by the Annual General Meeting.

3 Information on payment periods

Article D. 441 I.1

Invoices received and unpaid on the closing date of the financial year that are due (table required by Article D. I 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	1	11	18	6	46	81
Total amount, inclusive of VAT, of the invoices concerned (in euros)	407	28,423	31,609	6,874	81,220	148,126
Percentage of the total amount of purchases, inclusive of VAT, for the financial year	0.00%	0.04%	0.04%	0.01%	0.10%	0.19%

Invoices received which were paid late during the financial year (table required by Article D. II 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	5,405	2,450	738	864	2,502	6,554
Total amount, inclusive of VAT, of the invoices concerned (in euros)	29,875,298	18,697,914	3,650,889	13,792,077	14,015,730	50,156,610
Percentage of the total amount of purchases, inclusive of VAT, for the financial year	37.33%	23.36%	4.56%	17.23%	17.51%	62.67%

The information contained in these tables does not include banking transactions and related transactions.

4 Appropriation of income

Sources	
Net loss	€(23,072,109.82)
Carried forward	€230,799,293.23
TOTAL	**€207,727,183.41**

Appropriations	
To the statutory reserve	€0.00
Carried forward	€207,727,183.41
TOTAL	**€207,727,183.41**

5 Information on inactive accounts

(Articles L. 312-19, L. 312-20, and R. 312-21 of the French Monetary and Financial Code)

- Number of dormant accounts at the Bank: 13,099
- Total amount of deposits and assets in these accounts: €577,030,416.60
- Number of accounts whose deposits and assets are deposited with the Caisse des dépôts et consignations: 170
- Total deposits and assets deposited with the Caisse des dépôts et consignations: €1,409,724.47

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 Clemenceau	92400	Courbevoie
DMAP Branch	10, avenue du Val de Fontenay	94120	Fontenay-sous-Bois
Neuilly branch	100, avenue Charles de Gaulle	92200	Neuilly-sur-Seine
Nogent-sur-Marne branch	1, avenue de Lattre de Tassigny	94130	Nogent-sur-Marne
PalatineEtVous branch	10, avenue du Val de Fontenay	94120	Fontenay-sous-Bois
Paris Nord branch	35, allée des Impressionnistes	93420	Villepinte
Saint-Germain branch	32, rue du Vieux Marché	78100	St-Germain-en-Laye
Versailles branch	13, rue Colbert CS 78403	78004	Versailles Cedex
Vincennes branch	20, rue du Midi	94300	Vincennes
ALSACE LORRAINE			
Agence Metz	10, rue Winston Churchill	57000	Metz
Strasbourg branch	1, avenue de la Liberté	67000	Strasbourg
AQUITAINE			
Bordeaux branch	27, cours Georges Clemenceau - CS 11452	33064	Bordeaux Cedex
BOURGOGNE			
Dijon branch	20, boulevard de Brosses - CS 52426	21024	Dijon Cedex
BRETAGNE			
Rennes branch	8 bis, rue du Patis Tatelin - CS 30853	35708	Rennes Cedex 7
CENTRE			
Orléans branch	123 A, rue de la Juine - CS 60623	45160	Olivet Cedex
LANGUEDOC-ROUSSILLON			
Montpellier branch	9 rue Maguelone - CS 83180	34061	Montpellier Cedex 2
MIDI-PYRÉNÉES			
Toulouse branch	8 rue du Poids de l'Huile	31000	Toulouse
NORD			
Lille branch	56, boulevard de la Liberté	59000	Lille
NORMANDIE			
Caen branch	12 rue Ferdinand Buisson	14280	Saint-Contest
PAYS DE LA LOIRE			
La Roche-sur-Yon branch	2, rue Benjamin Franklin	85000	La Roche-sur-Yon
Nantes branch	2, rue Voltaire - CS 52118	44021	Nantes Cedex 1

PROVENCE CÔTE D'AZUR			
Aix-en-Provence branch	1, avenue Victor-Hugo	13100	Aix-en-Provence
Antibes branch	38, avenue Robert Soleau	06600	Antibes
Avignon branch	3, rue de la Balance - CS 10122	84010	Avignon Cedex 1
Cannes branch	125, rue d'Antibes	06400	Cannes
Marseille Prado branch	65, avenue du Prado	13006	Marseille
Marseille Castellane branch	Tour Méditerranée - 65, avenue Jules Cantini	13006	Marseille
Menton branch	11, avenue de Verdun	06500	Menton
Nice Arénas branch	455, promenade des Anglais Immeuble Aéropole Quartier de l'Arenas CS 23256	06205	Nice Cedex 3
Nice Promenade branch	7, promenade des Anglais	06000	Nice
Toulon branch	139, avenue Vauban	83000	Toulon

RHÔNE-ALPES			
Annecy branch	15-17, rue du Président Favre - CS 90296	74008	Annecy Cedex
Chamonix branch	7, avenue du Mont-Blanc	74400	Chamonix
Agence Grenoble	2, cours Berriat	38000	Grenoble
Lyon Brotteaux branch	12, place Jules Ferry - CS 80068	69456	Lyon Cedex 06
Lyon Cordeliers branch	1, place des Cordeliers	69002	Lyon
Lyon Croix-Rousse branch	161, boulevard de la Croix-Rousse	69004	Lyon
Lyon Vaise branch	51, rue des Docks	69009	Lyon
Saint-Etienne branch	1, boulevard Dalgabio	42000	Saint-Etienne

6

DRAFT RESOLUTIONS PRESENTED TO THE COMBINED GENERAL MEETING OF 20 MAY 2019

First resolution

After hearing the management report and the corporate governance report by the Board of Directors, and the report by the Statutory Auditors on the annual financial statements for the financial year ended 31 December 2018, the General Meeting approves the annual financial statements showing a loss of €23,072,109.82.

Pursuant to Article 223 *quater* of the French Tax Code, the General Meeting approves the expenditure and charges covered by para. 4 of Article 39 of said Code, which totalled €70,196.28 and gave rise to a tax charge of €24,168.58.

Second resolution

After hearing the management report and the report on corporate governance by the Board of Directors, and the report by the Statutory Auditors on the consolidated financial statements for the financial year ended 31 December 2018, the General Meeting approves the consolidated financial statements prepared under IFRS showing net income attributable to equity holders of the parent of €23.389 million.

Third resolution

The General Meeting approves the allocation of losses for the financial year 2018, as proposed by the Board of Directors:

Net loss	**€(23,072,109.82)**
Carried forward	€230,799,293.23
TOTAL	**€207,727,183.41**
To the statutory reserve	€0.00
Carried forward	€207,727,183.41
TOTAL	**€207,727,183.41**

Following this appropriation, the balance of the legal reserve is €49,801,798.52 and the balance carried forward is €207,727,183.41.

In application of Article 243 ***bis*** of the French General Tax Code, shareholders are reminded that the dividends paid in respect of the last three years were as follows:

Year ended	Par value	Number of shares	Dividend/revenue paid per share
31 December 2015	€20	26,940,134	1.03 euro*
31 December 2016	€20	26,940,134	-
31 December 2017	€20	26,940,134	-

** Not eligible for the 40% rebate.*

Fourth resolution

After hearing the special report by the Statutory Auditors on the agreements provided for in Article L. 225-38 of the French Commercial Code, the General Meeting formally acknowledges this report and approves said agreements and the terms of said report.

Fifth resolution

The General Meeting ratifies the co-option, provisionally approved by the Board of Directors at their meeting of 31 July 2018 of Mr Bruno Goré as director.

Sixth resolution

The General Meeting ratifies the co-option, provisionally approved by the Board of Directors at their meeting of 31 July 2018 of the Caisse d'Epargne et de Prévoyance Grand Est Europe as director.

Seventh resolution

The General Meeting ratifies the co-option, provisionally approved by the Board of Directors at their meeting of 19 November 2018 of Ms Christine Fabresse as director.

Eighth resolution

The General Meeting, after hearing the report on corporate governance, approves the principles and criteria for determining, distributing and allocating fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended 31 December 2019, to be awarded to Mr Pierre-Yves Dréan, in his capacity as Chief Executive Officer.

Ninth resolution

The General Meeting, after hearing the report on corporate governance, approves the fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended 31 December 2018, to be awarded to Mr Pierre-Yves Dréan, in his capacity as Chief Executive Officer.

Tenth resolution

The General Meeting, after hearing the report on corporate governance, approves the principles and criteria for determining, distributing and allocating fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended 31 December 2019, to be awarded to Mr Bertrand Dubus, in his capacity as Deputy Chief Executive Officer.

Eleventh resolution

The General Meeting, after hearing the report on corporate governance, approves the fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended 31 December 2018, to be awarded to Mr Pierre-Bertrand Dubus, in his capacity as Deputy Chief Executive Officer.

Twelfth resolution

The General Meeting, after hearing the report on corporate governance, approves the principles and criteria for determining, distributing and allocating fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended 31 December 2019, to be awarded to Mr Patrick Ibry, in his capacity as Deputy Chief Executive Officer.

Thirteenth resolution

The General Meeting, after hearing the report on corporate governance, approves the fixed, variable and exceptional elements comprising the total remuneration and benefits in kind, for the financial year ended 31 December 2018, to be awarded to Mr Patrick Ibry, in his capacity as Deputy Chief Executive Officer.

Fourteenth resolution

The General Meeting, after hearing the report on corporate governance by the Board of Directors, issues a favourable opinion on the overall allocation of remuneration of any kind paid in respect of the financial year ended 31 December 2018 to all members of staff who are regulated persons, which amounted to €9,474,087.

Fifteenth resolution

The General Meeting resolves to renew the appointment as Statutory Auditor of PricewaterhouseCoopers Audit, for six years, ending at the General Meeting called to approve the financial statements for the year ending 31 December 2024.

Sixteenth resolution

The General Meeting resolves to renew the appointment as Statutory Auditor of KPMG Audit FS I, for six years, ending at the General Meeting called to approve the financial statements for the year ending 31 December 2024.

Seventeenth resolution

The General Meeting gives all powers to the bearer of a copy or excerpt of the minutes of this general meeting to complete the publicity formalities laid down in law.

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BANQUE PALATINE
L'Art d'être Banquier

Financial Report MKG10121-B - 04/2019