

## 2.6 Chairman's report on the work of the Supervisory Board and on the internal control and risk management procedures for the year ended December 31, 2009

Dear shareholders,

In addition to the management report and in accordance with Article L. 225-68 of the French Commercial Code, this report contains information on:

- the conditions governing the preparation and organization of the Supervisory Board's work during the year ended December 31, 2009;
- internal control and risk management procedures adopted by BPCE;
- internal control procedures for the preparation and processing of accounting and financial information.

This report was completed under my authority on the basis of available documentation about internal control and risk management within the Group.

It was first submitted to the Risk Management committee on February 23, 2010, and was subsequently approved by the Supervisory Board on February 24, 2010.

The external auditors will issue a specific report, appended to their general report, containing their observations on internal control and risk management procedures relating to the preparation and processing of accounting and financial information, and attesting to the provision of other information as required under Article L. 225-235 of the French Commercial Code.

## 2.6.1 Conditions governing the preparation and organization of the Supervisory Board's work

### 2.6.1.1 CORPORATE GOVERNANCE

The AFEP-MEDEF Corporate Governance Code of December 2008, including the October 2008 recommendations on executive pay, is the one to which BPCE referred in preparing this report, as set out in Article L. 225-68 of the French Commercial Code.

The only provisions not regarded as relevant in view of BPCE's operating procedures and the composition of its Board were as follows: terms of office and the staggered renewal of Board members, their ownership of a material number of shares and provisions relating to their membership of a company's committees where the directors of that company are already members of the committees of their own company.

Moreover, in accordance with the agreement signed with the French government on October 24, 2008 and in connection with the French government's economic recovery program, BPCE formally adheres to and implements the AFEP-MEDEF recommendations on directors' remuneration.

### 2.6.1.2 COMPOSITION OF THE SUPERVISORY BOARD

BPCE's Supervisory Board members took office on July 31, 2009, for a term of six years.

#### 2.6.1.2.1 Principles

Pursuant to Article 21 of the bylaws, BPCE's Supervisory Board is made up of between 10 and 18 members. At July 31, 2009, it consisted of 7 representatives of category A shareholders, 7 representatives of category B shareholders and 4 representatives of category C shareholders, selected by the government, including 2 independent members within the meaning of the Corporate Governance Code for listed companies published by AFEP-MEDEF in December 2008.

The bylaws, in their current form, also specify that the following people may also attend Supervisory Board meetings, with no voting rights:

- representatives of the company's work council, pursuant to Article L. 2323-62 of the French Labor Code;
- one employee representative from the Banques Populaires network, elected by a single panel per the terms set out in Article 25.3 of BPCE's bylaws;
- one employee representative from the Caisses d'Epargne network, elected by a single panel per the terms set out in Article 25.3 of BPCE's bylaws.

#### 2.6.1.2.2 Members

Philippe Dupont is the Chairman of the Supervisory Board. Mr Dupont, 58, was Chairman and CEO of Banque Fédérale des Banques Populaires since 1999, and Chairman of the Management Board of Natixis. Holding a first degree and a masters in management from Paris-Dauphine University, Mr Dupont was director of a commodities wholesaler for 12 years and then Chairman of the Board of Directors of BP ROP Banque Populaire (now Banque Populaire Val de France).

Yves Toublanc is Vice-Chairman of the Supervisory Board.

Mr Toublanc, 63, is a business school graduate and Chairman of the Steering and Supervisory Board of Caisse d'Epargne Rhône Alpes. He worked for many years in financial control and financial management for Saint-Gobain and is a member of the *Chambre de Commerce et d'Industrie de la Savoie*, whose Finance Commission he previously chaired. In addition to the Chairman and Vice-Chairman, the Board consists of the following representatives of category A shareholders:

- Catherine Amin-Garde, Chairman of the Steering and Supervisory Board of Caisse d'Epargne Loire Drôme Ardèche;
- Bernard Comolet, Chairman of the Management Board of Caisse d'Epargne Île-de-France;
- Francis Henry, Chairman of the Steering and Supervisory Board of Caisse d'Epargne Lorraine Champagne-Ardenne;
- Pierre Mackiewicz, Chairman of the Steering and Supervisory Board of Caisse d'Epargne Côte d'Azur;
- Didier Patault, Chairman of the Management Board of Caisse d'Epargne Bretagne-Pays de Loire;
- Pierre Valentin, Chairman of the Steering and Supervisory Board of Caisse d'Epargne Languedoc-Roussillon.

The following category B shareholder representatives:

- Gérard Bellemon, Chairman of Banque Populaire Val de France;
- Thierry Cahn, Chairman of Banque Populaire d'Alsace;
- Jean Criton, Chief Executive Officer of Banque Populaire Rives de Paris;
- Pierre Desvergnès, Chairman of CASDEN Banque Populaire;
- Stève Gentili, Chairman of BRED Banque Populaire;
- Bernard Jeannin, Chief Executive Officer of Banque Populaire Bourgogne Franche-Comté.

And the following category C shareholder representatives:

- Laurence Danon, independent member, Chairman of Edmond de Rothschild Corporate Finance;
- Ramon Fernandez, Director-General of the Treasury and Economic Policy at the French Ministry for the Economy, Industry, and Employment;
- Marwan Lahoud, independent member, head of strategy and marketing and member of the Executive committee of EADS;
- Olivier Bourges, Deputy Chief Operating Officer of Agence des Participations de l'État, member of the Ministry for the Economy, Industry and Employment.

#### 2.6.1.2.3 Non-voting directors

The Supervisory Board includes seven non-voting members acting in an advisory capacity.

In addition to Natixis, which is a non-voting director as of right (Article 28.1 of BPCE's bylaws) and represented by its Chief Executive Officer Laurent Mignon, shareholders in the July 31, 2009 Shareholders' Meeting temporarily appointed six non-voting members until the end of the integration period, as follows:

- three non-voting members appointed from among the candidates proposed by category A shareholders, per Article 31.1, paragraph 9 of BPCE's bylaws;

- three non-voting members appointed from among the candidates proposed by category B shareholders, per Article 31.1 paragraph 10 of BPCE's bylaws.

### 2.6.1.3 APPOINTMENT METHOD

During the company's life, and subject to co-opting, Supervisory Board members are appointed by shareholders in the Ordinary Shareholders' Meeting, as indicated in Article 21 of BPCE's bylaws, on a motion by A or B shareholders, depending on the category in question.

As for Supervisory Board appointed by category C shareholders, they are chosen from among the candidates appointed by the government. This right of appointment is specifically assigned to the government and cannot be transferred in any event.

Supervisory Board members hold office for a term of six years. A Supervisory Board member's duties come to an end after a meeting at which the ordinary shareholders have ruled on the financial statements for the past accounting period, held during the year in which his or her term expires. Board members may be re-elected subject to no limitations other than age-related limitations contained in the bylaws.

### 2.6.1.4 SUPERVISORY BOARD'S ROLE AND OPERATING PROCEDURES

#### 2.6.1.4.1 Independence of members

In keeping with the corporate governance principles and best practice as set out in the Supervisory Board's Internal Rules, adopted on July 31, 2009, Supervisory Board members:

- take care to maintain their independence of judgment, decision and action in all circumstances. They avoid being influenced by anything that is contrary to the company's interests, which it is their duty to defend;
- undertake to avoid any conflict that may exist between their moral and material interests and those of the company. They inform the Supervisory Board of any conflict of interest that may affect them. In the event of any conflict of interest, they abstain from all debate and decisions on the matters concerned.

The Supervisory Board and each of its committees includes elected or co-opted independent members. The definition below is based on the Corporate Governance Code for listed companies published in December 2008 by the *Association Française des Entreprises Privées* and by the *Mouvement des Entreprises de France*. The criteria stated below are designed to define a member's independent status, and its guiding principle is that "a member is independent if he has no relations of any sort with the company, the group it belongs to or its management, which might compromise the exercise or freedom of the member's judgment."

An independent member must not:

- be an employee or executive director of the company or the Group, or an employee or director of one of the company's shareholders, and must not have been so during the previous five years;
- be a representative of the government, a civil servant or an employee of *Société de Prise de Participation de l'État* or any other entity in which the government has a direct or indirect majority interest;
- be a corporate officer of a company in which the company directly or indirectly has the office of director or in which a designated employee or

corporate officer of the company (either currently or in the last five years) has the office of director;

- be a client (or directly or indirectly linked to a client), supplier, investment banker, or financing banker, if the business relationship is such that it could compromise the exercise of the freedom of judgment of the member in question;
- have a close family link with a corporate officer of the company or its group;
- have been an examiner, accountant, or permanent or temporary auditor of the company or of any of the Group's companies during the last five years;
- have been a corporate officer of the company for more than 12 years;
- or receive or have received any substantial additional compensation from the company or the Group, excluding attendance fees and including any participation in any stock option formula or any other performance-based compensation formula.

The expression "executive director" means any person who assumes, in the company or any of the Group's companies, the duties of management, i.e. any Chairman, Chairman of the Board of Directors or Management Board, member of the Management Board, Chief Executive Officer or Deputy Chief Executive Officer of the company or any of the Group's companies, except for members of the Board of Directors or Supervisory Board provided they do not collect any other form of compensation from the company or any of the Group's companies, not including any attendance fees paid by the company or any compensation as Chairman or Vice-Chairman of the Supervisory Board.

The Supervisory Board may find that one of its members, although meeting the criteria above, should not be classified as independent given his or her individual situation or that of the company, with regard to his or her shareholding or for any other reason.

#### 2.6.1.4.2 Integrity of members

In accordance with the internal rules of BPCE's Supervisory Board, Supervisory Board members must perform their duties with loyalty and professionalism.

They must not take any initiatives intended to damage the company's interests, and they must act in good faith in all circumstances.

Furthermore, all members of the Supervisory Board and its committees, as well as anyone who may be invited to attend their meetings, are held to an obligation of professional secrecy as provided for in Article L. 511-33 of the French Monetary and Financial Code and to an obligation of discretion regarding their discussions, as well as on any confidential information or information presented as confidential by the Chairman of the Meeting, as provided for in Article L. 225-92 of the French Commercial Code. The Chairman of the Board reiterates that the proceedings of a Meeting are confidential whenever regulations or the interests of the company or the Group may require it.

The Chairmen of each Board committee proceed in the same fashion.

The Chairman of the Board or one of its committees shall take the measures necessary to ensure the confidentiality of discussions. He may require all persons taking part in a meeting to sign a confidentiality agreement.

If a member of the Board or one of its committees fails to comply with one of his obligations, in particular the obligation of confidentiality, the Chairman of the Supervisory Board shall refer the matter to the Board in order to issue a warning to the member concerned, independently of any measures taken under the applicable laws, regulations or bylaws.

The member concerned shall be given advance notice of the penalties being considered, and shall be able to make representations to the Supervisory Board.

Supervisory Board members:

- undertake to devote the necessary time and attention to their duties;
- must attend all of the meetings of the Supervisory Board and the committees of which they are members, unless this is impossible;
- shall stay informed about the company's business lines, activities, issues and values;
- shall endeavor to maintain the level of knowledge they need to fulfill their duties;
- are bound to require and to make every effort to obtain, within an appropriate time, the information which they consider they need before they can hold discussions at Supervisory Board meetings in full knowledge of the facts.

### 2.6.1.4.3 The Board's duties and powers

#### A – General principles

The Supervisory Board performs the duties attributed to it by law. In this respect, at all times of year, the Supervisory Board performs the checks and controls it deems appropriate, and may have sent to it any documents it regards as expedient in fulfilling its mission.

The Supervisory Board:

- receives a report from the Management Board on the company's business activities once per quarter;
- checks and controls the company's individual and consolidated parent company financial statements prepared by the Management Board and presented by that Board within three months from the end of the accounting period, along with a written report on the company's and its subsidiaries' position and their activity during the past year;
- presents its comments on the Management Board's report and the year's financial statements to shareholders in the Annual Shareholders' Meeting.

In accordance with the law, the following transactions cannot be performed by the Management Board until they have secured prior authorization from the Supervisory Board, acting by simple majority of its present or represented members:

- disposal of buildings by type and total or partial disposals of equity interests;
- the provision of company property as collateral.

In addition to these powers, the Supervisory Board has powers to do the following.

OWN POWERS:

- appoint the Chairman of the Management Board;
- appoint the other members of the Management Board, following proposals by the Chairman of the Management Board;
- set the method and amount of remuneration paid to each Management Board member;
- grant the status of Chief Executive Officer to one or more members of the Management Board on the proposal of the Chairman of the Management Board, and withdraw that status from such members;

- propose the appointment of the Auditors at the General Shareholders' Meeting;
- decide where to move the registered offices within the same *département* or to an adjacent *département*, subject to that decision being ratified at the next Ordinary General Shareholders' Meeting.

DECISIONS SUBJECT TO A SIMPLE MAJORITY VOTE:

- approve the policy and strategy of the Group and each Network;
- authorize any planned transaction or buyback of C shares in an amount greater than €200 million;
- approve the company's annual budget and determine the rules for calculating contributions from affiliated entities;
- approve disposals of securities;
- authorize regulated agreements pursuant to the French Commercial Code;
- approve the Group's internal solidarity mechanisms;
- approve the national and international agreements involving each of the networks and the Group as a whole;
- approve the general criteria that must be fulfilled by the directors of the Group's affiliated entities, including age limits, which cannot exceed 65 years old for Chief Executive Officers or members of the Management Board, and 68 years old for Chairmen of Boards of Directors and Steering and Supervisory Boards;
- authorize the directors of affiliated entities or remove authorizations from directors of affiliated entities and make other dismissals as set out in Article L. 512-108 of the Monetary and Financial Code;
- approve the creation or abolition of a Banque Populaire or Caisse d'Épargne et de Prévoyance bank, including through the merger of two or more Banque Populaire banks or two or more Caisse d'Épargne et de Prévoyance banks;
- examine and approve the main risk limits relating to the Group and each Network, as defined by the Management Board; perform regular examinations and checks on the Group's risks, developments in those risks and the systems and procedures used to control them;
- examine the activity and results of internal control, and the main conclusions of assignments performed by Group internal audit;
- appoint BPCE's representatives to Natixis' Board of Directors, among whom representatives from the Groupe Caisse d'Épargne and representatives from the Groupe Banque Populaire will be of identical number and will hold at least the majority of seats together;
- adopt the Board's internal rules.

DECISIONS SUBJECT TO A QUALIFIED MAJORITY VOTE:

- any decision to subscribe or acquire (or to enter into any agreement binding the company for the purpose of subscribing or acquiring), by any means (including by transfer of assets to the company), securities or rights of any type whatsoever, be they issued by a company or any other entity, and representing an investment or asset transfer value, directly or indirectly, of greater than €1 billion;
- any decision to transfer (or to enter into any agreement binding the company for the purpose of a transfer), by any means, securities or rights of any type whatsoever held by the company and representing for the company a divestment greater than €1 billion;

- any decision by the company to issue capital securities or securities giving immediate or eventual access to the company's capital, with the shareholders' preemptive rights waived;
- any decision to propose to the General Meeting of Shareholders any changes to the bylaws concerning the company that affect or are likely to affect the rights of category C shareholders, or that change the terms of governance;
- any merger, demerger, spin-off, or related decision involving the company;
- any decision relating to a material amendment of the internal rules of the company's Supervisory Board affecting the specific rights of category C shareholders;
- any decision to remove the Chairman of the company's Management Board from his office as Chairman;
- any decision relating to the listing of the shares of the company or one of its main direct or indirect subsidiaries for trading on a regulated market.

The Supervisory Board's decisions, taken in the context of the company exercising its functions as the central body of the network, are preceded by a consultation with Natixis.

### **B - Rules and principles governing the setting of remuneration and benefits**

#### REMUNERATION OF FINANCIAL MARKET PROFESSIONALS

As part of the government's economic support initiatives, an agreement relating to the new system for monitoring the remuneration of financial market professionals working for credit institutions has been reached between the Groupe BPCE and the French government.

Following the adoption by G20 countries in the Pittsburgh summit of September 24 and 25, 2009 of standards issued by the Financial Stability Board on September 25, 2009, and following the amendment to Regulation 97-02 of February 21, 1997 relating to the internal control of credit institutions and investment companies *via* the order of November 3, 2009, BPCE's Supervisory Board examined the principles relating to the remuneration of financial market professionals.

These principles concern Natixis<sup>(1)</sup> and BRED Banque Populaire.

BRED Banque Populaire: on the proposal of executive management and following the report of the Remuneration committee, BRED Banque Populaire's Board of Directors determined the principles for variable pay awarded to traders in its November 20, 2009 and January 14, 2010 meetings.

The main characteristics of this policy can be summarized as follows:

- fixed pay is related to the expertise and level of responsibility of the staff concerned, so that variable pay is supplementary and not guaranteed (general practice for all BRED staff);
- a financial performance measurement is used, such as analytical gross operating income, excluding bonuses and any loan loss allowances, along with the cost of capital associated with capital market transactions;
- a bonus pool is determined, linked with the financial performance of activities independently of operational staff, and validated by executive

management. The maximum bonus pool available to a Chief Executive Officer during a year is calculated on the basis of financial performance, with limited discretion in an adverse situation. In 2010, the special 50% tax applied to traders' bonuses had a moderating effect on the overall bonus pool;

- individual bonuses are proposed for traders by senior managers responsible for the two departments involved, based on a written appraisal setting out the person's contribution to earnings and attainment of individual targets (new business development, behavior, etc.). Performance measurement takes into account any losses incurred and risks taken, measured through consumption of capital. This allows for an adjustment of variable pay based on risk;
- a formal opinion is issued by the Compliance department and the Risk Management department regarding traders' performance as regards compliance and risk policy;
- a formal opinion from the Human Resources department regarding proposals of variable pay to traders;
- executive management makes a decision regarding variable pay proposals for traders and the award of variable pay to the two senior managers. Executive management may decide, particularly based on the compliance and risk report, to apply a discount to the individual bonuses of staff or groups of staff that do not respect compliance and risk policies;
- there is a strong link between remuneration and the medium-term financial performance of businesses, through variable pay dependent on the ongoing presence of traders and ongoing financial performance over time. Conditional remuneration is covered by the "long-term performance and loyalty plan 2010", which focuses on long-term value creation;
- potential bonuses are discretionary in nature, subject to future presence and performance conditions;
- a significant proportion of traders' overall 2010 variable pay consists of potential bonuses subject to future presence and performance conditions (in accordance with industry standards);
- bonuses are paid over three years following the year of award (in practice in the second and third years);
- there is a ban on guaranteed bonuses unless a limited exception applies in accordance with industry standards.

Traders must comply with all internal control rules applicable to the trading floor. Assessing compliance with the risk policy depends on the proper application of regulatory obligations, compliance with procedures, compliance with transaction formalities by the trading floor, compliance with limits and co-operation between traders and the Compliance and Risk Management departments.

#### **Within the central institution:**

The Supervisory Board, after considering the work done by the Appointments and Remuneration committee, noted the professional rules relating to the remuneration of market operators within the Group and at the BPCE level, and established remuneration principles for market operators as proposed by the Appointments and Remuneration committee.

(1) Natixis dealt with this matter in its 2009 reference document, filed with France's financial market authority on April 30, 2009 under number D. 10-0375.

**Within the Group:**

Each Group institution has the responsibility for applying the new arrangements, in compliance with its own corporate governance rules. BPCE, as central institution, issues general guidance and obtains assurance that affiliated institutions have taken decisions in accordance with the new regulatory framework.

**APPOINTMENT OF SUPERVISORY BOARD MEMBERS**

The July 31, 2009 Combined General Shareholders' Meeting set the total amount of attendance fees payable by BPCE at €600,000.

**Philippe Dupont, Chairman of the Supervisory Board:**

- annual fixed pay: €400,000;
- annual housing allowance: €40,000;
- attendance fees: €0.

Attendance fees paid to Supervisory Board members

**Yves Toublanc, Vice-Chairman of the Supervisory Board:**

- attendance fees, paid annually: €80,000;
- attendance fees paid for each meeting attended, up to a limit of six meetings during the financial year: €1,500.

Other Supervisory Board members:

- attendance fees, paid annually: €10,000;
- attendance fees paid for each meeting attended, up to a limit of six meetings during the financial year: €1,000.

Additional remuneration paid to members of specialist committees

**Marwan Lahoud, Chairman of the Risk Management committee:**

- attendance fees, paid annually: €30,000;
- attendance fees paid for each meeting attended, up to a limit of six meetings during the financial year: €500.

Other members of the Risk Management committee:

- attendance fees, paid annually: €5,000;

- attendance fees paid for each meeting attended, up to a limit of six meetings during the financial year: €500.

**Laurence Danon, Chairman of the Appointments and Remuneration committee:**

- attendance fees, paid annually: €15,000;
- attendance fees paid for each meeting attended, up to a limit of six meetings during the financial year: €500.

Other members of the Appointments and Remuneration committee:

- attendance fees, paid annually: €2,000;
- attendance fees paid for each meeting attended, up to a limit of six meetings during the financial year: €500.

**Remuneration of non-voting members**

Pursuant to Article 28.3 of the bylaws, the Supervisory Board has decided to remunerate non-voting members by making a deduction from the attendance fees allocated to Supervisory Board members by the General Shareholders' Meeting.

Non-voting directors receive:

- attendance fees, paid annually: €5,000;
- attendance fees paid for each meeting attended, up to a limit of six meetings during the financial year: €500.

**REMUNERATION OF MANAGEMENT BOARD MEMBERS**

In accordance with Article 19 of BPCE's bylaws and on the proposal of the Appointments and Remuneration committee, the Supervisory Board laid out the criteria used to determine the amount of variable pay granted to Management Board members with respect to 2009 at its November 12, 2009 meeting.

These criteria were defined as follows:

- quantitative criteria used to determine variable pay: 40%, defined as follows:

Group net income for the second half of 2009	Attainment
≥€1,000m	100%
< €1,000m and ≥€500m	Proportionate to actual earnings within this range
< €500m	0%

- qualitative criteria used to determine variable pay: 60%, defined as follows:

- management of the combination between the two central bodies and the creation of BPCE (compliance with deadlines, co-ordination of work in various areas, etc.),
- implementation of the Group's organization and governance,
- preparation of a cost-saving plan for BPCE,
- launch of the Group project.

In addition, it has been decided that any variable pay received from other Group entities will be deducted from the variable pay estimated in relation to BPCE. If applicable, amounts will be calculated on a pro rata basis, based on the person's length of service. This may be relevant where a manager from a Groupe BPCE credit institution that awards variable pay is appointed to BPCE's Management Board.

François Pérol has waived all bonuses and variable pay with respect to 2009, as noted by the Supervisory Board in its July 31, 2009 meeting.

On a motion by the Appointments and Remuneration committee, BPCE's Supervisory Board set the following remuneration for the Chairman and the members of the Management Board at its meeting on July 31, 2009:

François Pérol:

- fixed pay: €550,000;
- variable pay: up to 100% of fixed pay.

Yvan de La Porte du Theil:

- fixed pay: €550,000;
- variable pay: up to 80% of fixed pay.

Alain Lemaire:

- fixed pay: €550,000;
- variable pay: up to 80% of fixed pay.

Nicolas Duhamel:

- fixed pay: €500,000;
- variable pay: up to 60% of fixed pay.

Jean-Luc Vergne:

- fixed pay: €500,000;
- variable pay: up to 60% of fixed pay.

#### 2.6.1.4.4 Operating procedures

In accordance with Article 25.1 of the bylaws, the Supervisory Board meets as often as the company's interests, laws and regulations require and at least once every quarter, in order to examine the Management Board's quarterly report. Board meetings may be convened by its Chairman, its Vice-Chairman or by one half of its members, and take place at the registered office or any other location stated in the notice of meeting.

In accordance with Article L. 225-38 of the French Commercial Code, the external auditors have been invited to Board meetings examining full-year and half-year financial statements.

The BPCE Supervisory Board met 4 times between July 31, and December 31, 2009.

In 2009, the attendance rate for Supervisory Board members was 95.8%.

In addition to issues routinely discussed (business activities, quarterly Management Board reports, regulated agreements, approvals of Executive Directors and various items presented for information purposes), the main issues dealt with at Supervisory Board Meetings were as follows:

#### **Internal operating procedures of the Supervisory Board – Governance:**

- variable pay and remuneration policy for executives;
- adoption of remuneration principles for financial market professionals.

#### **Finance:**

- presentation of BPCE's quarterly financial statements for the three months ended September 30, 2009;
- approval of the 2010 budget;
- adoption of the regulation concerning solidarity and guarantees between the Banque Populaire and Caisse d'Épargne et de Prévoyance networks.

#### **Compliance – Risks:**

- presentation of the "Internal Audit", "Group Risk Management" and "Compliance" charters;
- monitoring of *Commission bancaire* reports and enquiries.

#### **Strategy:**

- examination of CNP Assurances' plan to exercise its put on NGAM shares and to sell these shares to Natixis;
- authorization of BPCE's purchase of all of Natixis' shares in Natixis Prames International. Depending on the type of questions submitted to the Supervisory Board, discussions were held and decisions taken on the basis of reports presented by the relevant Board committees.

#### 2.6.1.4.5 Supervisory Board's internal rules

The Internal Rules of the Supervisory Board, adopted at the Board's meeting on July 31, 2009, are the Supervisory Board's governance charter, which sets its internal operating procedures, specifically intending to ensure efficient interaction and the smooth running of governing bodies.

It enhances the work done by Supervisory Board members, by promoting the application of corporate governance principles and best practice in the interests of ethics and efficiency.

Finally, its purpose is to supplement the bylaws, including by:

- specifying the procedures for convening meetings of the Supervisory Board and Supervisory Board committees, as well as the rules under which they are to deliberate;
- specifying the duties of the various committees;
- specifying the obligation of professional secrecy and the obligation of confidentiality owed by members of the Supervisory Board and its committees;
- defining penalties applicable in the event that a member of the Supervisory Board or of a committee fails to comply with one of his obligations.

#### 2.6.1.4.6 Operating procedures of Supervisory Board committees

The Supervisory Board has instituted three specialized committees in charge of preparing its decisions and making recommendations to it, whose duties, resources and makeup are set out in the Supervisory Board's internal rules.

As far as possible, and depending on applicable circumstances, any discussion by the Supervisory Board that falls within the jurisdiction of a committee created by it is preceded by the referral of the matter to the said committee, and a decision may only be taken after that committee has issued its recommendations or motions.

The purpose of such consultation with committees is not to delegate to them powers that are allocated to the Supervisory Board by law or the bylaws, nor is it to reduce or limit the Management Board's powers.

Whenever it is necessary to consult with a committee, the Chairman of that committee receives from the Management Board, within a reasonable time limit (given the circumstances), all of the items and documents that enable the committee to carry out its work and formulate its opinions, recommendations and proposals relating to the Supervisory Board's planned discussion.

Committee members are chosen by the Supervisory Board based on a proposal made by the Chairman of the Board from among its members. They may be dismissed by the Supervisory Board.

The term of office of committee members coincides with their term of office as Supervisory Board members. The renewal of both terms of office may take place concomitantly.

Each committee consists of at least three and at most seven members.

The Supervisory Board may also appoint a non-voting member from outside the Group or a non-voting director to any of these committees.

Within each of the committees, a Chairman is in charge of organizing the work. The Chairman of each committee is appointed by the Supervisory Board.

**The Risk Management committee met three times between July 31 and December 31, 2009. The attendance rate at meetings was 100%.**

The Risk Management committee assists the Supervisory Board in its role of checking and reviewing the financial statements and the Management Board's report on the company's business.

In this capacity, it analyses the quality of information provided to shareholders, and more generally fulfils duties set out in the French Commercial Code as amended by order 2008-1278 of December 8, 2008 and CRBF Regulation 97-02 of February 21, 1997 as amended, relating to the internal control of credit institutions and investment companies.

The Risk Management committee has been chaired by Marwan Lahoud since July 31, 2009, the date on which he was appointed by the Supervisory Board as an independent member.

Marwan Lahoud is a graduate of France's elite *École Polytechnique* university, and is an aerospace engineer. His career has included spells as special advisor and then advisor on industrial, research and armament matters to the cabinet of the Defence Minister, special advisor to the head of human resources at DGA (France's general delegation for ordnance), head of development at Aerospatiale and secretary-general of the Aerospatiale-Matra committee, Senior Vice-President in charge of mergers and acquisitions at EADS and Chief Executive Officer of MBDA Missile Systems.

He is currently Deputy Chief Executive Officer of EADS, in charge of marketing and strategy, and a member of EADS' Executive committee. Mr Lahoud's extensive experience played a significant part in his appointment as Chairman of the Risk Management committee, as an independent member.

The committee's other members were also chosen for their expertise in accounting, finance and internal control:

- Thierry Cahn, Chairman of Banque Populaire d'Alsace, is also a legal practitioner, working at the Colmar appeals court, and specializes in economic law, business law and commercial law. He also teaches commercial law at the *Institut Universitaire de Haute Alsace*;
- Bernard Comolet is a graduate of French business school HEC, and serves as the Chairman of the Management Board of Caisse d'Epargne Île-de-France. He has also been Chairman of the Management Board of Caisse Nationale des Caisses d'Epargne, corporate secretary at Compagnie Générale de Banque Citibank, and manager of several UBP branches;
- Jean Criton is a graduate of *Institut d'Études Politiques* in Paris and has postgraduate qualifications in law. He is Chief Executive Officer of Banque Populaire Rives de Paris. During his career, he has been Chief Executive Officer of BICS, Chief Executive Officer of Banque Populaire du Centre, and internal auditor at Chambre Syndicale de Banques Populaires;
- Pierre Valentin holds a master's degree in law and is a graduate of the Institut des Assurances d'Aix/Marseille. He is Chairman of the Steering and Supervisory Board of Caisse d'Epargne Languedoc-Roussillon. He has been Vice-Chairman of the Supervisory Board of Banque Palatine, and was a judge and Chairman of the Alès commercial court for more than 10 years;
- Olivier Bourges is a graduate of the *École Nationale d'Administration* and the *Institut d'Études Politiques* in Paris. He represents the French government in his role as Deputy Chief Operating Officer of *Agence des participations de l'État* within the Ministry for the Economy, Industry and Employment. He previously worked as head of financial relations at Renault, head of corporate planning and program management at Nissan North America and head of financial control within the Renault group.

The Chairman and Vice-Chairman of the Supervisory Board receive the reports of the Risk Management committee and may take part in the committee's meetings if they desire.

The Risk Management committee monitors:

- a) the process of preparing financial information, the statutory audit of the annual and consolidated financial statements, and the auditors' independence:

In this respect, its duties include:

- reviewing half-year and annual consolidated financial statements of the company and the Group, as well as the company's individual annual financial statements, which are presented to it by the Management Board prior to their review by the Supervisory Board;
- checking that the information provided is clear;
- reviewing the scope of consolidated companies and supporting evidence;
- assessing the appropriateness of accounting methods adopted for preparing the company's individual financial statements and the consolidated financial statements of the company and the Group;
- reviewing the draft of the Supervisory Board Chairman's report on internal control and risk management procedures as regards preparing and processing accounting and financial information;
- reviewing the prudential and accounting impacts of any significant acquisition by the company or the Group;
- issuing recommendations on the external auditor selection procedure, and on the external auditors proposed to the General Meeting of Shareholders;
- making sure that the auditors are independent, specifically by reviewing the itemized fees that are paid to them by the Group as well as to any network to which they might belong, and by giving prior approval for any assignment costing more than €1 million, before tax, that does not fall within the strict framework of statutory auditing of the financial statements but which is consequential or accessory to it, with any other assignment being disqualified;
- reviewing the auditors' work schedule, the results of their audits and recommendations, and any follow-up action taken;

- b) the efficacy of internal oversight and risk management systems:

In this respect, its duties include:

- assessing the quality of the internal controls performed by the company and the Group, including the consistency and completeness of systems for measuring risk supervision and management; proposing additional action in this area as required; examining annual reports relating to the measurement and supervision of risk, and the conditions in which internal controls are performed within the Group;
- reviewing the total risk exposure of the company's and the Group's activities, based on relevant reports;
- formulating opinions on the Group's broad policies in terms of risks and compliance, specifically on the risk limits reflecting risk tolerance as presented to the Board;
- proposing to the Board the significance criteria and thresholds mentioned in Article 17 *ter* of CRBF Regulation 97-02, which are used to identify incidents that must be brought to the Board's attention;
- ensuring that the remuneration policy is in line with risk management targets;
- ensuring that the Group's internal audit unit is independent, and authorized to receive from the Group's banks, or to itself access, all

items, systems, or information required for the successful performance of its duties;

- reviewing the annual schedule of the Group's Internal Audit;
- ensuring that the findings of audits performed by the French Banking Commission and Group Internal Audit, of which the summaries regarding the company and the Group's entities are disclosed to it, are addressed;
- reviewing the follow-up letters sent by the French Banking Commission and issuing an opinion on the draft replies to these letters.

The main issues addressed by the Risk Management committee in 2009 were as follows:

#### Finance:

- 2010 budget and changes in the financing structure;
- Regulation concerning solidarity and guarantees between the Banque Populaire and Caisse d'Épargne et de Prévoyance networks.

#### Compliance – Risks:

- presentation of the "Internal Audit", "Group Risk Management" and "Compliance" charters;
- monitoring of *Commission bancaire* reports and enquiries.

#### Strategy:

- examination of CNP Assurances' plan to exercise its put on NGAM shares and to sell these shares to Natixis;
- authorisation of BPCE's purchase of all of Natixis' shares in Natixis Pramex International.

### The Appointments and Remuneration committee met three times between July 31 and December 31, 2009. The average attendance rate at meetings was 88.9%.

The committee has been chaired by Laurence Danon since July 31, 2009, which is when she was appointed by the Supervisory Board as an Independent member.

Laurence Danon is an engineering graduate of the *Corps des Mines*, and a member of the Management Board of Edmond de Rothschild Corporate Finance. During her career, she has been Chief Executive Officer of Ato Findley SA, Chairman of the Management Board and then Chairman and Chief Executive Officer of France-Printemps, and Chairman of the "new generation" committee of *Mouvement des Entreprises de France* (Medef).

The other members of the Appointments and Remuneration committee are selected on the basis of their expertise and professional experience:

- Catherine Amin-Garde holds a degree in European studies from ENA in Strasbourg. She currently chairs the Steering and Supervisory Board of Caisse d'Épargne Loire Drôme Ardèche. In addition to her responsibilities in the network, she is in charge of local government contracting policies and inter-ministerial partnership policies, and is a French government delegate representing the préfet of the Drôme region, working on social cohesion policy. She is also a technical advisor to the Ministry of Youth, Sport and the Voluntary Sector;
- Gérard Bellemon is a graduate of *École de Commerce IDRAC*, and is Chairman of the Board of Directors of Banque Populaire Val de France. He is also Chairman of two public limited companies, a director of Société Marseillaise de Crédit and Chairman of the Board of Directors of Natixis Assurances;

- Ramon Fernandez is a graduate of the *Institut d'Études Politiques de Paris*, and is Director-General of the Treasury and Economic Policy at the French Ministry for the Economy, Industry, and Employment. During his career, he has been a technical advisor to the cabinet of the Minister for the Economy, Finance and Industry with responsibility for banks, insurance, savings, financial markets and housing. He has worked as deputy head of international financial affairs and development at the French Treasury, and deputy head of economic policy at the Ministry for the Economy, Finance and Industry. He has also advised the French President on economic matters;

- Stéphane Gentili is Chairman of BRED Banque Populaire. During his career, he has been Chairman of Natixis Pramex International and director of Coface, Natixis Algérie, BICEC (Cameroon) and BCI (Congo-Brazzaville);

- Pierre Mackiewicz has an MBA with a specialization in accounting and financial science, and is Chairman of the Steering and Supervisory Board of Caisse d'Épargne Côte d'Azur. He has also been head of financial and human resources at the *Centre Hospitalier de Menton* since 1998.

The Appointments and Remuneration committee prepares decisions of the BPCE Supervisory Board on the following topics:

#### Pay

The Appointments and Remuneration committee is in charge of formulating proposals to the Supervisory Board concerning:

- the remuneration levels and methods applied to members of the company's Management Board, including benefits in kind, benefit plans and retirement plans,
- the remuneration of the Supervisory Board's Chairman and any Vice-Chairmen;
- the allocation of attendance fees among members of the Supervisory Board and committees, and the total amount of attendance fees submitted for approval at the company's AGM.

Furthermore, the Appointments and Remuneration committee:

- gives its opinion to the Board on the policy for granting stock options or similar securities, and on the list of recipients;
- is informed of the Group's remuneration policy, particularly the policy regarding the senior management of affiliated banks;
- reviews and issues opinions on the insurance policies taken out by the company in terms of manager liability;
- gives an opinion to the Board about the section of the annual report that covers these issues.

#### Selection

The committee makes proposals and recommendations to the Supervisory Board on:

- the choice of members of the Supervisory Board and non-voting members, who come from outside the Group, it being stipulated that Supervisory Board members from inside the Group are proposed to the Board in keeping with the company bylaws and Article L. 512-106 of the Monetary and Financial Code.

Its duties also include:

- making proposals to the Board for the appointment of the Chairman of the company's Management Board;
- coordinating the Supervisory Board's evaluation process, which is performed either by itself or under any other appropriate internal or

external procedure. In this respect, it proposes any necessary updates to the company's rules of governance (the Board's internal rules);

- examining the Chairman's draft corporate governance report.

The main issues dealt with by the Appointments and Remuneration committee in 2009 were as follows:

- appointment and remuneration policy relating to Management Board members;
- compensation paid to the Chairman of the Supervisory Board and the breakdown of attendance fees;
- application of professional rules relating to bonus/clawback arrangements for BPCE market professionals.

### **The Cooperative committee met once between July 31 and December 31, 2009. The attendance rate was 83.3%.**

The Cooperative committee is in charge of formulating proposals and recommendations to promote and incorporate into the Group's and the networks' activities the cooperative and corporate values of long-term commitment and professional and relational ethics, and thereby build up the cooperative aspect of the Group and each of its networks.

The Cooperative committee is chaired by Philippe Dupont, Chairman of the Supervisory Board and member of the committee as of right (Article 3.4 of the internal rules of BPCE's Supervisory Board).

The committee's other members are:

- Bernard Comolet, member of the Risk Management committee;
- Jean Criton, member of the Risk Management committee;
- Pierre Desvergnès, Chairman of CASDEN Banque Populaire. He is also Vice-Chairman of CCOMCEN, a body consisting of associations, cooperatives, and mutual benefit societies that serve the social economy and share common ideals;
- Francis Henry, Chairman of the Steering and Supervisory Board of Caisse d'Epargne Lorraine Champagne-Ardenne. He is also an honorary notary.
- Yves Toubanc, Vice-Chairman of the Supervisory Board.

In its meetings, the Cooperative committee mainly considered the characteristics of members' shares and shareholders' equity.

#### **2.6.1.4.7 Details relating to the participation of shareholders in General Meetings (Article 30 of BPCE's bylaws)**

- 1°- General Meetings of Shareholders are convened and meet under the conditions established by current regulations. Such meetings are held at the company's registered office or at any other place specified in the notice of meeting. The Ordinary General Meeting convened to approve the annual financial statements for the past year meets within five months following the end of the financial year.
- 2°- Only category A shareholders, category B shareholders and holders of ordinary shares are entitled to participate in General Meetings of Shareholders. To attend such meetings, shareholders' names must be recorded in the shareholder register kept by the company a minimum of three business days (by 12.00am Paris time) prior to the General Meeting.

- 3°- If a shareholder does not attend a General Meeting in person, he may either:

- give a proxy vote to another shareholder or to his or her spouse, or
- vote by post, or
- give a proxy vote to the company without indicating the name of any representative.

- 4°- General Meetings are chaired by the Chairman of the Supervisory Board or, in his absence, by the Vice-Chairman. If both the Chairman and Vice-Chairman are absent, General Meetings are chaired by a member of the Supervisory Board specially appointed for that purpose by the Supervisory Board. If no such person is present, the General Meeting shall elect a Chairman itself. The General Meeting appoints its officers. The returning officers consist of two shareholders representing, either by themselves or through proxies, the greatest number of shares and who are willing to carry out the task. The officers appoint a secretary, who may not necessarily be a member of the General Meeting.

An attendance record is kept in accordance with regulations in force.

- 5°- The Ordinary General Meeting shall be validly held on first calling if the shareholders present or represented possess at least one fifth of the voting shares.

The Ordinary General Meeting shall be validly held on the second calling regardless of the number of shareholders present or represented. The Ordinary General Meeting takes decisions on a majority of the votes of the shareholders present or represented, including postal votes.

- 6°- The Extraordinary General Meeting shall be validly held on first calling if the shareholders present or represented possess at least one quarter of the voting shares.

The Extraordinary General Meeting shall be validly held on the second calling if the shareholders present or represented possess at least one fifth of the voting shares.

The deliberations of the Extraordinary General Meeting are taken by a two-thirds majority of the votes of the shareholders present or represented, including postal votes.

Ordinary and Extraordinary General Meetings exercise their respective powers under the conditions stipulated in current regulations.

- 7°- Copies or excerpts of the minutes of the General Meetings are validly certified by the Chairman or Vice-Chairman of the Supervisory Board, a member of the Management Board or by the secretary of the General Meeting.

Ordinary and Extraordinary General Meetings exercise their respective powers under the conditions stipulated in current regulations.

## 2.6.2 Internal control and risk management procedures

### 2.6.2.1 GENERAL ORGANIZATION

#### 2.6.2.1.1 Governance of the internal control system by the central institution

Since August 4, 2009, when BPCE became operational, the governance of the internal control system has been as follows:

- the Management Board defines and puts in place the organization and resources to ensure the proper assessment and management of risks in a comprehensive and optimal manner.

It has a control framework appropriate to the financial position and strategy of BPCE and Groupe BPCE.

The Management Board is responsible for day-to-day risk management, and reports to the Supervisory Board on these activities.

It defines risk tolerance through general objectives regarding risk supervision and management. The appropriateness of these objectives is evaluated on a regular basis. It carries out regular monitoring on the implementation of policies and strategies.

It keeps the Risk Management committee and Supervisory Board regularly informed of the main items and principal lessons learned from the analysis and monitoring of risks associated with the activities and results of Groupe BPCE.

The Chairman of the Management Board and the two Management Board members responsible for the Caisses d'Epargne and Banque Populaire networks are the three people that effectively determine the direction of BPCE's activities.

- The Supervisory Board oversees the management of the principal risks incurred, approves the main risk limits and appraises the internal control framework in accordance with the regulatory framework.

In this, the Board is supported by a Risk Management committee.

#### 2.6.2.1.2 Risk Management committee

##### 1. Composition and operation

The committee is composed of Supervisory Board members appointed for their terms of office as Supervisory Board members. It is chaired by an independent member of the Supervisory Board.

Its practical operational procedures are set out in the Supervisory Board's internal rules.

##### 2. Duties

The committee assists the Supervisory Board and, in this capacity, ensures the quality of information provided to shareholders. More generally, it performs the tasks set out in CCLRF Regulation 97-02 of February 21, 1997 as amended. Its role is to:

- check the clarity of information supplied and provide an opinion on the appropriateness of the accounting methods adopted in the preparation of individual and consolidated financial statements;
- express an opinion on the appointment or reappointment of the company's external auditors and review their work programs, audit conclusions and recommendations as well as any follow-up action in response to their recommendations;

- review the global risk exposure of activities and provide an opinion on risk limits presented to the Supervisory Board;
- ensure that the remuneration policy is in line with risk management objectives;
- assess the quality of internal control, including the consistency of risk measurement, monitoring and management systems and propose, if necessary, additional measures in this regard;
- examine reports specified in Articles 42 and 43 of Regulation 97-02;
- receive internal audit and regulatory reports concerning the Group, ensure that findings from internal audit and regulatory inspections are followed up, and review the annual program for internal audit.

##### 3. Resources

The company's Management Board supplies any documents and information that are useful in the performance of its role.

The Risk Management committee may speak to any executive or person whose expertise it deems useful. The heads of permanent risk control, compliance and periodic control are invited to its meetings, with no voting right. Minutes of Risk Management committee meetings are prepared.

These minutes are circulated to committee members. The Chairman of the Risk Management committee prepares a report on the committee's work for the Supervisory Board.

##### 4. Subjects addressed in Risk Management committee meetings

In the first seven months of 2009, Banque Fédérale des Banques Populaires and Caisse Nationale des Caisses d'Epargne both held Risk Management committee meetings according to their own operating procedures. The Risk Management committee met twice with respect to Banque Fédérale des Banques Populaires and the Groupe Banque Populaire:

- March: to examine the plan to adjust the system of asset-liability, interest-rate and liquidity risk limits and the updating of the asset-liability risk reference base, to examine draft replies to follow-up letters from the *Commission bancaire* and to make a decision about the Groupe Banque Populaire's audit standards;
- May: to examine the annual internal control report published by Banque Fédérale des Banques Populaires and the Groupe Banque Populaire in 2008 and to make a decision about risk thresholds to be set in accordance with Article 17 *ter* of Regulation 97-02 as amended.

The Groupe Banque Populaire Audit committee met once in the first half of 2009 to state its opinion on the Groupe Banque Populaire's 2008 financial statements.

During the same period, the Risk Management committee met eight times with respect to Caisse Nationale des Caisses d'Epargne and the Groupe Caisse d'Epargne, to analyze the planned merger and progress with running down proprietary activities. Other objectives of these meetings were as follows:

- January: to carry out a half-yearly update on work done by Internal Audit, to analyze its draft 2009 budget, to look at quarterly risk reporting and to assess two projects concerning subsidiaries of the Groupe Caisse d'Epargne;

- February: to analyze the 2008 financial statements of Caisse Nationale des Caisses d'Epargne and the Groupe Caisse d'Epargne, to review the report by the Chairman of the Supervisory Board, and to carry out an update on major counterparty risks and on progress with the Basel II project;
- March (2 meetings): to examine the plan to transfer corporate clients from Caisse Nationale des Caisses d'Epargne to Banque Palatine, to assess the plan for an special distribution of capital to be put to a future Extraordinary General Meeting of Shareholders, to carry out an update on the Caisse d'Epargne Group's asset-liability management, on the Compliance team's work in the second half of 2008 and on Internal Audit's work in the first quarter of 2009, to review the annual risk management report to be included in the reference report and to analyze the use of the Behoust site;
- April: to carry out an update on the workout portfolio in Natixis' corporate and investment banking business, to review the risk report relating to Caisse Nationale des Caisses d'Epargne and the Groupe Caisse d'Epargne in accordance with Article 43 of Regulation 97-02, to read the two letters from the *Commission bancaire* regarding the Groupe Caisse d'Epargne's prudential capital and a disciplinary procedure against Caisse Nationale des Caisses d'Epargne following the market losses sustained in 2008, and to assess two draft agreements with GCE Covered Bonds about increasing its capital and with Oterom about a shareholder advance;
- May: to discuss Natixis' results for the first quarter of 2009, to carry out a progress update on the Basel II project and to monitor commitments made to the *Commission bancaire* relating to the ongoing disciplinary procedure;
- June (2 meetings): to analyze the Groupe Caisse d'Epargne financial statements for the first quarter of 2009, to carry out an update on asset-liability risks and the process of setting significant incident thresholds within the Groupe Caisse d'Epargne in accordance with Article 17 *ter* of Regulation 97-02, to examine three draft agreements with Banque Palatine regarding the planned transfer of corporate clients from Caisse Nationale des Caisses d'Epargne, with Oterom regarding the repayment of its debt to Banque Palatine and with the Caisse d'Epargne banks regarding the remuneration of collateral as part of the Groupe Caisse d'Epargne refinancing, to assess the report on internal control operating procedures within the Groupe Caisse d'Epargne in accordance with Article 42 of Regulation 97-02, and to read the letter from the *Commission bancaire* about the situation of the Groupe Caisse d'Epargne and of its various entities and subsidiaries.

In the last five months of 2009, following the completion of the merger, Groupe BPCE's Risk Management committee met three times.

- August: to examine Groupe BPCE's financial statements for the six months ended June 30, 2009, to look at the plan to integrate Société Marseillaise de Crédit into Groupe BPCE's SFEF refinancing system and to assess the plan to acquire Natixis Algérie from Natixis;
- November: to analyze the guarantee mechanism to be set up between BPCE and Natixis regarding the workout portfolio, to examine Groupe BPCE's financial statements for the nine months ended September 30, 2009, to look at the plan to increase Financière Océor's Tier-1 capital, to note the presentation to the Board of agreements linking BPCE to BP Participations and to CE Participations and tax consolidation agreements in the process of being set up, to note ethical and compliance rules applying to the Supervisory Board and the Risk Management committee and more generally to persons deemed sensitive, to note the

letter from the *Commission bancaire* following its inspection of structured financing granted to local authorities and the draft reply, and to issue an opinion on the delayed adoption of IFRSs by the Banque Populaire banks, which was initially planned in 2010, and on the adjustment to the Caisse d'Epargne and Banque Populaire banks' solidarity and guarantee system;

- December: to note the 2009 earnings forecasts and 2010 budget of BPCE A, to carry out an update on the Group ALM reference base and on BPCE's cash management activities and associated risks, to hear a presentation on the organization and business plan of the Financial Audit department within BPCE's Group Finance department, to note the charters of the various control functions (Internal Audit, Compliance, Risk Management), which will apply to all Groupe BPCE institutions, to assess the situation of the workout portfolio, to issue an opinion on the sale of NGAM shares to Natixis following CNP Assurances' exercise of its put option and on the acquisition of Natixis Pramex International from Natixis, and to note a counter-guarantee agreement to be made between CE Participations and BPCE and the reclassification of BPCE shares held by BP Participations.

### 2.6.2.1.3 Participants in the internal control system

#### 1. Organization at the Groupe BPCE level

Continuing the system that previously existed in the Groupe Banque Populaire and the Groupe Caisse d'Epargne, the control system of Groupe BPCE as central institution is based on three tiers of control in accordance with banking regulations and sound management practice: two tiers of permanent control and one tier of periodic control. Integrated control processes have been set up in accordance with decisions taken by BPCE's Management Board.

#### PERMANENT HIERARCHICAL CONTROL (TIER ONE)

Permanent hierarchical control (Tier one) is the first link in internal control, and is performed by the operating or functional departments under the supervision of their hierarchy.

These departments' responsibilities include:

- checking compliance with risk limits, as well as transaction processing procedures and their compliance;
- reporting operational risk incidents observed and establishing the business indicators necessary for the evaluation of operational risks;
- proving account balances arising from movements in the accounts concerned by transactions initiated in its departments.

Depending on the situations and activities, these tier-one controls are performed, jointly if applicable, by a special middle-office type control unit or accounting control entity, or otherwise by the operators themselves.

Tier-one controls are reported formally to the permanent control departments or functions concerned.

#### PERMANENT CONTROL BY DEDICATED ENTITIES (TIER TWO)

Permanent tier-two controls within the meaning of Article 6-a of Regulation 97-02 are performed by entities dedicated exclusively to this function such as the Group Compliance and Security department and the Group Risk Management department.

Other central functions are essential participants in the permanent control framework: the Group Finance department, responsible for accounting

control, the Legal department, the Operations department responsible for Information Systems Security, and the Group Human Resources department responsible for issues affecting the remuneration policy.

#### PERIODIC CONTROL (TIER THREE)

Periodic control within the meaning of Article 6-b of Regulation 97-02 is performed by Internal Audit across all entities and activities, including permanent control.

### 2. Process-based organization

Integrated permanent and periodic control processes have been put in place within Groupe BPCE. Three permanent control and periodic control departments have been set up within the central institution that oversees these processes: the Group Risk Management department and Group Compliance and Security department are in charge of permanent control and the Group Internal Audit department is in charge of periodic control. As part of integrated control processes, permanent and periodic control functions located within affiliates and subsidiaries subject to the banking supervision system have strong functional links with BPCE's corresponding central control departments. These links include approval of the appointment and termination of officers in charge of permanent or periodic control functions at affiliates and direct subsidiaries, reporting and warning obligations, standards defined by the central body and contained in reference bases, and the definition or approval of control plans. These links have been formalized through charters covering each business process. The whole system was approved by the Management Board on December 7, 2009 and presented to the Risk Management committee on December 16, 2009. It has also been presented to BPCE's Supervisory Board.

#### 2.6.2.1.4 Coordination of the control system

The Chairman of the central institution's Management Board is responsible for ensuring the consistency and effectiveness of permanent control.

A Group internal control coordination committee (CCCIG), chaired by the aforementioned person or his representative, meets periodically.

This committee has responsibility for dealing with all issues relating to the consistency and effectiveness of the Groupe BPCE internal control framework, as well as the results of risk management and internal control work and follow-up work.

Its responsibilities include:

- keeping executive management regularly updated about developments in the Groupe BPCE control framework;
- highlighting areas of emerging or recurrent risk, arising from developments in business, changes in the operating environment or the state of control systems;
- reporting significant failures to executive management;
- examining the methods for implementing the principal regulatory changes and their potential implications on the control framework and tools;
- ensuring that findings from control examinations are properly taken into account, reviewing remedial measures decided, prioritizing them and monitoring their implementation;
- deciding measures to be implemented to reinforce the level of security for Groupe BPCE and coordinating, where necessary, initiatives developed by the permanent control functions of the central body.

Committee members include the Management Board member in charge of Group Finance, the Group Head of Operations, heads of periodic control (Group Internal Audit) and permanent control functions (Group Risk Management department, Group Compliance and Security department), the head of IT systems security (RSSI) and the person responsible within the Group Finance department for overseeing the audit process. Management Board members in charge of Banque Populaire and Caisse d'Epargne banks have standing invitations to attend meetings. If applicable, this committee may hear reports from operational managers about measures taken by them to apply recommendations made by internal and external control bodies.

#### 2.2.6.2.2 RISK MONITORING AND CONTROL PROCEDURES

The Group Risk Management department ensures the effectiveness and uniformity of the risk management system and the consistency of risks with Groupe BPCE's financial, human and systems resources, and with its targets, particularly as regards agency credit ratings.

It performs its duties independently of operational departments. Its operating arrangements, particularly as regards business processes, are set out in the Group Risk Management charter, which was approved by BPCE's Management Board on December 7, 2009. The Risk Management departments of affiliates, parent companies and subsidiaries subject to banking supervision regulations have strong functional links with the committee. The other subsidiaries report to the Risk Management department on a functional basis.

#### 2.6.2.2.1 Main duties of the Group Risk Management department

- the department helps to prepare the risk policy on a consolidated basis, determines global risk limits, takes part in calculating the economic allocation of capital and ensures that portfolios are managed in accordance with these limits and allocations.
- it helps the Management Board to identify emerging risks, concentrations and other adverse developments, and to devise strategy.
- it defines and implements standards and methods for consolidated risk measurement, risk mapping, risk acceptance approval, risk control and reporting, and compliance with laws and regulations, in accordance with the principles and rules set out by regulations.
- it assesses and controls Group-wide risk levels, and carries out independent analysis as part of the process:
  - it is responsible for ongoing oversight, including detecting and resolving limit violations, and for centralized forward-looking internal and external risk reporting on a consolidated basis, including reporting to regulators),
  - it is responsible for second-tier control of certain processes for preparing financial information (valuation methods, deductions, provisioning, determination of market values),
  - it manages risk information systems in close coordination with IT departments by defining the standards to be applied for the measurement, control, reporting and management of risks. The Risk Management department carries out second-tier controls on the reliability of risk information systems.

## 2.6.2.2 Detailed activities by risk category

### 1. Credit risk

The Risk Management department is responsible for defining and checking performance. Risk measurement is based on rating systems for some Group institutions that are Basel II-approved or that aim to comply with requirements of Basel regulations, and adjusted to each customer or transaction type.

Decision-making within Groupe BPCE is carried out under a delegated procedural framework with a system of limits (currently being adjusted) relating to each customer group on a consolidated basis<sup>(\*)</sup>, and using the principle of independent analysis involving the risk function. There is a right of appeal that can give rise to referral to a higher level of the Credit committee.

The system of delegation within Groupe BPCE and BPCE, the central institution, is approved by the Management Board, after analysis by the Group Risk Management department, and is organized as follows:

- delegation granted to the Group Credit committee;
- delegation granted to the Group Watchlist and Provisions committee;
- delegation granted to the Credit Risk committee dealing with subsidiaries of credit institutions (excluding Natixis);
- delegation granted to specialist Credit committees dealing with the Caisse d'Epargne banks;
- delegation granted to the BPCE Risk Management committee (covering the central body and its sub-holding companies);
- delegation granted to the Credit committees of each subsidiary or affiliate.

In Groupe BPCE, identical internal rating methods are used for the two networks.

Risk Management departments within Groupe BPCE are intended, for the Caisses d'Epargne and former Groupe Caisse d'Epargne subsidiaries, to be ultimately responsible for validating corporate ratings after appraisal by analysts. For counterparties overseen by the Banque Populaire Credit Risk committee, the rating is approved by the committee based on the proposal from the Groupe BPCE Risk Management department.

Risk monitoring within Groupe BPCE looks at the quality of information, which should be compatible with an accurate risk evaluation, and changes in the level of risks taken. Compliance with standards is governed through monitoring of all scopes with internal rating approval, and through monitoring deployed in 2010 across the Caisses d'Epargne retail scope, which does not yet have approval.

The different tiers of control within Groupe BPCE operate under the supervision of the Group Risk Management department, which is also responsible for consolidated summary reporting to the various authorities.

Sensitive matters and the provisioning policy for the main risks shared by several entities are regularly examined by a Watchlist and Provisions committee.

In setting regulatory and internal limits and defining the limit system, the Group Risk Management department examines these limits at the Groupe BPCE level for the Groupe BPCE Risk Management committee. These limits are established according to the type of counterparty, country, economic sector or any other criteria considered relevant, in order to ensure proper control of concentration and residual risk and to comply with rules set by the regulator. If applicable, limits are distributed between Groupe BPCE's various entities by the Group Credit committee.

### WORK DONE IN 2009

A major statistical study was carried out to check that the Groupe Banque Populaire's retail probability of default models could be adapted to the Caisses d'Epargne's individual and small-business customer portfolios. The Caisses d'Epargne's Basel II retail project, linked to the approved Basel system, began in April 2010, and the first rating using the Group system was produced on January 18, 2010 (individual and small-business customers of Caisse d'Epargne banks).

A monitoring system for checking Basel standards and the quality of data used in ratings was prepared, for implementation by January 31, 2010. The document database used to manage the Caisse d'Epargne approval process is available to all Caisses d'Epargne.

Change-management assistance has been provided to enable the Caisses d'Epargne to identify the main impact of changes to the Banque Populaire banks' rating system

All committees contributing to risk supervision have been set up, and all have held meetings since BPCE was created. The Group Watchlist and Provisions committee, which is in charge of supervising counterparties, has met every month since September 2009.

The first consolidated regulatory disclosure regarding major risks took place following the September 30, 2009 accounts closing.

Substantial progress has been made in setting up the federal client database, based on the new Group's scope, including details of counterparties with non-retail exposures. This should improve monitoring of limits and make all reporting more reliable.

A plan of action has been put in place to ensure consistency between management and accounting data relating to all exposures.

### OUTLOOK

The outlook for 2010 is as follows:

- Risk Management department teams will be combined in a single site in early 2010, reducing operational risk;
- phase 1 of the Caisse d'Epargne retail approval process will be completed;
- Basel standards will be adopted across the scope undergoing approval;
- Groupe BPCE standards will be standardized as regards the watchlist and the regulatory clustering of working groups, a detailed action plan will be defined and the convergence of non-retail standards for the new Groupe BPCE will begin;
- Groupe BPCE's Fermat Gem tool will be rolled out, allowing reporting documents across the new Group's entire scope to be submitted in a single information flow. This project will improve the quality and completeness of credit-risk reporting;
- the regulatory monitoring project regarding counterparty risk will be completed, allowing monitoring of consistent limits for the new Group, both nationally and locally. Within internal limits, Group limits on the main risks are imposed by the appropriate committee. A single set of rules for calculating supervision indicators, taking into account the quality of risk, will also be implemented;
- credit risk stress tests, currently calculated quarterly for the former GBP scope including Natixis, will be extended to the Groupe BPCE scope in 2010.
- non-retail rating drivers will be rolled out;
- work will be done to calculate the ratio at June 30, 2010.

\* "Customer group" means a company made up of subsidiaries.

## 2. Market risks

The Group Risk Management department has four principal areas of action:

### MEASUREMENT

- determine the principles of market risk measurement, approved by the various Risk Management committees;
- implement the tools needed to measure risk on a consolidated basis;
- produce risk measurements, including those corresponding to market operating limits, or ensure that they are produced as part of the risk process;
- approve appropriate valuation models and performance metrics or ensure that they are approved as part of the risk process. Where models are developed by institutions subject to the Capital Adequacy Directive, it delegates approval of its valuation models to them and receives maps of the approved models along with any approval comments;
- determine policies for reducing values or delegate them to Risk Management departments for institutions subject to the Capital Adequacy Directive, and centralize the information;
- provide second-tier approval of the management results for market activities and approve the central body's treasury valuation methods.

### LIMITS

- set up the limit framework and set limits (global limits and, where necessary, operating limits) adopted by the various appropriate Risk Management committees, as part of the independent risk analysis process;
- examine the list of authorized products within institutions not subject to the Capital Adequacy Directive, and the conditions to be complied with, and submit them for approval to the appropriate Market Risk committee;
- harmonize systems for managing the proprietary activities of Banque Populaire and Caisses d'Epargne banks (monitoring indicators, indicator limits, the monitoring and control process, and reporting standards).

### SUPERVISION

- enter requests for investments in financial products, in new capital market products or in activities, by banks not subject to the market CAD;
- define second-tier control procedures for market transactions, valuation prices and management results;
- consolidate the mapping of Group risks and establish that of the central body;
- carry out or arrange daily supervision of positions and risks with respect to allocated limits (overall and operational limits);
- set reporting standards;
- organize the decision-making framework for limit violations;
- ensure or oversee the permanent supervision of limit violations and their resolution;
- prepare the consolidated scorecard for the various authorities.

### WORK DONE IN 2009

Within the Banque Populaire banks, market risk monitoring tools were rolled out, to prepare risk reports and standardized economic results, making operational use of the market risk database.

The roll-out will be complete when the process of reconciling transactions by institution is finished.

Work began on the market database, which now feeds into the market risk monitoring tool. As part of the creation of BPCE, monitoring of central treasury and refinancing activities from the risk and results point of view has been developed in accordance with regulatory requirements. Specific stress scenarios have been implemented.

Work carried out with BRED on market stress scenarios has led to a common definition with Natixis, allowing a consolidated view and monitoring of market risks based on common stress tests. Reporting on risk monitoring has been enhanced for Caisses d'Epargne and subsidiaries.

### OUTLOOK

Work in 2010 will focus on integrating the positions of Banque Populaire banks into the Group VaR measurement tool, with the aim of producing consolidated reporting of market risks (VaR and stress scenarios).

At the BPCE level, counterparty risk calculation and monitoring models will be produced within management tools.

## 3. Operating risk

The Groupe BPCE Risk Management department helps define the policy for the management of operational risks. Its duties are:

- to establish a risk map based on uniform evaluation standards for the whole Group scope, define operational risk indicators, monitor risk hedging (action plans, business continuity plans, insurance) and manage a database of losses related to confirmed operational incidents. The Groupe BPCE Risk Management department works with the Compliance department on the risks that concern it, and helps establish specific control procedures for the management of operational risks.
- to carry out permanent supervision of risks and, more particularly, report consolidated summaries to the various authorities, perform investigations and analyses of significant major incidents at the Group level and approve and supervise remedial or preventive action plans relating to these major incidents.
- to coordinate risk information systems in close collaboration with IT departments, by defining the standards to be applied for the measurement, control, reporting and management of risks.

### WORK DONE IN 2009

The team was strengthened with the creation of a supervision and co-ordination unit comprising five operational risk managers, each in charge of a specific area:

- BPCE;
- Banque Populaire banks;
- Caisses d'Epargne;
- BPCE subsidiaries;
- Natixis and the Real Estate business;

#### Caisse d'Epargne network:

Existing arrangements were consolidated through:

- standardization work and efforts to adopt best practice as regards both incident management and risk mapping.

Deliverables consisted of:

- a standardized catalogue of higher-frequency incidents, including their business description,
- a standardized catalogue to help with the scoring process, including scenarios, frequency factors and impact factors;
- the dissemination and implementation within Caisse d'Epargne banks of the Groupe BPCE warning procedure relating to operational incidents.

#### Banque Populaire network:

After completing the roll-out of operational risk management tool ORIX, a single risk database shared by all Group institutions was set up within ORIX in November 2009. All operational incidents must now be entered into this database.

At the same time, Group institutions started a scoring process as part of the new risk mapping procedure, in order to identify the major risks to be supervised by the end of the first quarter of 2010.

A Permanent Control working group was also set up within the Banque Populaire network in 2009, coordinating with the Compliance department. This working group established standards for first- and second-tier controls defined by each institution.

A library of existing controls was also compiled to enable each institution to supplement its control arrangements. Work on setting up common reporting to the central body is ongoing. Finally, several plans of action were coordinated by the department relating to major incidents in the Banque Populaire network, including: audits on low-interest loans to farmers and fraud on notes sent electronically.

As part of its permanent risk supervision role in relation to the Banque Populaire network, the Group Operational Risk department, after a monitoring phase, produces institution-specific and Group reporting documents, which are sent to the senior management and Risk Management departments of each entity.

#### Coordination of IT systems:

Work was done to automate the quarterly production of COREP regulatory statements (OPR details and OPR loss details) for each Group institution.

As part of the Sequana project, the Operational Risk Management department set up a Group operational risk datamart. This is a data warehouse that stores information on incidents and their impact, taken from the Oris (Caisse d'Epargne) and ORIX (Banque Populaire) loss reporting tools.

#### OUTLOOK

For 2010, the focus will be on harmonizing practices within Groupe BPCE, as regards standards, databases and operational risk maps. Discussions will also begin about implementing a common tool for the whole Group. The new system for coordinating this business process will also enhance coordination of the operational risk officer network, in order to respond more effectively to Groupe BPCE's operational risk supervision and management requirements. The system will also be extended to BPCE A.

#### Coordination of IT systems:

Work in 2010 will focus on setting up automatic monitoring in order to guarantee the reliability of data, the integration of data from Natixis, the

automated generation of consolidated reporting documents (Basel matrix, scorecards) and institution-specific reporting documents, the consolidation of data from the risk-mapping process (scoring, risks to be managed), and the creation of plans of action and indicators.

#### 4. Asset-liability risks

The role of the Risk Management department forms part of the general organization of asset-liability risk management (interest-rate, liquidity and currency risks).

The Financial Risks function performs second-tier controls on these risks.

The Risk Management department validates the assumptions used to measure these risks, including:

- the list of identified risk factors, on- and off-balance sheet risk maps, and economic scenarios;
- back-testing of future production rates and early repayment rates;
- agreed run-off distributions and definitions of authorized instruments as regards asset-liability risk hedging;
- monitoring indicators, reporting rules and frequency of reporting to the balance sheet management committee;
- information reporting agreements and process;
- control standards relating to the reliability of measurement systems, procedures for setting limits and for managing limit violations, and the monitoring of action plans.

The Risk Management department makes ALM<sup>(1)</sup> limit requests. It validates the stress scenarios submitted to the balance sheet management committee. It defines stress scenarios to supplement Group stress scenarios if required.

The Financial Risk function checks:

- that indicators comply with the standards adopted by the balance sheet management committee;
- that limits are complied with, based on required disclosures;
- that risk-mitigation action plans are implemented.

These duties are assigned to each entity's risk process as regards its own scope, and the Group Risk Management department at the consolidated level.

Each entity formalizes controls within reporting arrangements for second-tier controls, including:

- the quality of the risk management system;
- limit compliance and monitoring of remedial action plans in the event of limit violations;
- analysis of changes in the balance sheet and in risk indicators.

#### WORK DONE IN 2009

Several major projects were undertaken. Workshops were held for Group institutions by the Group Finance department, and were attended by the Group Risk Management department, in order to create a Groupe BPCE ALM manual.

This manual sets out the management and reporting rules adopted by Groupe BPCE as regards asset-liability management. It applies to all Group retail banking institutions. ALM data from Natixis have been integrated into BPCE's ALM software in order to enhance the analysis of Natixis' interest-rate and liquidity risks. The ALM Risks unit has validated the delta-equivalent method, which gives a more detailed view of interest-rate risk as regards optional items on the balance sheet (home purchase savings, early repayments and options).

(1) ALM: Asset and Liability Management.

## OUTLOOK

In the first half of 2010, a Group ALM Risk manual, shared by both networks, will be produced: The aim is to define measurement, control and second-tier reporting standards for ALM risks.

The ALM Risks unit, in conjunction with the consolidated IT project on risks, has initiated a project intended to produce specific reporting and control indicators independently of the Finance business process.

The ALM Risk unit will take part in setting up the advanced liquidity management model, which will be rolled out across Groupe BPCE.

In the second half of 2010, work on selecting the Group ALM tool will begin. Currently, BPCE and the Caisse d'Epargne banks use Fermat ALM, while the Banque Populaire banks use QRM.

**5. Technical risks related to insurance activities**

The Group Risk Management department monitors technical risks for employee benefit contracts, borrower guarantees and guarantees. Risk frameworks have been set up within subsidiaries (CNP and Natixis) to measure, provision then reinsure risks relating to liabilities underwritten as well as to regularly monitor the profitability and value of portfolios.

## OUTLOOK

An insurance risk map will be drawn up in 2010 covering the scope of Groupe BPCE.

**6. Intermediation risk**

Intermediation risk is supervised at the central institution level by a system for monitoring transactions that have not yet been adjusted or closed out. Natixis (Eurotitres) is in charge of intermediation activity, and supplies the necessary data to the central body for controlling and monitoring this risk.

**7. Settlement/delivery risk**

Customer orders for financial instruments are transmitted to the central institution, which has access to technical support from Natixis (Eurotitres) for securities custody and account-keeping services, as well as reception and transmission services.

BPCE uses regular audit checks and reporting to ensure that its subsidiary (Natixis), responsible for securities custody and account keeping, complies with the applicable regulations and procedures in this area.

**2.6.2.2.3 Risk governance authorities**

Risk Management committees at the Groupe BPCE level, of which the Risk Management department is a crucial component, control risk-taking and perform periodic, pro-active assessments of the various issues relating to the amount and structure of risks taken.

The main committees – chaired by a member of BPCE's Management Board, a Chief Executive Officer of a Banque Populaire bank or a Chairman of the Management Board of a Caisse d'Epargne – that cover the Group, the central institution, the Banque Populaire network and the Caisse d'Epargne network, are as follows:

**1. Groupe BPCE Risk Management committee: umbrella committee**

Its scope covers the entire Group (central institution, holding companies, networks and all subsidiaries). It sets the broad risk policy, decides on the global ceilings and limits for the

Group and for each institution, validates the delegation limits of other committees, examines the principal risk areas for the Group and for each institution, and approves risk action plans for the measurement, supervision and management of risk, as well as the Group's principal risk standards and procedures. It monitors limits (Regulation 97-02, Art. 35), particularly when global limits are likely to be reached (Regulation 97-02, Art. 36).

Global risk limits are reviewed at least once a year and presented to the Risk Management committee (Regulation 97-02, Art. 33). The Group Risk Management committee proposes criteria to the Risk Management committee for identifying incidents to be brought to the attention of the governing body (Regulation 97-02, Art. 38-1 and 17 ter). It notifies the Risk Management committee twice a year of the conditions under which the limits set were respected (Regulation 97-02, Art. 39).

**1-1 BPCE RISK MANAGEMENT COMMITTEE: COMMITTEE DEALING WITH THE CENTRAL BODY AND HOLDING COMPANIES. IT COVERS ALL TYPES OF RISKS**

As regards credit risks, it carries out prior validation of the central treasury's counterparty limits and of all commitments made by the central body and holding company. As regards market risks, the committee has responsibility for authorizing products and limits relating to the central body's central treasury and proprietary trading activities (ex-BFBP and ex-CNCE) placed under holding companies, and for reviewing limit compliance and the financial results of the treasury and proprietary portfolio activities of BP Participations and CE Participations.

As regards operational and compliance risks, it validates the operational risk map and action plans within its scope. It reviews loss and incident reporting.

**1-2 CREATION OF A GUARANTEE MONITORING COMMITTEE (CSG)**

This committee decides all matters relating to the system for protecting workout portfolio assets. Its duties include:

- monitoring the proper application of the guarantee system, and considering all decisions and projects referred to it by the Workout Asset Management committee (CGAC), which may affect the guarantee mechanism and/or the obligations of Natixis or BPCE;
- reviewing quantitative data relating to the protection system for the relevant accounting period at each Natixis accounts-closing;
- carrying out arbitrage in accordance with the guarantee agreement;

- validating Natixis' strategic decisions to be implemented by CGAC, including its risk policy, as regards workout portfolios, and ensuring that they are complied with;
- taking decisions and determining the consequences of accounting reclassifications and, more generally, all changes to applicable accounting and prudential rules;
- periodically valuing the call granted to Natixis;
- validating changes in valuation methods for assets covered by the Guarantee, including any shift from "mark-to-market" to "mark-to-model" and vice-versa;
- determining arrangements for the onward invoicing of management fees relating to assets covered by the financial guarantee;
- analyzing disposals, substitutions and changes of control that have a material impact on the Guarantee, and defining rules for selling assets covered by the financial guarantee, including the level of authority given to traders;
- being the referral body for all difficulties relating to the Guarantee.

The CSG meets every quarter, and may meet monthly during the establishment period. It can also be convened immediately if circumstances require.

To be able to perform its duties correctly, it periodically receives the information it needs, along with information about issues dealt with by other committees that relate to the protection system or guaranteed assets.

#### 1-3 WORKOUT ASSET MANAGEMENT COMMITTEE (CGAC)

This committee replaces Natixis' Workout Portfolio Risk committee. The aim is for BPCE representatives to have greater involvement in the committee's decision-making, and for BPCE, as regards certain issues relating to the protection system or guaranteed assets, to exercise a right to request that a decision be subject to approval by the Guarantee Monitoring committee.

The CGAC is the new steering and monitoring body for all risks relating to activities transferred to the workout portfolio, as regards both counterparty and market risks.

Decisions are taken by the Chairman of CGAC (the Chief Executive Officer of Natixis) when discussions have been concluded.

When decisions have a financial impact or pose specific risks for BPCE due to the protection system, BPCE representatives may ask for the matter to be referred to the Guarantee Monitoring committee before a decision is taken.

The CGAC meets at least once a month. Natixis' Risk Management department and Finance department, along with BPCE representatives, are able to add relevant issues to the CGAC's agenda.

#### 1-4 LOCAL COMMITTEES FOR MANAGING ASSETS CARRIED BY US, UK AND LUXEMBOURG STRUCTURES

These committees deal with matters regarding guaranteed assets carried within their jurisdiction. These matters relate to Natixis workout assets managed in the USA, Luxembourg and the UK. BPCE representatives take part in these committees. However, CGAC may look at matters beforehand and formulate recommendations. These local committees are chaired by the Chief Executive Officers of the entities in question, who make decisions after the matters have been debated. The committees' decisions cannot be deferred.

## 2. Credit risks

### GROUP CREDIT COMMITTEE

This committee sets limits relating to counterparty groups common to several entities of Groupe BPCE, sets individual limits for a group of counterparties over a certain threshold, and makes credit decisions for loans over the authorization threshold of Caisse d'Epargne banks' lending committees and of subsidiaries' Credit Risk committee. Its scope covers the entire Group (central body, networks and all subsidiaries). *Meetings are held at least once every three months.*

### BANQUE POPULAIRE CREDIT RISK COMMITTEE

This committee is responsible for reviewing ratings of credit files above a certain threshold, reviewing reports on credit risk, monitoring reports and sector analyses relating to the Banque Populaire network and approving in advance syndications proposed to the Banque Populaire network. *Meetings are held monthly.*

### CAISSE D'EPARGNE CREDIT RISK COMMITTEE

This committee has the same responsibilities as the committee described immediately above, and also makes advance decisions on certain transactions depending on their type. *Meetings are held every three months, and then quarterly.*

### CREDIT RISK COMMITTEE DEDICATED TO SUBSIDIARIES OF CREDIT INSTITUTIONS (EXCLUDING NATIXIS)

This committee makes advance decisions regarding any matter exceeding the authorization threshold of any entity. Above a certain threshold, decisions are referred to the Group Credit committee. *Meetings are held weekly.*

### GROUP WATCHLIST AND PROVISIONS COMMITTEE

This committee makes monthly decisions – and quarterly decisions for securitizations, funds and private equity – regarding counterparties joining or leaving the watchlist, beyond a certain consolidated threshold, and examines Group-level provisions on a quarterly basis. This committee also deals with the watchlist and provisions of the central institution. *Meetings are held monthly.*

## 3. Market risks

Group decisions regarding market risks are taken by the following committee, which refers new products and capital market activities to the Group New Products committee.

### GROUP MARKET RISK COMMITTEE

For institutions subject to the CAD and above a certain threshold, the committee is involved in after-the-event risk supervision through checks to monitor limit usage, excesses and changes to limits, and through daily mark-to-market calculations.

For institutions not subject to the CAD or whose activity is lower than the aforementioned threshold, the committee is involved at a higher level in analyzing product-related risks. It sets operational intervention limits (qualitative and quantitative conditions and limits), reviews the limit framework every year or more frequently if necessary, and carries out regular compliance monitoring of the limits. *Meetings are held every six weeks.*

## GROUP NEW PRODUCTS COMMITTEE

This committee provides prior validation of new capital market products in the portfolios of institutions not subject to the CAD. Before the products are traded or initiated, it defines the conditions for using new financial products and for launching new financial activities by BPCE affiliates within their portfolio. The committee has responsibility for all Group entities within the scope of its financial activities. *Meetings are held as and when required.*

**4. Operational risk**

## GROUP OPERATIONAL RISK COMMITTEE

This committee is responsible for operational risk mapping, action plans, and the supervision of losses and incidents at the consolidated level. Meetings are held every three months.

**5. Standards and methods**

## STANDARDS AND METHODS COMMITTEES DEALING SPECIFICALLY WITH THE BANQUE POPULAIRE AND CAISSE D'EPARGNE NETWORKS

This committee is responsible for defining common methodological, measurement, control and reporting standards for credit, ALM, market and operational risks to be applied within the Group, and for defining and validating common models and backtesting procedures for each institution. It covers all group entities.

During the transitional period, these committees are responsible for approving standard measurement, control and reporting methods for market and ALM credit and operational risks, approving backtesting procedures for banks, and updating and circulating risk benchmarks to be applied in the two networks. *Meetings are held every two months.*

**6. IT system**

## GROUP IT RISK COMMITTEE

This committee has the authority to approve and decide on budget allocations and priorities of all risk projects with an IT component, such as the IT risk convergence plan, and oversees their progress, at the Group level. It also approves the solutions to be put in place by Natixis and other subsidiaries to enable the central body to monitor consolidated risks. Representation of IT departments ensures that issues relating to the technical architecture of IT systems are fully taken into account.

## IT RISK COMMITTEE – BANQUE POPULAIRE NETWORK

During the transitional period, this committee deals with budget allocation, priorities and progress monitoring relating to risk projects with an IT component within the Banque Populaire scope.

Meetings are held every two months. IT Risk committee – Caisse d'Epargne network. Meetings are held every two months.

This committee has the same responsibilities as the above committee, but covering the Caisse d'Epargne scope

**7. ALM – New products (customers)**

ALM risk is managed by joint committees organized by the Group Risk Management department and the Group Finance department.

## 7-1 ALM

**Group ALM committee**

This committee meets every quarter and examines, on a consolidated basis, the Group's structural risks and those of the Group's various entities, along with movements in the balance sheet.

It defines the structural risk limits of the Group and its institutions, before they are put forward for validation by the relevant risk committees.

It ratifies ALM agreements (separation of the banking book from the trading book, authorized instruments, run-off distributions, etc.).

It validates the organization for producing risk and ALM indicators.

It receives, from the various institutions, refinancing and investment forecasts, depending on their expected requirements.

It examines strategies for managing these risks and, if appropriate, proposes best practice for Group institutions. The committee meets at least once per year.

**Retail banking ALM committee**

This committee meets quarterly and organizes the ALM processes for commercial banking. It establishes run-off agreements and organizes models to measure global currency, interest-rate and liquidity risks for the Group in relation to assets and liabilities without contractual maturities, as well as assets and liabilities with contractual maturities for the networks.

It is also responsible for the consolidation of network indicators, examines network risk indicators and may, if necessary, provide recommendations in the area of risk management. Meetings are held every three months.

**BPCE ALM committee**

This committee meets every month, and examines the structural risk indicators of BPCE A, BP Participations, CEP Participations and refinancing vehicles.

It defines BPCE A's structural risk limits if they are more ambitious than those contained in the Group ALM manual.

It works with affiliates to validate the pricing of liquidity. It ratifies ALM arrangements (separation of the banking book from the trading book, authorized instruments, run-off distributions, etc.) specific to BPCE A.

It examines strategies for managing these risks. Meetings are held monthly.

## 7.2 TREASURY

**Group Treasury committee**

This committee validates the general treasury operating procedures, and ensures that BPCE's treasury has the resources to fulfill its role in guaranteeing Group liquidity. It keeps BPCE's credit quality in line with that of the Group's other entities. The committee meets every six months.

**Affiliates' Treasury committee**

This committee is a forum for the exchange of information and suggestions regarding treasury operations. It may issue proposals that may be approved by the Group Treasury committee. The committee meets every six months.

**Central body Treasury committee**

This Business-Line committee approves operational treasury strategies for the central institution. Meetings are held monthly.

#### 2.6.2.2.4 Operating procedures

The Groupe BPCE Risk Management department handles its duties as a business process. It ensures that the risk policies of the affiliates and subsidiaries comply with those of Groupe BPCE.

Risk Management departments set up in the parent companies report to it through a strong operational reporting line and have a hierarchical reporting line to the executive body.

This strong operational link is stronger in the case of subsidiaries subject to the banking supervision regulatory framework. The subsidiaries concerned include Natixis, Crédit Foncier de France (CFF), Banque Palatine, Financière Océor and Société Marseillaise de Crédit (SMC).

Risk Management departments of subsidiaries not subject to the banking supervision regulatory framework have a functional reporting line to Groupe BPCE's Risk Management department.

##### **Risk Management departments within parent-company affiliates**

- In the case of parent-company affiliates, the strong operational link means that:
  - the appointment or the termination of the Senior Executive Vice-President, Risk Management, of the parent-company affiliate depends on the approval of the central body's Senior Executive Vice-President, Risk Management. This formal agreement is based on an examination of the candidate's skills and professional experience;
  - the Group Senior Executive Vice-President, Risk Management, is kept informed about the appointment or termination of Senior Executive Vice-Presidents, Risk Management of indirect subsidiaries;
  - the letter appointing the Senior Executive Vice-President, Risk Management of a parent-company affiliate, with a job description attached, must comply with the model prepared by DRG (Risk Management department) in accordance with executive management, and must be sent to DRG;
  - common standards are applied within entities;
  - permanent reporting and the process of warning the Group Senior Executive Vice-President, Risk Management are effective;
  - the Group Risk Management department, working with the entities concerned, carries out subsequent validation of risk charters, as well as risk delegation systems, and ensures that they are implemented as framework procedures. In doing this, it works with the Risk Management department of the entity concerned. It consolidates all sensitive and contentious files.

Parent-company affiliates are responsible for the definition, monitoring and management of their levels of risk, as well as the production of reports and data feeds to be sent to the central body Risk Management department by ensuring the quality, reliability and completeness of the data enabling risks to be controlled and monitored at the company level and on a consolidated basis.

##### **Risk Management departments within subsidiaries subject to banking supervision regulations**

- The strong hierarchical operational link, which is stronger in the case of subsidiaries subject to the banking supervision regulatory framework, is achieved as follows:
  - the appointment or the termination of the Senior Executive Vice-President, Risk Management, of the parent-company affiliate depends on the approval of the central institution's Senior Executive Vice-President, Risk Management. This formal agreement is based on an

examination of the candidate's skills and professional experience. The Group Senior Executive Vice-President, Risk Management, is kept informed about the appointment or termination of Senior Executive Vice-Presidents, Risk Management of indirect subsidiaries;

- the Group Senior Executive Vice-President, Risk Management, takes part in the annual appraisal of the Senior Executive Vice-President, Risk Management;
- common standards are prepared for all entities;
- the Group Risk Management department must receive permanent reporting documents and warnings;
- duties are assigned to the entity's Senior Executive Vice-President, Risk Management by the Group Senior Executive Vice-President, Risk Management, and possibly by the bank's executive management in the form of an engagement letter;
- the BPCE Risk Management department, in collaboration with the entities concerned, approves risk maps in advance and turns them into procedural frameworks in compliance with Group standards, carries out prior examination of systems used to delegate risks with a view to their approval by the Group Risk Management committee, and consolidates all sensitive and contentious files;
- all increased-risk and contentious files are reported to the Group Risk Management department;
- the Group Risk Management department is a member of committees involved in the risk management process, and it has a right of appeal to the competent Group committee.

Entities are responsible for the definition, monitoring and management of their levels of risk, as well as the production of reports and data feeds to be sent to the Central Institution Risk Management department, by ensuring the quality, reliability and completeness of data enabling the control and monitoring of risks at the company level and on a consolidated basis.

##### **Risk Management departments of subsidiaries not subject to banking supervision regulations**

- The functional link for the subsidiaries not subject to the banking supervision regulatory framework includes the following arrangements:
  - the appointment or the termination of the Senior Executive Vice-President, Risk Management, of the subsidiary depends on the approval of the central body's Senior Executive Vice-President, Risk Management. This formal agreement is based on an examination of the candidate's skills and professional experience. The Group Senior Executive Vice-President, Risk Management, is kept informed about the appointment or termination of Senior Executive Vice-Presidents, Risk Management of indirect subsidiaries;
  - the annual performance appraisal and career progress of the Group Senior Executive Vice-President, Risk Management is sent to the Group Senior Executive Vice-President, Risk Management by his/her hierarchical superior within the entity;
  - common standards are prepared for all entities;
  - the Group Risk Management department must receive permanent reporting documents and warnings.

The Group Risk Management department, in collaboration with the entities, has access to operational risk standards and procedures established by the entities, along with the entities' system of delegated risk authorities and all their sensitive and contentious files. This type of organization is duplicated in the subsidiaries and affiliates which themselves are parent companies.

### 2.6.2.2.5 Integration of Natixis into the risk management process

Natixis, as a subsidiary, is integrated into the Groupe BPCE risk management process in accordance with the general principles stated above.

A Group Standards and Methods committee, chaired by the Group Senior Executive Vice-President, Risk Management, is authorized to approve the design of these risk evaluation methods for joint pooling, notably in relation to Basel regulatory capital requirements. It decides on the recalibration of joint models after backtesting and approves the models and charts to be applied in the Group. More generally, the committee defines common standards to be applied within the Group. In this regard, the risk management units of the subsidiaries concerned are involved as required. Natixis' Risk Management department is invited to attend Group Standards and Methods committee meetings.

The Group Risk Management department is a member of the following Natixis committees: Natixis Group Risk Management committee, Natixis Group Market Risk committee, New Products and Activities committee, Natixis Group Credit Committee and the Watchlist Counterparty committee. The Group Risk Management department may exercise a right of appeal to the competent BPCE Risk committee regarding decisions taken in Natixis committees.

Natixis participates as and when necessary in the Group IT Risk committee that decides the requirements and resources implemented by Natixis to enable the central body to perform its risk monitoring on a consolidated basis.

### 2.6.2.3 COMPLIANCE

The Compliance function takes part in Groupe BPCE's permanent control activities. It is organized as a business process, including all Compliance functions, as defined in the Groupe BPCE Compliance Charter, that exist within Groupe BPCE companies and that have dedicated resources.

The companies concerned are BPCE affiliates, the direct and indirect subsidiaries of these affiliates, EIGs, direct and indirect subsidiaries of BPCE and BPCE itself. Subsidiaries are all companies over which affiliates or BPCE have, directly or indirectly, sole or joint control, and that as a result form part of the scope of consolidation.

They include the BP Participations and CE Participations holding companies, as well as their direct and indirect subsidiaries.

#### 2.6.2.3.1 Group Compliance: objectives, area of activity and scope of intervention

##### 1. Objectives

Compliance provides permanent second-tier controls which, in accordance with Article 5a of Regulation 97-02, include checking that the operations and internal procedures of Groupe BPCE companies comply with laws, regulations, professional standards and internal standards applicable to banking, financial and insurance activities, in order to:

- prevent the risk of non-compliance as defined in Article 4p of CRBF Regulation 97-02, as "the risk of legal, administrative or disciplinary sanction, financial loss or an attack on the reputation arising from non-compliance with provisions applicable to the banking or finance activities, whether these are of a legislative or regulatory nature, or they relate to professional standards and ethics or instructions from the executive body taken, notably, pursuant to orientations of the governing body";

- safeguard Groupe BPCE's image and reputation with its customers, staff and partners.

As part of this effort, Compliance performs all tasks that support the compliance of operations carried out within Groupe BPCE's companies, affiliates (including the Caisse d'Epargne and Banque Populaire parent companies) and subsidiaries, ensuring that the interests of its customers, staff and partners are respected at all times.

Compliance is responsible for ensuring the consistency of all compliance controls, with each operational or control unit retaining responsibility for the compliance of its activities and operations.

### 2. Main duties in each business area

The main duties of Groupe BPCE's Compliance process lie in the following areas:

#### FINANCIAL MARKET ETHICS AND COMPLIANCE WITH PROFESSIONAL STANDARDS

This includes the ethical aspect of financial activities, as defined by the AMF's general regulations and, more broadly, the prevention of conflicts of interest, ensuring the primacy of customer interests, compliance with market rules and professional standards in the banking and financial sectors, and regulations and internal standards regarding business ethics. It includes oversight of investment departments and the operating procedures of investment services supervisors (RCSIs).

#### FINANCIAL SECURITY

This includes the prevention and supervision of financial crime, including the prevention of money laundering, the prevention of terrorist financing, compliance with embargos and the prevention of internal and external fraud. It includes the operating procedures of Tracfin correspondents.

#### BANKING COMPLIANCE

This covers compliance with all other laws and regulations in the banking and financial field, and includes the co-ordination of regulatory watch activities across all Groupe BPCE companies, the dissemination of standards, the implementation of processes for approving new products distributed within Groupe BPCE and the content of compliance training.

#### PERMANENT COMPLIANCE CONTROL

In coordination with the Risks business process, this includes implementing a system for managing non-compliance risks, including analyzing and coordinating the results of permanent controls on non-compliance risks.

#### COORDINATED OPERATING PROCEDURES

This includes the preparation of reporting documents for regulators and internal reporting documents, the preparation of committees coordinated by or involving Compliance, and Compliance management reviews. These efforts help to ensure that the updating of non-compliance risk maps forms part of the risk mapping process overseen by the operational risk process.

Compliance is also the main contact for France's financial market authority, the AMF-ACP unit for coordinating marketing controls, CNIL, DGCCRF and equivalent foreign authorities. Compliance interacts with the *Commission bancaire* and equivalent foreign authorities on matters under its responsibility. As a second-tier permanent compliance control function, Compliance maintains close relations with all functions involved in performing internal control within Groupe BPCE: Internal Audit, Risk Management department, IT Systems Security department, Audit department.

Since the two holding companies BP Participations and CE Participations do not have their own staff, Compliance control is delegated to BPCE's Group Compliance and Security department (DCSG), in accordance with Article 7.5 of the aforementioned Regulation 97-02.

#### SECURITY AND BUSINESS CONTINUITY

The Group security and business continuity department is part of BPCE's Group Compliance and Security department, and performs its tasks independently of operational departments. These tasks involve:

- security of people and property:
  - coordinating the security of Group people and property,
  - managing the people and property security process within Groupe BPCE,
  - overseeing compliance with legal and regulatory provisions relating to the security of people and property,
  - participating in Groupe BPCE internal and external bodies;
- business continuity:
  - coordinating Group business continuity,
  - implementing the BPCE continuity plan,
  - coordinating Group crisis management,
  - coordinating the implementation of the Group Business Continuity Plan, and keeping it in operational condition,
  - leading the Group business continuity process,
  - ensuring compliance with regulations as regards business continuity,
  - participating in the Group's internal and external bodies,
  - managing information security within the Group.

#### 2.6.2.3.2 Group Compliance: organizational principles

To ensure its independence, Compliance, as distinct from the other internal control processes, must be independent of all functions performing commercial, financial and accounting operations.

Dedicated Compliance teams form a Compliance department, which reports hierarchically to the Chairman of the Management Board or to the Chief Executive Officer of each Groupe BPCE institution. Where the Compliance Officer does not report to the Chairman of the Management Board or the Chief Executive Officer, he reports to the Senior Executive Vice-President, Risk Management.

The Senior Executive Vice-President, Risk Management and Compliance reports hierarchically to the Chairman of the Management Board or the Chief Executive Officer.

The Compliance Officer is responsible for the Compliance process. For Groupe BPCE companies with the status of credit institution or investment company under French law, the Compliance Officer's name is notified to the Office of the Secretary General of the *Commission bancaire* by BPCE, and the supervisory body, Board of Directors or Supervisory Board is informed of his/her identity.

#### 1. Role allocated to BPCE by the act of June 18, 2009

Article 1 of the act that established BPCE gave the central body responsibility for organizing internal control. The article states that the central body is in charge of:

*"7) defining the principles and conditions for organizing the internal control mechanism of the Group and each of its networks, as well as controlling the organization, management and quality of the financial position of affiliated entities, including through onsite checks in connection with the scope of intervention defined in paragraph 4 of Article L. 511-31;"*

In this context, the scope of Groupe BPCE means that several levels of action and responsibility have been identified, within the Compliance process, to supplement the specific organization principles:

- BPCE as central institution, for its own activities and on behalf of the CE Participations and BP Participations holding companies;
- its affiliates, including the Caisse d'Epargne and Banque Populaire parent companies;
- its subsidiaries, including Natixis.

#### 2. Organizational principles at the BPCE level (as company and central institution)

The organization of BPCE's Group Compliance and Security department (DCSG) forms part of the principles set by CRBF Regulation 97-02 as amended, the general regulations of France's financial market authority and by the act that established BPCE.

DCSG reports to the Chairman of the Management Board, and performs its duties independently of operational departments. DCSG includes five divisions with Compliance activities:

- ethical compliance, including BPCE's investment services supervisor(s) (RCSIS);
- financial security, including BPCE's Tracfin correspondent(s);
- banking compliance;
- organization and oversight of permanent compliance controls;
- coordination and organization of the Compliance process.

The head of DCSG is the head of permanent non-compliance risk controls within the meaning of Article 11 of Regulation 97-02, at the level of both the central body and Groupe BPCE.

The head of DCSG is assisted by a Group Compliance committee. This committee, chaired by the head of DCSG, meets five times a year, and includes the Senior Executive Vice-President, Legal Affairs, Natixis' Compliance Officer, Crédit Foncier de France's Compliance Officer and four Compliance Officers from parent companies (two from the Caisse d'Epargne network and two from the Banque Populaire network), appointed on a rolling annual basis. This Consultation committee issues opinions on standards and methods.

DCSG handles its duties as a business process. In this regard it performs an orientation and motivation role with respect to Compliance Officers in affiliates and subsidiaries.

The Compliance Officers appointed by the various affiliates, including the Caisse d'Epargne and Banque Populaire parent companies, and direct subsidiaries covered by the regulatory system of banking and financial supervision, report to the committee through a strong operational link.

DCSG performs all actions to strengthen compliance throughout Groupe BPCE, including within the BPCE company, within the two holding companies specific to subsidiaries and the operational activities retained by the Groupe Banque Populaire (BP Participations) and by the Groupe Caisse d'Épargne (CE Participations). Since these two holding companies do not have any staff of their own, the Compliance function is delegated to BPCE, in accordance with Article 7.5 of the aforementioned Regulation 97-02. Permanent compliance controls for these holding companies are performed by DCSG. Within the BPCE company, compliance is performed by a dedicated team within the Ethics and Compliance department.

Compliance involves promoting a culture of risk management and taking into account the legitimate interests of clients, and this is achieved mainly through staff training.

As a result, DCSG:

- devises the content of training materials used by Compliance;
- manages interaction with the Group HR department;
- trains Compliance staff, including through specialist annual seminars (financial security, ethics and compliance, banking compliance, and co-ordination of permanent compliance controls);
- trains Compliance Officers through appropriate courses.

### 3. Company-level organizational principles

Among affiliates, particularly the Caisse d'Épargne and Banque Populaire parent companies, and among direct subsidiaries like Natixis, the Compliance Officer reports hierarchically to the Chairman of the Management Board, the Chief Executive Officer or the Senior Executive Vice-President, Risk Management and Compliance.

The standard organization of a department or entity in charge of Compliance includes at least two units specializing in each area (see section 1.2) relating to:

- ethical compliance, with the investment services supervisor (RCSI);
- financial security, with the Tracfin correspondent(s) and reporting officer(s).

The department or entity in charge of Compliance also designates one or more staff to be DCSG's correspondent in the following areas:

- banking compliance;
- permanent compliance control.

Each Groupe BPCE company has its own committee in charge of "systematic prior approval of new products and material changes to existing products" within the meaning of Article 11-1 of Regulation 97-02.

Products marketed by a single company fall within this committee's jurisdiction. When any new product or process is launched, the company's Compliance function reports simultaneously to DCSG, and to the Compliance function of the parent company if applicable, about compliance with procedures in force for launching these products or processes. The minutes of these committee meetings are sent to DCSG.

As regards staff training, the department or entity in charge of compliance:

- supports training initiatives undertaken by BPCE;
- ensures that staff sign up to BPCE seminars;
- supplements training provided by Compliance on a local basis.

As stated in the Group's internal control charter, the other functions in charge of permanent control (Audit, RSSI, RPCA) may be placed under the functional supervision of a permanent control officer, such as the Senior Executive Vice-President, Compliance.

### 2.6.2.3.3 Participation in the Group's governance bodies

#### *Groupe BPCE Risk Management committee*

The Head of DCSG is invited to take part in meetings of the Groupe BPCE Risk Management committee.

#### *Groupe BPCE new product and process approval committees*

Two committees (one for each distribution network) are in charge of "systematic prior approval of new products and material changes to existing products" within the meaning of Article 11-1 of Regulation 97-02.

The scope of products dealt with by this committee includes all Group products sold to customers of each of the networks, whenever the product is marketed by two or more affiliates and/or subsidiaries. In making decisions, the approval committee considers written opinions sent by the Head of DCSG, who takes part in the committee meeting.

#### *Commercial Process Validation committees*

DCSG takes part in these committees (one per distribution network), which approve marketing methods for authorized products, whichever channel is used (distance selling or direct selling *via* branches).

This set-up is identical within each Groupe BPCE company.

DCSG is also regularly informed about:

- all general policy decisions that alter the organization or procedures;
- projects relating to the introduction or modification of systems or products.

### 2.6.2.3.4 Work done in 2009 and outlook

Groupe BPCE is the result of a merger between Groupe Banque Populaire and Groupe Caisse d'Épargne, whose organizations may differ as regards Compliance. As a result, the organizational principles in Groupe BPCE's compliance charter represent a target to be attained collectively by 2011. These principles guide Compliance staff in their work. Several related projects were launched in late 2009 or will be launched in 2010:

- The former Groupe Banque Populaire and Groupe Caisse d'Épargne each had a collection of compliance standards that they made available to the banks of each group. A project to merge these standards was begun when BPCE was formed so as to have a common reference base in 2010.
- A "framework of procedures applicable to Groupe BPCE entities" regarding the prevention of money laundering and terrorist financing was updated in February 2010 to take into account the transposition of the third European directive. The framework defines general rules governing money laundering and terrorist financing risk recognition, internal organization, know-your-customer arrangements, supervision and examination of transactions, reporting, archival, exchange of information, confidentiality and training. The framework is a set of rules and guidelines that are common to all entities forming part of Groupe BPCE.
- As regards non-compliance risk mapping methods: a project to merge non-compliance and operational risk-maps began in conjunction with the Group Risk Management department in late 2009.
- Discussions have been held about merging anti-money laundering tools.
- Compliance controls in each of the former groups are being maintained and enhanced ahead of a convergence project covering permanent

controls on compliance and operational risks, which will begin with the Group Risk Management department in 2010.

- In 2009, the Caisse d'Épargne network decided to use Natixis' securities processing unit (Natixis Eurotitres/Défi application), which was already used by the Banque Populaire network. The Group Compliance and Security department (DCSG) is playing an active role in this project, which is very important for controls carried out by investment services supervisors (RCSIs).

As regards security and business continuity, Groupe BPCE has strengthened its organization for protecting the security of people, property and essential activities, including in the event of extreme shocks. Staff responsible for the security of people and property and staff responsible for the BCP (business continuity plan) are coordinated by BPCE's Group Security and Business Continuity department.

BCPs are enhanced using joint projects, in order to keep them in full operational condition and to make them more effective. Business continuity solutions are developed to address generic incident scenarios. Their validity is ensured through regular reviews and tests, which raise awareness among the various staff affected, but also gauge the appropriateness of back-up resources and associated procedures.

In 2009, companies focused their efforts on addressing flu pandemic risks, putting in place protection resources, an organization and a regular communication system, in order to deal with the spread of the pandemic.

As regards the security of people and property, there was a 48.25% reduction in armed theft at the Banque Populaire banks in 2009, and a 13.3% reduction for the Caisse d'Épargne banks relative to 2008. Attacks on ATM replenishment staff increased in 2009. These attacks prompted increase vigilance and reinforced security procedures and equipment.

## 2.6.2.4 OTHER PERMANENT CONTROL FUNCTIONS

### 2.6.2.4.1 Management of legal risks

#### 1. Duties

The Legal department has responsibility for the prevention and management of legal risks and Group-level legal risks. It is also involved in the prevention of reputational risks. In this regard it helps to manage the legal risks arising from the activities of the central body and Group entities.

To discharge its responsibility, it operates by providing legal and regulatory oversight, information, assistance and advice for the benefit of all Group institutions.

Together with the Compliance department, it is also involved in ensuring the consistency and effectiveness of controls on non-compliance risks relating to laws and regulations specific to its banking and finance activities.

Finally, the Legal department represents the Group with respect to the regulatory authorities, and national and international organizations, in all its fields of expertise.

The Legal department exercises its role independently of the Operational departments.

#### 2. Organization

The Group Legal department is in permanent contact with the Legal departments of Group institutions, on all matters relating to the aforementioned duties. It ensures ongoing dialogue and interaction between the Group's legal officers, and maintains up-to-date documentation for their benefit. The Group Legal department coordinates the Group's legal

and litigation policy. The Groupe BPCE Legal department handles its duties as a business process.

It ensures that the various Group affiliates or subsidiaries involved in banking, finance, insurance or real-estate activities have access to a legal function suited to their recurring business needs.

With the exception of Natixis, for which there is a direct functional link, the Legal department operates through operational links, organized mainly through training and coordination initiatives between the central body and the various affiliates or subsidiaries.

### 3. Work done in 2009

Work done in 2009 focused mainly on:

- the merger of the two central bodies, the creation of two holding companies for equity interests, including all legal and regulatory aspects including obtaining approval from French and foreign banking authorities;
- and the creation of a Group Legal department shared by the Banque Populaire and Caisse d'Épargne networks, the simplified organization of which is described below.

### 4. Organization details

The Legal department has been organized into two segments, i.e. a "banking law" segment and a "regulation and corporate" segment, together with a cross-discipline information-processing and support unit. The aim is to have a Legal department capable of fulfilling its duty to provide legal advice to BPCE as an entity, and to act as a Legal department for the Group and its various components, with the aim of ensuring maximum security.

The duties of the "banking law" segment include general legal watch activities. These mainly relate to work done by industry groups (FBF, etc.), which are tasked with preparing, explaining and negotiating new texts of all types that apply to the profession. The segment is also in charge of defining and drafting legal standards applicable to Groupe BPCE banks following changes in these texts. The "banking law" segment provides legal advice and assistance to the whole Groupe BPCE in the fields of banking, real-estate and insurance. It monitors and protects trademarks, licenses and development matters, and negotiates, drafts and updates contracts with suppliers. It manages strategic litigation for Groupe BPCE, handles criminal matters and co-ordinates litigation at the national level.

The missions of the "regulation and corporate" segment cover company law. The segment handles corporate functions for Groupe BPCE entities, as well as legal watch activities, disclosure, support and advice regarding institutional and corporate issues affecting Groupe BPCE companies and organizations, including activities as part of projects involving company formation, restructuring, mergers and partial asset transfers. The segment is in charge of dealing with banking regulations, i.e. activities related to negotiating, analyzing, disclosing and applying regulations to Groupe BPCE institutions. These texts include European directives, recommendations made by the Basel Committee or CEBS, and regulatory texts issued by the French authorities. It is also in charge of CECEI approval matters and relations with the authorities, monitoring texts relating to major banking ratios and checking policy regarding credit institutions (Regulation 97-02 relating to internal control, consolidated supervision), as well as providing advice on banking regulations. The segment also has responsibility for complex financing transactions and acquisitions: It is the legal advisor to BPCE and the Group regarding Group organization and reorganization operations, intra- and extra-Group strategic partnerships and financial structures, including the creation of financial products intended to be sold to the public. It is in charge of matters relating to competition, Community law and relations with international regulators.

## 5 Projects

In addition to the work traditionally done by a Legal department, which consists of tracking developments, dealing with standard industry matters and responding quickly to the requests of BPCE and Group institutions, the department will have other responsibilities in 2010. These include consolidating, improving and drafting the department's internal operating procedures, and enhancing its business processes.

### 2.6.2.4.2 Controls on the quality of accounting and financial reporting

#### 1. Roles and responsibilities relating to the preparation and processing of accounting and financial information

##### 1-1. RESPONSIBILITY OF GROUP ENTITIES

The production of accounting and financial information, and controls to ensure its reliability, are performed by the Finance departments of accounting entities included in Groupe BPCE's scope of consolidation.

Each entity has the resources to ensure the quality of accounting and financial data, including by ensuring compliance with standards applicable to the Group, ensuring consistency with the individual financial statements prepared by its supervisory body and reconciling accounting figures with management figures.

Each entity prepares, on a monthly or quarterly basis, financial statements and regulatory information required at the local level, along with reporting documents (accounting, financial control, regulatory, etc.) for the Group Finance department.

##### 1-2. PREPARATION AND COMMUNICATION OF THE GROUP'S ACCOUNTING AND FINANCIAL DATA

The Group Finance department is responsible for preparing and reporting accounting and financial data. The Finance department collects all accounting and financial information produced by accounting entities within the Group's scope of consolidation. It also consolidates and controls these data, to enable their use for the purposes of Group management and communication to third parties (control bodies, investors, etc.).

As well as consolidating accounting and financial information, the Group Finance department has broad control duties:

- it coordinates asset-liability management, by defining the Group ALM rules and standards, and ensuring they are properly applied;
- it manages and controls the Group's balance-sheet ratios and structural risks;
- it defines accounting standards, reference bases, principles and procedures applicable to the Group, and ensures they are properly applied;
- it monitors the financial planning of Group companies and capital transactions;
- it ensures the reliability of accounting and financial information disseminated outside the Group.

The main functions involved in preparing published accounting and financial information are accounting, financial control and investor relations.

##### 1-2-1. Accounting

The accounting function is in charge of preparing individual and consolidated financial statements.

Within the Group, each entity's accounting function has responsibility, with respect to the Group and the supervisory authorities, for its individual financial statements, any consolidated financial statements, and regulatory reports.

Within BPCE, the function is performed by the Group Accounts department, whose head reports to the Chief Financial Officer. The Group Accounts department's main tasks are as follows:

- preparing the consolidated financial statements of Groupe BPCE's and the individual and consolidated financial statements of BPCE SA;
- liaising with the Group's external auditors;
- monitoring regulatory change with respect to accounting standards and determining which standards are applicable at Group level;
- acting as the interface between the regulatory authorities (the Banque de France and the French Banking Commission) and affiliates, in accordance with Article L. 512-95 of the French Monetary and Financial Code, and ensuring that affiliates comply with regulatory standards and management ratios;
- ensuring that Groupe BPCE and BPCE SA comply with regulatory ratios;
- representing the Group with respect to industry bodies (*Conseil national de la comptabilité*, European Banking Federation, etc.).

##### 1-2-2. Financial control

The financial control function is in charge of preparing management information.

Within the Group, each entity's financial control function is in charge of operational co-ordination, and has responsibility for producing management information within the entity and for the central body.

Within BPCE, the function is performed by the Financial Control department, whose head reports to the Chief Financial Officer. Its main duties are as follows:

- applying the strategic plan: ensuring that the performance of business lines and entities are consistent with the resources allocated, and setting up appropriate indicators;
- coordinating the financial planning, budget and multi-year rolling forecast process;
- extending management dialogue with all entities, including subsidiaries and shareholder affiliates;
- regularly reporting to executives on all activities, business lines and entities and the related financial impacts;
- assisting with decision-making, using simulations and predicted results;
- making forecasts regarding capital, optimizing capital, overseeing capital flows and financial engineering;
- supporting the Group's internal and external financial reporting;
- strengthening the holding company's position as regards shareholder requirements regarding the performance of Group subsidiaries and equity interests;
- maximizing the value of equity interests and helping to set up legal structures for new businesses;

- analyzing the profitability of sectors, business lines, markets, customers and products, including defining standards;
- creating a common vocabulary for management analysis;
- coordinating the financial control process.

### 1-2-3. Investor relations function

The investor relations function is responsible for information published through presentations to financial analysts and institutional investors on the BPCE website, and for registration documents and their updates registered with France's financial market authority and also available on the BPCE website.

Within BPCE, the function is performed by the Issuance and Investor Relations department, whose head reports to the Chief Financial Officer. Its duties in this area, aside from its main duty relating to the medium- and long-term refinancing of Groupe BPCE, are as follows:

- coordinating and preparing presentations of Groupe BPCE's results, financial position and business development, to enable third parties to form an opinion on its financial strength, profitability and outlook;
- coordinating and preparing the presentation of regulated financial information subject to approval by France's financial market authority;
- maintaining relations with France's financial market authority and rating agencies.

## 2. Arrangements for producing consolidated accounting and financial data

### 2-1. GENERAL SYSTEM

Groupe BPCE and BPCE SA's consolidated financial statements are prepared by the central body.

For this purpose, BPCE's Group Finance department has prepared a consolidation manual designed to guarantee the reliability of the process. It is based on the following core principles:

- definition and communication of accounting policies for the Group, including analysis and interpretation of new texts issued during the period, both for French GAAP and international (IFRS) accounting standards);
- preparation of quarterly consolidated accounts to provide a better level of control over financial statements, by projecting transactions for the period, providing reliable estimates and better reconciliation of intragroup transactions;
- regular training of accounting teams within the consolidated entities to promote the use of best practice throughout the Group.

### 2-2. PREPARATION OF CONSOLIDATED ACCOUNTING AND FINANCIAL DATA

Consolidation takes place quarterly based on the financial statements of each Group entity. Data from the entities are entered into a central database where consolidation adjustments are then carried out.

As regards the consolidation system, the Group's recent creation means that it has maintained an organization based on a combined solution for the Group's three core businesses:

- Retail banking:
  - for the Caisses d'Épargne and their subsidiaries, the system is based on a single consolidation tool used solely by these entities, and for all sub-

consolidation work. This ensures internal consistency as regards scopes, charts of accounts, processing and analysis. The production of Group financial statements involves monitoring individual IFRS contributions based on a consolidation package prepared by each institution,

- for the Banque Populaire banks, their subsidiaries and Crédit Maritime Mutuel banks, the system is based on a single consolidation tool used solely by these entities, and for all sub-consolidation work. This ensures internal consistency as regards scopes, definitions, charts of accounts, processing and analysis. The production of Group financial statements involves unitary monitoring of differences between the individual French GAAP financial statements of institutions and their contribution to IFRS consolidated financial statements. This solution has led to the deployment of an IFRS consolidation package, which lists and automates all adjustments to be made to the French GAAP individual financial statements, to convert them into IFRS financial statements,
- in the other main directly owned retail banking subsidiaries: Océor uses the same system as the Caisses d'Épargne (with unitary IFRS monitoring), while Société Marseillaise de Crédit (SMC) uses the same system as the Banque Populaire banks (with unitary monitoring of differences between individual financial statements and its contribution to IFRS data);

- Financing, Asset Management and Financial Services: Natixis has a consolidation tool that produces an IFRS consolidation package, ensuring the consistency of data from the banking and insurance scopes and giving a transparent overview of its subsidiaries. For the production of Group financial statements, Natixis submits a consolidation package that represents its consolidated financial statements (an "opaque package");
- Real estate: Crédit Foncier de France uses the Caisses d'Épargne system, enabling the Group to monitor IFRS contributions. Nexity and FONCIA are consolidated on the basis of packages that represent their consolidated financial statements ("opaque packages").

The system as a whole feeds into a central consolidation tool, which has archival and security features including daily back-up of the consolidation database, and restore tests are regularly carried out.

## 3. Control process for accounting and financial data

### 3-1. GENERAL SYSTEM

Groupe BPCE's internal control process supports the management of all kinds of risk and enhances the quality of accounting information.

It is organized in accordance with legal and regulatory requirements, including those arising from the French Monetary and Financial Code, Regulation 97-02 as amended and texts governing BPCE. It concerns all Group companies, which are supervised on a consolidated basis. The system is governed by a charter that sets out the principles, defines the scope of application, details the participants concerned and their role in ensuring that the internal control system of each company and Groupe BPCE works properly.

It sets out general principles and is supplemented by charters governing the permanent control function (risk management and compliance) and the periodic control function (internal audit), and by related charters, including those concerning audits.

### 3-2. APPLICATION OF THE SYSTEM AS REGARDS ACCOUNTING AND FINANCIAL DATA

#### 3-2-1. Within institutions

Reflecting the decentralized nature of Groupe BPCE, internal control procedures are tailored to the organization of each consolidated entity. In all cases, the process includes several layers of controls:

- a basic layer of "first-tier controls", relating to operational services and integrated into processing procedures;
- an intermediate layer of "second-tier controls", organized and executed under the responsibility of a dedicated specialist audit function within Finance departments, which performs independent controls on processing procedures to ensure the reliability and completeness of the financial statements in conjunction with permanent control functions, Compliance and Risk Management;
- a higher layer of "tier-three controls", involving:
  - work done by Audit or Risk Management committees within the main institutions, which check the quality of accounting information,
  - periodic controls organized under the authority of internal audit.

#### 3-2-2. Within BPCE

##### **Coordination of the "Audit and Regulatory Review" process**

The central institution coordinates the permanent system for audits and regulatory reports as part of a functional audit and regulatory review process, the rules of which will be determined by a charter in 2010.

Within the Group Finance department, this functional process is coordinated by the Financial Review department, whose role is to provide a strong operational link between the auditing of affiliates and subsidiaries and the auditing of the Group, in order to ensure the quality of the Group's accounting and financial information. To achieve this, it undertakes initiatives to share best practice, including the dissemination of standards and practical guides relating to controls, training, discussions within an auditors' club and workshops.

The Financial Review department's other main duties are as follows:

- coordinating all internal control issues concerning the Group Finance department in conjunction with the other participants in the internal control process, and defining a general framework for analyzing risks across all the department's areas;
- performing second-tier controls on the central body's individual financial statements and its prudential and regulatory reports, and ensuring that information disclosed through consolidation packages is analyzed, controlled and consistent.

##### **Controls performed at the central institution level**

In addition to the self-checking and external checking procedures performed in the entities responsible for preparing individual or consolidated financial statements, the quality of accounting controls is verified by:

- the Group Finance department, which co-ordinates the system for checking the quality of accounting and financial information:
  - it uses its role in standardizing accounting practices at the Group level to produce individual and consolidated financial statements under French GAAP and IFRS,
  - as regards regulatory reports, it regularly examines the financial statements of the Banque Populaire banks, the Caisse d'Epargne banks and the Crédit Maritime banks disclosed in the BAFI regulatory framework. The permanent control of regulatory reports undergoes analysis and consistency checks by a dedicated team. These formal controls will be updated as part of the SURFI reform in 2010,

- as regards the consolidated financial statements, this team checks that the scope of consolidation is compliant with accounting principles in force, and performs various checks on data received on a quarterly basis, through consolidation packages. These checks include: ensuring that data collected have been properly aggregated and that consolidation entries are correct, and dealing with residual differences on reciprocal transactions. These checks are supplemented by analytical reviews and consistency controls of the main headings in the financial statements, as well as an analysis of changes in equity and deferred taxes during the period through individual and consolidated tax reconciliations;
- the Group's external auditors, who work on a panel basis and base their opinions partly on the conclusions of each consolidated entity's external auditors, particularly as regards compliance with the Group's standards as laid down by BPCE, and partly on the effectiveness of local internal control procedures. To make the certification process as efficient as possible, BPCE has recommended that each entity in the scope of consolidation has at least one representative of the Group's external auditors on its panel;
- occasional assignments performed by BPCE Internal Audit within Group institutions.

Finally, under CRBF Regulation 97-02 relating to the prudential supervision of credit institutions, an annual report summarizing the Group's internal control is presented to the Group Risk Management committee and Supervisory Board by the various permanent and periodic control functions. On the basis of detailed questionnaires, this report assesses internal control procedures, particularly in the accounting and financial fields.

## 4. Role of supervisory bodies in accounting and financial disclosure

### 4-1. DECISION-MAKING AUTHORITIES

Once per quarter, the Management Board finalizes the consolidated financial statements and presents them to the Supervisory Board for checking and control purposes.

Individual financial statements are prepared once per year, in accordance with regulations in force.

BPCE SA's Supervisory Board checks and controls the individual and consolidated financial statements prepared by the Management Board and presents its observations about the financial statements for the period to the Shareholders' Meeting. For this purpose, the Supervisory Board has set up a specialist committee in charge of preparing its decisions and formulating recommendations, *i.e.* the Risk Management committee.

### 4-2. RISK MANAGEMENT COMMITTEE

The Risk Management committee is tasked with monitoring the process of preparing financial information, the auditing of the individual and consolidated financial statements, and ensuring the independence of the external auditors.

In this respect, its duties include:

- examining the individual and consolidated financial statements, checking the clarity of information provided, assessing the appropriateness of accounting methods used to prepare the individual and consolidated financial statements and examining the prudential and accounting impact of any significant acquisition made by BPCE or the Group;
- reviewing the draft of the Supervisory Board Chairman's report on internal oversight procedures as regards preparing and processing accounting and financial information;

- making recommendations on the procedure for selecting external auditors by the Shareholders' Meeting, ensuring the independence of the external auditors, including through details of fees paid to them by the Group, and examining the external auditors' schedule of work.

The Risk Management committee consists of six members of BPCE's Supervisory Board, including an independent member, who is the committee's Chairman.

The committee meets in the presence of the panel of external auditors to examine the financial statements, but may, subject to conditions it determines, hear reports from corporate officers, executives responsible for preparing the financial statements, and any person whose expertise appears relevant to the committee.

Permanent risk monitoring and compliance managers, as well as the Internal Auditor in charge of routine audits, are invited to attend the committee's meetings.

## 5. Outlook

In 2010, taking into account its recent creation, Groupe BPCE will pursue initiatives to harmonize its internal control system relating to accounting and financial information.

The efforts undertaken to rationalize the resources and working methods of the teams responsible for producing, checking and monitoring accounting and financial reporting schedules will also be continued, by adjusting them to business and regulatory developments.

The major projects currently in progress or due to be launched within the Group are as follows:

- processing and standardization of accounting and financial reporting:
  - continuation of the project to overhaul the accounting and financial reporting system used by Banque Populaire banks belonging to the i-BP community. This project, called *Sémaphore*, is budgeted at more than 17,000 man-hours and will last until 2013. The objective is to optimize the accounting function by separating account-keeping for customers from general accounting and by harmonizing the reference bases used. A single chart of accounts will be used throughout the i-BP community, and a database of asset and liability items that is natively consistent with it will be generated,
  - completion of the "Perf SI" program launched in January 2007 within the Caisse d'Epargne banks, aimed at building a single banking IT platform as opposed to three previously. The final IT migrations will be completed at the end of the first half of 2010,
  - ongoing roll-out of the new accounting tool (Panda project) across Natixis' Asian platform in Ho Chi Minh City and Shanghai. In 2009, Natixis SA implemented a master plan for summary systems and set up a new accounting tool (Matisse) that includes the traditional functions of accounting ERP software (accounting codes, foreign currency accounting, calendar management, data audit trails, etc.). Natixis SA will hold discussions about rolling out this tool internationally,
  - work to harmonize the Group's accounting principles: Portfolio-based methods for calculating impairment and models for calculating commitments relating to home-purchase savings plans in the Banque Populaire and Caisse d'Epargne banks will be harmonized in 2010. More generally, methods for disseminating accounting and prudential regulations will gradually be harmonized, with the aim of establishing a single method, *i.e.* the Group Accounting Standards and Principles Manual,

- monitoring of regulatory developments, including the revision of IAS 39, to prepare the Group for the adoption of these new rules when they are adopted by the European Union;

- regarding the internal control system for accounting and financial data:
  - preparing an "audit and regulatory review charter" organizing the audit process, clarifying and strengthening the function's role in Group institutions and setting out the hierarchy of controls,
  - creating of a set of documents relating to audit and regulatory review (standards, guides, work schedule, etc.) on an intranet for auditors and regulatory reviewers.

### 2.6.2.4.3 IT systems security

The IT Systems Security department (SSI) defines, implements and develops Group policies. As part of a functional process, it coordinates the network of IT systems security managers (RSSIs) in the banks and subsidiaries, ensures permanent and consolidated control of IT systems security as well as providing technical and regulatory oversight. It initiates and coordinates Group projects aimed at reducing risks in its field.

The Group IT Systems Security department represents Groupe BPCE in banking industry groups and the public authorities relating to its area of expertise.

The central body's RSSI is a member of this department; and he ensures the security of the federal IT system and of BPCE's IT system.

The Group SSI has regular contact within the central body with the Risk Management, Compliance and Internal Audit departments.

#### Work done in 2009

First half of 2009:

- in the former CNCE: permanent controls were strengthened, particularly as regards office applications, messaging services and online services, and workstation security was improved by performing security updates, increasing the security of local authorizations and updating anti-virus resources);
- in the former BFBP: a process for managing Group warnings and crises was formalized, a project to analyze entities' compliance with PCI data security standards was launched, and a program to raise awareness of IT systems security within the IT department was implemented. As regards controls, the security of several cross-functional platforms was assessed, relating to the security of online payments (3DS) and payment terminals, and the IT security of several regional banks (acquired in 2008 from HSBC France) was also assessed. Work beginning in August 2009 focused on defining the IT systems security organization and governance principles within the new Groupe BPCE.

The organization of the Group IT Systems Security department (DSSI-G) was clarified and made easier to understand. This resulted in the merging of four teams: IT systems security staff at the former BFBP and the three IT systems security teams at the former CNCE.

The IT systems security function is now part of the Operations unit, which reports to the Chairman of the Management Board.

DSSI-G started preparing the new Group's IT systems security policy, using work done by the Banque Populaire and Caisse d'Epargne networks in the first half of 2009.

As a result, the Group IT systems security charter (Tier 1 of this policy) was drafted between August and October 2009. The draft charter was presented

on November 3 to the Group Coordination and Internal Control committee, and will be put forward for approval to BPCE's Management Board in the first quarter of 2010, then sent to the Risk Management committee and Supervisory Board.

The charter established Groupe BPCE's new IT systems security process, coordinated by the Group RSSI. The RSSIs of parent companies, direct subsidiaries and IT entities report to the Group RSSI through an operational link.

In early December 2009, work began on defining a set of technical and organizational rules and instructions (Tier 2 of the PSSI-G, broken down into 24 themes). This work is scheduled to end in the fourth quarter of 2010.

The first meeting of the Group IT Security and Systems committee, chaired by the Group RSSI as specified by the IT systems security charter, will take place in April 2010.

### Main projects

- A major project to manage authorizations within BPCE SA began in mid-November 2009. An overview has been carried out, and a plan of action will be prepared in January 2010. The plan of action will include work to ensure the reliability of the process for allocating rights, to improve tools, to determine arrangements for allocating rights (including profiles) and to ensure the reliability of the rights allocated (review initiated in early December 2009, with reviews taking place quarterly or monthly for the most sensitive business lines).
- Work continued on the roll-out of strong authentication solutions for personal and small-business customers using online banking and remote payment services. The Banque Populaire and Caisse d'Epargne networks' policies in this area were harmonized in November 2009. 400,000 CAP/EMV readers were rolled out gradually across the Banque Populaire network from April 2009. By the end of 2009, almost 140,000 customers had these readers.

### Outlook for 2010

Tier 2 of the PSSI-G will be completed in 2010. Local implementation by Groupe BPCE institutions will begin.

Three of the 24 themes relate to IT systems security risk mapping, permanent control and reporting. The main priority for 2010 is to set up unified mapping of Group IT systems security risks, to define and begin implementing the new Tier-2 IT systems security permanent control system and Group IT systems security reporting.

At the same time, the strong authentication project will continue. The first phase of the authorization project will begin (correction, functional developments and streamlining of tools), accompanied by the implementation of rights reviews taking place every quarter, or monthly for BPCE A's most sensitive business lines.

## 2.6.2.5 PERIODIC CONTROL WITH GROUPE BPCE INTERNAL AUDIT

### 2.6.2.5.1 Groupe BPCE Internal Audit duties

In accordance with the central institution's responsibilities and because of collective solidarity rules, Groupe BPCE's Internal Audit has the task of periodically checking that all Group institutions are operating correctly, and it provides Groupe BPCE executives with reasonable assurance as to their financial strength.

As part of this work, it ensures the quality, effectiveness, consistency and proper operation of their permanent control framework and the management of their risks. The scope of Internal Audit covers all risks, institutions and activities, including those that are outsourced. It extends to the holding companies of the two BPCE shareholder networks and their subsidiaries.

Its main objectives are to evaluate and report to the executive and governing bodies of the Group and entities on:

- the financial position;
- the actual level of risk;
- the quality of the organization and management;
- the consistency, suitability and effectiveness of systems to assess and manage risk;
- the reliability and integrity of accounting and management information;
- compliance with laws, regulations and rules applicable to the Group or each company;
- the effective implementation of recommendations made following previous audits and by regulators.

Group Internal Audit reports to the Chairman of the Management Board, and performs its work independently of operational departments and permanent control. Its operating procedures, including processes to achieve consolidated supervision and optimal use of resources, are set out in a charter approved by BPCE's Management Board on December 2009, 7. The Risk Management departments of affiliates or direct subsidiaries report to it through a strong operational link.

### 2.6.2.5.2 Scope of activity

To fulfill its role, Groupe BPCE Internal Audit establishes and maintains an up-to-date Group audit scope inventory, which is defined in coordination with the internal audit groups of Groupe BPCE institutions.

It ensures that all institutions, activities and related risks are covered by full audits, performed with a frequency defined according to the overall risk level of each institution, and in no event less than once every four years for banking activities.

In this regard Groupe BPCE Internal Audit not only takes into account its own audit work but also that performed by regulators and Internal Audit departments of the Groupe BPCE institutions.

The annual audit program for Groupe BPCE Internal Audit is approved by the Chairman of the Management Board. It is examined by the Groupe BPCE Risk Management committee. The Groupe BPCE Risk Management committee ensures that this audit program allows for satisfactory coverage of the Groupe BPCE audit scope over a multi-year cycle and can recommend any measures to this effect. It reports on its work to the Groupe BPCE Supervisory Board.

### 2.6.2.5.3 Reporting

Recommendations arising from audits performed by Groupe BPCE Internal Audit are prioritized by order of importance and are subject to regular follow-up, at least every six months.

Internal Audit reports on the conclusions of its work to the management teams and boards of audited companies. It also reports to the Chairman of BPCE's Management Board, to BPCE's Risk Management committee and to BPCE's Supervisory Board. It provides these bodies with reports on the implementation of its main recommendations and those of the *Commission bancaire*. It ensures that remedial measures decided as part of the internal control system, in accordance with Article 9-1.b of Regulation 97-02, are executed within a reasonable timeframe, and can refer matters to the Risk Management committee if measures are not executed.

It coordinates the timetable for drafting regulatory reports.

### 2.6.2.5.4 Representation in governance bodies and Group Risk committees

To fulfil its role, Groupe BPCE's Head of Internal Audit is a member of the main consultative committees taking part in the risk management.

The Head of Internal Audit is a permanent member of BPCE Risk Management Committee, Natixis Risk Management Committee, and the CE Participations subsidiaries Risk Committees (OCEOR, Crédit Foncier, Banque Palatine).

### 2.6.2.5.5 Relations with the central institution's permanent control departments

Groupe BPCE's Head of Internal Audit maintains regular dialogue within the central body and exchanges information with unit heads within his/her audit scope and, more specifically, with departments responsible for second-tier control.

These departments must quickly notify the Head of Internal Audit of any failure or major incident of which they become aware. The Head of Internal Audit, along with Group Senior Executive Vice-Presidents, Risk Management and Group Senior Executive Vice-Presidents, Compliance and Security, must quickly inform each other of any inspection or disciplinary procedure initiated by the supervisory authorities, or more generally of any external control of which they become aware.

### 2.6.2.5.6 Organization

Groupe BPCE Internal Audit handles its duties as a business process.

The objective of such an organization is to ensure coverage of all Group operational or functional units within the shortest possible timeframe, as well as to achieve effective coordination with entities' Internal Audit departments.

Internal Audit departments of affiliates and directly-owned subsidiaries report directly to Groupe BPCE Internal Audit through a strong functional link and a hierarchical reporting line to the executive body.

In BPCE subsidiaries that do not have an Internal Audit department, internal audit coverage may be provided by Groupe BPCE Internal Audit through delegated authority approved by the Boards of the central institution and the entity concerned.

This strong functional link is achieved through the following rules:

- the appointment and termination of officers in an affiliate or direct subsidiary's Internal Audit department is subject to the prior approval of Groupe BPCE's Head of Internal Audit. Groupe BPCE's Head of Internal Audit is kept informed of the appointment or termination of officers in affiliates' or direct subsidiaries' Internal Audit departments;
- Groupe BPCE has a single Group internal audit charter;
- Groupe BPCE Internal Audit ensures that entities' Internal Audit departments have the resources necessary to fulfill their duties. The budget and staff of these departments are determined by the executive bodies of affiliates and subsidiaries, together with Groupe BPCE Internal Audit;
- entities' Internal Audit departments use audit methods defined by Groupe BPCE Internal Audit that are drawn up in consultation with them;
- multi-year and annual programs followed by the Internal Audit departments of Groupe BPCE institutions are determined in conjunction with and consolidated by Group Internal Audit;
- Groupe BPCE Internal Audit is kept regularly informed of progress with these programs and of any change in their scope;
- institutions' internal audit reports are communicated to Groupe BPCE Internal Audit as and when they are issued;
- inspection reports from regulatory authorities relating to entities as well as the related follow-up letters and answers to these letters, along with sanction procedures, are communicated to Groupe BPCE Internal Audit when they are received or sent if they are sent directly to the institution;
- Groupe BPCE Internal Audit is notified as soon as possible of the start of inspections performed by regulators on entities and subsidiaries, as well as any proceedings against them;
- copies of entities' annual reports, prepared in accordance with Articles 42 and 43 of CBRF Regulation 97-02, and a copy of the annual report prepared by the Chairman of the governing body on internal control, are sent to Groupe BPCE Internal Audit.

This type of organization is replicated at subsidiaries and associates that are themselves parent companies.

Rules governing the management of the Internal Audit business process between Natixis and the central institution are part of the Group's Internal Audit structure.

Given the size and nature of the businesses of this subsidiary, a Coordination Committee meets regularly, bringing together Groupe BPCE and Natixis Internal Audit teams. It is responsible for all questions relating to the operation of Internal Audit by the central institution as shareholder on the one hand and Groupe Natixis on the other.

#### 2.6.2.5.7 Work done in 2009 and outlook

In 2009, BPCE Internal Audit initiated 56 internal audits in accordance with its audit plan. In addition, in August 2009, as part of the combination of the two merged entities' internal audit teams, BPCE Internal Audit started an in-depth overhaul of texts governing the operating procedures of the new Group Internal Audit process, and of internal audit standards and methods, based on best practice.

This work will continue in 2010 and 2011, and will cover the definition of internal audit standards, monitoring of recommendations, the creation of risk assessments for each auditable unit, adjustments to internal audit

tools, the provision of internal audit guides, and work on methods of reporting to the governance authorities of Groupe BPCE institutions. The results of this work will be presented on a regular basis to BPCE's Risk Management committee.

As part of this work, all recommendations made by the Internal Audit teams of the two former central bodies are undergoing a review, which will be completed in 2010, and will undergo a harmonized ranking process based on common rules. BPCE Internal Audit will monitor this work every six months, in order to encourage the disclosure of warnings to the Risk Management committee in accordance with Article 9-1.b of Regulation 97-02.

### 2.6.3 Statutory auditors' report, prepared in accordance with Article L. 225-235 of the French Commercial Code, on the report by the Chairman of the Supervisory Board

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Year ended December 31, 2009

To the shareholders,

BPCE

50, avenue Pierre-Mendès-France  
75013 Paris

Dear Sir/Madam,

In our capacity as auditors of BPCE and pursuant to the provisions of Article L. 225-235 of the Commercial Code, we hereby present our report on the report prepared by the Chairman of your company in accordance with the provisions of Article L. 225-68 of the Commercial Code for the year ended December 31, 2009.

It is the Chairman's role to prepare, and submit to the Supervisory Board for approval, a report on the internal control and risk management procedures used within the company. The report must also contain other information required by Article L. 225-68 of the French Commercial Code, relating in particular to corporate governance.

It is our responsibility:

- to inform you of our observations based on the information contained in the Chairman's report on internal control and risk management procedures relating to the preparation and treatment of accounting and financial information;
- to state that the report includes the other information required by Article L. 225-68 of the French Commercial Code, but not to verify the accuracy of that other information.

We performed our assignment in accordance with the prevailing standards of the profession in France.

#### **Information concerning internal control and risk management procedures relating to the preparation and treatment of accounting and financial information**

The prevailing standards of the profession require us to assess the accuracy of information concerning internal control and risk management procedures relating to the preparation and treatment of accounting and financial information in the Chairman's report. This work includes:

- familiarizing ourselves with internal control and risk management procedures relating to the preparation and processing of the financial and accounting information used to produce the information presented in the Chairman's report, and with existing documentation;
- familiarizing ourselves with work done to prepare this information and with existing documentation;
- determining whether any major deficiencies in internal control relating to the preparation and processing of accounting and financial information that we found in our audit are reported appropriately in the Chairman's report.

On the basis of this work, we have no comment to make about the information concerning the company's internal control and risk management procedures as they relate to the preparation and treatment of accounting and financial information contained in the report prepared by the Chairman of the Supervisory Board pursuant to the provisions of Article L. 225-68 of the French Commercial Code.

#### **Other information**

We confirm that the report by the Chairman of the Supervisory Board contains the other information required by Article L. 225-68 of the French Commercial Code.

Paris La Défense and Neuilly-sur-Seine, April 30, 2010

The Auditors

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