2012
ANNUAL REPORT

BANKING & INSURANCE
www.bred.fr

GROUPE BPCE

BRED BANQUE POPULAIRE

LA BANQUE QUI DONNE ENVIE D'AGIR


Normandy
Paris region
Aisne
Brussels
Geneva
Istanbul
China
(Chongqing,
Beijing)
Lao
Thailand
Cambodia
Guadeloupe
Martinique
French Guiana
Djibouti
Mayotte
La Reunion
Polynesia

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BRED BANQUE POPULAIRE
LA BANQUE QUI DONNE ENVIE D'AGIR

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PRESENTATION OF BRED

PROFILE

BRED

BRED Banque Populaire is the largest commercial bank within France's second-largest banking group, BPCE. It is a cooperative bank with capital of €520,285,720 and some 130,000 cooperative shareholders, and operates in two main businesses: local retail banking in the Paris, Aisne and Normandy regions as well as overseas, and banking services for large economic entities.

It employs close to 5,000 people worldwide and focuses on building long-term relationships with its customers.

Through a network of 400 branches and specialised centres, it serves close to one million customers worldwide (individuals, self-employed professionals, associations, businesses and institutions).

It is reputed for its capacity to innovate, reflected in the creation of new services with strong added value, particularly in the areas of flow management, e-commerce and private wealth management.

BRED Banque Populaire recorded net profit attributable to equity holders of the parent of close to €180 million in 2012, confirming the success of a strategy focused on customer service.

At 31 December 2012

1
MILLION CUSTOMERS
WORLDWIDE

130,000
COOPERATIVE SHAREHOLDERS

400
BRANCHES
AND SPECIALISED CENTRES

5,000
EMPLOYEES WORLDWIDE

The largest commercial bank within Groupe BPCE

BRED BANQUE POPULAIRE
LA BANQUE QUI DONNE ENVIE D'AGIR

GROUPE BPCE

At 31 December 2012

36
MILLION
CUSTOMERS

8.6
MILLION COOPERATIVE
SHAREHOLDERS

8,000
BRANCHES

117,000
EMPLOYEES

Second-largest banking group in France

BPCE is France's second-largest banking group. Through its two main retail banking networks, Banque Populaire and Caisse d'Epargne, the group's 117,000 employees serve 36 million customers, of whom 8.6 million are cooperative shareholders. The group's businesses tailor their banking services as closely as possible to the needs of the people and regions they serve.

With 19 Banques Populaires, 17 Caisses d'Epargne, Natixis, Crédit Foncier and Banque Palatine, among others, the BPCE Group offers its customers a comprehensive range of products and services: savings and investment solutions, cash management services, financing solutions, insurance, investment services, etc.

Faithful to its status as a cooperative banking institution, the Group helps its customers realise their projects and builds lasting relationships with them, contributing 20% of the financing of the French economy.

INTERVIEW

Olivier Klein
Chief Executive Officer

Stève Gentili
Chairman

How do you view the Group's performance in 2012?

In 2012 we generated more than €900 million in net banking income with a Group share of net profit of close to €180 million.

Adjusted for non-recurring items and tax changes, net banking income was stable at €884 million, down slightly by 1.3% compared with the previous year.

Given the background of marked economic slowdown, an interest-rate structure unfavourable to our interest margin, higher tax and social security expenses and increased cost of risk, these results are proof of BRED's solidity.

Our core business, commercial banking in France and its related subsidiaries, contributed more than half (57%) of our profit on ordinary activities, excluding non-recurring items and tax changes.

The Trading Desk, focused on customers and not on proprietary trading, accounted for slightly less than one fifth (18%) of profit on ordinary activities.

Our foreign retail banking subsidiaries – which are investments in keeping with our size and profile concentrated in South-East Asia, Asia Pacific and the Horn of Africa – contributed around 9% of profit on ordinary activities and around 12% of net profit.

In our core business, dynamic sales activity kept net banking income buoyant at €713 million (adjusted for non-recurring items and tax changes), down by only 1% versus 2011 despite the difficult conditions.

Our 357 branches, business centres and wealth management circles, in France and overseas, resolutely continued to record growth in all their markets. There was also significant activity with large accounts: large companies and institutions, the social economy and real estate professionals.

In terms of new business, 66,000 individual and 18,300 professional and business accounts were opened during 2012. Appreciative of our global approach to their needs, the number of individual customers to choose BRED for their property and casualty and personal protection insurance grew strongly, up by 18.6%.

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Our results are proof of BRED's solidity.

In parallel, BRED continued to fulfil its mission of supporting the economy. Growth in consolidated outstanding loans, up by 2.8%, was underpinned by a 3.9% increase in loans to businesses.

Nonetheless, we should not ignore the growing challenges still facing us – and all banks – arising from the changes in our socioeconomic, regulatory and tax environment. We have therefore drawn up a clear and dynamic strategy for coping effectively with the structural and economic effects of these changes, while carefully managing the balance between expenses and net banking income so as to allocate our resources in the best way possible for the Bank's future.

How does BRED plan to stimulate its growth?

BRED and its subsidiaries carry out a comprehensive range of banking activities in a variety of fields, such as commercial banking, with retail banking in France and abroad, private wealth management, corporate banking – particularly in the area of flow management, the Trading Desk, insurance, asset management, etc.

Drawing on the responsiveness and dynamism of our staff, we have adopted a proactive approach in each of our business lines and markets, adding to and improving our technical knowhow and highlighting it to our existing and prospective customers in order to win market share.

In particular, we have focused our actions on our core business, local commercial banking, as we think it essential to be successful in our traditional business in order to develop new activities successfully.

We have therefore adapted our organisation and distribution channels to meet the requirements of our existing and potential customers, who want a long-standing relationship with a personal account manager, appropriate advice and the possibility of carrying out their financial transactions without leaving their home or office.

At the same time, building up our business in wealth management and the medium-sized businesses sector will contribute actively to our future growth. These markets, with their still large potential, are vital for us and a key element of our traditional franchise. In the corporate market, we also have extensive knowhow in flow management for large accounts, with technology and skills that position us as an acknowledged challenger.

We will also continue to develop our international banking subsidiaries in strong growth regions, where we have built relationships and partnerships that facilitate our expansion.

Given the growing use of the Internet, is there any point in opening new branches?

The answer is yes, there is, because purely online banks have never really taken off in France.

We are more profoundly attached than ever to our local presence, which is fundamental for a cooperative group.

Our customers quite clearly wish to able go to their branch and meet their account managers to discuss complex transactions, such as property loans, wealth management and estate planning, family protection, setting up a business, and be put in contact with an expert if necessary. With this in mind we have recently reorganised our wealth management activity so that customers can arrange to meet wealth management experts in their local branch and at our business centres dedicated to SMEs.

We naturally have an e-branch for customers who wish to do everything electronically, namely students and very mobile senior executives. But the success of our retail banking business is based on our strategy of converging distribution channels towards the in-branch account manager. In this way we offer the best of traditional banking service and the best of modern distribution channels, with an account manager at the branch as the lynchpin of the business relationship and in close contact with the customer. Thanks to a global view of all contacts between the customer and the Bank, regardless of the channel used by the customer, the account manager is in a position to propose the most appropriate response.

Therefore, far from reducing the number of branches, we are focusing on optimising our geographic coverage through innovative solutions.

> *It is important that customers should have a single contact within the Bank, whether through the branch, or through remote channels.*

How do you reconcile local presence and remote banking?

To maintain a really close banking relationship with our customers, it is important that they have a single contact within the Bank, always the same person, whether for a face-to-face meeting within the branch, or when contacting us by remote channels. We have therefore organised the Bank so that customers have a longer relationship with a same account manager, who is now appointed for a minimum term of three years. We have also reorganised our infrastructure so that customers deal directly with their personal account manager, when they go to their branch, or by telephone or personalised e-mails.

Customers who wish to do so can receive contracts by mail or e-mail and, in the latter case, sign them electronically. We will take this a step further at the end of 2013 by equipping our branches with shared screens that enable branch staff to guide customers, for example with regard to the terms and conditions of a contract.

This has led us to offer a new, more user-friendly, remote banking service. Also, more and more customers are using mobile web. Our smartphone application will be upgraded in 2013 to offer the same services as those provided to the 385,000 subscribers to our transactional website.

Regulatory compliance is another challenge facing banks. What is BRED's situation in this area?

The issue at stake is to give BRED and its subsidiaries the means of ensuring the necessary security and control for developing their activities in accordance with the regulations. As from the end of 2012, we responded to the regulators' requirements by adopting an organisation that ensures effective control across the scope of BRED and all its subsidiaries.

Moreover, with regard to the existing Basel II and future Basel III requirements, BRED's fundamentals are solid.

Our balance of deposits and loans is good, with deposits slightly exceeding loans. Our on-balance sheet deposit taking benefited from a 7.5% increase in savings products in the form of regulated savings accounts and plans (LDD, Livret A, PEL, etc.) thus helping to maintain the balance between cash deposits and loans.

At 31 December 2012, cash deposits amounted to €14 billion while loans amounted to €13.8 million.

Also at the end of 2012, our Tier 1 solvency ratio, which measures equity as a ratio of banking risk, mainly credit risk, stood at 13.5% under Basel II rules, well above the present requirement of 8%.

BRED is actively preparing for implementation of future regulations: with regard to solvency and liquidity (Basel III, Liquidity Coverage Ratio and Net Stable Funding Ratio), with regard to investment advice (MiFID), and with regard to clearing obligations for derivatives (EMIR), and closely follows new developments in the area of market activities.

The capital increase completed in 2012 was very successful. Is BRED going to launch another rights issue this year?

Our recent capital increase, totalling €49.4 million and completed in June 2012, was a great success with a subscription rate of 140%. It raised our equity under IFRS to €3 billion at the end of 2012.

With a view to being ready for Basel III in the coming years, we are careful to constantly optimise the management of our equity, and with this in mind have decided to complete another capital increase in 2013, whose terms and conditions will be decided in the coming months.

Does BRED's status of cooperative bank give it a special place in the current banking environment?

Cooperative banks such as ours are – more so than any other banks – deeply embedded in the real economy, close to their customers.

Firstly, BRED belongs to its nearly 130,000 cooperative shareholders, who elect the Board of Directors. These men and women, actively involved in the economic and social realms, defend the cooperative shareholders' interests and contribute their knowledge of a region to which they are strongly committed. This ensures a dual vision that significantly influences the bank's governance, increasing its capacity to meet its customers' expectations and to foresee and respond to changes in its environment. The division of its capital between its cooperative shareholders also enables BRED to finance over the long term investments that create value: apart from the remuneration of cooperative shares, set each year by the General Meeting of Shareholders, the Bank's profits are wholly reinvested in the business.

Also, one of the strengths of the cooperative model lies in its regional roots. BRED is a regional bank, using the financial resources of a region to contribute to developing the local economy and helping businesses to create wealth. Firmly grounded in the regions where it operates, it has built a close network of partnerships and entered into reciprocal and lasting commitments with the various local economic agents: professional associations, commercial bodies such as chambers of commerce and trade, and microcredit organisations and bodies working in aid of social and professional integration.

BRED develops close ties with its cooperative shareholders. What particular initiatives has it taken in this area?

BRED and its cooperative shareholders share the values of solidarity, responsibility, local involvement and commitment to serving the region, and these values are the basis of its identity. Designed to promote these cooperative values and highlight them as they should be, the bred-societaires.fr website provides a forum and source of information on solidarity initiatives put in place by BRED, its partners and its cooperative shareholders. Visitors are freely invited to support the associations presented through online donations or by applying to do voluntary work or simply by participating in the key events organised by BRED and its partners and announced on the website.

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One of the strengths of the cooperative model lies in its regional roots.

PRODUCTS AND SERVICES

INSURANCE

PREPAR-VIE 100%
Life insurance ▲●

PREPAR IARD 100%
Non-life insurance ▲●■

PREPAR COURTAGE 100%
Insurance brokerage ▲●■

INTERNATIONAL ASSISTANCE

COFACE
Credit insurance ■

PRAMEX INTERNATIONAL
International development consulting ■

ELECTRONIC COMMERCE

VIALINK 100%
Electronic commerce ■

CLICK & TRUST 66%
e-commerce ■

ABC MICROFINANCE 24.47%
Microcredit ●

HUBWOO 13.25%
e-commerce ■

ASSET MANAGEMENT, FINANCIAL ENGINEERING AND SERVICES

PROMEPAR GESTION 100%
Portfolio management ▲●■

FIPROMER / I2F NC / I2F PF 100% / 34% / 18.5%
Overseas investment ▲●■

KYRIBA 37.37%
Cash management solutions ■

MAGELLAN/GALILEO 36%*/20%
Electronic payments ▲■

NATIXIS INTERTITRES
Special payment vouchers ■

NATIXIS INTERÉPARGNE
Employee savings schemes ■

NATIXIS GLOBAL ASSET MANAGEMENT
Asset management ▲●■

NATIXIS ASSURANCES
Life insurance and general insurance ▲●■

NATIXIS PAIEMENTS
Payment systems management ●■

NATIXIS PRIVATE BANKING
Private banking ▲●

BANQUE PRIVÉE 1818
Private banking ▲●

BANKING, SPECIALISED FINANCIAL SERVICES

ACLEDA 12.25%
Bank ▲●■

BCEL 10%
Bank ▲●■

BIC BRED 100%
Bank ■

BRD CHINA 100%
Financial services ●■

BRED BANK FIJI 100%
Bank ▲●■

BRED COFILEASE 100%
Bank ▲●■

BRED GESTION 100%
Bank ■

SOFIAG 100%
Consumer credit company ▲●■

SOFIDER 100%
Consumer credit company ▲●■

BRED VANUATU 85%
Bank ▲●■

BANQUE FRANCO-LAO 54%
Bank ▲●■

BCI MER ROUGE 51%
Bank ▲●■

SOCIÉTÉ DE BANQUE ET D'EXPANSION 50%
Bank ▲●■

BANQUE CALÉDONIENNE D'INVESTISSEMENT 49.9%
Bank ▲●■

CRCMMOM
(CAISSE RÉGIONALE DE CRÉDIT MARITIME MUTUEL D'OUTRE-MER) 24.38%
Bank ▲●■

BANQUE SOCREDO 15%
Bank ▲●■

SCM
Mutual Guarantee Fund ▲●

PERSPECTIVES ET PARTICIPATIONS 100%
Private equity ■

NATIXIS
Bank ■

NATIXIS LEASE
Finance leasing ▲■

CRÉDIT FONCIER DE FRANCE
Property loans ▲●■

NATIXIS FACTOR
Factoring ▲■

NATIXIS FINANCEMENT
Consumer credit ■

NATIXIS PRIVATE EQUITY
Private equity ■

Legend

● Retail ▲ Professional ■ Corporate, institutional and associations | Groupe BPCE | * Percentage held

BRED Banque Populaire is a co-operative bank, governed by Articles L.512-2 et seq. of the French monetary and financial code and all the regulations relating to popular banks (banques populaires) and credit institutions, with capital of €520,285,770. Registered office: 18, quai de la Rapée – 75604 Paris Cedex 12 – Tel: +33 (0)1 48 98 60 00.

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CORPORATE GOVERNANCE

THE BOARD OF DIRECTORS

THE BOARD OF DIRECTORS

From right to left

DANIEL GIRON
DIRECTOR

PHILIPPE NOYON
DIRECTOR

BRUNO BLANDIN
BOARD SECRETARY

GEORGES TISSIÉ
VICE-CHAIRMAN

FRANÇOIS MESSINA
DIRECTOR

LEÏLA TURKI
DIRECTOR

MONIQUE TRNKA
DIRECTOR

STÈVE GENTILI
CHAIRMAN

GÉRARD KUSTER
DEPUTY SECRETARY

OLIVIER KLEIN
CHIEF EXECUTIVE OFFICER

RAPHAËL POCHET
DIRECTOR

FRANÇOIS MARTINEAU
SENIOR VICE-CHAIRMAN

JACQUES SZMARAGD
DIRECTOR

PIERRE MURRET-LABARTHE
DIRECTOR

JEAN-PIERRE FOURÈS
DIRECTOR

MICHÈLE CLAYZAC
DEPUTY SECRETARY

ISABELLE PASTORET
ADVISORY MEMBER OF THE BOARD

STATUTORY AUDITORS:
PricewaterhouseCoopers Audit,
represented by **Agnès HUSSHERR** and **Nicolas MONTILLOT**

KPMG SA, represented by
Marie-Christine JOLYS

CENTRAL WORKS COUNCIL DELEGATES:
Martine BAROTEAUX
Pascal MARTIN de FRÉMONT

Information on officers and directors

List of offices and positions held (Article L.225-102-1, paragraph 4 of the French Commercial Code)

The main office or position is shown in boldfaced type

Chairman

Stève Gentili

→ **Chairman of the Board of Directors of BRED Banque Populaire,** Banque Internationale de Commerce-BRED, BRED Gestion, Cofibred–Compagnie Financière de la BRED, the BRED Foundation (Fondation d'entreprise de la BRED), Spig, Natixis Institutions Jour, and (representing BRED) NJR Invest

→ Deputy Chairman of the Supervisory Board of BPCE

→ Director of Natixis, BCI Mer Rouge, Bercy Gestion Finances +, BRED Cofilease, Natixis Pramex International Milan, Natixis Algérie, Prepar Iard, Promepar Gestion, Thales, Veolia, Banca Carige, BICEC, Banque Commerciale Internationale (BCI Congo)

→ Member of the Supervisory Board of Prepar Vie.

Deputy chairmen

François Martineau

→ **Lawyer (Avocat à la cour), Manager of SCP Lussan et Associés**

→ Deputy Chairman of Associations mutuelles le Conservateur, Assurances mutuelles le Conservateur

→ Director of AXA, AXA Assurances Vie Mutuelle, AXA Assurance Iard, Conservateur Finance.

Georges Tissié

→ **Director of the French association of small and medium-sized enterprises** (Confédération Générale des Petites et Moyennes Entreprises or 'CGPME').

Secretary

Bruno Blandin

→ **Manager of Etablissements Claude Blandin & Fils SARL,** Caraïbes, B6, Sca Bonne Mère, SCI Alpha, SCI Martot 321, SCI B& P, SCI Beta, SCI Californie 97, SCI CBP, SCI de l'Angle, SCI l'Epi Epinay, SCI de l'Espérance, SCI de l'Union-Champigny, SCI Delta, SCI Descartes-Champs, SCI du Guesclin Dinan, SCI Energie, SCI Epsilon Voie Verte, SCI Forest Hill, SCI Gamma, SCI la Droue Rambouillet, SCI les Neuvilliers-Vire, SCI Loire Sud Nantes, SCI Moise Polka, SCI Phil Villiers le Bel, SCI Theta Eiffel, SCI Pyrénées Paris 20ème, SCI Sentier de Falaise, SCI Thema, SCI Turgoti Cherbourg, SCI Wagram Etoile, SCI Eta Lareinty, SCI du Tregor Lannion, SCI Iota Jabrun, SCI Lambda 3 parc d'activité, SCI Kappa Lamartine, SARL Efo Morangis, SARL le Parc d'Activité de Jabrun, SARL La Lamentine, SARL le Hauts de Colin

→ Chairman of the Board of Directors of Tridom, Elit-Park

→ Deputy Chief Executive Officer of Blandin Automobilies SAS, Blandin Distribution Antilles SAS, Energy Caraibes Services SAS, Blandin SAS, Bca, les Parfumeurs Réunis

→ Director of BRED Cofilease, Caisse Régionale de Crédit Maritime Mutuel d'Outre Mer, IEDOM (Institut d'Emission des Départements d'Outre-Mer), Union des Entreprises Medef Guadeloupe UDE Medef, Canal Overseas, Port autonome de Guadeloupe, Fedom (Fédération des Dom/Tom)

→ Permanent representative of Cofeg on the Board of Directors of Sofiag-Société Financière Antilles-Guyane

→ Honorary consul for Germany in Antilles/Guyana.

Deputy secretaries

Michèle Clayzac

→ Chairwoman of the Union of ACEF (associations for credit and saving by government employees) in BRED's territory and the association for credit and saving by government employees in Paris and the Paris area (Association pour le Crédit et l'Epargne des Fonctionnaires de Paris et sa région)

→ Chairwoman of the Cooperative Bank Membership Committee on the Board of Directors of BRED Banque Populaire and on the Board of cooperative shareholders of the branch of BRED Banque Populaire in Saint-Maur-des-Fossés

→ Director of the Fédération Nationale des Acef Socacef

→ Director of the BRED Foundation (Fondation d'entreprise BRED)

Gérard Kuster

→ **Ethics and Compliance Officer of the GDF Suez Group.**

Directors

Jean-Claude Boucherat

→ **Chairman of the Paris region economic, social and environmental council** *(Conseil économique, social et environnemental de la région Ile-de-France)*

→ Chairman of the Board of Directors of the Association Gestionnaire du Centre Hospitalier Spécialisé en Pneumologie in Chevilly-Larue

→ Senior Deputy Chairman of the Association de formation professionnelle Infa

→ Deputy Chairman of the Institut d'Aménagement et d'Urbanisme (IAU) for the Ile-de-France region

→ Director of OPH Valophis Habitat du Val-de-Marne, Maison de l'Europe de Paris, Etablissement Public Foncier Régional d'Ile de France (EPF)

→ Member of the Board of Directors of the Cellule Economique du BTP et Matériaux de Construction d'Ile-de-France

→ Member of the Supervisory Board of the Agence Régionale de Développement (ARD).

Jean-Pierre Fourès

→ **Co-manager of Sec SARL**

→ Chairman of the Board of cooperative shareholders of the Seine-Saint-Denis branch of BRED Banque Populaire

→ Director of BRED Gestion, Banque Internationale de Commerce–BRED, the BRED Foundation (Fondation d'entreprise BRED).

Daniel Giron

→ Honorary Chairman of Union Professionnelle Artisanale Nationale, Fédération Française des Centres de Gestion et de l'Economie de l'Artisanat, Gestelia Basse Normandie, Chambre de Métiers et de l'Artisanat du Calvados.

Isabelle Gratiant

→ **Lecturer (University)**

→ Director of Click and Trust, Prepar Courtage, the BRED Foundation (Fondation d'Entreprise BRED).

François Messina

→ **Executive Director of Fondation Aéroports de Paris,** Department for environmental matters and sustainable development.

Pierre Murret-Labarthe

→ Honorary adviser (Conseiller Maître honoraire) at the Court of Auditors (Cour des Comptes)

→ Chairman of Comité National de l'Assurance en Agriculture, Assad XV

→ Director of Promepar Gestion.

Philippe Noyon

→ **Manager of Computer Component Service,** Rivière Noire

→ Chairman of the Board of Directors of Gimac Santé au travail, RPPST (Réseau de services de santé au travail)

→ Director of Cofibred-Compagnie Financière de la BRED, the BRED Foundation (Fondation d'Entreprise BRED), Sofider, Spig.

Raphaël Pochet

→ **Consultant specialising in advising and training managers**

Jacques Szmaragd

→ **Director of the Mutuelle Centrale de Réassurance, Capma-Capmi**

→ Director of Monceau Assurances, Prepar Iard, Mudetaf

→ Chairman of the Supervisory Board of Prepar-Vie

→ Manager of Szmaragd & Cie SARL.

Monique Trnka

→ **Audiovisual consultant** (consultant d'entreprises audiovisuelles)

→ Deputy Chairman of the Supervisory Board of Prepar-Vie

→ Director of Prepar Courtage, Prepar Iard, Spig

Leïla Turki

→ **Senior executive in an asset management company**

→ Manager of ASK Consulting.

Advisory member of the Board of Directors (censeur)

Isabelle Pastoret

→ **General Controller, Ministry of Finance, Trade and Industry**

Chief Executive Officer

Olivier Klein

→ **Chief Executive Officer, BRED Banque Populaire**

→ Chairman of the Board of Directors of Promepar Gestion

→ Chairman of Perspectives & Participations

→ Chief Executive Officer of Banque International du Commerce – BRED, Cofibred (Compagnie Financière de la BRED)

→ Director of Natixis Asset Management, Natixis Global Asset Management, Prepar Iard, Nexity

→ Member of the Supervisory Board of Prepar Vie, SOCFIM

→ Permanent representative of BRED Banque Populaire on the Board of Banque Calédonienne d'Investissement, BCI Mer Rouge, Caisse Régionale de Crédit Maritime Mutuel d'Outre-mer, Cofibred (Compagnie Financière de la BRED), Sofiag (Société Fianncière Antilles-Guyane), Sofider (Société Financière pour le Développement de la Réunion)

→ Permanent representative of Cofibred on the Board of Click and Trust.

Information on candidates for the Board of Directors

(Article L.225-115-3 of the French Commercial Code)

Renewal of the appointment of six directors

Georges Tissié

Date of birth: 8 June 1953

is:

→ **Director of the French association of small and medium-sized enterprises** *(Confédération Générale des Petites et Moyennes Entreprises or 'CGPME')*

He has not held any other offices or positions over the past five years.

Georges Tissié owns 1,010 BRED Banque Populaire shares.

Michèle Clayzac

Date of birth: 15 October 1944

is:

→ Chairwoman of the Union of ACEF (associations for credit and saving by government employees) in BRED's territory and the association for credit and saving by government employees in Paris and the Paris area (Association pour le Crédit et l'Epargne des Fonctionnaires de Paris et sa région)

→ Chairwoman of the Cooperative Bank Membership Committee on the Board of Directors of BRED Banque Populaire and on the Board of cooperative shareholders of the branch of BRED Banque Populaire in Saint-Maur-des-Fossés

→ Director of the Fédération Nationale des Acef Socacef

Other positions held over the past five years:

→ Deputy Chair of the Fédération Nationale des Acef Socacef

→ Director of Fnas

Michèle Clayzac owns 985 BRED Banque Populaire shares.

INFORMATION ON CANDIDATES FOR THE BOARD OF DIRECTORS

Jean-Claude Boucherat

Date of birth: 8 August 1938

is:

→ **Chairman of the Paris region economic, social and environmental council** *(Conseil économique, social et environnemental de la région Ile-de-France)*

→ Chairman of the Board of Directors of the Association Gestionnaire du Centre Hospitalier Spécialisé en Pneumologie in Chevilly-Larue

→ Senior Deputy Chairman of the Association de formation professionnelle Infa

→ Deputy Chairman of the Institut d'Aménagement et d'Urbanisme (IAU) for the Ile-de-France region

→ Director of OPH Valophis Habitat du Val-de-Marne, Maison de l'Europe de Paris, Etablissement Public Foncier Régional d'Ile de France (EPF)

→ Member of the Board of Directors of the Cellule Economique du BTP et Matériaux de Construction d'Ile-de-France

→ Member of the Supervisory Board of the Agence Régionale de Développement (ARD)

Other positions held over the past five years:

→ Chairman of the meeting of French economic and social councils

→ Director of Opac du Val-de-Marne

Jean-Claude Boucherat owns 279 BRED Banque Populaire shares.

Philippe Noyon

Date of birth: 11 August 1948

is:

→ **Manager of Computer Component Service, Rivière Noire**

→ Chairman of the Board of Directors of Gimac Santé au travail, RPPST (Réseau de services de santé au travail)

→ Director of Cofibred-Compagnie Financière de la BRED, the BRED Foundation (Fondation d'Entreprise BRED), Sofider, Spig

Other positions held over the past five years:

→ Representative of Cofibred on the Board of Directors of Sofider

Philippe Noyon owns 1,096 BRED Banque Populaire shares.

Jacques Szmaragd

Date of birth: 23 October 1946

is:

→ **Director of the Mutuelle Centrale de Réassurance, Capma-Capmi**

→ Director of Monceau Assurances, Prepar Iard, Mudetaf

→ Chairman of the Supervisory Board of Prepar-Vie

→ Manager of Szmaragd & Cie SARL

Other positions held over the past five years:

→ Chief Executive Officer of Mutuelle Centrale de Réassurance

→ Chief Executive Officer of l'Union des mutuelles d'assurance Monceau

Jacques Szmaragd owns 188 BRED Banque Populaire shares.

Leïla Turki

Date of birth: 25 October 1972

is:

→ **Senior executive in an asset management company**

→ Manager of ASK Consulting

She has not held any other offices or positions over the past five years.

Leïla Turki owns 100 BRED Banque Populaire shares.

Appointment of a director

Michel Chatot

Date of birth: 6 June 1947

is:

→ **Senior Financial Controller, Caisse des Dépôts**

→ Chairman of the Board of Directors of Immobilier Insertion Défense Emploi (2 IDE), AREPA,

→ Director of Services, Conseil Expertises Territoires (SCET)

Other positions held over the past five years:

→ Director for Territorial and Network Development, Caisse des Dépôts

→ Director of the Regional Network and Head of Support Functions, Caisse des Dépôts

Michel Chatot owns 100 BRED Banque Populaire shares.

Ratification of the provisional appointment of an advisory member of the Board (censeur)

Isabelle Pastoret

Date of birth: 29 April 1962

is:

→ **General Controller, Ministry of Finance, Trade and Industry**

Other positions held over the past five years:

→ Chief of Staff to the Secretary of State for Trade, SMEs, Tourisme, Services, the Self-Employed and Consumers

→ Adviser to the Minister of Economy, Finance and Industry

→ Adviser to the Minister for Foreign Trade

Isabelle Pastoret owns 445 BRED Banque Populaire shares.

Appointment of an advisory member of the Board (censeur)

Nathalie Briot

Date of birth: 11 July 1954

is:

→ **Chief of staff to the President and head of institutional relations at ADEME, the French Environment and Energy Management Agency.**

Other positions held over the past five years:

→ Inspector, Paris education authority

→ Adviser on institutional relations, Etablissement Public Euroméditérranée (EPAEM)

→ Lecturer, Institut d'Etudes Politiques (IEP), Aix-en-Provence

Other positions held between 1995 and 2002:

→ Consultant to the French Banking Federation (FBF), responsible for defending the interests of the banking industry before the French and European Parliaments.

Nathalie Briot owns 50 BRED Banque Populaire shares.

EXECUTIVE COMMITTEE

OLIVIER KLEIN
CHIEF EXECUTIVE OFFICER

YVES JACQUOT
DEPUTY CHIEF EXECUTIVE OFFICER

PIERRE CHAUVOIS
FRANCE NETWORK

ÉRIC MONTAGNE
OVERSEAS NETWORK

JEAN SERRIÈRE
MARKETING AND DISTRIBUTION

EMMANUEL LEMOIGNE
INSTITUTIONAL, CORPORATE AND INTERNATIONAL

PIERRE VÉDRINES
TRADING DESK

OLIVIER LENDREVIE
CHIEF FINANCIAL OFFICER

STÉPHANE MANGIAVACCA
RISKS

CHRISTIAN SCHELLINO
COMMITMENTS

MICHÈLE BOULET
INTERNAL AUDIT

STÉPHANE VANONI
HUMAN RESOURCES

GABRIEL DEVILDER
GENERAL SECRETARY

CHIEF EXECUTIVE OFFICERS OF FRENCH AND FOREIGN SUBSIDIARIES

FRANCE

ÉRIC LEHRMANN
VIALINK
CLICK & TRUST

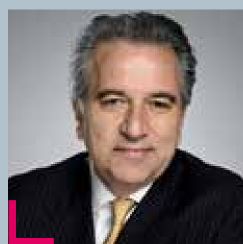
JEAN-FRANCOIS PELLÉ
PROMEPAR GESTION
PREPAR-VIE

EMMANUEL DE LA BASTILLE
PREPAR IARD
PREPAR COURTAGE

JEAN-PIERRE LEFAUCHEUX
FIPROMER

PHILIPPE GOHAUD
SOCIÉTÉ DE BANQUE ET D'EXPANSION

PHILIPPE BAILLOT
BRED BANQUE PRIVÉE



TURGUT YUCE
BIC-BRED

LUC DOYENNEL
PERSPECTIVES ET PARTICIPATIONS

ANTILLES

THIERRY CHARRAS-GILLOT
BRED COFILEASE

STÉPHANE URBAIN
SOFIAG

GÉRARD CADIC
CRCMMOM

CHIEF EXECUTIVE OFFICERS OF FRENCH AND FOREIGN SUBSIDIARIES

INDIAN OCEAN

SANDRA BOINON
SOFIDER

OULD AMAR YAHYA
BCI MER ROUGE

THIERRY CHARRAS-GILLOT
BRED COFILEASE

ASIA/PACIFIC

JEAN-PIERRE GIANOTTI
BANQUE CALÉDONIENNE D'INVESTISSEMENT

DARRYL CONSTANTIN
BRED VANUATU

SATISH CHANDRA DEB
BRED BANK FIJI

ASIA

GUILLAUME PERDON
BANQUE FRANCO-LAO

MAJOR ACCOUNTS AND INTERNATIONAL DEPARTMENT

EMMANUEL LEMOIGNE
INSTITUTIONAL, CORPORATE AND INTERNATIONAL

ÉRIC FONDECAVE
STRUCTURED FINANCING

LAURENCE TRUNEL
REAL ESTATE ACTIVITIES

NATHALIE BETTING
INSTITUTIONAL CUSTOMERS AND FINANCIAL INSTITUTIONS

PASCALE BLANCHARD
GLOBAL CASH MANAGEMENT

HENRI FERRAO
CORPORATE DEVELOPMENT FINANCING

STÉPHANE DE COATGOUREDEN
CORPORATE BANKING

MARIE-HÉLÈNE SPILLEMAECKER
INTERNATIONAL

CHRISTIAN FUYET
FLOW AND INFORMATION EXPERTISE

DORRA SOUISSI
REGULATED PROFESSIONS

BERNARD TERRASSE
REAL ESTATE PROFESSIONALS

REGIONAL DEPARTMENTS

From left to right:
Top

PASCAL DUPHOT
NORMANDY REGION

GILLES BOURELY
EAST PARIS REGION

FRANCK MOURJAN
SEINE-ET-MARNE/AISNE REGION

MICHEL MOREDDU
SEINE-SAINT-DENIS REGION

Bottom

JEAN-PAUL GÉRAUDIE
HAUTS-DE-SEINE REGION

MARTINE STEELS
WEST PARIS REGION

THIERRY MOREAU
VAL-DE-MARNE REGION

From left to right:

STÉPHANE URBAIN
GUADELOUPE AND ILES DU NORD

THIERRY CHARRAS-GILLOT
MARTINIQUE/GUYANA

SÉBASTIEN NAHON
INDIAN OCEAN

CHAIRMAN'S REPORT

to the cooperative shareholders drawn up pursuant to Article L. 225-37 of the French Commercial Code

Ladies and Gentlemen,

In my capacity as Chairman of the Board of Directors, I am very happy to submit to you the report I have drawn up pursuant to the requirements of Article L.225-37 of the French Commercial Code.

This report has been drawn up taking into account the work of the Board of Directors and its various committees, meetings with the chairmen of Board committees, General Management and external auditors and in light of the various reports by the permanent and periodic control structures.

This report was presented to the Board of Directors on 18 March 2013 and was approved.

CORPORATE GOVERNANCE

1 The Board of Directors

1.1. The Board's role and powers

1.1.1. Applicable laws and regulations, Memorandum and Articles of Association

The Board of Directors determines the policies applying to the company's activities and supervises their proper implementation. Subject to the powers delegated by law to general meetings and within the limits of the company's objects, the Board considers all matters that might have a bearing on the proper functioning of the company and, at its meetings, decides on all issues concerning it. The Board performs whatever checks and controls it considers necessary.

The Memorandum and Articles of Association provide that the Board's powers include:

- defining the principles applying to the lending policy,
- authorising commitments exceeding defined limits or that concern the Group's corporate officers,
- examining and approving the annual company and consolidated accounts and drawing up the Management Report,
- proposing the dividend to be paid to the shareholders,
- convening general meetings,
- controlling the quality and appropriateness of the information provided to the shareholders,
- creating consultative committees to improve the quality of information available on the main issues concerning the Bank.

The Board also performs those tasks and exercises those powers assigned to it by Regulation 97-02 on internal control within credit institutions issued by the French Banking and Financial Regulatory Committee (Comité de la Réglementation Bancaire et Financière or 'CRBF'). Accordingly, it has a duty to examine the internal control work and findings, on the basis of reports prepared by the managers responsible for permanent control and periodic control, to set the global risk limits, to define the thresholds and criteria used to measure the significance of incidents, to define the compensation policy in light of its impact on risks and, more generally, to ensure the Bank complies with its obligations as set out in the aforesaid Regulation.

The methods of operation of the deciding bodies are outlined in the Banques Populaires corporate governance charter.

1.1.2. Internal Regulations

In addition to the provisions of the Memorandum and Articles of Association, in 1996 the Board of Directors adopted Internal Regulations, which are regularly updated to remain in line with the applicable regulations and market recommendations.

The Internal Regulations detail the conditions of eligibility and obligations of the Board members, the way in which the Board and its committees function, the conditions for transmitting documents prior to meetings, and the appointment of Board members to the boards of directors of subsidiaries.

1.2. Composition of the Board

The Board of Directors is currently composed of 18 members, all of whom are individuals.

As at 31 December 2012, more than 20% of the Board members were women.

As regards eligibility, directors, who must each be a member of the Cooperative Bank and hold at least 100 shares, must have undisputed integrity and experience and an excellent reputation, with 'reputation' meaning not only that of the directors themselves but that of the legal entities they manage or over which they have effective control.

The Board of Directors proposes candidates to general meetings so that the various socio-economic categories that form the Bank's customer base and the various regions in which it operates are fairly represented.

Unless the Chairman of the Board of Directors expressly decides otherwise after consulting the Group's Chairman, a director cannot simultaneously hold an office as a director and hold an office or position in any banking or financial institution outside the Group.

If this occurs, the director involved must resign from one of these offices and/or positions within a reasonable time set by the Chairman.

In accordance with the provisions of the Memorandum and Articles of Association, individuals may not stand for office as a director for the first time if they have reached the age of 68.

The offices and positions of the members of the Board of Directors are shown on page 16.

Advisory members of the Board (censeurs) attend meetings in an advisory capacity.

Board meetings are also attended by representatives of the Central Works Council, the Chief Executive Officer, the Deputy Chief Executive Officer and the General Secretary. The representative of BPCE is also invited to Board meetings. Lastly, whenever necessary, the company's line managers and functional managers also attend meetings.

1.3. Preparation and organisation of the Board's work

Strategic policies and general objectives proposed to the Board of Directors are prepared by the Chairman in agreement with the Chief Executive Officer.

The Board of Directors' work is organised and overseen by its Chairman, who reports thereon to general meetings. The Chairman monitors the operation of the Bank's bodies, and ensures in particular that the directors are able to perform their duties.

The agenda for meetings and the related documents are sent one week in advance to members of the Board of Directors.

1.3.1. The Bureau of the Board

The Bureau of the Board is composed of six members: Stève Gentili, Chairman, François Martineau and Georges Tissié, Deputy Chairmen, Bruno Blandin, Secretary and Michèle Clayzac and Gérard Kuster, Deputy Secretaries.

It meets to examine organisation and strategic matters before they are presented to the Board of Directors. It expresses an opinion on the admission of new cooperative shareholders and on the acquisition of shares.

CHAIRMAN'S REPORT

1.3.2. Board committees

To help it in its deliberations, the Board of Directors has created four committees, whose members are all Board members.

The Audit Committee

In accordance with CRBF Regulation 97-02, the Audit Committee is responsible for the following tasks:

→ It monitors the process of preparing financial information, checking that information provided is clear and assessing the relevance of accounting methods used to prepare the company and consolidated financial statements;

→ It monitors the auditing of the company and consolidated financial statements by the statutory auditors;

→ It monitors the risk management policy and procedures as well as the effectiveness of internal control and risk management systems;

→ It assesses the quality of internal control, including in particular whether risk measurement, monitoring and management systems are coherent, and proposes any additional action it deems necessary;

→ It monitors follow-up of the findings of the General Inspection Department and the regulatory and supervisory authorities to ensure appropriate action plans are put in place and implemented when problems have been identified;

→ It ensures that the Bank's statutory auditors act independently and objectively, and issues recommendations concerning the appointment or re-appointment of statutory auditors put to general meetings, arranging a tender procedure if it considers this appropriate.

The Board of Directors selected Gérard Kuster, Chairman of the Committee, as the independent director with specialist financial or accounting skills.

To carry out this work, the Audit Committee meets regularly with the main directors and managers responsible for preparing the financial statements, with the Statutory Auditors responsible for auditing them, and with the Bank's own General Inspection Department.

The Committee reports regularly on its work to the Board of Directors and informs it promptly of any problem encountered.

The Committee's functioning is governed by a charter that has been approved by the Board of Directors.

The Audit Committee is composed of eight directors. The General Inspector is regularly invited to attend meetings.

The Compensation Committee

The Compensation Committee assists the Board and provides control and supervision with regard to the compensation policy and, more specifically, the variable compensation paid to risk-takers and executives, pursuant to CRBF Regulation 97-02.

Most of its members are Board members who have been selected for their independence and ability to analyse compensation policies and practices. The Committee helps the Board to define the principles of the Bank's compensation policy, which must take risks into account and must comply with the new provisions of said Regulation and new professional standards.

The Committee is chaired by Georges Tissié, and has five members.

The Cooperative Bank Membership Committee

The Cooperative Bank Membership Committee is responsible for all matters relating to cooperative shareholders, notably projects relating to membership policy, specific commercial actions in favour of cooperative shareholders, and the functioning of Cooperative Bank member representation at local level.

The committee is chaired by Michèle Clayzac, and has eight members.

This Committee is represented at the meetings of cooperative shareholders held at branch level by the Bank, some of which are in fact chaired by Committee members. The Committee is also represented at meetings held by the ACEF public sector employee credit and savings associations (Associations pour le Crédit et l'Épargne des Fonctionnaires). In addition, the committee meets whenever a general meeting is scheduled.

The Strategy Committee

The Strategy Committee examines subjects that are strategic for the Bank and systematically gives its opinion before referral to the Board of Directors.

The Committee is chaired by Stève Gentili and all the other directors are members.

The Committee meets on a regular basis to consider strategic and topical issues.

1.4. Work carried out by the Board and its committees in 2012

1.4.1. Work carried out by the Board in 2012

The Board of Directors held six meetings in 2012, as required by the Memorandum and Articles of Association, with an attendance rate by directors of 90%.

Strategy, Business Activity and Operations

→ The Board regularly reviewed the economic situation and the markets, and also examined the adaptation measures taken by the Trading Desk to protect the Bank against further market upsets.

→ The Board reviewed the results of the Bank's international growth strategy and took note of new developments, in line with the international development policy it has defined.

→ It approved the acquisition of new administrative headquarters in Joinville-le-Pont.

→ The Board heard reports by the Bank's main department heads on the handling of customer complaints, real property and the development of the e-commerce division.

→ It approved modifications to the document setting out the backing provided to the Caisses de Crédit Maritime Mutuel.

→ The Board approved the Bank's investment in deeply subordinated bonds issued by BPCE and authorised the signature of the corresponding subscription agreement.

→ With the integration of BPCE nearly completed, the Board voted in favour of plans to amend the central entity's Memorandum and Articles of Association, took note of the changes made by BPCE to the guarantee and solidarity mechanism and authorised the signature of a memorandum of understanding on the mechanism for contributing to Group solvency.

→ The Board renewed its authorisations for the issuance of subordinated shares and Euro Medium Term Notes (EMTN).

Share Capital

→ The Board of Directors decided to increase the Bank's share capital in order to improve its financial stability, open the Bank to new shareholders and lower the average age of shareholders.

→ It reviewed the recommended maximum number of shares held.

→ The Board approved share transfers at each meeting.

Corporate Governance

→ As the term of office of the Chief Executive Officer expired, the Board appointed a new Chief Executive Officer and defined his powers.

→ The Board modified the Audit Committee and Compensation Committee charters, in line with recent legal and regulatory developments.

→ It decided to reappoint the Chairman and to also renew the appointments of the other Board members.

→ As the term of office of André Bérard as an advisory member of the Board expired, the Board appointed Isabelle Pastoret as the new advisory member (censeur).

Internal Control, Risks, Compliance

→ The Board reviewed the results of the Audit Department's work, its 2012 annual audit plan and its 2012–2015 audit plan, and the follow-up of recommendations.

→ It reviewed the permanent controls carried out in 2011 by the second-level permanent control functions and took note of the planned controls and action plans for 2012.

→ The Board took note of the results of the monitoring of various types of risk (credit, market, settlement, rates and liquidity, operational and compliance) by the permanent control functions, and the review of risk limits.

→ The Board approved changes to the thresholds used to measure the materiality of incidents.

→ The Board reviewed the 2011 internal control report and took note of changes to internal control resources.

Financial Statements, Results and Financial Information

→ The Board examined and approved the company and consolidated financial statements for financial year 2011, and also reviewed a summary report of the Audit Committee's work and the findings of the Statutory Auditors.

→ It reviewed the company and consolidated results for the first three quarters of 2012, and approved the budget forecast for 2013.

→ The Board reviewed the Financial Audit Charter.

→ The Board approved the draft report by the Board of Directors on 2011.

Compensation

→ The Board reviewed the terms of Jean-Michel Laty's compensation and retirement packages, and of Olivier Klein's compensation package.

→ It regularly reviewed summary reports on the Compensation Committee's work.

→ On the basis of a proposal by the Compensation Committee, it approved the changes made to variable compensation policies for traders, risk controllers and senior management.

→ It examined the policy on gender equality and equal pay.

→ The Board ratified decisions to appoint and promote head office senior executives.

1.4.2. Work carried out by the Committees in 2012

The Audit and Large Risk Committee

The Committee met six times in 2012.

→ The Committee reviewed the Audit Department's reports and annual and longer-term audit plans, and monitored the implementation of its recommendations and those made by the French regulators (Autorité de Contrôle Prudentiel - ACP and Autorité des Marchés Financiers - AMF) and by BPCE.

→ The Committee reviewed the company and consolidated financial statements and took note of the summary report by the Statutory Auditors on their work.

→ The Committee considered the findings and permanent control plans presented by the heads of the Risk Department, the Compliance Department and the Financial Audit Department.

→ It took note of the regulatory report on internal control and the report by the head of the Investment Services Compliance Department.

→ The Committee regularly reviewed the risk management system (including compliance with thresholds), and in particular [management of] credit risk, market risk, overall balance sheet risk, compliance risk - notably procedures to combat money laundering, the cheque control plan, monitoring of essential outsourced services and legal compliance - as well as operational risks and progress made with the business continuity plan.

→ It examined correspondence between the ACP, the AMF and General Management.

→ The Committee regularly reported on its work to the Board.

Compensation Committee

The Committee met six times during the previous financial year.

→ The Compensation Committee examined and expressed an opinion on the variable compensation criteria for executive corporate officers and traders.

→ The Committee received detailed information on the compensation policies of the heads of the control functions.

→ It took note of proposals regarding the appointment and promotion of senior executives on the basis of their performance.

→ It conducted the annual review of the compensation policy and verified that it complies with the applicable regulations and industry standards.

→ The Committee examined and put to the Board the terms of Jean-Michel Laty's retirement package and of Olivier Klein's compensation package.

→ It took note of the documents relating to mandatory training for risk takers.

→ It interviewed Isabelle Pastoret and recommended to the Board that she be appointed as an advisory member of the board (censeur).

→ The Committee regularly reported on its work to the Board.

2

General Management

2.1. Organisation

In accordance with Article 22 of the Articles of Association and with best corporate governance practices, the Board of Directors has opted to separate the functions of Chairman of the Board of Directors and Chief Executive Officer, to achieve a better balance of power between executive and non-executive bodies.

As the term of office of Jean-Michel Laty expired, the Board of Directors consulted the Compensation Committee and decided to appoint Olivier Klein as Chief Executive Officer with effect from 28 September 2012.

The Chief Executive Officer chairs the Executive Committee, which is composed of the Deputy Chief Executive Officer and the heads of the main operational and functional departments.

2.2. Chief Executive Officer's role and powers

The Chief Executive Officer is vested with the broadest powers to act in the Bank's name in all circumstances and to represent it in dealings with third parties.

He exercises his powers within the limits of the corporate objects, and subject to those expressly reserved by law for general meetings and the Board of Directors.

By way of an internal rule, he must obtain the Board's prior authorisation before taking any decision to:

→ acquire or dispose of substantial equity interests or any equity interests when the transaction will substantially modify the consolidation scope.

→ acquire or dispose of buildings used as central offices.

In terms of commitments, the Chief Executive Officer cannot make decisions involving amounts above the maximum stated in Article 1 of CRBF Regulation 93-05, in other words, when the net weighted risk would exceed 25% of the consolidated shareholders' equity, calculated in accordance with CRBF Regulation 90-02.

He must also refer any new credit facilities exceeding the maximum limits determined by BPCE to the Board for rating by the special committee set up by it.

3

General meetings

3.1. Convening meetings

General meetings are convened by the Board of Directors under the terms and conditions laid down by law. In particular, as the shares are registered, each cooperative shareholder may be invited to attend these meetings by ordinary letter.

Meetings take place at the registered office or at any other place specified in the notice of the meeting.

The notice of the meeting must be sent at least 15 days before the date of the general meeting.

3.2. Conditions for admission

All cooperative shareholders are entitled to attend general meetings and to take part in the deliberations, either in person or through a proxy-holder, in accordance with the applicable laws and regulations, regardless of the number of shares they own.

A proxy-holder may not be replaced by another person. For any proxy given by a cooperative shareholder without indicating the name of the proxy-holder, the chairman of the general meeting will vote in favour of the resolutions submitted or approved by the Board of Directors and against all other resolutions.

A meeting of the Board of Directors may be convened on the same day as a general meeting and the Board may vote on amendments proposed at the general meeting, while the general meeting is suspended.

Legal persons may take part in general meetings through their legal representatives or any other person they duly and properly authorise to represent them.

A proxy shall only be valid for one general meeting. However, it may be given for an ordinary general meeting and an extraordinary general meeting held on the same day or within a period of seven days. A proxy given for a general meeting shall be valid for subsequent general meetings convened with the same agenda.

All cooperative shareholders may vote by post, using a form drawn up and sent to the Cooperative Bank under the conditions laid down in the applicable laws and regulations.

Cooperative shareholders may, under the conditions set by the laws and regulations, send their proxy form and postal vote form for any general meeting in paper format or, if this is authorised by the Board of Directors and indicated in the notice of the meeting, in electronic format.

3.3. Conditions for exercising voting rights

In ordinary and extraordinary general meetings, quorums are calculated on the basis of all the shares that make up the share capital, less any shares that have been stripped of their voting rights by law. Each share entitles its holder to one vote.

If votes are cast by post, only forms received by the company at the latest on the day before the date of the meeting will be counted when calculating the quorum, under the terms and conditions laid down in the applicable laws and regulations.

Pursuant to Article L. 512-5 of the French Monetary and Financial Code, the voting rights attached to the shares held directly and/or indirectly as a proxy-holder by any single cooperative shareholder or resulting from the powers granted to such a shareholder, may not exceed, at any given general meeting 0.25% of the total number of voting rights attached to the company's shares.

4

Principles and rules governing compensation for corporate officers

4.1. Compensation paid to the Chairman of the Board of Directors

The Chairman receives a fixed amount, paid monthly on the basis of a 12-month year, and also has the use of a company car.

4.2. Compensation paid to Board members

The total amount allocated by the general meeting as attendance fees is divided equally by the Board of Directors between its members, after deducting the amount paid to advisory Board members, where applicable.

4.3. Compensation paid to the Chief Executive Officer

The compensation package in effect in 2011 (cf. page 39) continued to apply to Mr Laty until he retired on 27 September 2012.

With effect from 28 September 2009 and in accordance with the recommendations of the Compensation Committee, the Board has determined the new Chief Executive Officer's compensation package, which consists of the following:

→ a fixed amount paid monthly on the basis of a 12-month year;

→ a variable supplement, capped at 80% of the gross annual fixed compensation, calculated on the basis of quantitative and qualitative criteria previously defined by the Board of Directors on the basis of proposals by the Compensation Committee;

→ an accommodation allowance and use of a company car.

Exceptionally, for the period from 28 September to 31 December 2012, the variable part was calculated in accordance with the [compensation] rules applying to members of BPCE SA's Executive Board, of which Olivier Klein was a member on the date he was appointed BRED's Chief Executive Officer.

The variable compensation paid to corporate officers is calculated in accordance with the same deferral rules as those applied to risk takers. These rules essentially provide as follows:

→ a substantial proportion of the variable compensation will be deferred;

→ the actual compensation paid will be linked to changes in the consolidated shareholders' equity (Group share, excluding capital increases and the revaluation of securities issued by BPCE or its subsidiaries, interest on cooperative investment certificates and dividends paid by BPCE) since 31 December of the year in which compensation is awarded;

→ a reduction clause may apply, based on changes in the Bank's return on equity;

→ restrictions conditioning payment and relating to effective presence may apply.

In accordance with the rules in force within the BPCE group, the Chief Executive Officer:

→ is eligible for a benefit scheme and a supplementary and additional supplementary pension scheme;

→ will receive a compensatory payment if he is asked to leave or retires.

INTERNAL CONTROL AND RISK MANAGEMENT

The main purpose of the internal control system put in place by BRED is to guarantee that all risks are managed and to obtain reasonable assurances that the Bank's objectives in this area are being achieved.

1

Framework

The internal control system of BRED and its subsidiaries is governed by the rules laid down in CRBF Regulation 97-02, the provisions of the French Monetary and Financial Code, including in particular regulations governing the prevention of money laundering and the financing of terrorism, and the provisions laid down by the French financial markets authority (Autorité des Marchés Financiers or 'AMF').

BRED applies the permanent and periodic control standards defined in the BPCE group control function charters.

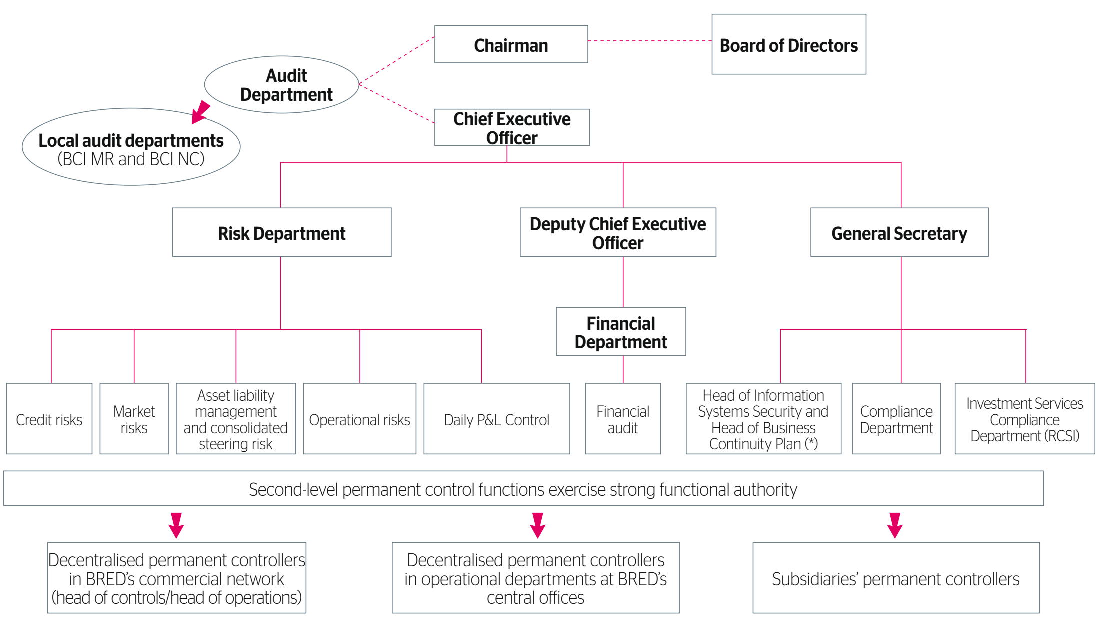
2

Organisation of Internal Control

2.1. General organisation

In accordance with banking regulations, the Bank's internal control system is based on first-level controls carried out by the operational managers, second-level permanent controls carried out by dedicated staff members - who do not have any operational duties as defined by the regulations - and periodic controls.

Organisation of BRED's internal control system



*Banking Security and Corporate Foresight Department

The permanent and periodic control functions are integrated into the BPCE group's control structures.

The system is defined and described in procedures and charters covering each of the control functions.

Consolidated control

One of the fundamental principles of internal control is that it is exhaustive in scope: it must cover all types of risks and all the BRED group's consolidated entities – whether banking or non-banking, French or foreign.

Internal control within the subsidiaries is structured around:

→ each subsidiary's executive and deciding bodies,

→ periodic controls carried out by BRED's Audit Department or by the subsidiary's audit department if it has one, in close collaboration with BRED's Audit Department,

→ permanent controls carried out within the subsidiary in close collaboration with BRED's second-level permanent control functions, as part of the BRED group's consolidated risk control system.

2.2. Employees assigned to internal control

	Total	Parent company	Subsi-diaries
Risk function	**82.7**	**56.3**	**26.4**
Operational risks	49.9	34.6	15.3
Credit risks	19.4	11.1	8.3
Financial risks	13.3	10.5	2.8
Compliance function	**48.2**	**33.4**	**14.8**
Financial Audit	**8.5**	**5.2**	**3.3**
Information systems security managers	**2.7**	**1.0**	**1.7**
Business continuity managers	**3.5**	**1.4**	**2.1**
Audit	**31.6**	**25.6**	**6**
Total	**177.2**	**122.9**	**54.3**

2.3. Organisational changes in 2012

BRED's internal control system underwent some major organisational changes in 2012:

→ 2012 was the first full year in which the new "Financial Audit" function, which monitors accounting and regulatory issues, was in operation. Feedback on this first year will enable us to adjust and develop the function in 2013;

→ the strong functional reporting line between BRED control departments and "decentralised" control staff within the departments and subsidiaries was clarified at the request of the Chief Executive Officer. This reinforces the links within the permanent control and periodic control functions in BRED's consolidation scope;

→ BRED's functional departments (finance, information systems, general secretariat, human resources, commitments) took responsibility for covering all steering of BRED and its subsidiaries;

→ the Risk Manager became a member of BRED's Executive Committee;

→ in order to standardise the risk management approach and risk monitoring the two compliance function departments (Compliance Department and Investment Services Compliance Department) will be merged into a single Compliance Department, operating under the authority of the General Secretary, with effect from April 2013;

→ work is underway to improve coherence of the risk monitoring and management work carried out by the various committees. To this end, a new Compliance Committee, chaired by the Chief Executive Officer and extended to include the commercial network managers, was created at the end of 2012. It was also decided to expand the scope of the Risk Committee;

→ measures were introduced to improve the security of the Trading Desk, including the creation of the Daily P&L Control Department, which reports to the Risk Department.

Furthermore, additional resources were assigned to the BRED group's measuring, monitoring and control systems.

2.4. Responsibility for control tasks

2.4.1. General Management

General Management, under the supervision of the Board of Directors, is responsible for the Group's internal control system as a whole.

Accordingly, it defines and implements the internal control system, in compliance with the requirements defined by BPCE. It monitors the system on a regular basis to ensure it is operating correctly, and that the resources assigned to permanent and periodic control are sufficient in terms of the number of employees, their qualifications, and tools.

General Management also ensures that the necessary reports are made to the proper deciding bodies.

2.4.2. Operational staff (level 1)

All the Bank's Operational Departments are responsible for first-level controls, which form the indispensable and essential basis of the control system.

All employees take part in the Bank's first-level permanent control system through self-checks based on controls integrated into operational procedures and automated controls during the processing of transactions.

All line managers, who are responsible for all the risks relating to the entities they run, ensure that their staff comply with procedures. In the event of changes to the business activity, regulations, professional standards or processing procedures, they change these procedures by adding new controls.

First-level controls notably provide assurances regarding the application of transaction processing procedures and their compliance.

2.4.3. Independent permanent control functions (level 2)

Second-level permanent control is essentially the responsibility of:

- → the Risk Department, which is responsible for second-level permanent control of credit risks, financial risks, market risks and operational risks;
- → the Banking Compliance and the Investment Services Compliance Departments, which are due to merge in the second quarter of 2013;
- → the Financial Audit Department;
- → decentralised second-level permanent control officers within operational departments and subsidiaries (subject to strong functional reporting lines).

These units and staff are responsible for preventing and controlling risk, essentially by verifying that the necessary first-level controls are carried out within the operational departments and subsidiaries. They inform the relevant line managers of the corrective action that needs to be taken within a reasonable timeframe.

The specific organisation of each department is described in the chapter of this annual report on risk management.

2.4.4. Periodic controls (level 3)

Periodic control is exercised by the Audit – General Inspection Department. It covers all the BRED group's activities.

Assignments are conducted in the context of an annual audit plan that is first submitted to BPCE General Inspection and validated by BRED's executive and deciding bodies.

In accordance with CRBF Regulation 97-02, the Audit Department provides the executive body and the deciding body with reasonable assurances that the BRED group is functioning correctly, through periodic assignments that are conducted in the context of a four-year audit plan using a risk-based approach.

In order to achieve this objective, Internal Audit makes use of its dedicated and specialist means and resources to conduct objective reviews and issue, in complete independence, its assessments, conclusions and recommendations. Resources allocated to the periodic control structures were kept at the same level in 2012, after being increased in 2011.

There is a strong functional reporting line between the BRED Group Audit Department and the subsidiaries' internal audit managers, in compliance with the BPCE group internal audit charter.

The audit assignments carried out by the Audit Department in 2012 focused essentially on governance and compliance, and more specifically compliance in the area of anti-money laundering measures, management of commitments, operational risks, operational networks, financial activities and the execution of the subsidiaries' audit programme. These audits did not identify any major risks that might jeopardise all or any part of the Bank's activities.

In 2012, the Audit Department updated the process for monitoring the implementation of recommendations issued by the BRED Audit Department, the BPCE General Inspection Department and the regulator (l'Autorité de Contrôle Prudentiel). In the course of six-monthly checks, the timely implementation of corrective measures by duly authorised staff decided within the context of the internal control system will be verified. The checks will also facilitate feedback of alerts to the BRED Audit Committee, in accordance with Article 9-1 b of Regulation 97-02, whenever this is necessary.

2.4.5. The Board of Directors

The Board of Directors ensures the main risks are properly managed, defines the principles of the compensation policy and monitors the quality and reliability of the financial information and the internal control system.

To do so, the Board has set up an Audit Committee, which reviews and assesses the quality of the internal control work carried out, verifying in particular that the consolidated risk measurement, monitoring and management systems are coherent, and makes recommendations whenever it considers additional action should be taken in this regard.

In accordance with Regulation 97-02, the Board has also set up a Compensation Committee, which defines the principles of BRED's compensation policy and monitors its implementation.

2.5. Coordination of internal controls

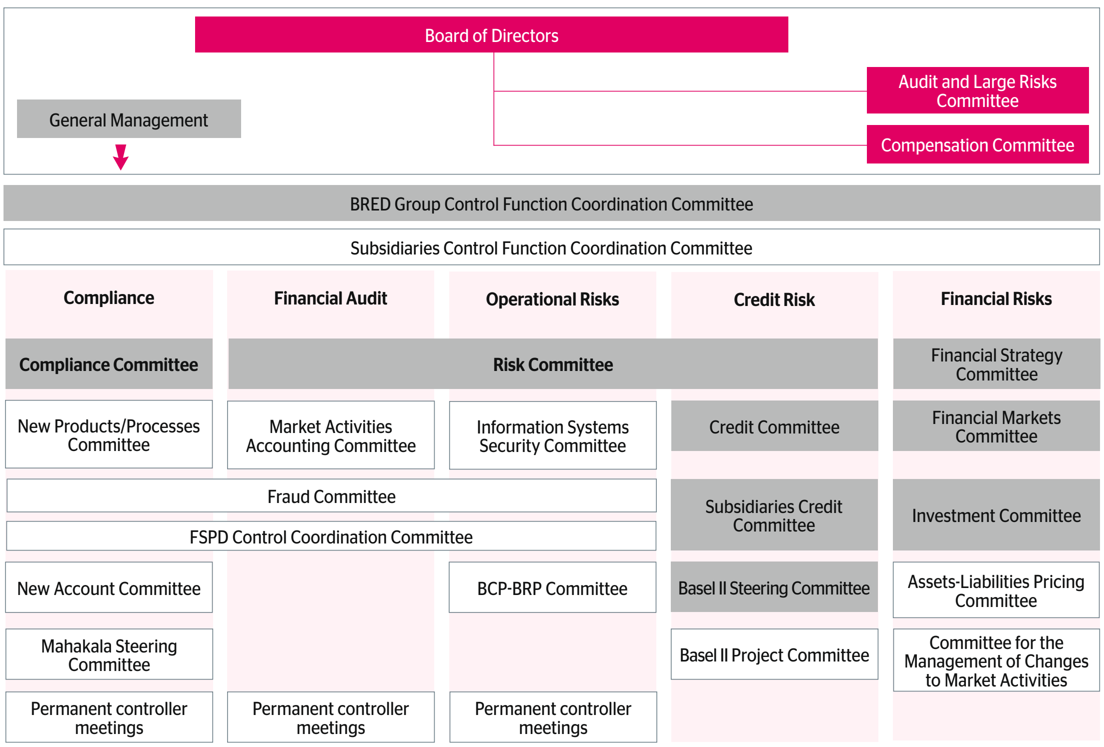
The cross-system nature of the control functions is achieved through umbrella committees and the regular exchange of information between the various control functions.

Three specialised committees have remit over all types of risks:

→ The Audit Committee, set up by the Board of Directors. In the context of its work preparing for the review by the Board of Directors of the Bank's status and changes in risks and its internal control system, the Audit Committee meets many operational managers and officers responsible for permanent control as well as the General Inspector. The conditions under which the Audit Committee prepares and organises its work and the work carried out in 2012 are described in the chapter on the work of the Board of Directors;

→ The Control Function Coordination Committee, chaired by the Chief Executive Officer, which brings together the General Inspector responsible for periodic control and all second-level permanent control officers. This Committee, which held three meetings in 2012, is responsible for ensuring that permanent controls are consistent and effective, and it also oversees all cross-functional actions aimed at improving the consistency

Organisation of the BRED group's Internal Control Committees



In grey: committees chaired by the Chief Executive Officer
FSPD = Financial Services Production Department

and effectiveness of internal control. BRED's action and control plans are presented to the Committee along with the main results of work carried out;

- The Subsidiaries' Control Function Coordination Committee complements BRED's consolidated risk control system. Chaired by BRED's Deputy Chief Executive Officer, it met four times in 2012. It is organised by COFIBRED and its members include representatives of each of the BRED control entities.

In addition to regularly reviewing presentations by the internal control functions of their assessments of the subsidiaries' changing risks and control systems, the Subsidiaries' Control Function Coordination Committee validates and monitors progress of the action and control plans determined by the permanent control departments and the subsidiaries' general management teams.

In 2012, it monitored the updating and distribution to heads of subsidiaries of the permanent control charters.

3

Internal control and management procedures relating to accounting and financial information

3.1. Roles and responsibilities in the preparation and processing of accounting and financial information

BRED's accounting organisation is based on the principle of decentralisation.

3.1.1. Company financial statements

The computer system underpinning the accounting system allows accounts to be created in the numbers desired by users so as to enable them to follow up transactions with the appropriate level of detail. The presentation according to the chart of accounts for the banking industry is achieved by classifying the accounts, thus satisfying all the accounting and regulatory requirements.

The banking production departments determine the accounting entries for banking transactions and request the opening of the accounts that they judge necessary.

The BRED group's General Accounting Department has exclusive access to the classification tool, ensuring its integrity is preserved, and checks that the modus operandi defined for the accounts is appropriate and consistent.

The production of accounting and financial information is entrusted to several members of staff, each independent of one another, coordinated by the Chief Financial Officer and the Deputy Chief Executive Officer.

Broadly speaking, the production of this information is organised as follows:

- The financial statements are prepared by the General Accounting Department. The accounts that provide the basis for these documents are overseen by the production departments, assisted and controlled by the second-level control officers attached to the operational departments.
- Each month, the results are set out in various management reports by the dedicated Financial Communication Department.
- In liaison with the General Accounting Department and the Financial Communication Department, the Modelling Department produces all the accounting and financial information relating to these activities. A special Back Office manages the accounts that provide the basis for these documents.
- A special committee (the Market Activities Accounting Committee) meets each fortnight with the Back Office, the Modelling Department, the General Accounting Department and the Financial Communication Department to examine accounting issues and risks specific to these activities. The Financial Risk Department and the General Inspection Department each have a permanent representative who attends these committee meetings as an observer.

3.1.2. Consolidated financial statements

Information needed to prepare the consolidated financial statements for the BRED group is recorded in the consolidation application used by all BPCE group entities.

The General Accounting Department is responsible for monitoring the internal consistency of the consolidation scope and of the chart of accounts, accounting methods and analyses used by all BRED and BPCE group consolidated entities.

The procedures for producing the consolidated data are identical to those described above for the company financial statements: the General Accounting Department is responsible for producing the financial statements, the Financial Communication Department is responsible for the management accounts and the Management Control Department is responsible for breakdowns by markets.

3.1.3. Regulatory and tax returns

The General Accounting Department is responsible for the production of regulatory and tax returns and statements.

Management accounts are reconciled to the regulatory returns and publishable statements prepared by the General Accounting Department.

3.2. Control processes for accounting and financial data

The process for controlling accounting and financial data mirrors the general organisation of the BRED group's internal control system, and complies with the legal and regulatory requirements resulting, in particular, from CRBF Regulation 97-02.

Financial Audit

The Financial Audit Department is a second-level control function, which reports to the Chief Financial officer, and contributes to the reliability of accounting and financial information and the relevance and reliability of the first-level accounting control system, without in any way replacing this system.

The BRED group Financial Audit charter is consistent with the BPCE group Charter and has been approved by the Audit Committee, after which the function was created and staff were recruited in 2011.

The Financial Audit Department's involvement in the control process consists of controlling the following: company financial statements, consolidated financial statements, regulatory statements, tax returns and declarations concerning accounting fraud.

The Financial Audit Department has remit over the BRED Group as a whole, in other words, all its departments and subsidiaries. In practice, the Financial Audit Department only intervenes with regard to subsidiaries in accordance with the thresholds and needs defined by the BRED group.

The Financial Audit Department's work is structured around the mapping of accounting risks using a methodology that reflects the materiality, inherent risks and internal control risks of each accounting or regulatory item.

It is organised around a central team with permanent control officers reporting to their individual department or subsidiary in accordance with the BRED group's decentralised accounting organisation, in particular the Accounting Procedures and Control Department which is part of the Accounting and Tax Department. The Financial Audit Department also uses the results of controls carried out by various other Bank departments and by other risk functions whenever this is necessary.

The Financial Audit Department is also responsible for:

- internal communication with the BRED group's various control functions, including the Audit Committee;
- external communication (BPCE Group Audit, statutory auditors, regulators, BPCE Group General Inspection, regulatory relations).

In addition to these procedures, the quality of accounting controls is verified by the audit work of the statutory auditors, who work on a collegiate basis and whose findings are based inter alia on the opinions of the statutory auditors appointed by each of the consolidated entities.

Company and consolidated annual financial statements are presented to the Audit Committee before approval by BRED's Board of Directors, which then presents its management report on the financial statements for the financial year to the ordinary general meeting of shareholders.

Statutory Auditors' report on the report by the Chairman of the Board of Directors

Prepared in accordance with Article L.225-235 of the French Commercial Code

Financial year ended 31 December 2012

Ladies and Gentlemen,

In our capacity as Statutory Auditors of BRED Banque Populaire, and in accordance with Article L.225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L.225-37 of the French Commercial Code for the year ended 31 December 2012.

It is the Chairman's responsibility to submit to the Board of Directors a report on the internal control and risk management procedures implemented within the company and containing the information required under Article L.225-37 of the French Commercial Code, relating in particular to corporate governance procedures.

It is our responsibility:

→ to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and;

→ to certify that this report contains the other information required under Article L. 225-37 of the French Commercial Code. It is not our responsibility to verify the fairness of this other information.

We performed our procedures in accordance with French professional standards.

Internal control and risk management procedures relating to the preparation and processing of financial and accounting information

French professional standards require that we perform procedures to assess the fairness of the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information. These procedures mainly consist of:

→ obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and obtaining an understanding of existing documentation;

→ obtaining an understanding of the work performed to support the information given in the report and the existing documentation;

→ determining if any material weaknesses in internal control relating to the preparation and processing of financial and accounting information that we may have identified during the course of our work are properly described in the Chairman's report;

On the basis of our work, we have no matters to report as to the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information contained in the Chairman of the Board of Directors' report, prepared in accordance with Article L.225-37 of the French Commercial Code.

We certify that the report by the Chairman of the Board of Directors contains the other information required under Article L.225-37 of the French Commercial Code.

Paris La Défense and Neuilly-sur-Seine,
25 April 2013

The Statutory Auditors

KPMG AUDIT
A division of KPMG S.A.
Marie-Christine Jolys, Partner

PRICEWATERHOUSECOOPERS AUDIT
Agnès Hussherr, Partner
Nicolas Montillot, Partner

Compensation policy and practices

(regulated positions)

In 2011, the variable compensation system was adjusted to comply with the new requirements arising from the Ministerial Decree of 13 December 2010 amending Regulation 97-02 of 21 February 1997 with effect from 1 January 2011. At the end of 2012, with respect to the 2012 financial year, the system was further adapted to take periodic control recommendations into account. These amendments were made in compliance with applicable labour law.

1. Decision-making procedure for the compensation policy

On the proposals of General Management and after review by the Compensation Committee, the Board of Directors approves the principles of the variable compensation policy for personnel whose activities could have an impact on the Bank's risk profile and for executive corporate officers, in accordance with the provisions of Chapter VI Title IV of CRBF Regulation 97-02 as amended and with the professional standards setting out the principles and provisions published by the Financial Stability Board (FSB).

Composition of the Compensation Committee

The Compensation Committee is composed of five directors: Georges Tissié, Chairman, Jacques Szmaragd, Vice-chairman, Jean-Claude Boucherat, Daniel Giron and François Martineau, who all meet the following independence criteria, extracted from the criteria listed in the Viénot and Bouton reports: they are not employees of the BRED group ; they do not directly or indirectly own or have any link with any company owning more than 10% of the capital of BRED or of one of its subsidiaries; they have no direct or indirect link with any supplier accounting for more than 5% of the group's purchases of goods or services or for which the group accounts for more than 5% of sales; they have no direct or indirect link with any customer accounting for more than 5% of the group's turnover or for whom the Group accounts for more than 5% of purchases; they have no family ties with any of the group's corporate officers; and they have not been the group's auditor in the preceding five years. Moreover, these directors are not members of the company's executive body.

Duties of the Compensation Committee

The Compensation Committee meets at least once a year to review the policy for the variable portion of compensation for executive corporate officers and risk takers and verifies its proper application. To this end, the Committee:

→ is provided with a document file prepared under General Management's supervision, containing in particular the report submitted to the French regulator Autorité de Contrôle Prudentiel in application of Article 43-1 of CRBF Regulation 97-02 as amended. This also includes input from the Human Resources Department, the Compliance Department and the Risk Department (report on compliance with limits and internal procedures, and on the professional conduct of risk takers; recommendation relating to the application of the principles of the compensation policy for risk takers and executive corporate officers);

→ checks in particular that this policy complies with the provisions of Chapter VI Title IV of CRBF Regulation 97-02 as amended and is in keeping with the professional standards setting out the principles and provisions published by the FSB;

→ is informed of any observations made by the ACP or by any other supervisory bodies;

→ reviews the personal situations of the chief compliance and risk officers within the meaning of CRBF regulation 97-02 as amended and that of the chief internal auditor, the investment services compliance officer, the head of market risk and the head of ALM risk and consolidated steering;

→ reports on its work to the Board of Directors.

2. Main characteristics of the compensation policy

Generally speaking, compensation is determined independently of the businesses controlled for the periodic and permanent control functions. At the BRED level, individual variable compensation may not exceed 20% of fixed compensation.

Regulated positions

The regulated positions within BRED and its subsidiaries include the corporate officers, the Deputy

Chief Executive Officer, the traders (Trading Desk including its manager, Financial Management and NJR), the Chief Internal Auditor, the Chief Compliance Officer, the Investment Services Compliance Officer, the Chief Risk Officer, the head of market risk and the head of ALM risk and consolidated steering as well as the management executives and heads of control functions at subsidiaries that fall within the scope of CRBF regulation 97-02.

Executive corporate officers

Chairman

As BRED has opted for separation of the Chairman and Chief Executive Officer functions, the Chairman receives only fixed compensation.

Chief Executive Officer

→ **Period from 1 January to 27 September 2012**
The fixed compensation for the departing CEO (retired on 27 September 2012) remains unchanged. The variable portion of the CEO's compensation allocated in respect of 2012 continues to be calculated as 4% of 2012 net profit attributable to equity holders of the parent (on a basis of 271/366), based on the following rules:

- 40% will be paid in 2012, the year of allocation,

- 60% will be deferred and paid by parts of one third (i.e. 20%) on 1 October each year in 2014, 2015 and 2016, i.e. six months after the acquisition date which is set as 1 April on each of the three years following the allocation year,

- the deferred amount is indexed to the changes in consolidated equity (Group share, excluding capital transactions and revaluation of shares in BPCE or its subsidiaries, excluding yield on cooperative investment certificates and dividends from BPCE) since 31 December of the year in respect of which the compensation was allocated,

- the deferred amount payable in the year is reduced by 50% if BRED's consolidated return on equity is lower than 4% but remains positive, and by 100% if the Group records a consolidated net loss for the year ended.

→ **Period from 28 September to 31 December 2012**
The fixed compensation of the incoming CEO (position taken up on 28 September 2012) was set by the Board of Directors on 17 September 2012, following the opinion issued by the Compensation Committee on 6 September 2012. The variable portion of the CEO's compensation allocated by BRED in respect of 2012 (on a basis of 95/366) is calculated applying the same rules as applied to him in his capacity as member of BPCE SA's Management Board.

Coming on top of the variable compensation paid by BPCE SA in respect of his membership of the Management Board from 1 January to 27 September 2012, the variable portion paid by BRED is based on the following rules:

- 50% paid in 2013, the year of allocation,

- 50% will be deferred and paid by parts of one third on 1 October each year in 2014, 2015 and 2016, i.e. six months after the acquisition date which is set as 1 April on each of the three years following the allocation year,

- the deferred amount is indexed to the changes in consolidated equity (Group share, excluding capital transactions and revaluation of shares in BPCE or its subsidiaries, excluding yield on cooperative investment certificates and dividends from BPCE) since 31 December of the year in respect of which the compensation was allocated,

- the deferred amount payable in the year is reduced by 50% if BRED's consolidated return on equity is lower than 4% but remains positive, and by 100% if the Group records a consolidated net loss for the year ended,

- in the case of voluntary departure[1], the deferred amounts not yet acquired are definitively lost; in the event of forced departure, retirement or death, they are paid immediately.

On the proposal of the Compensation Committee, the Board of Directors has decided to pay the Chief Executive Officer a one-off exceptional bonus for the decisive and quick action he took in the fourth quarter of 2012, particularly in terms of strengthening the Bank's image with the regulators and central body.

Regulated positions excluding the executive body

Generally speaking, employees' compensation is adapted to the qualifications and experience required and takes into account the achievement of targets linked to the job function (see regular documented assessments of each staff member required under internal procedures).

(1) Under BPCE rules, this means leaving the group

COMPENSATION POLICY AND PRACTICES

The principles and methods described below relate to regulated positions within BRED's Trading Desk. The other employees included under regulated positions are dealt with within the general framework for defining bonuses. However, if their variable compensation were to exceed the threshold set for application of special allocation and payment terms and conditions, they would also be subject to such terms and conditions subject to compliance with the law applicable to work contracts entered into before these regulations were put in place.

The main characteristics of the variable compensation policy for market traders are as follows:

→ determination, independently of the traders, with approval by General Management, of a budget for bonuses linked to the financial performance with a discretionary power limited to €1 million in the case where the Trading Desk's results would not allow a budget of at least that amount to be achieved;

→ proposals for individual bonuses from the Trading Desk line managers, based on a written assessment of their traders' contribution to profit and achievement of objectives (contribution to the development of new activities, professional conduct, etc.) in the form of an individual file;

→ introduction of an individual cap of €900 thousand for bonuses attributable to market traders;

→ formal opinion from the Risk Department concerning the traders' compliance with compliance and risk policies;

→ formal opinion from the Human Resources Department on proposals of variable compensation for traders (including compliance with internal standards for variable compensation);

→ discretionary decision taken by General Management on bonus proposals for traders. General Management may take any decision that ensures that the total amount of variable compensation does not diminish its capacity to strengthen the company's equity;

→ a strong link between compensation and the activities' medium-term financial performance thanks to a variable portion linked to the traders' continuing service within the Group and regularity of financial performance over time. Conditional compensation allocated in 2013 forms part of the "2013 Loyalty and performance plan";

→ discretionary nature of potential bonuses subject to continuing presence within the Group and subsequent performance which must represent, on an individual basis, 50% of the total variable compensation allocated in a given financial year for amounts over €100 thousand and 60% for amounts over €500 thousand with BPCE guidelines setting a cap of €1 million on this tranche;

→ all bonuses subject to conditions of continuing service and performance allocated to risk takers in the form of instruments that align the trader's interests with those of the Bank and thus contribute to containing risk, with a holding period of six months before liquidation and payment;

→ spreading of payments allowed via these instruments over the three years following the allocation year based on performance indicators and continuing service within the Group at the potential payment date;

→ each instrument is indexed to the amount of BRED's consolidated equity (Group share, excluding capital transactions and revaluation of shares in BPCE or its subsidiaries, excluding yield on cooperative investment certificates and dividends from BPCE);

→ guaranteed variable compensation is forbidden, except temporarily in the case of a hire within the limits defined by CRBF 97-02.

Lastly, traders must comply with all aspects of the internal control system applicable to the Trading Desk. Assessment of compliance with the risk policy is based in particular on proper application of the regulatory requirements; compliance with procedures; correct keeping of Trading Desk records; compliance with limits; and the traders' cooperation with the staff from the Compliance and Risk Departments (responsiveness, quality of exchanges, etc.). Individual reports are submitted every six months to the Trading Desk Manager and the Human Resources Department. If necessary, the Human Resources Manager and Chief Risk Officer issue warnings to the General Management concerning the taking into account in the bonus proposals of any failures to comply with internal and external rules that fall within their scope, and recommend, if appropriate, a deduction from the amounts of variable compensation for which allocation has been requested.

3. Quantitative data relating to compensation for regulated positions at BRED

a)

Gross amount in €m	① Fixed compensation paid in 2012	② Variable compensation allocated in 2013	Amount ①+②	Staff concerned
Executive corporate officers	0.9	0.6	1.5	2
Other regulated positions, excluding executive corporate officers	5.8	4.2	10.0	52.5

Breakdown for regulated positions excluding executive corporate officers

Gross amount in €m	① Fixed compensation paid in 2012	② Variable compensation allocated in 2013	Amount ①+②	Staff concerned
Trading Desk	4.3	3.4	7.7	40.5
Others	1.5	0.8	2.3	12

b)

Gross amount in €m	Variable compensation allocated in 2013 and paid in 2013	Variable compensation allocated in 2013 and deferred subject to conditions*
Executive corporate officers	0.2	0.4
Other regulated positions, excluding executive corporate officers	3.0	1.3

*apart from the practical difficulties, putting in place a share-based payment scheme (shares with a fixed value paying annual interest) within a cooperative bank would not fit in with the aims of the regulations and professional standards. The option chosen is a deferred portion wholly conditional upon continuing service and maintaining the financial performance over time, indexed to the amount of BRED's consolidated equity (Group share, excluding capital transactions and revaluation of shares in BPCE or its subsidiaries, excluding yield on cooperative investment certificates and dividends from BPCE).

c)

Gross amount in €m	Amount of deferred variable compensation	Amount of vested deferred variable compensation	Amount of non-vested deferred variable compensation
Executive corporate officers	0.9	-	0.9
Other regulated positions, excluding executive corporate officers	2.8	-	2.8

d)

Gross amount in €m	Deferred variable compensation paid in 2013**	Deferred variable compensation reduced in 2013**
Executive corporate officers	0.4	-0.1
Other regulated positions, excluding executive corporate officers	2.9	-

**vesting or reduction based on 2012 results under loyalty plans, subject to continuing service.

COMPENSATION POLICY AND PRACTICES

e)

Gross amount in €m	**Payments in respect of new hires in 2012**	**Number of new hires concerned**	**Severance payments in 2012**	**Number of beneficiaries**
Executive corporate officers	n/a	n/a	n/a	n/a
Other regulated positions, excluding executive corporate officers	0.1	2	n/a	n/a

f)

Gross amount in €m	**Severance compensation guarantees granted in 2012**	**Number of beneficiaries**	**Largest amount granted to a single beneficiary to this end**
Executive corporate officers	n/a	n/a	n/a
Other regulated positions, excluding executive corporate officers	n/a	n/a	n/a

3

RISK MANAGEMENT

1

Credit risk

1.1. Credit risk management principles

BRED Banque Populaire's credit risk management is based on the strict independence of the Commitments Department from the commercial business lines. The Commitments Department is involved in the decision-making process and subsequent monitoring of commitments. It has officers in the regional operational departments who, in addition to making the credit decisions, are responsible for disseminating the credit policy guidelines and best practices so as to ensure efficient risk management.

The Credit Risk Department reports to the Risk Department, which in turn reports directly to General Management.

The Credit Risk Department, which is totally independent from the commercial business lines and from the Commitments Department, is responsible for second-level permanent control of credit risk.

Management of credit risk is based essentially on:

- a system of delegation of powers to specific individuals, reviewed annually by the Commitments Department and Credit Risk Department;
- an internal rating system that is highly integrated into the decision-making process;
- division of risk criteria;
- continuous monitoring of commitments, using an automated system for controlling positions, past dues for credits repaid in instalments, and monitoring of accounts presenting an anomaly;
- a robust system for detection and prevention of customer risk, for retail, professional and corporate customers, by the provision of risk management tools to the network staff and their managers; and
- permanent control by the Commitments Department through risk officers at regional management level.

The Commitments Department and Credit Risk Department regularly organise training for staff. New recruits and network staff receive general training concerning the internal credit risk management and control system as part of their job training or as part of the 'Superbank' career plan. The delegated risk officers also provide training at regional management level. The Credit Risk Department greatly increased its involvement in this area in 2012, particularly on the subject of the Basel II internal rating system as part of a change management plan following the updating of the rating models and default probability scales.

Two key principles govern the decision-making process:

- prior approval is required for all credit transactions,
- delegation of the analysis and approval of loan requests to the most appropriate level of the organisation: either the Business line, the Commitments Department, or, in the case of significant commitments, the Credit Committee.

Lending powers are expressed in terms of "nominal and residual risk" determined for each market, with certain restrictions on the exercise of these powers. For larger commitments, decisions must be taken by at least two persons. When they exceed €5 million, the Commitments Department must submit such requests to the Credit Committee, which will examine them in conjunction with the Credit Risk Department. At the level of the subsidiaries, a special Credit Committee monitors the largest commitments granted by the subsidiaries.

Decision-making is carried out in compliance with unitary ceilings, whose amounts are set based on customers' size and credit quality, as expressed in an internal rating. The Credit Committee is the only body empowered to authorise commitments that exceed the unitary ceilings, on a temporary or a long-term basis.

Debt collection from customers is the responsibility of two departments: one that is responsible for amicable debt collection and involved at the first level and a second department responsible for collecting debts through legal proceedings, and for monitoring insolvency proceedings. Collection of large debts from corporate and professional customers is the responsibility of the Commitments Department's Special Business section.

The Commitments Department centralises the creation of provisions for doubtful and disputed debts and monitors any changes. Monitoring is in particular performed through a monthly Provisioning Committee meeting attended by the Credit Risk Department.

Loan pricing principles are defined by the Asset/Liability Pricing Committee. Meetings are prepared by the Finance Department, which also acts as secretary. The Risk Department, the Markets and Marketing Department and the Sales departments are represented on the committee, which bases its decisions on market data (rates applied by competitors, and market shares) and profitability analyses produced by the Finance Department, as well as information from the Risk Department on the forecast cost of risk. Operators can request pricing derogations according to a structure of delegations defined by the Committee, rising hierarchically within the Networks' management and, in the case of major derogations, rising to the level of the Finance Department.

1.2. Measurement and monitoring of credit risk

Internal rating model

The Credit Risk Department oversees the roll-out at BRED group level of the internal rating model developed by Groupe BPCE. As well as the rating of counterparties (assessment of probability of default) and contracts (estimated losses on default), the model comprises standards for segmentation, identifying incidents, clustering, etc. The internal rating model is validated by the banking regulator within the context of the BPCE group. It is highly integrated into the decision-making process as regards decision-making powers, the daily processing of transactions and the division-of-risk matrices.

The Credit Risk Department regularly monitors the breakdown of exposures by rating and the stock of counterparties to be rated. It is responsible for supervising and analysing the overall rating process (data quality, exhaustiveness of ratings, support and training for network staff).

In particular, the Credit Risk Department's monitoring team is involved in putting in place the Basel II project. It acts as the relay within the BRED group for the regulatory watch carried out by BPCE, both with regard to rating and credit risk management standards and methods. In 2012, the monitoring team focused on priority actions: preparing the IRBA Corporate approval file, overhauling the groups database, integration into the BPCE counterparties database, new customer file, completing the gathering of balance sheets for internal rating purposes, and monitoring indicators. Similarly, for the changes in the corporate internal rating, the Credit Risk Department is responsible for coordinating the change at the commercial entities, including by providing training. The Credit Risk Department informs the various commercial entities (network, business centres, large accounts, etc.) regularly, by sending them a rating monitoring chart.

The Credit Risk Department is also responsible for drawing up the list of corporate counterparties for which closer vigilance is required. This watch list is drawn up based on rating criteria and commitments. The performing watch list lists counterparties with high credit risk but for which no credit event has been recorded. Under Basel rules this means a deteriorated rating but not default. The non-performing watch list lists counterparties with proven risk of insolvency and in default under Basel rules. The watch list is reviewed at the quarterly Risk Committee meeting chaired by the Chief Executive Officer.

Monitoring tools

The commercial entities have software tools that enable the staff, as part of their first-level control, to check compliance with the allocated limits on a daily basis.

The sales departments use a software application, Papillon, for processing loan applications. This application integrates the commitment powers of employees based on the limits set for each employee in terms of amount, rating, customer type, etc.

In addition to these permanent controls, a software application is used to detect functional irregularities for which corrective measures must be taken under the responsibility of the line managers and under the supervision of the Commitments Department and the Credit Risk Department.

At the same time, a risk steering software application (OPIRIS) enables the commercial staff and their managers to measure periodically the quality and monitoring of commitments with retail, professional and corporate customers.

Information and reporting to executive and deciding bodies

The Credit Risk Department reports regularly to various bodies. Reports are generally drawn up on a quarterly basis (statement of large risks, corporate dashboard, watch list, etc.), with some half-yearly reports (LBO report and country risk report) and some annual reports, such as the ACP annual survey. The reports are addressed to internal committees: the Audit Committee, Board of Directors, Control Functions Coordination Committee and the Risk Committee. The Credit Risk Department also draws up and presents a summary report, based on reports and analyses received from the subsidiaries, on the type and quality of commitments and changes therein to the Subsidiaries Control Function Coordination Committee.

The Credit Risk Department also carries out work for BPCE, particularly as part of regulatory reporting.

As well as these reports, risk studies are carried out from time to time for presentation to the General Management.

1.3. Permanent control of credit risk

As well as the controls performed by operating managers, the delegated risk officers perform first-level controls under the supervision of the Commitments Department. In addition to their decision-making role on financing requests from the commercial structures, they monitor the proper functioning of accounts and compliance with commitments.

On a daily basis, they are responsible for approving account transactions in excess of the authorised limits. They are also responsible for monitoring any irregular functioning of accounts and contact sales staff and their line managers to ensure that corrective action is taken.

The delegated risk officers also monitor customers' compliance with the repayment schedules for the loans taken out.

Lastly the delegated risk officers are involved as appraisers in the expert rating process.

Each year, the Credit Risk Department draws up an annual control plan containing all the controls to be performed at group level, in collaboration with the subsidiaries for the controls concerning them. In this way the Credit Risk Department coordinates action in the areas of themed control and methodology, which are then relayed if appropriate by the second-level permanent control staff within the subsidiaries.

The second-level permanent control performed by the Credit Risk Department is based primarily on:

- → Ex-post control of credit decisions for all loans and advances falling within the remit of the Commitments Department and the commercial business line.
- → Ex-ante control of credit decisions on loan applications from professional and corporate customers that have been exempted from the criteria defined in the lending policy.
- → Ex-ante counter-analysis of loans and advances presented to the Credit Committees. This counter-analysis covers in particular the economic and financial situation, the level of indebtedness after the transaction under consideration, the guarantees, clustering, compliance with risk spreading rules, compliance with capital requirements and the rating.
- → Validation of the internal corporate customer rating and of the appraisal rating of professional customers.
- → Regular monitoring of irregular functioning of accounts and of proper implementation of the corrective action announced.
- → Supervision and analysis of the overall rating procedure (data quality, exhaustiveness of the ratings, etc.).
- → Supervision of clustering of counterparties.
- → As part of one-off controls or audit assignments, the Credit Risk Department's control officers mandatorily verify compliance with powers and delegations.
- → Performing control assignments at the network commercial entities and head office departments. Each assignment gives rise to a report containing recommendations and guidance and an assignment follow-up. Themed assignments may also be carried out.

With regard to controlling subsidiaries' credit risk, in collaboration with the subsidiaries' permanent control departments and in accordance with BRED group's permanent control charter, the Credit Risk Department performs, in particular:

- → direct or indirect ex-post control of credit decisions;
- → a counter-analysis of loan applications whose size requires either the parent company's opinion or decision via the Subsidiaries Credit Committee.

1.4. Credit risk exposure

Overview

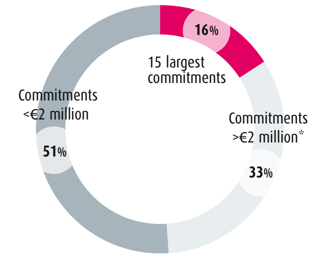
At end-2012, customer loans and advances (including loans granted and securitised by BRED) amounted to €13.3 billion.

Risk concentration remained stable in 2012. The 15 largest commitments represented 16% of the portfolio, unchanged versus 2011. The proportion of commitments in excess of €2 million rose from 30% to 33% [fig. 1].

The breakdown of loan and advances by economic sector remained relatively stable in 2012, except for some changes linked to reorganisation of allocation in 2012. Loans and advances to the business services sector continued to predominate, accounting for 38% of commitments. Loans and advances to the industrial, public administration and energy sectors remained stable overall [fig. 2].

fig. 1

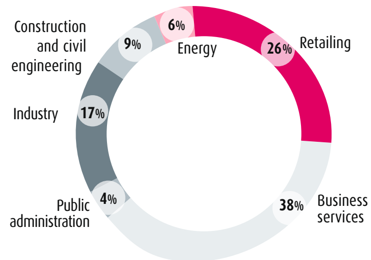
Breakdown of loans and advances by size[1]



[1] Outstandings at a given date, i.e. €13.3 billion at 31 December 2012
*excluding 15 largest commitments

fig. 2

Breakdown of loans and advances over €2 million by economic sector

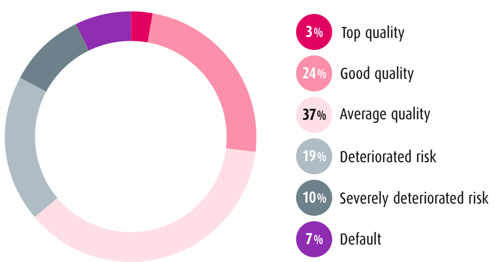


Loans and advances with an authorisation equal to or exceeding €2 million
Outstanding at 31 December 2012

Breakdown of commitments by internal rating

fig. 3

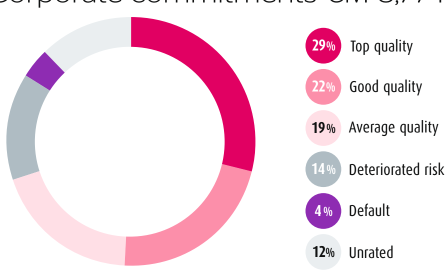
Professional commitments €M 2,775



The breakdown of commitments by rating category remained very stable in 2012.

fig. 4

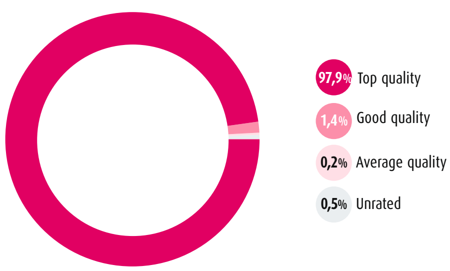
Corporate commitments €M 8,774



Alongside a slight overall contraction in lending to the Corporate segment, 2012 saw a small decrease in top quality commitments, more pronounced growth in the deteriorated risk category and stable default rates.

fig. 5

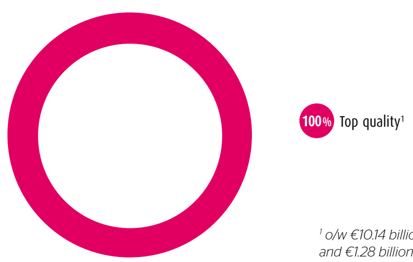
Interbank commitments €M 6,816



The level of commitments increased slightly with a stable breakdown by rating, in particular with 97.9% of top quality ratings.

fig. 6

Sovereign commitments €M 11,420

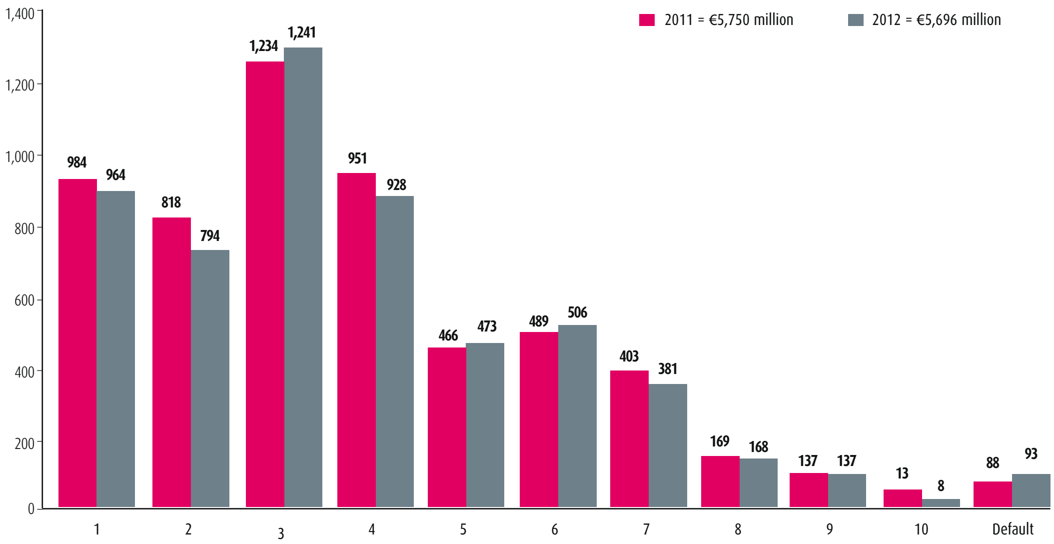


[1] o/w €10.14 billion rated 1 and €1.28 billion rated 2

Commitments, which increased strongly, were of very good quality (see breakdown by agency ratings in the section on market risk).

fig. 7

Quality of retail-sector commitments

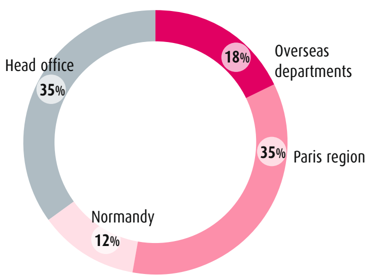


Commitments to retail customers decreased slightly in 2012. However, the breakdown by rating remained stable overall, particularly with regard to so-called 'sensitive' risks. Top quality commitments (ratings 1 & 2) decreased slightly and defaults increased slightly.

The geographic breakdown of commitments remained stable relative to the previous year 19 million [fig. 8]. Loans and advances by subsidiaries totalled €1.7 billion (of which €800 million for the overseas subsidiaries) compared with €1.6 billion in 2011 (of which €900 million for the overseas subsidiaries).

fig. 8

Geographic breakdown of commitments[1]



[1] Commitments in the corporate, professional and retail segments

Back-testing of BRED ratings

BRED has its own rating scales for home loans and consumer loans, which are used for securitisation operations.

The two rating scales are particularly effective in concentrating a large proportion of the overall risk into a few categories presenting the highest risks, bearing in mind that these represent only a small portion of total outstanding loans.

In the case of home loans, categories 6, 7 and 8 accounted for 41.73% of defaults in 2012. They represented 3.97% of total loans and advances outstanding at 31 December 2012 compared with 4.56% of total loans and advances at 31 December 2011.

At the end of December 2012, the theoretical probability of default rate and the actual rate observed for the five least risky categories were very close for both rating models. As foreseen, the default rate was very low or nil.

Also as expected, the default rate was significantly higher for the riskier categories, but the volumes concerned are significantly smaller [fig. 9 to 12].

fig. 9

Home loans excluding Casden

Breakdown by risk category over the past three years

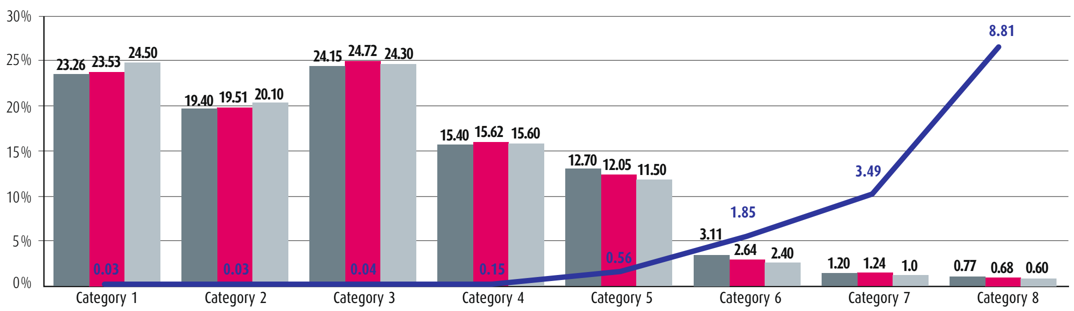


fig. 10

Consumer loans excluding Casden

Breakdown by risk category over the past three years

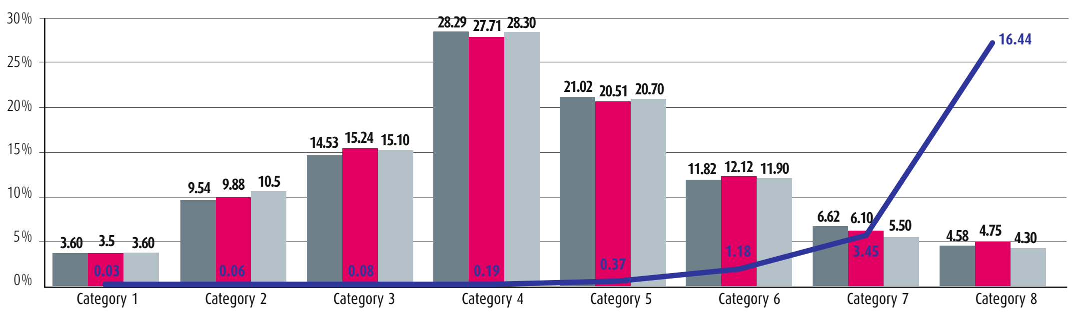


fig. 11

Home loans excluding Casden – Back-testing at end-December 2012

Forecast at end-December 2011, defaults in 2012

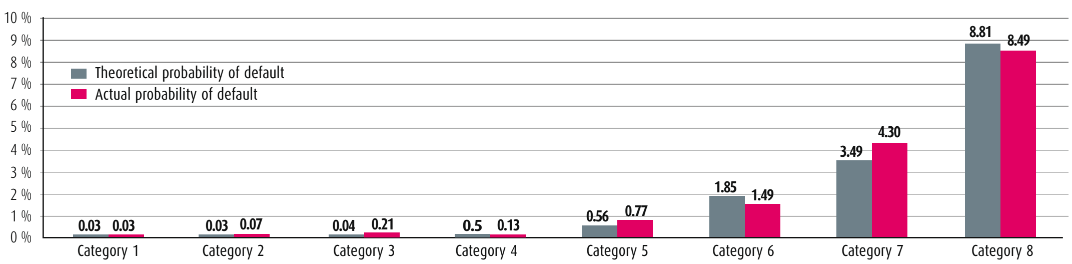
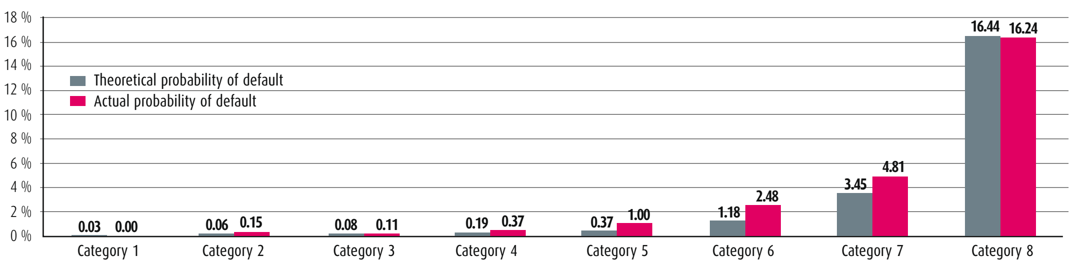


fig. 12

Consumer loans excluding Casden – Back-testing at end-December 2012

Forecast at end-December 2011, defaults in 2012



CREDIT RISK

Analysis of loans and advances reclassified as non-performing in 2012

The amount of loans and advances reclassified as non-performing increased strongly to €212.8 million, up by 5.6% compared with an already very high level in 2011. They represented 1.54% of outstanding loans at end-2012 compared with 1.50% in 2011. The professionals segment contributed strongly to this increase with a non-performing loan ratio up from 2.02% (for €35.4 million) in 2011 to €2.82% (for €50.1 million) in 2012. The new non-performing loan ratio also increased (from 1.83% in 2011 to 1.88% in 2012) in the corporate segment, which accounts for the greater part of non-performing loans. New non-performing loans dropped slightly in the retail segment, from 0.92% in 2011 to 0.88% in 2012.

The overseas departments once again made a positive contribution in 2012 with a €10.8 million decrease in non-performing outstandings, including a €9 million improvement at Sofider. In contrast, non-performing loans increased by a strong €3.6 million at BCI Mer Rouge.

The level of doubtful loans continued to increase, but at a much slower pace – up by €25 million in average value compared with €116 million in 2011, with increases of €30 million for BRED and €5.3 million for BCI Mr but a decrease of €8 million for Sofider. Provisions increased by €33 million in 2012 compared with an increase of €39 million in 2011. The overall provisioning rate for all categories dropped again during the year, from 33% in 2011 to 28.4% in 2012, reflecting a decrease in the retail and corporate segments and an increase in the professionals and other segments.

All this information is detailed in the tables and charts below [fig. 13 to 14].

(€m)	Analysis of transfers to doubtful and non-performing loans				Outstanding doubtful and non-performing loans	
	Loans and advances (1)	Transfers to doubtful and non-performing	As a % of loans and advances	Provisioning rate(2)	Total doubtful and non-performing loans	Provisions
Individuals	5,752	50.7	0.88%	28.4%	169.5	74.6
Professionals	1,775	50.1	2.82%	39.3%	294.6	192.7
Corporate	5,930	111.4	1.88%	23.5%	307.3	185.0
Other	388	0.6	0.15%	33.4%	13.2	3.2
Total	**13,846**	**212.8**	**1.54%**	**28.4%**	**784.6**	**455.5**

(1) Annual average loans and advances (excluding spot credits and foreign currency loans and including subsidiaries)
(2) Corresponding to an annual gross provision charge of €85 million

fig. 13

Risks: breakdown by customer segment

(€m)

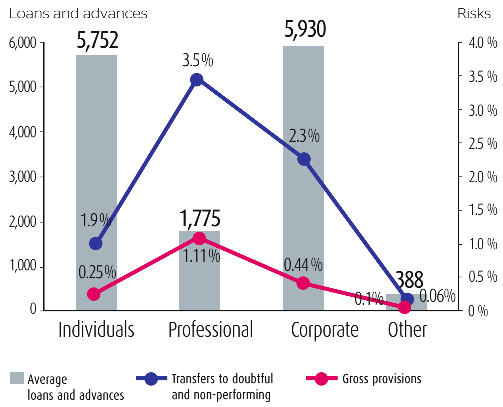
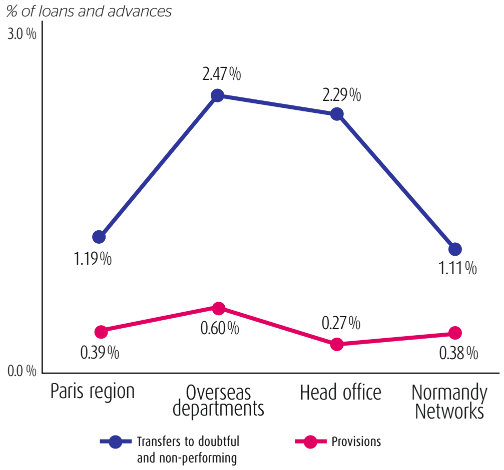


fig. 14

Risks: geographic breakdown

% of loans and advances



Provisions for credit risk at 31 December 2012

	BRED BP		Subsidiaries		BRED Group	
(€m)	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
Gross provisions	(65.4)	(77.2)	–	–	–	–
Net provisions written back	+28.3	+28.9	–	–	–	–
Gains and losses on receivables	(2.3)	(4.0)	–	–	–	–
Other	(7.6)	(14.0)	–	–	–	–
Cost of risk on commercial loans and advances	**(46.9)**	**(66.2)**	**(6.5)**	**(8.6)**	**(53.4)**	**(74.8)**
Provisions for claims and other transactions	(26.4)	+18.8			(26.4)	+18.8
Cost of risk	**(73.3)**	**(47.4)**	**(6.5)**	**(8.6)**	**(79.8)**	**(56.0)**

The cost of risk came to €56.0 million in 2012. Commercial banking cost of risk increased by €21 million reflecting a rise in doubtful debts during the year against a decrease in 2011. Collective provisions amounting to €21.4 million were written back in 2012 compared with a charge of €19 million in 2011.

fig. 16

Change in the cost of risk on commercial loans and advances

(€bn)

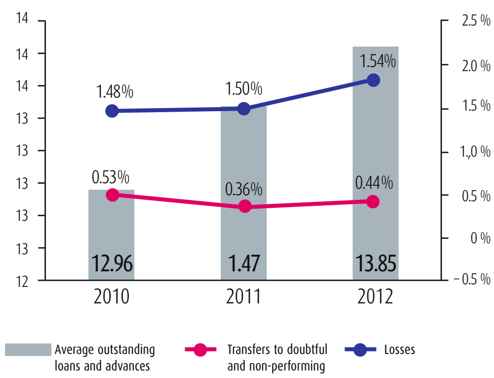


fig. 15

Change in outstanding doubtful and non-performing loans and advances and in provisions

(€m)

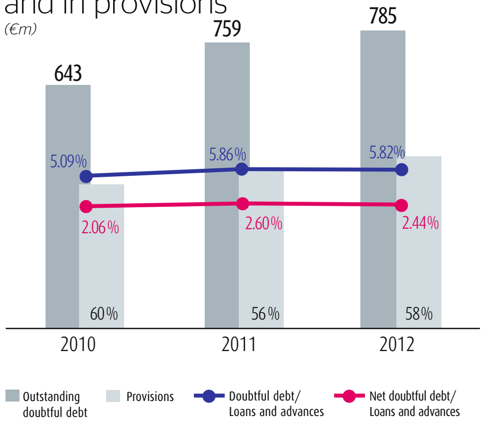
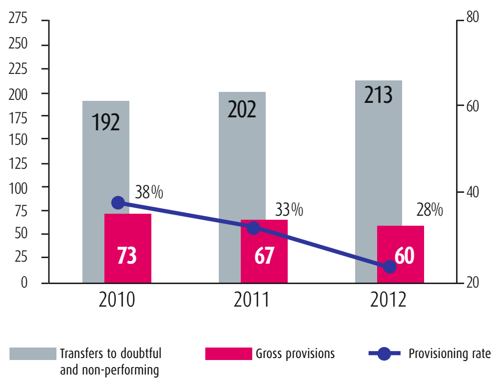


fig. 17

Change in transfers to doubtful and non-performing loans and in gross provisions

(€m)



2

Market risk

2.1. Market risk management principles

General organisation

BRED's main market risks are the risks linked to the activities of the Trading Desk, Financial Management and the subsidiary NJR.

The Trading Desk was substantially reorganised in 2012, continuing the process underway since 2010 designed to place greater emphasis on services for customers while refocusing on simpler instruments, by:

- Discontinuing arbitrage activities;
- Developing a deposit service for institutional investment customers;
- Strengthening the distribution capacity;
- Developing securities borrowing/lending activities with short- and medium-term investors;
- Providing network customers with easy and controlled access to the financial instruments they need;
- Developing market-making desks.

The Financial Management Department is responsible for managing BRED's assets and liabilities and those of its subsidiaries as part of consolidated asset liability management (see section 3.3.1), and for managing the reinvestment of stable surplus cash. In terms of organisation, this department is in the process of being split in two so that these two functions are performed by different teams.

NJR is a structure for investing in securities with an AAA rating on issue and which are eligible for central bank refinancing.

Transaction processing and control functions are separated as follows.

The Front Office is responsible for trading.

The Back Office records transactions and handles the related settlements and accounting. Payments are controlled by a cashier and approved by the cash manager.

The Modelling Department is responsible in particular for:

- Producing risk measurement data,
- Designing and managing risk valuation models,
- Checking the market parameters used,
- Daily calculation of compliance with limits,
- Reporting on market risks and performance,
- Developing monitoring tools.

The Market Risk Department:

- Identifies and maps market risks;
- Verifies the definition of market risk measurement methods and standards;
- Validates, at both the functional and theoretical levels, the risk valuation models and methods proposed by the Modelling Department;
- Draws up a proposed framework for supervising market risks;
- Performs second-level controls on the quality of risk data and results;
- Monitors risk indicators, particularly relative to the limits set, and ensures that breaches are corrected;
- Performs ex-post controls of the proper application of the decisions issued by the relevant market risk committees;
- Produces summary reports (regular reports to the executive and deciding bodies);
- Acts to heighten staff awareness of market risks and takes part in risk training.

The Daily P&L Control unit set up within the Risk Department in 2012 is responsible for second-level control of production of daily profit and loss accounts for the Trading Desk.

The Financial Audit Department is responsible for verifying compliance with accounting rules and control principles.

The Compliance Department is responsible in particular for controlling investment services, ethics and prevention of financial crime.

Operational management is carried out based on a framework of risk mandates for traders, namely a pre-defined set of limits and authorised products. The Board of Directors validates the limits set in terms of VaR and equity after review by the Audit Committee.

Several committees are involved in defining the risk management framework for market activities:

- the Financial Strategy Committee, created in 2011, which sets the general guidelines for BRED's financial management policy;
- the Financial Markets Committee, which monitors market activities and risk exposure on a regular basis. It has particular responsibility for setting market limits; it meets when required as the Market Activities' New Products Committee to approve new products and activities;
- the Credit Committee, which sets the credit and counterparty risk limits for transactions with all third parties when these are not covered by the division limits;
- the Market Activities Change Management Committee, which reviews new products and possible IT developments;
- the Market Activities Accounting Committee, which deals with accounting issues.

Recording transactions

The Back Office is responsible for controlling and validating transactions. Any trade carried out by a market trader is immediately imported into the Back Office information system (KTP).

The Back Office operators are then responsible for:

- validating the trade through the counterparty and/or broker confirmation;
- all the post-trade operations (settlement, delivery, matching contracts or SWIFT messages depending on the product).

The audit trail in the KTP system provides for each event (creation, change, deletion): the date of the action; the identifier; the type of change, cancellation or input; and the author of the changes.

Front Office operators cannot change or cancel any transaction in the Back Office systems.

Compensation

In accordance with the latest regulatory requirements, BRED's Board of Directors determines, based on proposals by the General Management and after examination by the Compensation Committee, the principles governing variable compensation paid to employees performing activities that could have an impact on the Bank's risk profile, particularly market traders. These principles are designed to ensure that such employees and the Bank have the same interests with regard to risk management.

2.2. Measurement and monitoring of market risk

Overall market risk is measured using a variety of indicators as described below.

Synthetic **Value at Risk** (VaR) indicators make it possible to calculate maximum potential losses for each activity for a given confidence interval (e.g. 99%) over a given horizon (e.g. one day, ten days). These indicators are calculated and monitored on a daily basis for all BRED's trading activities.

Two indicators are calculated based on a parametric variance-covariance model applying a 99% probability for a ten-day time horizon featuring two variants:

- one where past market fluctuations are measured by reference to the recent past, i.e. around one month (the JP Morgan method),
- the other where past market fluctuations are smoothed and measured over a one-year period (Basel Committee method).

A third VaR indicator is based on an historical model and an approach based on the worst-case scenarios observed during the past five years. Since 2003, a historical VaR based on a two-year period of observation has complemented the historical VaR over one year.

In addition to these risk measurement methods, the Bank has since 2004 implemented a credit VaR model.

This VaR can be defined as the potential losses for the Bank arising from a change in credit quality, including default, of one or a series of counterparties over a given horizon with a 99% probability rate.

The first model used was an actuarial model based on the Credit Risk+ methodology; assumptions, however, regarding collection rates and exposure were broadened. It focuses exclusively on the occurrence of a default, but makes no attempt to model the cause(s) of this default.

In addition, a second, so-called 'microeconomic' model based on the CreditMetrics model has also

MARKET RISK

been implemented. This model has the advantage of integrating rating movements.

The calculation of **capital requirements** also provides a synthetic measure of overall risk and of each type of risk.

Stresstests are used to measure potential losses for the portfolios in extreme market conditions. Two types of stress tests are calculated: historical stress tests based on past market events and hypothetical stress tests based on scenarios drawn up by market experts.

The table below shows other, more analytical indicators produced by the scenario-based method used since 1993, which **measures potential losses** calculated by reference to normative or extreme fluctuations in key market conditions without integrating any specific assumptions as to correlation:

Risk scenario	Assumptions used
Currency risk	Risk measured by reference to the scenario in the standard CAD method, namely with a variation of 4% for correlated currencies and 8% for uncorrelated currencies.
Interest rate risk - Directional risk	Scenario based on an unfavourable 1% rate shift for all currencies and maturities (not taking into account correlation between markets, except for European currencies other than the euro, where compensating factors of 50% were applied).
- Deformation risk	Scenario based on a change in rates for all currencies leading to a deformation of the yield curve (+-0.08% at 1 month, +-0.55% at 2 years, +-1.18% at 5 years, +-2.00% at 10 years and +-2.44% at 30 years).
- Monetary crisis risk	Scenario based on a shift in rates for all currencies in the context of a rise in short rates (+6% overnight, +4% at 1 month, +3% at 3 months, +0.75% at 1 year and +0.25% at 3 years).
Specific risk on trading portfolio in a stress scenario	Scenario based on a change in issuer spreads according to a scenario with three levels of standard deviation: +0.14% to 1.09% for sovereign issuers, +0.34% to 6.54% for emerging sovereign issuers, +0.33% to +1.52% for interbank issuers, +0.43% to 3.49% for corporate issuers.
Stock market risk	Scenario based on a 15% fluctuation affecting cash, index and equity derivative positions.

Lastly, **operating indicators** are used to oversee the activity, at global level and/or by desk: size, nominal, sensitivity, loss alert, diversification indicators, etc.

These indicators are calculated on a daily basis using a software application developed in-house by the Modelling Department. This application also calculates the daily consumption of allocated limits.

In addition, counterparty risk measurement software – also developed in-house by the Modelling Department – is used to measure credit and counterparty risk on an individual basis and an aggregate basis by group of counterparties. Monitoring covers solvency risk as well as the risk of loss of market value linked to changes in issuers' spreads. The tool also monitors consumption of allocated credit limits on a daily basis.

At the level of BPCE, BRED is monitored within the overall framework for monitoring the Banques Populaires and Caisses d'Epargne. BPCE calculates VaR for BRED's trading activities on a daily basis and performs weekly stress tests.

A warning system for unusual transactions was put in place in 2012. This system identifies for each desk any unusual transactions in terms of amount or characteristics based on the desk's trading history.

A number of exposure and profit and loss monitoring reports are prepared and provided to the executive and deciding bodies and to BPCE on a weekly or monthly basis. Data on consumption of limits is provided to the General Management on a daily basis.

Any breach of limits is reported to General Management on a weekly basis. Financial risk reports are presented regularly to the Board of Directors and to the Audit Committee.

2.3. Permanent control of market risk

The first level of control concerns the operating staff at the Trading Desk and their line managers, who are responsible for constantly adapting their organisations and procedures so as to comply with internal control standards and for permanent monitoring of compliance with the predefined limits set for them. BRED strengthened the Trading Desk's first-level control system in 2012 by recruiting a first-level control officer. The Front Office managers perform a first-level control by calculating and verifying daily P&L accounts.

At Back Office level, first-level controls include:

→ Daily reconciliation of positions performed automatically between the FO and BO software applications and validation of transactions as effected based on supporting documents.

→ Various monthly reconciliations of flows performed manually between the FO and BO systems to verify that the flows calculated in the FO system match those actually paid or received.

The Daily P&L Control Department performs a regular control by reconciling Front Office business data with Back Office accounting data. The Daily P&L Control Department also performs an ongoing control of the daily profit and loss of the trading portfolio.

The Market Risk Department monitors consumption of and compliance with limits. It is responsible for second-level control of P&L and of provisions and reversals. It verifies compliance with the risk mandates, particularly with regard to the products authorised per desk and the appropriateness of their strategies. It also validates the risk measurement methods and indicators developed by the Modelling Department.

Accounting risks associated with market transactions are controlled by the Financial Audit function.

Permanent control staff with functional links to the Market Risk Department control Back Office procedures and report any operational and technical risk linked to the Back Office processing, confirmation and validation chain. They report the control results to the Market Risk Department, which in turn reports to the relevant Operational Risk Department, to Financial Audit and to the Investment Services Compliance Department.

The Compliance Department ensures compliance with prevention of money laundering and terrorist financing procedures. When necessary, it verifies new business relationships, beforehand in the case of so-called 'sensitive' cases, or ex-post, in which case it uses a simplified procedure.

2.4. Exposure to market risk

Capital requirements

The calculation of capital requirements for the capital adequacy ratio is used to provide a synthetic measure of overall risk and of each type of risk.

Mc Donough	**2011**	**2012**
Interest rate risk, currency risk and option risk on securities and commodities	41.1%	42.6%
Counterparty risk on derivative instruments	18.4%	24.7%
Counterparty risk on repurchase agreements	3.7%	0.7%
Counterparty risk (IR)	36.8%	32.0%

MARKET RISK

At 31 December 2012, capital consumed by the Trading Desk for capital adequacy ratio purposes amounted to €115.9 million. By Mc Donough standards, the capital consumed amounted to €134.2 million, of which €57.2 million in respect of market risk and €77.0 million in respect of solvency risk [fig 18 and 19].

Risk scenarios

Changes in the impact of the risk scenarios defined below:

Risk scenarios *(€m)*	**Impact at 31/12/2011**	**Impact at 31/12/2012**
Currency risk	5.0	4.3
Interest rate risk:		
Directional risk	*6.3*	*2.5*
Deformation risk	*8.5*	*6.4*
Monetary crisis risk	*1.4*	*2.8*
Issuer risk in a stress scenario	24.6	42.8
Stock market risk	7.4	8.5

Market VaR

The various results obtained with parametric VaR models range between €4.7 million and €22.2 million [fig. 20].

With the historical simulation model, VaR fluctuated between €5.8 million and €20.8 million in 2012 [fig. 21].

Credit VaR

Applying the credit VaR model to the market activities, home loans, consumer credits, equipment loans, trade receivables, other short-term credit, overdrafts and revolving credit, one-year credit VaR at 99% amounted to:

→ €248 million using the 'actuarial' model

→ €293 million using the 'microeconomic' model [fig. 22 and 23].

Issuer risk

Based on market positions *(€m)*	**31/12/2011**	**31/12/2012**
Government bonds [(1)]	8,115	9,209
Issuer risk (balance sheet)	7,093	7,749
o/w interbank	2,414	2,272
o/w corporate	4,679	5,477
Derivatives [(2)]	2,890	2,210
Repos with delivery [(2)]	82	47

[(1)] 85% of securities positions consisted of debt instruments issued by OECD countries rated at least AA.
[(2)] Counterparty risk is calculated on the basis of replacement value augmented by an add-on determined by reference to volatility, designed to cover any subsequent fluctuation in the replacement value.

fig. 18

Trading Desk – CAD

(€m)

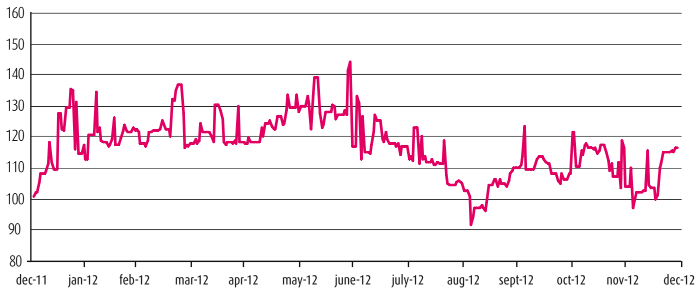


fig. 19

Trading Desk – Mc Donough

(€m)

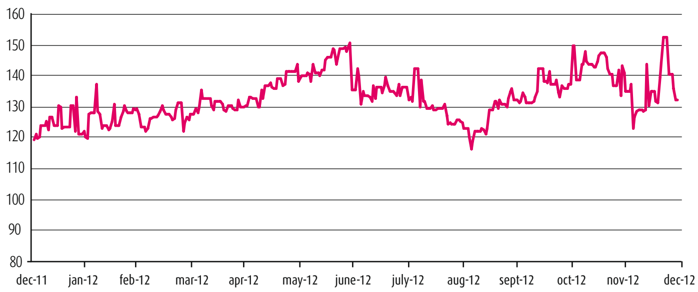


fig. 20

Parametric VaR

(€m)

Probability: 99%
Horizon: 10 days

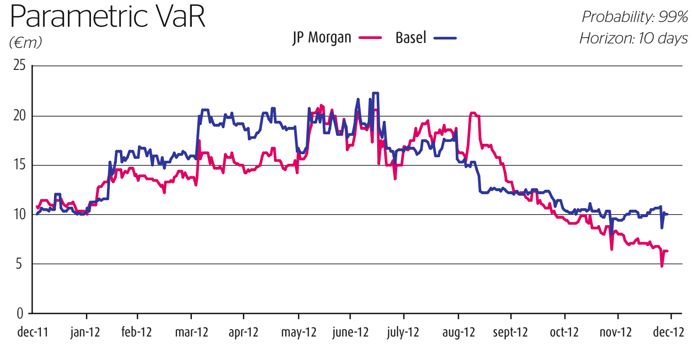


fig. 21

Two-year historical simulation VaR

(€m)

Probability: 99%
Horizon: 10 days

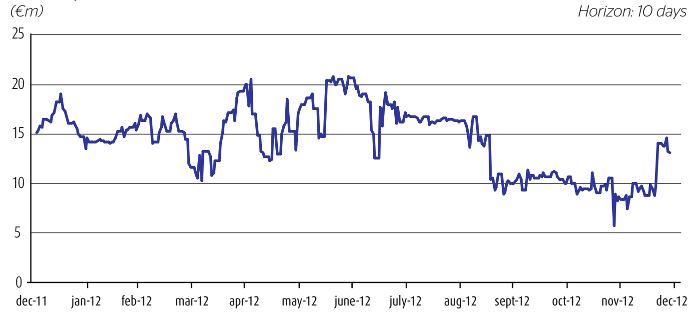


fig. 22

Mapping of loans and advances

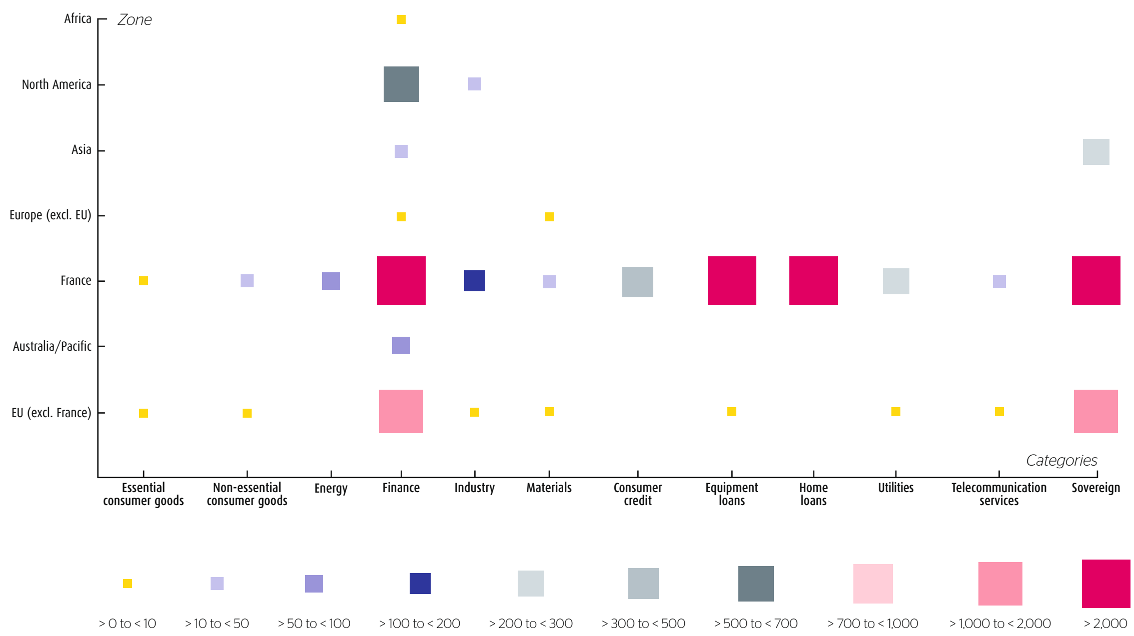
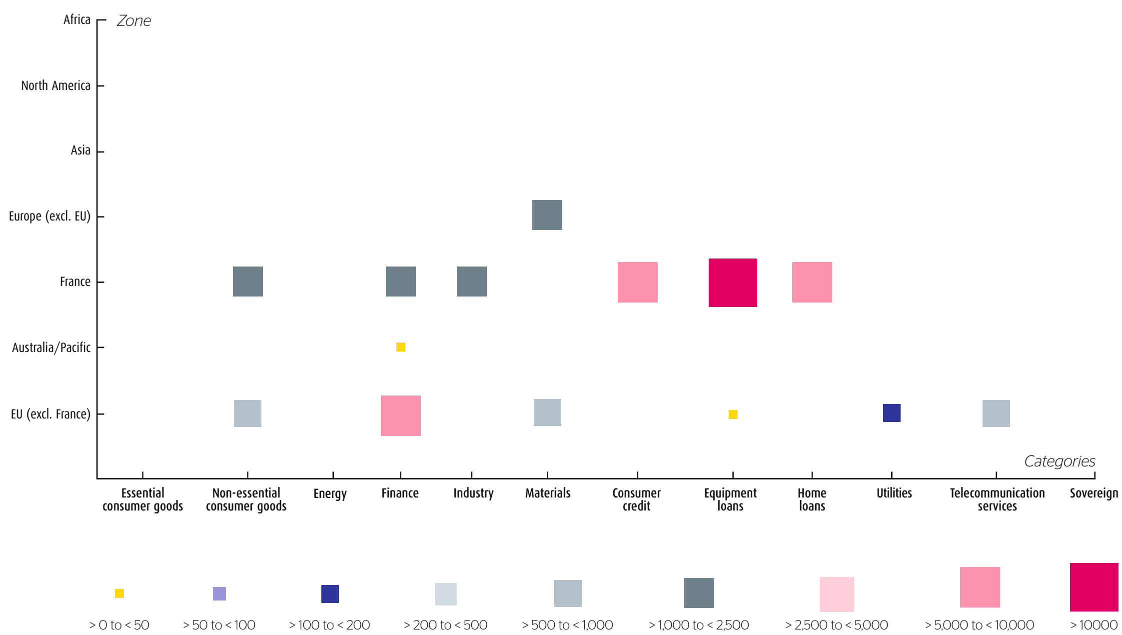


fig. 23

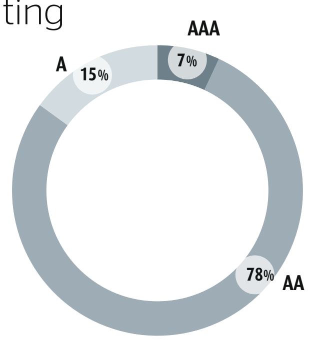
Mapping of VaR



At 31 December 2012, the portfolio of sovereign debt securities consisted for 7.6% of AAA issuers and for 77.7% of AA issuers [fig. 24 to 26].

fig. 24

Breakdown of sovereign risk by rating



The breakdown of non-sovereign issuer risk by rating and residual maturity at 31 December 2012 was as follows:

(€m)	<5 years	>5 years
AAA	965	2,524
AA	149	66
A	1,301	216
<A and not rated	632	1,896
Total	**3,047**	**4,702**

fig. 25

Maturing in less than five years (39%)

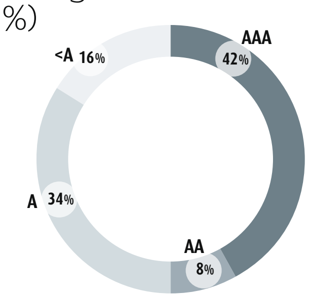
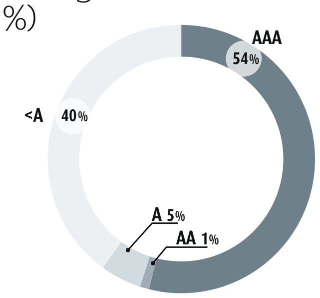


fig. 26

Maturing in more than five years (61%)



3

Balance sheet risk

3.1. Balance sheet risk management principles

General organisation

The management and monitoring of balance sheet risk is organised around an operational department, the Financial Management Department, and a second-level control department, the Risk Department (via the ALM Risk and Consolidated Steering Department).

The management and control of balance sheet risk are overseen by the following committees:

→ The Financial Strategy Committee, which approves the BRED Group's strategic orientation, particularly in the area of asset/liability management. It decides on matters of structural importance in the areas of refinancing, asset allocation and ALM policy.

→ The Financial Markets Committee (including in its form as New Products Committee). Apart from monitoring market activities, this committee approves any proposed changes to the list of authorised financial instruments and sets the market limits that apply to the Financial Management Department. When notified by the Risk Department, the Financial Markets Committee reviews any breaches of limits, including ALM limits.

→ The Asset/Liability Pricing Committee decides on the Bank's pricing policy, in particular with a view to balancing assets and liabilities. The Financial Management Department reports to it regularly (at least quarterly) on the Bank's assets/liabilities balance.

Role of the Financial Management Department

The Financial Management Department is responsible for managing the financial balance of the Bank and its subsidiaries on a consolidated basis. Its scope includes asset/liability management (including managing interest-rate and foreign exchange risks except for those relating to the Capital Markets Department's activities, and more generally managing earnings volatility), and refinancing and managing liquidity reserves, equity and solvency. In this capacity, it:

→ Puts in place the necessary tools for monitoring and overall management of the financial risk of BRED and its subsidiaries as well as for monitoring prudential indicators.

→ Implements the Bank's refinancing over more than one year and that of its subsidiaries.

→ Puts in place interest-rate hedges and participates in the subsidiaries' interest-rate operational management at their request.

→ Oversees the Bank's overall pricing policy in collaboration with the operating departments; produces and analyses the interest margin.

→ Coordinates the relationship with BPCE's ALM department and produces the BPCE liquidity and interest-rate financial indicators as well as the regulatory ALM indicators.

→ Takes part in drawing up BRED's budget forecasts.

→ Puts in place the financial tools for securitising receivables and is responsible for securitisation operations.

→ Provides assistance to the network with regard to interest-rate pricing exceptions for loans and deposits.

As part of its task of managing the Bank's financial structure and with the ALM limits set for it, the Financial Management Department is responsible for entering into (with regard to BRED) and monitoring (with regard to BRED and its subsidiaries) the following categories of financial transactions:

→ Balance sheet management: covering the refinancing of BRED, loans to subsidiaries and transactions carried out with a view to long-term hedging of the group's results and, in particular, protecting its overall revenues;

→ Managing liquidity reserves and collateral: covering all the collateral that could be used for the operational management of the group's liquidity and solvency;

→ Medium-to-long-term investments: covering investment of stable cash resources in mainly fixed-income investments with the intention of holding them for the medium to long term;

→ Trading portfolio: covering the transactions carried out as a support to ALM and aimed at optimising the Bank's results, that fulfil the liquidity criteria and can be monitored in terms of VaR (under BRED's strategy guidelines, the Financial Management Department's use of this category is limited).

Role of the Risk Department

The Risk Department is responsible for second-level control of financial and operational risk of the financial management activities. It verifies the proper application and relevance of first-level controls and the reliability of risk generating processes. Its main functions in this respect are as follows:

→ Supervising the definition of first-level control standards and methods by the Financial Management Department;

→ Validating the risk monitoring system, checking the reliability of the parameters and measurement methods used;

→ Verifying, ex-post, the proper application of the abovementioned control, modelling and measurement standards and methods and the financial risk decisions approved by the relevant committees;

→ Defining and implementing second-level control of the Financial Management Department's work;

→ Monitoring changes in the Bank's structural balance sheet risk and compliance with ALM limits;

→ Controlling the production of balance sheet risk monitoring reports;

→ Monitoring market risks and compliance with specific limits on medium/long-term investments and the trading portfolio;

→ Producing summary reports and notifying the executive or deciding bodies if necessary;

→ Monitoring the implementation of corrective action and resolution of breached limits.

Role of Group BPCE departments

These tasks are carried out in liaison with BPCE's Group Finance Department and Group Risk Department, which are responsible for defining and approving:

→ ALM conventions (run-off rate in particular);

→ Monitoring indicators, rules and reporting frequency;

→ Reporting rules and procedures, control standards relating to the reliability of assessment systems, the procedures for establishing limits and managing breached limits, and the follow-up of action plans;

→ The model used to evaluate the BPCE group's economic capital requirement with regard to structural balance sheet risk.

The control and management framework is defined by the BPCE ALM guidelines and ALM risk guidelines. These set forth all the assumptions, modelling rules, conventions and scenarios for producing risk indicators and the controls that must be implemented. These standards are defined by the BPCE Group ALM Committee (for the ALM guidelines) and the BPCE Group Standards and Methods Committee (for the ALM risk guidelines). The framework defined at the BPCE group level is added to according to the BRED group's specific needs, particularly with regard to the limits applicable to subsidiaries and the taking into account of market activities.

3.2. Measurement and monitoring of balance sheet risk

QRM software and reporting

BRED BP measures balance sheet risk using a group software application called 'QRM'. On a quarterly basis, the Financial Management Department inputs the BRED group's balance sheet data into the application, which produces measurement indicators, including:

→ Static liquidity gaps, which measures balance sheet run-off applying different assumptions (relating to the saleability of securities held, for instance). These gaps are used to calculate an observation ratio.

→ Static interest-rate gaps, which measure balance sheet run-off by indexation rate. The interest-rate gap set enables the calculation of the sensitivity of the balance sheet's Net Present Value (NPV) to a 200 basis point interest rate shock ('Basel II' indicator).

→ Dynamic gaps in liquidity stress situations, which measures the Bank's resistance in different liquidity crisis situations.

→ Sensitivity of the net interest margin to interest-rate movements, which measures the impact on the forecast interest margin of changes in the interest rate curve (100 basis point parallel rate shock, steepening, flattening).

These indicators are subject to limits; the value of the indicators and the level of consumption are consolidated by BPCE in standardised quarterly reports. The Financial Management Department submits these reports to BPCE's Finance Department after approval by BRED's Risk Department. The observation ratio and Basel II indicator also enable the definition of criteria for identifying an incident as significant as defined in Article 17b of CRBF Regulation 97-02.

SIRCO Risques tool

SIRCO Risques ALM is the software application used by the risk function to measure ALM risk. The data is input by the BRED Risk Department based on intermediary QRM calculation files and is used by the system to recalculate risk indicators. The system therefore enables double calculation of ALM risk indicators. It also has other analysis functions, such as monitoring changes in indicators.

In addition to this input, BRED's Risk Department draws up specific reports for the BPCE Group Risk Department, particularly concerning the level of limits consumed.

At subsidiary level

The risk measurements reported to BPCE are aggregated at the level of the BRED group. The Financial Management Department also draws up measurement indicators by subsidiary. These are established based on the data entered in QRM. The indicators produced for BRED subsidiaries include statistical interest rate and liquidity gaps, sensitivity of the interest rate margin to interest-rate shocks and liquidity gaps in stress situations. These indicators are calculated based on the conventions defined at the BPCE group level and are reported to the subsidiaries concerned. The limits that apply at each subsidiary are approved by their governing bodies.

Additional indicators

As well as the BPCE indicators described above, BRED uses an internal interest-rate risk measurement that enables it to break down interest-rate risk by management entity within the BRED group. Liquidity gaps are also calculated on a monthly basis using an application called Consult. The regulatory liquidity indicators (liquidity ratio, liquidity position reports) also provide a measurement of liquidity risk.

Reporting to management and deciding bodies

The Chief Executive Officer chairs the Financial Strategy Committee, the Financial Markets Committee and the Asset/Liability Pricing Committee. The Risk Department reports any breaches of limits to General Management.

The Finance and Risk Departments report regularly to the Board of Directors on balance sheet risk. The Risk Department also reports thereon to the Audit Committee.

3.3. Permanent control of balance sheet risk

To ensure efficient supervision of balance sheet risk, carried out at first level by the Financial Management Department and at second level by the Risk Department, the departments have put in place a system of first and second-level controls.

A variety of controls are performed at every stage of the ALM indicators' production process to ensure there are no losses of data and that the data is consistent with the accounting balance sheet data. Any differences or rejected data must be either explained or reprocessed. Any changes in the indicators must be explained by changes in the balance sheet. These checks are formally documented in first-level control files, which are reviewed by the Risk Department before reports are drawn up. Similarly, the validity of any adjustments made by the Financial Management Department before input into QRM is also examined by the Risk Department.

BRED's Risk Department also controls the roll-out of methods defined by the BPCE group, the implementation of decisions taken by BRED committees and compliance with General Management's guidelines. Lastly, the Risk Department verifies compliance with ALM limits and authorised products.

3.4. Exposure to balance sheet risk

Sensitivity of BRED Banque Populaire group's interest margin to changes in interest rates

Impact on net interest margin (excluding Trading Desk)	**1% decrease in interest rates**		**1% increase in interest rates**	
At 31 December 2012	**2013**	**2014**	**2013**	**2014**
Sensitivity of BRED group's existing loan portfolio to Eonia	(1)	(15)	1	15
Sensitivity of future loan production:				
to Eonia	0.9	11.7	(0.9)	(11.7)
to long-term interest rates	(0.9)	(11.7)	0.9	11.7
Sensitivity to early loan repayments, renegotiations and rescheduling	(1.5)	(4.5)	1.5	4.5
Overall sensitivity to eonia	**(0.1)**	**(3.3)**	**0.1**	**3.3**
Overall sensitivity to long-term rates	**(2.4)**	**(16.2)**	**2.4**	**16.2**

The margin's sensitivity to long-term interest rates results from growth in our portfolio of long-term loans. If long rates were to increase by one percentage point, the interest margin earned by the Bank would increase by €0.9 million in 2013.

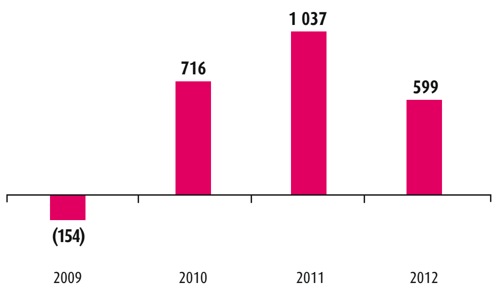
The Bank's exposure to changes in short-term interest rates dropped from €2.2 million in 2012 to €0.1 million in the event of a rise in interest rates in 2013.

The BRED Banque Populaire group's structural cash position, which had become negative in 2008 and 2009, has since returned to positive. However, the positive cash balance contracted in 2012 (to €0.6 billion) due to stronger growth in lending (up by €0.5 billion) than in deposits (up by €0.2 billion) [fig. 27].

fig. 27

BRED Banque Populaire group – structural cash surplus (deficit)

(€m)



4

Operational risk

4.1. Operational risk management principles

Operational risk management is the responsibility of the operational departments, which constantly monitor changes in risks associated with their activities and activity and incident indicators so they can take immediate corrective action, within the framework of a system overseen by BRED's Operational Risk Management Department.

The operational risk management policy for BRED and its subsidiaries is based on the Standards and Methods defined by Groupe BPCE's Risk Department and BPCE's Risk Charter and Internal Control Charter.

Supervision by the Operational Risk Management Department

Within the BRED group, the system is overseen by the Operational Risk Department and implemented by decentralised correspondents throughout the group and its subsidiaries.

BRED's Operational Risk Department is responsible for:

→ Permanent supervision of operational risk through identification, measurement and monitoring action plans;

→ Coordinating the second-level permanent control system for operational risk;

→ Organising risk monitoring in the form of eight large families of major and/or frequent operational risks, including internal and external fraud.

To perform its duties, the Operational Risk Department relies on operational risk officers appointed in BRED's operational departments and local second-level permanent control staff. This staff reports hierarchically to the operational managers but is overseen at functional level by the Operational Risk Department. The strong functional management ties between the permanent controllers and the operational risk department enable it to keep watch over the entire system and organise continuous business training to improve the different individual systems and ensure standardised operational risk management throughout.

Information Systems Security (ISS)

Within the BRED group, the Information Systems Security Officer reports to the Banking Security and Corporate Foresight Department, which is supervised by the General Secretariat. The parties involved in Information Systems Security Policy and their respective powers, duties and missions are described in the Information Systems Security Directive.

The BRED group's information systems security (ISS) function has a staff of 2.5 full-time equivalent employees and a budget for external service providers to perform audit assignments.

The Information Systems Security Officer chairs the ISS Committee, which met three times in 2012. The Information Systems Security Officer also sits on the information technology, logistics, control functions coordination, subsidiaries control, fraud, compliance and permanent control committees. This gives him a group-wide view of information systems security and enables him to take action ahead of IT developments by the Bank.

Groupe BPCE has drawn up a group information systems security policy that sets forth the guiding principles for information systems security as well as the rules that must be complied with by all group entities in France and abroad, and, through agreements, by any third party that has access to any of the group's information systems. The policy documents include the Group ISS Charter, 373 security rules classified into 18 themes and a book of organisational instructions. This policy is a minimum with which each entity must comply. In this respect, in September 2011 BRED drew up its own ISS Charter adapting the group charter to its own situation. This ISS Charter applies to BRED, its subsidiaries and, through agreements, any third party that connects to any of the group's information systems. This Charter is accompanied by the 373 security rules set forth in the Groupe BPCE ISS policy.

Business Continuity Plan (BCP)

The Bank's BCP manager oversees a network of BCP correspondents at functions identified as essential for continuing business. Business continuity plans are drawn up by the business line functions and the data is stocked on a shared server whose access is reserved to BCP correspondents and their back-up officers.

4.2. Operational risk measurement and monitoring

BRED's operational risk measurement and monitoring system integrates BPCE's standard method for calculating capital requirements. This system is organised internally in the form of procedures that are updated regularly by the Operational Risk Department.

Operational risk indicators – now fully integrated into the updates of second-level control plans and into mapped risk ratings – are centralised and analysed by the Operational Risk Department on a monthly basis.

Operational risk mapping

The mapping of operational risk is integrated into the BPCE system called PARO. Risks and risk codes are determined on an appraisal basis and used as the basis for drawing up annual control plans and monitoring operational action plans. Gathered together in the form of 'large risks to be supervised', mapped risks are regularly subjected to consistency checks (matched against risk indicators and permanent control findings) leading, if necessary, to the setting up of cross-company working groups to organise corrective or preventive action in a given area.

Gathering loss and incident data

Loss and incident data is gathered and input into PARO by the operational risk correspondents or permanent control staff. The Operational Risk Department validates the data and, in close collaboration with the BPCE teams, organises training and information briefings for local correspondents.

Monitoring fraud

A Fraud Risk Coordination Committee was put in place at the end of 2011, for which the Operational Risk Department acts as secretary. This committee is responsible for monitoring internal and external fraud risk. It reviews fraud risks (mapping) and the sharing of quantitative and qualitative reports on fraud risk drawn up by the committee members, and monitors the action plans of operating staff. It keeps BRED's Control Coordination Committee informed through regular general reports.

Monitoring information systems security

The Groupe BPCE ISS policy and BRED's ISS policy are reviewed annually as part of a process of continuous improvement. In 2012, 39 rules relating to 12 themes were reviewed, five were added, two were deleted and one new theme was created.

The audits already under way to assess Internet security were continued. Specific action was taken relating to efficient searches for information in the case of website incidents and/or fraud. The supervision and the protection for the Bank's online systems put in place by the Information Systems Security Officer ensured that these risks were kept under control.

Reporting to and communication with management and deciding bodies

The governing bodies are informed regularly on the main elements of the operational risk management system through reports to the relevant committees (Board of Directors, Audit Committee, Control Functions Coordination Committee, Compliance and Operational Risk committees).

The Operational Risk Department also draws up a quarterly activity report on operational risk measurement and control at BRED and its subsidiaries.

Alert mechanism

The procedure relating to significant incidents, provided for in Articles 17b of CRBF regulation 97-02, was put in place in 2009 according to the criteria defined by BPCE and updated in July 2010. The significant incident criteria were updated and presented to BRED's Board of Directors in March 2012. This procedure applies to all risks.

4.3. Permanent control of operational risk

Permanent control of operational risk is organised based on two levels.

First-level control of operational risk

First-level controls are performed by operational managers in each BRED department or subsidiary. Documented in the form of tables and first-level control guidelines, the system has gradually adopted standardised methods:

- ➔ Managers' assessment of the operational risks of their own activities;
- ➔ Written procedures (with an annual assessment by second-level control staff of the rate of coverage of operational activities);
- ➔ Statements of losses and incidents.

Second-level control of operational risk

The control of operational risks is organised by permanent control officers within each department of the Bank, and within each subsidiary, in accordance with annual plans. There is a specific system for metropolitan and overseas operational departments and remote banking with control plans defined by the Operational Risk Department covering both operational risks and certain compliance risks. The Operational Risk Department is responsible for coordinating and assessing operational risk controls, and has developed methodological tools making it possible to gradually standardise control methods.

With the help referred to above and according to the department or subsidiary concerned, second-level control staff organise their annual control plan to cover processes, operating activities and departments whose risk is mapped. Regular monitoring and control of risk indicators (losses and incidents) allow action plans to be adjusted regularly for any warnings or operational issues.

Information system security controls

In 2012, controls concerned 12 websites, two intrusions into the internal network and two of BRED's smartphone applications. The intrusion tests were reported on to the ISS Committee.

Action plans were rolled out for the internal network and flow management platforms. The security at the other websites did not call for any immediate secondary audit. Surveillance and check-up audits will be scheduled for 2013.

In 2012, permanent control checks of the information systems essentially concerned:

→ Authorisations for inputting non-accounting information and supporting documents,

→ Archiving in the Cheque Security Repository,

→ Surveillance of Internet traffic,

→ Risk analysis review for the Trading Desk,

→ Reviewing access to the IT rooms at the Quai de la Rapée and Créteil premises,

→ Checking that anti-virus software was functioning properly and updating the signatures database,

→ Reviewing the implementation of security corrective action.

BCP tests

The Bank's BCP manager has put in place a first-level control plan for BCP controllers and correspondents at business line functions considered 'essential to continuity'. This control plan, organised into four sections, covers the BCP's sensitive points:

→ Updating of Business Line procedures,

→ Identification of contractors and continuity plans for offsite activities,

→ Management of multi-skilled teams,

→ Implementation of back-up solutions.

This control plan was circulated both in metropolitan France and the foreign subsidiaries. Specific versions were drawn up for the French overseas departments, covering the local subsidiaries, and for the support functions.

Second-level control is carried out by BPCE's central body in the form of a questionnaire circulated to all the BCP officers at the group's banks.

4.4. Exposure to operational risk

With regard to operational risks identified in 2012, the operational risk report at 31 December 2012 showed total losses and provisions of around €3,921 thousand and 13,138 claims, thus confirming the downward trend observed since 2010.

External fraud is one of the most significant operational risks at BRED. It accounted for 61% of the total operational risk losses although it was down slightly compared with 2011. Card fraud accounts for 70% of total external fraud, stable compared with 2011.

Input errors and omissions and processing delays are the second largest source of losses, accounting for 26% of the total. These concerned the lending process, management of non-performing loans and processing of payment instruments. This category of losses decreased relative to 2011.

5

Compliance risk

5.1. Compliance

Each operational department is responsible for managing the compliance risk that affects its own area of business and for first-level controls. To do so it relies on the regulatory watch in place in its business line and the resulting memoranda distributed by the relevant BPCE departments.

The Capital Markets Departments, with the support of the Legal Department, take all the regulatory constraints into account when developing new products or changing existing processes.

Compliance risks are managed by two departments: the Compliance Department and the Investment Services Compliance Department.

Pursuant to Article 2 of CRBF regulation 97-02 as amended, these two departments also ensure that procedures for preventing compliance risk are complied with at BRED's subsidiaries in the light of their activities, location and regulatory requirements.

5.1.1. Compliance Department

Mission

The **Compliance Department** is involved in permanent control of the BRED group. It is organised as a cross-group function, covering all the functions defined in its Charter.

The Compliance Department, whose chief officer is declared to the French regulator, Autorité de Contrôle Prudentiel (ACP), is responsible for second-level permanent control.

The Compliance Department's task is:

→ to prevent compliance risks, as defined in Article 4 of CRBF Regulation 97-02, such as *"risk of judicial, administrative or disciplinary sanction, of significant financial loss or loss of reputation resulting from failure to comply with the prevailing laws and regulations and professional and ethical standards relating to banking and financial activities or with instructions from the executive body issued in particular pursuant to directives from the deciding body"*;

→ to preserve the BRED group's image and reputation with regard to its customers, employees and partners.

Within this framework, the Compliance Department takes all necessary action to ensure the compliance of the transactions carried out within the BRED group, constantly in the best interests of its customers, employees and partners.

The Compliance Department is responsible for ensuring the consistency and efficiency of the entire compliance control system, bearing in mind that each subsidiary and each of the parent company's operating or control functions retains responsibility for the compliance of its activities and transactions.

The Compliance Department is the designated contact for Tracfin, CNIL and DGCCRF.

Organisation

The Compliance Department has a **Banking Compliance Unit**, which is responsible for compliance with regulations and professional standards as regards new products or processes, compliance of documents and advertising intended for customers, and the provision of essential services that have been outsourced.

The Compliance Department also has an **anti-money laundering and terrorist financing unit**, which is responsible for the parent company's control system and supervises the anti-money laundering and terrorist financing systems in place at each of the group's subsidiaries, whose organisation and efficiency are the responsibility of the Chief Executive Officer of the subsidiary concerned.

This unit has a tool which detects customer transactions considered as unusual in terms of the 'customer profile' and the expected functioning of the customer's account and which may need to be reported to Tracfin, the French body that handles suspicious transaction reports, under the texts transposing the Third European Money Laundering Directive into French law.

The anti-money laundering and terrorist financing unit also uses the Fircosoft application, which monitors customer databases and cash flows that might involve individuals or entities identified as belonging to a terrorist group or whose assets must be frozen or that have been placed under an embargo.

The French and foreign subsidiaries also use Fircosoft and an automatic or request-based software tool for identifying potentially suspicious transactions from an anti-money laundering and terrorist financing point of view.

The Compliance Department also has an **internal fraud unit** and an **external fraud prevention unit** in charge of detecting identity fraud and forged or fraudulently altered cheques.

5.1.2. Investment Services Compliance Department

Mission

The Investment Services Compliance Department is responsible for ensuring that the Bank and its staff comply with financial ethics in all the investment services provided.

As such, it ensures compliance with the rules applicable to investment services set forth in the French Monetary and Financial Code and the AMF's General Regulations and with the Bank's specific obligations as a custodian and issuer. BRED's accreditation as an investment services provider concerns the taking, transmission and execution of orders for third parties, proprietary trading, portfolio management, underwriting, guaranteed and non-guaranteed investments and investment advisory services.

Organisation

The Investment Services Compliance Department's activities cover the Bank's two main business sectors:

→ customers of the networks (Operational Department and Major Accounts and International Department),

→ customers and counterparties of the Capital Markets Department, as well as the proprietary transactions carried out by the Trading Desk and the transactions carried out by Financial Management.

It delegates part of its tasks to permanent control officers in other specialist departments, essentially the Financial Services Production Department, via specific procedures that are recorded in its official manual, which is available to all employees.

5.2. Control

5.2.1. Compliance Department

The Compliance Department has a compliance risk mapping tool that enables it to:

→ focus its actions on particularly sensitive activities on the basis of regulatory and ethical requirements,

→ draw up and encourage implementation of formal control plans adapted to the activities of the Bank and its subsidiaries, in conjunction with the Risk Control Department and the Subsidiaries' Control Function Coordination Committee.

Banking and Insurance Compliance Unit

This unit provides supervision and guidance prior to the implementation of new processes or the launch of new products, with final validation (unreserved or subject to conditions precedent) by the new products/processes committee, chaired by the Chief Compliance Officer. This committee is composed of the head of the Banking and Insurance Compliance Unit, the Investment Services Compliance Officer, the Information Systems Security Officer and the Head of Operational Risk Management within the Risk Department. It has remit over BRED and also over those subsidiaries that have delegated authority to BRED's Compliance Department for this purpose.

The Banking and Insurance Compliance Unit also controls the regulatory provisions included in service agreements with "providers of essential services that have been outsourced".

Financial Crime Department

The Anti-Money Laundering Department is responsible for informing Tracfin of any financial transactions that it suspects are designed to launder money or finance terrorism.

The unit controls accounts on the basis of referrals from customer relationship managers based on the results of their analysis of unusual transactions identified by the detection software. This analysis results in second-level controls conducted by operational staff under the functional responsibility of the Risk Department, applying a methodology developed by the Anti-Money Laundering Department. Processing is also monitored by the Compliance Department's Financial Crime Department, which carries out qualitative controls on a test basis, and arranges employee training and employee information sessions if these are considered necessary.

5.2.2. Investment Services Compliance Department

The Investment Services Compliance Officer is responsible for permanent regulatory watch and in this field 2012 was marked by the ongoing development by the two regulators, AMF and ACP, of joint positions on doctrine and oversight, essentially oriented towards the protection of investors in financial instruments and life insurance products. 2012 also featured the implementation of numerous regulatory procedures and tools for market activities against a background of stiffer regulatory directives, particularly from the European Securities and Markets Authority (ESMA).

The AMF performs periodic inspections that take place over almost a full year given exchanges of information and the legal form of the procedures. The AMF supervises the Investment Services Compliance Officer's control activities each year through two reports that must be submitted each year. However, it also monitors certain key areas of the Bank's control activities, such as reports of potential market abuses and, above all, virtually all the Trading Desk's transactions through the Direct Transaction Reporting system (Reporting Direct des Transactions – RDT).

The Investment Services Compliance Department has drawn up a specific reporting procedure for subsidiaries with AMF accreditation, for which the Investment Services Compliance Officer verifies the information reported. He also carries out regulatory watch for their specific fields of activity, namely for the portfolio management company, Promepar Gestion, which has a Compliance Officer whose professional licence must be delivered directly by AMF.

The Investment Services Compliance Officer's controls must therefore provide the AMF, and also BRED's General Management and Board of Directors, with reassurance that the risks associated with investment services are properly covered.

5.3. Significant events in 2012

5.3.1. Compliance Department

Banking and Insurance Compliance Unit

In 2012 the Banking and Insurance Compliance Unit's controls focused on verifying that the various departments had taken into account the most recent regulatory developments, particularly those relating to customer protection, in their processes and/or products.

For the French subsidiaries governed by Regulation 97-02, the unit fulfilled its supervisory role by verifying that new products and services and CNIL declarations were submitted to the Compliance Department for approval, as well as by ensuring compliance with regulated prices.

These controls revealed no major failing or deficiency at the parent company or the subsidiaries concerned.

Financial Crime Department

In 2012 the Anti-Money Laundering unit continued its operational application of the regulatory consequences of transposition into French law of the Third European Money Laundering Directive:

- updating and supplementing the Anti-Money Laundering and Financing of Terrorism (AML-FT) risk classification, which is the cornerstone of the monitoring system the Bank needs to put in place based on customer profiles, and on its locations, activities and the products and services it markets,
- implementing customer vigilance scores in the filtering rules of the AML-FT detection software in accordance with the risk-based approach required under the Third Directive,
- continuing work to complete regulatory files on customers by scanning the supporting documents received and storing them in the electronic document management system,
- assisting subsidiaries with all the above tasks, as appropriate in view of their specific characteristics, with regular reports to the Subsidiaries' Control Function Coordination Committee.

With regard to the quality of response to AML-FT warnings, the direct controls performed by the division or delegated to permanent control staff showed a satisfactory level of knowledge and use of the AML-FT filtering software by operating staff, with points for improvement relating mainly to updating customer knowledge.

With regard to the French and foreign subsidiaries, in 2012 the Compliance Department strengthened its supervision of compliance with a 'basic system' in AML-FT applicable to the whole group, in accordance with the BRED group's Permanent Control Charter, which was updated in February 2012 with regard to consolidated control of compliance risk.

COMPLIANCE RISK

The department's External Fraud Prevention unit improved its monitoring system, as did the Internal Fraud unit, which also developed new searches to identify and/or protect the Bank and its customers from potentially fraudulent conduct.

5.3.2. Investment Services Compliance Department

The work begun by the Investment Services Compliance Officer to optimise tools was actively continued throughout 2012. New compliance standards for regulatory testing of suitability and appropriateness under MiFID for individuals and legal entities were published towards the end of 2012 in the ESMA guidelines (October) and simultaneous position-recommendation circulars issued by AMF and ACP. These relate to the quality and traceability of information collected about customers prior to giving any advice as to an investment or their taking out a life insurance policy. Accordingly, a new version of the Insurance Placement Interview questionnaire is scheduled to be put in place by October 2013.

With regard to the market activities, given the pronounced strategic focus on business for customers, the Investment Services Compliance Officer organised the putting in place of a sophisticated warning and control system, Actimize, which is used by all the main market players. Implementation of this system will continue in 2013.

For the Investment Services Compliance Officer's direct use, an independent search instrument, called Holmes, was developed and the first version is now fully operational.

Network customers and transactions

In 2012 more than 40 controls were carried out focusing on 18 different themes to crosscheck compliance with AMF requirements with the 32 procedures developed by the Investment Services Compliance Officer. Particularly close attention was paid to the marketing of products and investment services within the framework of MiFID investment advisory provisions, with the creation at the beginning of 2012 of a compendium listing them all together with proof of the Investment Services Compliance Officer's approval and the formal approval of the relevant BRED and BPCE Committees, the related agreements and all the documents and information for customers and sales staff.

Some products classified as complex under AMF regulations are now systematically controlled through the Insurance Placement Interview, which assesses the customer's financial situation (BRED and other banks), knowledge of the financial markets and investment objectives.

The percentage of interviews carried out is monitored using weekly indicators and first and second-level controls. The Investment Services Compliance Department provided training on this for sales staff in the local branches. This system is supplemented by a warning message that is sent as soon as a subscription is entered in the information systems, inviting staff to carry out an Insurance Placement Interview.

Trading Desk customers and activities

In 2012 approximately 30 market activity control reports were produced, focusing essentially on the review of margins generated by the Capital Markets department with customers on intermediation activities and structured products and investments. With regard to proprietary trading, controls focused on certain sections that record transactions in listed financial instruments. The permanent secure access system to the Trading Desk was also controlled to ensure information was correctly ring-fenced.

The controls delegated to other departments, mainly the Production and Financial Services Department, were effective. In all, this Department produced approximately 50 control reports in addition to those produced by the Investment Services Compliance Officer, without any major recommendation other than pointing out areas where quality could be improved.

In December 2012, the Investment Services Compliance Officer was obliged to add to the investment services compliance risk map and strengthen his control plan in terms of both quantity and quality. The AMF has revised the annual Investment Services Compliance Officer questionnaire, extending its scope and requiring a great deal more quantified data, particularly relating to the market activities. This will imply additional targeted mandatory controls. The 'compliance function requirements' have also been redefined and formally specified at European level by the ESMA. The AMF immediately adopted these guidelines in AMF Position 2012-17 issued at the end of November 2012 with regulatory force.

4

ACTIVITY REPORT

Economic Environment

In 2012, the euro zone was a focal point of economic concern worldwide, even though the year can be divided into two distinct periods: before and after 26 July, when the European Central Bank took decisive action to save the euro zone.

Threatened by implosion due to a knock-on effect and marked by the long drawn-out sovereign debt crisis, Europe has become the main threat of a deflationary spiral for world economic activity, which slowed more sharply than in 2011. The euro zone slid further into recession, due to the uncertainty hanging over the future of the single currency, a generalised fiscal consolidation strategy that has continued for longer than foreseen and a dangerous contraction in economic activity in the so-called peripheral southern European countries, which suffer a structural lack of competitiveness.

As from last summer, the European Central Bank assumed its role as "lender of last resort" to distressed member states, providing large-scale refinancing to the euro zone banks.

France remained in a midway position in Europe between Germany, whose economy remained buoyant and southern Europe in deep recession. However, the economy has not recovered to its pre-crisis levels. Despite the loss of its triple-A sovereign rating in 2012, French long-term interest rates dropped to abnormally low levels. The CAC 40 rose by 15.2% during 2012, reaching 364.1 points at 31 December 2012.

For 2013, France is likely to remain mired in the crisis due to the absence of new sources of growth and a damaging spiral of fiscal austerity. The economy could begin to pick up again slightly as from the second half of 2013, however, thanks to the resilience of the US and Chinese economies, the effectiveness of the European Central Bank's policies, the rescheduling of the timetable for reducing public debt and use of the solidarity mechanisms put in place in Europe.

However, there are still many uncertainties: a possible strengthening of the euro; lack of clarity as to Europe's political future and the still possible risk of a bond crash.

Consolidated income statement

(€m)	2010	2011	2012	2012/2011
Net banking income	**953.9**	**957.9**	**903.2**	**(5.7%)**
Interest and similar income	616.5	589.1	539.1	(8.5%)
Fee income	476.1	494.8	487.8	(1.4%)
Banking expenses	(138.8)	(126.0)	(123.7)	(1.8%)
Operating expenses	**527.2**	**541.5**	**587.3**	**8.5%**
Personnel costs	297.5	311.3	332.3	6.7%
Other operating expenses	192.4	191.3	217.2	13.6%
Impairment	37.3	38.9	37.8	(2.8%)
Gross operating profit	**426.6**	**416.4**	**315.9**	**(24.1%)**
Cost of risk	(70.5)	(79.8)	(56.0)	(29.8%)
Operating profit	**356.1**	**336.6**	**259.9**	**(22.8%)**
Gain on fixed assets	0.8	11.4	(0.3)	(102.6%)
Share of profit of associates	18.4	12.6	17.8	40.8%
Pre-tax profit on ordinary activities	**375.4**	**360.6**	**277.4**	**(23.1%)**
Employee profit sharing	(29.2)	(28.1)	(19.8)	(29.5%)
Income tax	(97.6)	(95.3)	(75.1)	(21.2%)
Profit for the year	**248.6**	**237.2**	**182.4**	**(23.1%)**
Profit attributable to equity holders of the parent company	**244.4**	**233.3**	**179.9**	**(22.9%)**

Consolidated Income Statement – Key Figures

The group formed by BRED Banque Populaire and its subsidiaries continued to strengthen its competitiveness and financial base in 2012. As well as being the largest regional bank within the BPCE group, BRED is the leading bank in French overseas departments and territories and, through its subsidiaries, is steadily expanding its already excellent positions in the Pacific and South East Asia regions. Its good balance is underpinned by a diversity of business lines where it continues to build its skills base in areas such as market activities, flow management expertise and paperless banking services. BRED's strength also lies in its position as part of the BPCE group, where it operates efficiently alongside the other group entities.

Although down by 5.7%, net banking income remained satisfactory at €903.2 million.

Interest income declined by 8.5% to €539.1 million due to a number of non-operational factors, the main one being reduced reversal of goodwill provisions on Sofiag. Although commercial banking remained virtually stable with interest income up by 0.3% to €418.8 million, interest income was down by €10.2 million (12%) for the trading desk. Interest income from asset/liability management, financial management and working capital also fell, by respectively €8.1 million, €29.7 million and €3.6 million.

Fee income dropped by 1.3% to €364.1 million, affected by a negative base effect of €8.3 million linked to non-recurring recovery of VAT in 2011. Excluding this non-recurring item, net fee income increased by 1% thanks to growth in bank account charges, international transactions and revenue from personal protection and property and casualty insurance, whose marketing has been stepped up. These positive trends were partly offset by a fall in card fees and loan fees. This performance is all the more satisfactory in that the latest regulatory changes have put strong pressure on fee pricing.

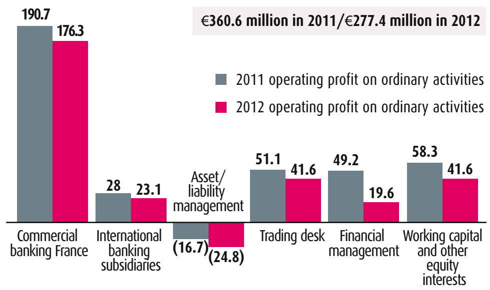
The 8.5% increase in operating expenses was largely attributable to higher tax expense (higher tax rate for the 'forfait social' tax charge on employers' payments into employee savings plans and schemes, payroll taxes and doubling of systemic risk tax) as well as a negative base effect linked to non-recurring recovery of VAT in 2011. Excluding these tax changes, operating expenses increased by only 2.5% with increases concentrated at international subsidiaries that are expanding rapidly.

The cost of risk came to €56.0 million in 2012 compared with €79.8 million a year earlier. It should be noted however that this change arises above all from differences in collective provisions between the two years as the worsening economic environment had been correctly foreseen as from 2011.

Operating profit on ordinary activities before tax and employee profit sharing fell sharply, down by 23% to €277.4 million, and broke down by business line as follows [fig. 1]:

fig. 1

Breakdown of operating profit on ordinary activities



→ Commercial banking France and the related subsidiaries, which accounted for nearly 64% of the total, was down by €14 million, or 7.6%. The effects of the 2011 VAT jurisprudence, cheque imaging and collective provisions offset each other.

→ The international banking subsidiaries recorded a decrease of €4.9 million with operating profit on ordinary activities of €23.1 million, compared with €28 million in 2011.

→ Asset and liability management, which bore the cost of the long-term refinancing operation (LTRO), recorded an operating loss of €28.4 million.

→ The trading desk performed well with net income of €41.6 million, nevertheless down slightly compared with €51.1 million in 2011, which was an exceptional year.

→ The contribution from financial management, carried out in the framework of a cautious policy, decreased significantly, down to €19.6 million compared with 49.2 million in 2011.

→ Lastly, working capital contributed €41.6 million to operating profit on ordinary activities, 28% less than the previous year.

After income tax expense and employee profit sharing, profit attributable to equity holders of the parent, excluding non-recurring items and tax changes was down by 5.5%. The tougher tax treatment had an overall negative impact of €14 million on the 2012 financial statements. Unadjusted net profit attributable to equity holders of the parent amounted to €179.9 million compared with €233.3 million in 2011.

In a depressed economic climate in 2012, the BRED Banque Populaire group once again demonstrated the strong resilience of its earnings model with return on equity of 7% and a solvency ratio, calculated in accordance with Basel II rules, that increased from 13.4% in 2011 to 13.9%, one of the best among the European banks.

Commercial banking

BRED is a full-service bank with a comprehensive range of banking activities in a variety of fields. It has also developed a specific, innovative, agile and entrepreneurial corporate culture at every level and in each of its markets.

It is this identity that the Bank must conserve and strengthen in an environment that is constantly changing, whether in terms of technological progress, new economic and financial conditions or the increasingly demanding behaviour of customers.

BRED works to take all these changes into account so as to move with its customers and fulfil their expectations. Their bank must stay closely in touch with their personal projects by providing the financial and savings solutions that allow them to carry out their plans.

The bank has fully understood that, while wishing to benefit from all the advantages of technological progress in accessing the bank, customers continue to be very attached to having a local network of branches and business centres, particularly for carrying out major transactions. In particular, the relationship with their personal account managers, who guarantee the quality of all our services, continues to be very important.

To this end, BRED works to develop the bank of the future, a bank built on a strong local relationship, reliability and the capacity to innovate; a bank that has achieved convergence between its various channels and can offer the best of both in-branch and out-of-branch banking with a single goal in view: fulfilling its customers' expectations.

Using technology to facilitate close contact...

In this digital era, it is important to adapt to changes in customer behaviour with regard to remote banking and transaction methods: managing customers' emails, subscription to products and services via the bred.fr website, videoconferencing and in-branch telephone sales.

In 2013, the branches will be equipped with a screen sharing system enabling bank staff to help electronic banking customers to fill out a contract that they can sign electronically, during the interview, without being obliged to go to the branch.

As from the beginning of 2013, a system will also be in place enabling customers to contact their account managers directly by email or telephone. Customers will be given their account manager's direct phone number and email address.

BRED works constantly to facilitate access to the bank by developing new means of accessing services, such as the BRED smartphone application of which it has recently developed a new version.

Customers can now view the messages in their bred.fr secure mail box and check foreign exchange rates as well as currency orders and pending transfers made via the BRED application or using bred.fr. Since February 2012, customers can also use the bred.fr website to make additional contributions to their life insurance savings policies. The facilities offered by the website will continue to evolve constantly to satisfy the needs of its 385,000 subscribers.

...Closer contact to serve customers

These technological developments are part of a strategy focused on service to customers. We thus strengthen our relationship with our customers by adapting to their needs and giving account managers – the cornerstone of the banking relationship – full flexibility to communicate with customers face to face in their branch, by telephone or by email or conference call. All the branches are set to become multichannel facilities. More stable account manager teams and an approach aimed at finding out the exact needs of each customer and their family will ensure that the quality of advice meets customers' expectations.

In this way BRED will develop a closer business relationship with its customers as we know that customers are above all attentive to the practical aspects of their bank and the appropriateness of the advice they receive.

Understanding customers' projects

The bank is aware that each customer is different and has specific needs, whether they are retail, private banking, professional, SME, large corporate or institutional customers.

BRED has therefore developed its activity so as to offer an appropriate range of products and services that meet customers' needs: private banking, insurance, asset management, flow management, trading, etc. In sum, BRED offers all the services of a major bank.

This diversity is appreciated by the Bank's customers. In 2012, assets managed by the Bank's life insurance subsidiary Prépar-Vie increased to €4.3 billion in euro funds (more than €900 million in units of account) corresponding to an increase of €1 billion over three years.

Tailored solutions in France and abroad

BRED continues to expand internationally. With a subsidiary in the Fiji Islands, BRED Bank Fiji Ltd, which opened its offices in the capital during the year, the group strengthened its presence in the Pacific region, where it already operates in New Caledonia, Tahiti and Vanuatu. In addition, Banque Franco-Laos' successful take-off enables BRED to provide fund transfer solutions at a lower cost.

Cultivating excellence in customer service

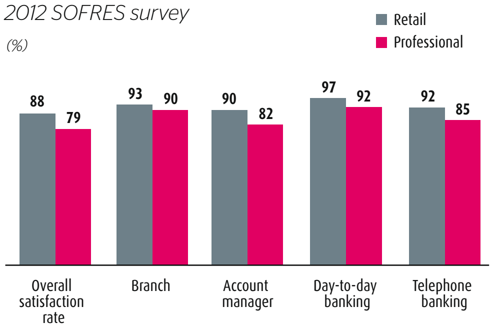
The Bank must develop a faultless reputation with each of its customers in order to earn recommendation. For the Bank and for its customers, the quality of the customer relationship is more important than the range of banking products available **[fig. 2]**.

fig. 2

BRED satisfaction index

2012 SOFRES survey

(%)



The quality surveys carried out in 2012 once again positioned the Bank very high in terms of customer satisfaction. Almost 90% of retail customers were satisfied with their bank. The satisfaction rates were particularly good with regard to the branches (93%) and the account managers (90%).

Moreover, if our customers had to choose a bank again, 90% of them would choose BRED. This tendency, which has remained stable for several years, rewards the efforts made to provide customers with personalised and lasting solutions.

In the professional customer segment, satisfaction is on an upward trend with a satisfaction rate of close to 80% and a recommendation rate of nearly 85%.

This shows that customers appreciate the Bank's ability to provide tailored and top-quality solutions.

In 2012, for the tenth consecutive year, BRED topped EDF's general ranking of banks providing cash management processing solutions. BRED also ranked first in EDF's quality league table thanks to the responsiveness, availability and quality of service of its sales teams.

Rytmo, BRED's life insurance policy for the 18-34 age bracket, was classified by *Le Revenu* magazine as one of three active multi-support policies 'with potential'. For its part, Valvie Invest Patrimoine figured among the nine diversified multi-support policies classified as 'attractive' thanks in particular to the consistently robust performance of its euro fund. *Dossiers de l'épargne* also awarded this policy a 'label of excellence', which highlights the performance of euro funds over three years.

A bank that belongs to its customers

BRED is a bank that belongs to its cooperative shareholders and it attracts a growing number of customers each year, as shown by the very successful rights issue carried out in June 2012, with a subscription rate of 140%. BRED currently has nearly 130,000 cooperative shareholders.

A bank that is owned by its cooperative shareholders is a bank with a different vision of the banking business, particularly through its recruitment policy. The bank recruits an average of between 300 and 350 people each year and to cover its needs it takes on a significant number of young people under work-training schemes. The bank maintains a quota of 10% of hires that can be considered atypical in terms of training, experience and age.

The successful integration of these new recruits is ensured by the Bank's professional training system, which provides them with a general banking culture and specific job skills.

Our cooperative share-ownership also gives added meaning to the Bank's patronage schemes.

In 2012, in collaboration with Fédération Nationale des Banques Populaires and the business development agency ADIE *(Association pour le Droit à l'Initiative Economique)*, BRED signed two partnership agreements relating to financial support for local ADIE offices in Cayenne and Mayotte.

BRED's commitment to ADIE also continued with support, through a special financing arrangement, for the creation of businesses by young people who are excluded from the traditional banking system. BRED has subscribed to the collateral-free loan fund (fonds de prêts d'honneur) that enables ADIE to grant interest-free loans to people under the age of 32 who already have a microcredit.

Also, at BRED's last general meeting, the BRED foundation rewarded three associations for their involvement in the local social fabric and their solidarity work, including *'Agir, Aider, Accompagner'*, which is specialised in Alzheimer's and related diseases.

Like each year, in partnership with the cancer research association *'Association pour la Recherche sur le Cancer'*(ARC), BRED produced a limited edition of the BRED & moi bank card for which the Bank donates €6 for each card subscribed.

A BRED personal microcredit offer is being tested at Vincennes, through an association for the social and work inclusion of young people. The offer concerns loans of €500 to €3,000 with short repayment periods at interest rates ranging from 0% to 8%. These microloans are covered for 50% by the social cohesion fund, which was created in 2005 to combat exclusion from the banking system.

Commercial banking in France and Overseas departments & territories

At the end of 2012, BRED's network comprised 330 local branches (including 76 in French overseas departments and territories), 16 business centres (including five overseas) and 11 asset management centres, including a *cercle premier* wealth management centre.

In 2012, 66,000 new personal accounts and 18,300 business and corporate accounts were opened. The customer penetration rate was very satisfactory, with an average of more than five products per customer.

The bred.fr online banking website recorded more than 2.5 million connections a month.

Deposits remained stable at €23.8 billion, corresponding to a very slight increase of 0.3%. While regulated savings continued to grow in 2012 with an increase of 7.5% thanks to higher limits on LDD and Livret A regulated savings accounts, market deposits decreased by a substantial 8.1% [fig. 3 and 4].

Savings invested in life insurance continued to grow but at a slower pace, up by 2.3% compared with an increase of 7.1% in 2011, bringing the total to €5,115 million. This division's performance was satisfactory given the outflow of capital from the life insurance market during the year.

Investment in money market funds resumed its downward trend with a decrease of 3% following a stable year in 2011 (-0.3%) and a sharp fall in 2010 (-17.5%). Growth in customers' investment in these products has been slowed by the low level of investments from life insurance. Total money market fund assets amounted to €3,677 million at 31 December 2012.

Outstanding loans increased by 2.8% in 2012 after growing by 4% in 2011. Growth was driven by a 3.9% increase in business loans and a 2.3% increase in loans to retail customers [fig. 5].

Net banking income for commercial banking France declined by €14.7 million or 2%. This decrease is attributable in particular to the €11.9 million fall in bank card fees due to the impact in 2011 of a non-recurring gain of €8.3 million arising from a favourable legal ruling on VAT. Banking intermediation accounted for 90% of total net banking income, down by €11 million or 1.7% compared with an increase of 3.8% in 2011.

The interest margin for the year fell by 2.5% to €371.7 million. The contribution made by the French commercial banking division and its subsidiaries dropped due to a difficult interest rate environment and stiff competition which resulted in a 0.18% decrease in interest from loans and a 0.03% increase in interest paid on deposits. In terms of volumes the trend remained positive, although slowing. The fall was offset by growth at the international activities.

The €5.3 million drop in fee income to €355.2 million included the positive impact in 2011 of a favourable VAT legal ruling on card charges for €8.3 million; adjusted for this non-recurring item fee income increased by around 1%. Growth related mainly to bank account charges (up by €6.9 million, or 7%), international activities (up by €2.4 million, or 10%) and personal protection insurance (up by €2.3 million, or 7%). These increases were partly offset by the decrease in card fees (down by €3.6 million, or 7% after restatement for the VAT gain in 2011) and loan fees (down by €5.3 million, or 10%). This performance is all the more satisfactory in that the latest regulatory changes have put strong pressure on fee pricing [fig. 6].

Commercial banking expenses rose by 5.7% during the year. This increase was attributable mainly to a significant rise in personnel costs due in particular to higher tax charges as well as non-recurring events such as a VAT recovery in 2011. The increase in other operating expenses and impairment charges reflected in particular the VAT recovered in 2011 and the 2012 tax impact.

After expenses, gross operating profit from commercial banking was down by 16%.

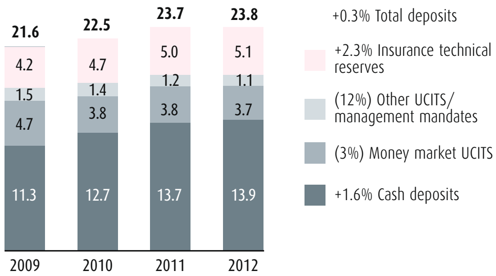
The cost of risk (excluding reversal of a collective provision amounting to €21.4 million in 2012 and an allowance to provisions of €19 million in 2011) rose to €67.4 million, up by almost €13 million compared with the previous year.

Operating profit on ordinary activities for the French commercial banking division was down by nearly 7.6% to €176.3 million.

fig. 3

Deposits taken by the group[1]

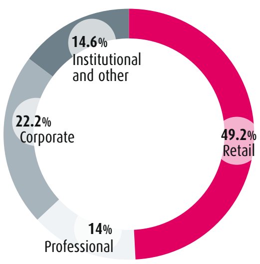
(€bn)



[1] *Average deposits for the year*

fig. 4

Breakdown of Group cash deposits[2]



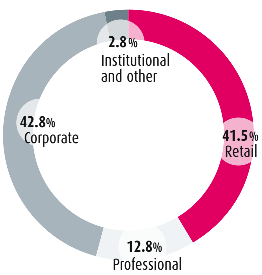
€14 billion

Year-on-year change:	+1.6%
Retail:	+5.5%
Professional:	+2.8%
Institutional and other:	(2.0%)
Corporate:	(4.8%)

[2] *Average deposits for the year*

fig. 5

Breakdown of Group loans and advances[3]



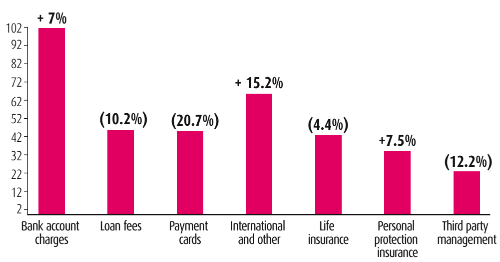
€13.8 billion

Year-on-year change:	+2.8%
Corporate:	+3.9%
Professional:	+1.5%
Retail:	+2.3%
Institutional and other:	(1.2%)

[3] *Average outstanding loans over the year excluding spot credit and foreign currency loans*

fig. 6

Breakdown of fee income by source



International banking subsidiaries

The international division essentially comprises four subsidiaries: BCI Mer Rouge, BCI Nouvelle-Calédonie (accounted for by the equity method) BRED Vanuatu and BIC BRED, although the weight of Banque Franco-Lao, BRED IT Thailand and BRED Fiji is growing.

The foreign subsidiaries contributed €11.7 million to the increase in net banking income from commercial banking and offset the fall in net banking income in France.

The international commercial banking division's interest margin increased by 30% year-on-year while fee income grew by 10%.

Although all the subsidiaries recorded growth in net banking income it is worth highlighting the performances of BCI Mer Rouge (+€5.7m), BRED IT (+€3.6m) and Banque Franco-Lao (+€1.5m).

Deposits remained stable at €563 million (up by 0.8%) reflecting opposing trends among the subsidiaries. They fell by respectively 5.4% (€22.5 million) and 36.2% (€6.3 million) at BCI Mer Rouge and BIC BRED, these falls being offset by growth of 153% (€12.1 million) at Banque Franco-Lao and 18.5% (€21.3 million) and BRED Vanuatu. Note that BCI Mer Rouge and BRED Vanuatu together account for 92% of the international division's deposits (respectively 70% and 22%).

Outstanding loans grew from €542 million to €594 million. BIC BRED and BRED Vanuatu accounted for more than 80% of this increase with Banque Franco-Lao accounting for most of the remaining increase.

At the same time, operating expenses rose from €28 million to €34 million, due mainly to an IT migration project at BCI Mer Rouge in which the BRED IT subsidiary is taking part.

The cost of risk, which included a non-recurring charge in respect of BCI Mer Rouge, grew strongly to around €9 million.

The contribution of BCI NC, consolidated using the equity method, dropped to €9.7 million in 2012 versus €11.9 million the previous year.

These elements were reflected in operating profit on ordinary activities, which dropped by around 18% to €23 million compared with €28 million in 2011.

L'ALM

Asset and liability management had a negative impact of €24.8 million on interest income, which was down by €8.1 million from the previous year.

Interest income benefited from current interest rate trends but was adversely affected by the net expense (€11 million) of the Long Term Refinancing Operation (LTRO).

Trading Desk

Market activities for customers generated income of €74.4 million, corresponding to a €10.2 million or 12% decrease in net banking income. This is a good result as 2011 had been an outstanding year. Half of this net banking income was generated by cash management solutions provided to customers. Around 25% was generated by financing intermediation transactions and foreign exchange products used for customer hedges, while the balance was generated by BRED's market making activities. BRED obtained market maker status on EUREX in December 2012 [fig. 7].

Trading Desk expenses rose by 8.1%, reflecting in particular a change in the provisioning policy for deferred premiums in respect of prior years.

After cost of risk, operating profit on ordinary activities generated by the trading desk came to €41.6 million compared with €51 million the previous year.

Financial management

Operating profit on ordinary activities fell sharply, down from €49.2 million in 2011 to €19.6 million in 2012. Some transactions completed in 2011 had no equivalent in 2012.

The margin on financial activities abroad was down by €9.6 million to €15.6 million, generated exclusively by NJR.

Working capital and other equity interests

Although working capital benefited as in 2011 from an adjustment in the value of receivables on overseas departments, this adjustment was substantially smaller than in 2011 even after offsetting provisions recognised for securities. The negative impact on interest income can be estimated at around €9 million.

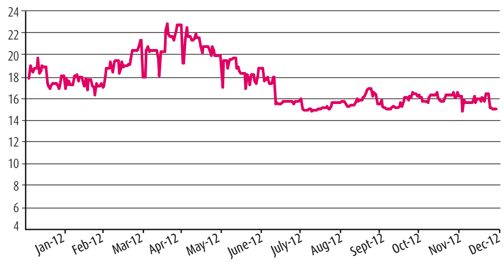
Working capital benefited from the yield on undated deeply subordinated notes paid by BPCE in respect of 2012 (€8 million); however, revenues from carry activities declined due to the interest rate trends.

As a convention, some expenses, in particular tax expenses (systemic risk tax and tax on employers' contribution to employee savings plans and schemes – *'forfait social'*) are allocated to this division.

fig. 7

Trading Desk assets

(€bn)



Results in 2011 benefited from non-recurring income of €12.8 million from the sale of B-Process. In 2012, consolidation under the equity method of the Bank's holdings in ACLEDA and Banque pour le Commerce Extérieur Lao (BCEL) had a positive impact of €7.2 million.

Operating profit on ordinary activities fell from €58.3 million in 2011 to €41.6 million in 2012.

Outlook

The outlook for 2013 will inevitably depend on economic trends in Europe, and particularly the political and monetary authorities' ability to come up with a structural response to the sovereign debt crisis.

BRED nonetheless has strong advantages for weathering this uncertain period, such as its close relationship with its customers, strong enterprise culture, organisational flexibility and acknowledged technical expertise in businesses with high added value. The group is also in very good shape financially, having managed to preserve a healthy balance, in particular between loans and deposits.

BRED's future is underpinned by a clear, shared and effective strategy in each of its business lines, taking into account the developments in customer behaviour and life styles with a single goal in view: better responding to our customers' needs while constantly strengthening the Bank's financial situation.

Its strategy of expanding the business of its subsidiaries by targeting regions and markets with strong growth momentum has proved its worth and will be continued.

Lastly, BRED offers the security of belonging to a very large French banking group – BPCE – to which it contributes its knowhow and expertise and within which it can develop synergies.

1

Business review

Consolidated statement of financial position

(€bn)	2010	2011	2012	2012/2011
Loans and advances to credit institutions	6.9	11.9	10.1	(15%)
Financial assets at fair value through profit or loss	5.7	4.6	5.5	18%
Hedging derivatives	0.0	0.1	0.1	
Available for sale financial assets	6.3	12.7	14.4	14%
Held to maturity financial assets	1.1	1.1	1.0	(10%)
Customer transactions	13.5	14.0	14.1	1%
Deferred profit-sharing	0.0	0.1	0.0	
Non-current assets	0.5	0.5	0.6	12%
Other assets	0.9	0.8	0.6	(31%)
Total Assets	**35.1**	**45.8**	**46.3**	**1%**
Loans and advances from credit institutions and financial customers	8.5	14.9	14.6	(2%)
Financial liabilities at fair value through profit or loss	1.9	1.6	1.0	(38%)
Hedging derivatives	0.1	0.3	0.8	
Other transactions	1.1	2.0	0.8	(59%)
Deposits of non-financial customers	15.2	18.9	20.0	6%
Insurance technical reserves	5.0	5.1	5.6	10%
Bond borrowings	0.0	0.0		-
Subordinated debt	0.5	0.5	0.4	(12%)
Capital and reserves	2.6	2.6	3.0	19%
Total Liabilities	**35.1**	**45.8**	**46.3**	**1%**

Financial assets at fair value through profit or loss, available for sale and held to maturity increased by €2.6 billion in 2012, mainly as the result of an increase in the stock of government and interbank securities held while at the same time loans and advances to credit institutions decreased by €1.8 billion.

Although deposits increased by €0.2 billion during the year, they did not entirely finance the growth in lending, which increased by €0.4 billion in average value (up by close to 3%). Although the trend in demand deposits and regulated savings products was positive, up by respectively 2.4% and 8.6%, market deposits were down significantly, by 7.2% **[fig. 8 and 9]**.

In application of Article L.441-6-1 of the French Commercial Code, we inform you that our supplier chain does not apply payment delays for the reason that our main suppliers are customers of the bank. The Bank therefore has no supplier-related liabilities on its balance sheet.

fig. 8

BRED Banque Populaire – breakdown of cash deposits

Annual average (in €bn)

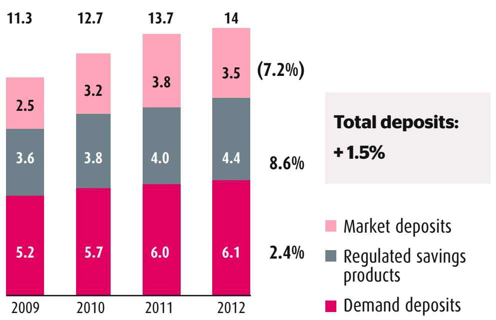
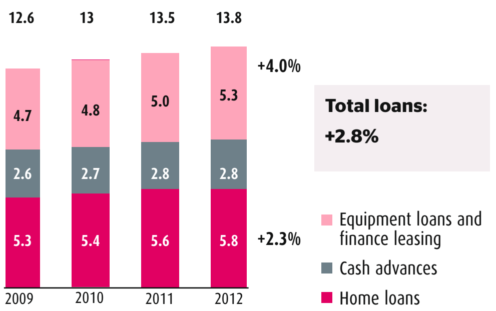


fig. 9

BRED Banque Populaire – loans and advances to customers

Annual average (in €bn)



2

Capital and reserves and prudential ratios

2.1. Consolidated capital and reserves and core capital

The new ratio has been applied since 2008. It regulates Tier 1 capital by defining core capital differently. In particular, the core capital must bear 50% of the deduction of securities.

Consolidated capital and reserves calculated according to international standards came to €2,984 million after appropriation of profit for the year, compared with €2,576 million at the end of 2011. This increase was attributable to:

→ the transfer to reserves of €157 million of non-distributed earnings for the year,

→ various positive adjustments amounting to a total of €251 million, relating mainly to adoption of IFRS.

The supervisory authorities have concluded that some elements of book capital created by the adoption of international financial reporting standards cannot be included in core capital, which is therefore lower than book capital **[see table]**.

2.2. Holdings deducted

Regulatory deductions from capital and reserves amounted to €1,271 million net of franchise. The total before franchise was up by €166 million to €1,611 million.

This increase resulted from:

→ the purchase of undated deeply subordinated notes (TSSDI) issued by BPCE in an amount of €96 million.

→ An increase in investments in associates for €79 million, relating mainly to ACLEDA (€41 million), Prépar-Vie (€16 million), Banque pour le Commerce Extérieur Lao (€15 million) and BCI Nouvelle-Calédonie (€5 million).

→ An increase in the value of our investment portfolio securities linked to changes in our equity interest in Bank of Queensland (+€40 million) and the consolidation of Banque pour le Commerce Extérieur Lao (-€15 million).

2.3. Prudential ratios

Banking law has instituted regulations governing management standards, in the form of prudential ratios with which credit institutions must comply, in particular so as to guarantee their solvency and liquidity **[see table]**.

CAPITAL AND RESERVES AND PRUDENTIAL RATIOS

Consolidated shareholders' equity and prudential capital

(€m)	2009	2010	2011	2012	2012/2011
Capital (1) (2)	341.4	432.5	432.5	520.3	
Consolidated reserves	1,752.90	1,966.50	2,138.80	2,336.9	
IAS/IFRS impact on consolidated reserves	16.8	(59.2)	(200.3)	(30.1)	
Profit for the period	243	244.4	233.3	179.9	
Proposed distribution of dividends	(25.1)	(26.2)	(28.7)	(21.6)	
Consolidated capital and reserves	**2,329.0**	**2,558.1**	**2,575.7**	**2,983.9**	**15.8%**
Minority interests	22.8	36.1	37.5	32.1	
Non-current assets and other deductions	(24.9)	(18.7)	(23.9)	(26.7)	
IAS/IFRS restatements not admitted/ recyclable capital	(16.8)	59.2	200.3	30.1	
Holdings in credit and financial institutions to be deducted from capital (50%)	(454.2)	(589.1)	(562.6)	(635.3)	
Other adjustments to deductions	(4.6)	(129.8)	(165.3)	(261.1)	
CORE CAPITAL (Tier 1)	**1,851.4**	**1,915.6**	**2,061.7**	**2,122.8**	**3.0%**
SECONDARY CAPITAL (Tier 2) before deductions	516.2	468.3	408.8	385.6	
Holdings in credit and financial institutions to be deducted from capital (50%)	(454.2)	(589.1)	(562.6)	(635.3)	
Other adjustments to deductions	(4.6)	120.8	153.8	249.7	
SECONDARY CAPITAL (Tier 2)	57.4	0	0	0	0
OTHER ADDITIONAL CAPITAL	56	44.1	64.9	64.1	(1.2%)
TOTAL PRUDENTIAL CAPITAL	**1,964.9**	**1,959.7**	**2,126.6**	**2,186.9**	**2.8%**

(1) As required by paragraph 1 of Article 225-102 of the French Commercial Code, you are advised that employees do not own any shares issued by the bank that are managed collectively or that they cannot dispose of freely.

(2) A table is provided in the General Information section of this report detailing authorisations by the Shareholders' General Meeting to the Board of Directors for the purpose of increasing the share capital pursuant to the provisions of paragraph 7 of Article L.225-100 of the French Commercial Code.

Overall capital adequacy ratio

(€m)	2010	2011	2012
Core capital (Tier 1)	1,915.6	2,061.7	2,122.8
Secondary capital (Tier 2)	0.0	0.0	0.0
Additional capital (Tier 3)	44.1	64.9	64.1
Prudential capital	**1,960.0**	**2,127.0**	**2,186.9**
Requirement for counterparty risk	1,036.7	1,072.4	1,057.7
Requirement for market risk	44.2	64.8	67.8
Requirement for operational risk	119.2	128.7	132.1
Total capital requirement	**1,200.1**	**1,265.9**	**1,257.6**
Capital adequacy ratio (1)	13.1%	13.4%	13.9%
Of which Tier 1	12.8%	13.0%	13.5%

(1) The minimum requirement is 8%

2.3.1. Capital adequacy ratio

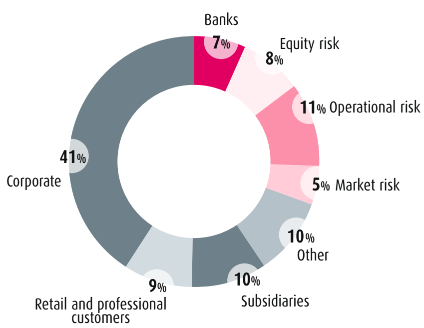
The analysis of the customer base (78%) by market shows that corporate customers are the largest segment (41%) with retail customers accounting for only 9%. The balance (28%) is divided between subsidiaries, equities and other. The breakdown is similar to that in the previous year [fig. 10 and 11].

2.3.2. Liquidity ratio

The liquidity ratio is monitored continuously: it ended the year at 144% compared with 116% at the end of the previous year, well above the minimum requirement of 100%.

fig. 10

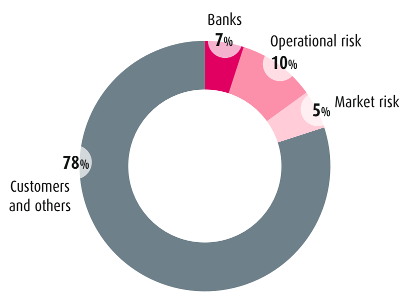
Consumption of equity



Total: €1,258 million

fig. 11

McDonough weighted risk



Total: €15.7 billion

3

Analysis of results

3.1. Profitability by business division

BRED Banque Populaire's operations are organised into six main divisions:

→ **Commercial banking France** and the related subsidiaries, which includes all the various activities developed for retail customers and large corporate and institutional customers in both banking and financial intermediation (capital management, third-party brokerage, etc.),

→ **Trading desk,**

→ **International banking subsidiaries,**

→ **Asset and liability management,**

→ **Financial management,**

→ **Working capital,** which covers management of the portfolio of equity interests and sundry unallocated items [see table above].

Net banking income for the first three divisions does not include the income on surplus capital, which is assigned to the working capital division.

Shareholders' equity (excluding minority interests and before regulatory deductions) came to €3,433.9 million, corresponding to an increase of €208 million or 6.5%. This increase reflected a €232 million increase in core capital and a €23 million decrease in additional capital [fig. 12].

Working capital requirements excluding equity interests decreased by €9 million, reflecting a €3 million increase for market risk, a €3 million increase for operational risk and a €15 million decrease for credit risk [fig. 13].

At consolidated level, the return on capital employed amounted to 5.2%. The trading desk and international banking subsidiaries recorded the highest return on capital, close to 20%, while the return for commercial banking France was around 10%. The yield on working capital was penalised by the lack of dividends from BPCE and came to 1.4% [see table].

	Commercial banking France		International banking subsidiaries		ALM		Trading desk		Financial management		Working capital and other equity interests	
(€m)	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Interest income	381.1	371.7	36.2	47.1	(16.7)	(24.8)	84.1	73.9	53.4	23.7	51.0	47.4
Net Fee income	360.5	355.2	7.7	8.5			0.5	0.5				
Net banking income	**741.6**	**726.9**	**43.9**	**55.6**	**(16.7)**	**(24.8)**	**84.6**	**74.4**	**53.4**	**23.7**	**51.0**	**47.4**
Expenses	(477.3)	(504.7)	(27.4)	(33.6)			(29.6)	(32.0)	(2.4)	(3.4)	(4.8)	(13.5)
Gross operating profit	**264.3**	**222.2**	**16.6**	**22.0**	**(16.7)**	**(24.8)**	**55.1**	**42.3**	**51.0**	**20.3**	**46.2**	**33.8**
Provisions	(73.6)	(46.0)	(0.5)	(8.6)			(4.0)	(0.7)	(1.7)	(0.7)		
Operating profit	**190.7**	**176.3**	**16.1**	**13.4**	**(16.7)**	**(24.8)**	**51.1**	**41.6**	**49.2**	**19.6**	**46.2**	**33.8**
Gain or loss on non-current assets											11.4	(0.3)
Share of profit (loss) of associates			12.0	9.7							0.7	8.1
Profit on ordinary activities	**190.7**	**176.3**	**28.0**	**23.1**	**(16.7)**	**(24.8)**	**51.1**	**41.6**	**49.2**	**19.6**	**58.3**	**41.6**

fig. 12

Structure of capital (excluding minority interests) before regulatory deductions

at 31 December 2012

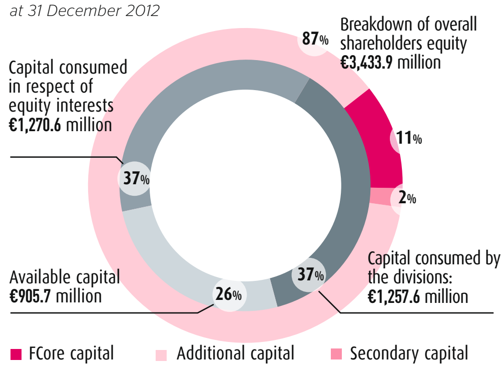
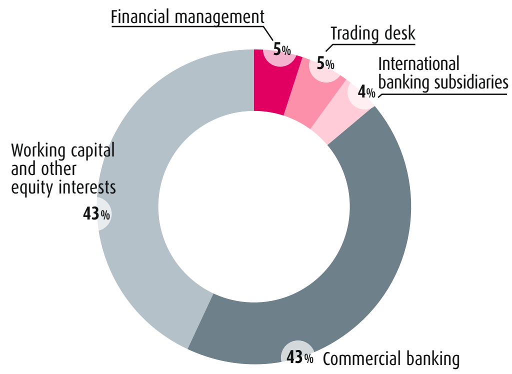


fig. 13

Capital requirements excluding equity interests

(regulatory capital requirement at 31 December 2012: €1,257.6 million)



En millions d'euros	Net profit[1] 2012	Net profit[2] as a % of capital requirement	Return on equity[3]
Commercial banking	104.8	9.7%	11.7%
Trading desk	27.3	19.6%	23.7%
ALM	(1.8)		
Financial management	16.6	12.8%	15.5%
International banking subsidiaries	20.3	19.5%	23.6%
Working capital and other equity interests	27.7	1.4%	1.5%
Of which Invested outside BPCE	*19.0*	*5.5%*	*6.7%*
Invested in BPCE	*5.6*	*1%*	*1%*
Unallocated capital	*1.6*	*0.2%*	*0.2%*
Capital allocated to operating divisions	*1.5*	*0.1%*	*0.1%*
Total BRED	**179.9**	**5.2%**	**6.0%[4]** **6.9%[5]**

(1) Net profit attributable to equity holders of the parent after tax at the statutory rate and after employee profit-sharing.
(2) Overall capital requirement calculated as at 31 December 2012 (analytical amounts including equity interests after regulatory deductions).
(3) Net profit attributable to equity holders of the parent as a percentage of book shareholders' equity at 31 December 2012.
(4) As a percentage of consolidated equity attributable to equity holders of the parent at 31 December 2012.
(5) As a percentage of consolidated equity attributable to equity holders of the parent at 31 December 2011

3.2. Profitability of Commercial banking France and its subsidiaries by market

The fall in net banking income in 2012 concerned the SME segment (down by €6.8 million), the corporate and institutional segment (down by €2.7 million) and the subsidiaries (down by €5 million). The individuals and professionals market remained stable.
Growth in general expenses remained under control but with differences by market. Excluding non-recurring items (€15.4 million VAT reduction), expenses increased by 2.5%.

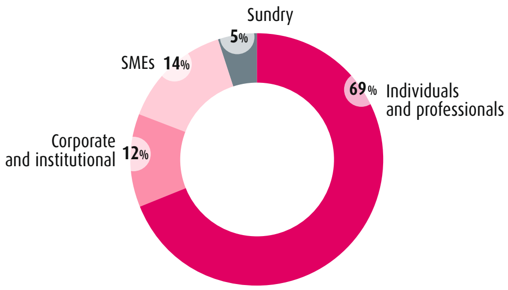
All in all, the individuals and professionals market, which accounts for two-thirds of the total for commercial banking France and its subsidiaries, showed the most resilience, with a decline of 1.9%. The contributions from the SME and large corporate and institutional markets each declined by 9%.

(€m)	**Individuals and professional**		**SME**		**Retail banking [4]**		**Institutional and corporate**		**Other (including subsidiaries)**		**Non-recurrent VAT impact**		**Total**	
	2011	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**
RESULTS														
Net banking income [1]	499.6	499.5	111.5	104.7	611.1	604.2	87.8	85.1	34.4	37.7	8.3		741.6	726.9
Direct expenses	(254.2)	(258.7)	(39.9)	(39.8)	(294.1)	(298.5)	(30.8)	(33.4)	(18.2)	(18.6)	15.4		(327.8)	(350.6)
Contribution	245.4	240.8	71.6	64.8	317.0	305.7	57.0	51.6	16.2	19.1	23.7		413.9	376.3
% change		*(1.9%)*		*(9.5%)*		*(4%)*		*(9.4%)*		*17.6%*		*ns*		*(9.1%)*
Overheads	(122.0)	(125.7)	(19.1)	(19.3)	(141.1)	(145.0)	(15.1)	(15.2)	6.5	6.2			(149.6)	(154.1)
Gross operating profit	123.4	115.1	52.6	45.5	176.0	160.7	41.9	36.4	22.8	25.2	23.7		264.3	222.2
Operating profit on ordinary activities	100.0	85.8	26.3	18.0	126.2	103.9	40.6	26.9	0.2	45.5	23.7		190.7	176.3
% change						*(18%)*		*(34%)*		*ns*		*ns*		*(8%)*
BUSINESS INDICATORS														
Average customer deposits [2]	8,476	8,905	2,114	2,146	10,590	11,051	2,870	2,844	77	83			13,537	13,978
% change		*5.1%*		*1.5%*				*(0.9%)*		*7.3%*				*3.3%*
Average loans and advances [3]	8,169	8,594	2,295	2,373	10,464	10,966	2,608	2,656	778	753			13,850	14,375
% change		*5.2%*		*3.4%*		*4.8%*		*1.8%*		*(3.2%)*				*3.8%*

[1] Net banking income after allocation of banking expenses
[2] Including stocks, market deposits and long-term refinancing
[3] Including market loans and advances and Casden
[4] Retail banking is the aggregate total of the individuals and professional and SME segments

fig. 14

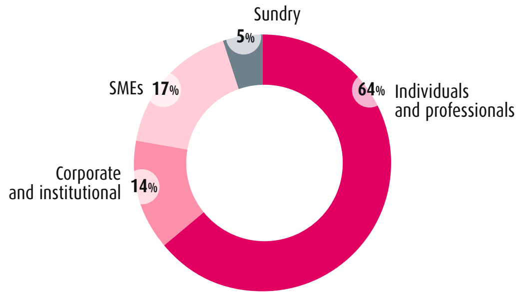
Breakdown of net banking income by market – Commercial banking division



Individuals and professionals	(0.0%)
SMEs	(6.2%)
Corporate and institutional	(3.1%)
Sundry and subsidiaries	+9.5%

fig. 15

Breakdown of contributions by market – Commercial banking division



Individuals and professionals	(1.9%)
SMEs	(9.5%)
Corporate and institutional	(9.4%)
Sundry and subsidiaries	+17.6%

4

Activity of BRED BP and its main subsidiaries

Net banking income increased during the year, up by €13.8 million or 1.9% compared with 2011.

2012 was a mixed year for lending, with an overall decline of 13% in loan production, due in particular to a sharp fall in home loans, down by 24% compared with 2011. In contrast, consumer loans grew by 4%. All in all, the commercial banking interest margin dropped by €14.2 million (4.2%).

Asset and liability management had a negative impact of €24.8 million on interest income, which was down by €8.1 million This division bears the net cost of the long-term refinancing operation (€11 million).

The €5.6 million fall in net fee income needs to be adjusted for various non-recurring items, including reversal of the fine for cheque images in an amount of €4.9 million in 2012 and a positive impact of €8.3 million in 2011 linked to a favourable VAT legal ruling. After adjustment, there was an increase of €1.8 million.

2012 was another good year for the trading desk with a strong increase in interest income, to €113 million under French GAAP compared with €41.1 million in 2011.

The contribution made by financial management came to €26.8 million while that from working capital remained small at €10.8 million due to the absence of distribution of dividends by Cofibred and BPCE.

Expenses increased by €31.5 million (6.7%) due mainly to a €14.1 million increase in personnel costs (excluding incentive schemes) reflecting the combined effects of the corporate social contribution (*'forfait social'*), payroll taxes and a favourable VAT legal ruling in 2011, as well as increases in consumption and tax (up by €18.7 million as the result mainly of the impact of the favourable VAT legal ruling in 2011, the doubling of the systemic risk tax and the cost of the contributions paid to BPCE). Without these elements, the increase in operating expenses would have been €6.3 million (1.3%).

Gross operating profit was down by 6.7% to €247 million.

Loan losses began to climb again, up by €15.4 million to €68.8 million.

Profit on ordinary activities came to €178.8 million, corresponding to a fall of 15.1%.

All in all, after taking employee profit sharing (€19 million) into account, net profit came to €113 million, 5.3% more than in 2011.

BRED Banque Populaire

Income statement

(€m)	2010	2011	2012	2012/2011
Net banking income	**736.2**	**734.2**	**747.9**	**1.9%**
Interest and similar income	459.9	429.9	449.2	4.5%
Fee income	386.3	402.5	395.8	(1.7%)
Banking expenses	(110.0)	(98.2)	(97.2)	(1.0%)
Operating expenses	**460.6**	**469.3**	**500.9**	**6.7%**
Personnel costs	266.0	280.0	294.3	5.1%
Other operating expenses	161.6	155.0	173.9	12.2%
Impairment	33.0	34.3	32.6	(5.1%)
Gross operating profit	**275.6**	**264.9**	**247.0**	**(6.7%)**
Cost of risk	48.2	53.4	68.8	28.7%
Operating profit	**227.4**	**211.4**	**178.2**	**(15.7%)**
Gain or loss on non-current assets	4.0	(0.7)	0.6	
Pre-tax profit on ordinary activities	**231.4**	**210.7**	**178.8**	**(15.1%)**
Regulated provisions and FGBR	(15.0)	(8.6)	0.2	(102.3%)
Non-recurring items and other items	0.0	0.0	0.0	
Employee profit sharing and corporate income tax	(79.6)	(94.8)	(66.0)	(30.4%)
Net Profit	**136.8**	**107.3**	**113.0**	**5.3%**

ACTIVITY OF BRED BP AND ITS MAIN SUBSIDIARIES

BCI Mer Rouge

(51%-owned subsidiary acquired in mid-2007)

Djibouti's economy grew by 4.8% in 2012 after recording growth of 4.1% in 2011. This growth reflected an upturn in the services sector: port activities (traffic at Djibouti Port's container terminal was up by 43% from 2011), free zone, telecommunications and real estate, which was boosted by the arrival in Djibouti of new military bases and a large part of the activities of the European Union delegation.

Djibouti's current political stability and security have contributed to the country's growth and economic development. Its location at the crossroads of three continents makes it a strategic stopping point on the world's second largest trade route. This situation has contributed significantly to attracting foreign investors and international non-governmental organisations. Djibouti is also the only natural port serving the second most populous country in Africa, Ethiopia, which has been enjoying double-digit economic growth over the past three years.

The inflation rate in 2012 is estimated at 4.3% versus 5.1% in 2011.

During 2012, BCI Mer Rouge's sales forces were strongly involved in supporting the technical teams in the context of the IT migration project. This naturally had repercussions on sales performances. Deposits were therefore down slightly compared with the end of 2011.

In terms of lending, overdrawn demand deposit accounts continue to account for the larger part (55% of total outstanding loans). The average volume of performing loans increased by more than 8% while long-term loans increased by 26.8%.

With a view to strengthening the security of its operations, BCI Mer Rouge has adopted stricter conditions for granting documentary credits to its customers. While these precautions limit risk, they also restrict the bank's commercial development.

Net banking income grew by 30%, from €24 million in 2011 to €31.2 million in 2012. This strong increase resulted mainly from swap transactions that generated a cash balance of around €7 million.

The cost of risk, however, increased sharply to €10.7 million due to the combined effects of economic conditions, stricter procedures for longstanding doubtful loans and a prudent provisioning policy.

After tax, profit for the year amounted to €4.4 million, nearly 40% less than in 2011.

Income statement

(€m)	2010	2011	2012	2012/2011
Net banking income	**20.9**	**24.0**	**31.2**	**30.0%**
Operating expenses	9.8	14.1	14.4	
Gross operating profit	**11.1**	**9.9**	**16.8**	**69.7%**
Cost of risk	0.3		(10.7)	
Operating profit	**11.4**	**9.9**	**6.2**	**(37.9%)**
Non-recurring items				
Income tax	(2.7)	(2.6)	(1.7)	
Profit for the year	**8.7**	**7.3**	**4.4**	**(39.8%)**

Banque Calédonienne d'Investissement

(49.9%-owned subsidiary)

The business climate indicator picked up in the third quarter but remains below its long-term average. The upward trend reflected business leaders' more optimistic expectations with regard to investment, cash flows and headcounts. In contrast, activity is considered to be on a downward trend that is expected to continue over the coming quarters.

In terms of domestic demand, household spending picked up slightly as inflation slowed. Uncertainty continues to prevail, however, with a slower job market and businesses still hesitating to invest. Household vulnerability indicators deteriorated slightly with a moderate 1.3% increase in the number of individuals whose banking facilities have been suspended. Outstanding consumer loans to households grew by 3.7% year on year.

Against this backdrop, interest income was down by €4.2 million compared with 2011. While short-term interest rates have been falling for several months, tensions in the deposit-taking market have been pushing up the cost of term deposits. This trend would appear to be turning but this has yet to be confirmed.

Due to the fall in interest income, net banking income was down by 3.7% year on year despite a 6.6% increase in fee income and a 4.2% increase in gains on financial transactions.

General operating expenses grew by 3% during the year, mainly under the impact of a 5.2% increase in personnel costs (increased headcount, promotions, etc.).

Customer deposits grew strongly in the second quarter of 2012 and ended the year up by €140 million (11.5%) compared with 2011, with an 8.8% increase in demand deposits and a 6.4% increase in cash savings. This growth should not mask the still very tense market environment with banks competing strongly for deposits.

At the end of 2012, gross outstanding loans amounted to €1,750 million, up by 1.9% year on year.

Gross operating profit was down by 9.4% under the combined effects of the fall in net banking income and an increase in overheads.

The cost of risk fell sharply during the year thanks in particular to collection of receivables. Overall, the volume of non-performing loans was down by 2.2% compared with the end of 2011 while the provisioning rate increased to 69.5%.

All in all, taking the above elements into account, net operating profit fell by €3.2 million year on year and net profit decreased by €2.1 million.

Income statement

(€m)	**2010**	**2011**	**2012**	**2012/2011**
Net banking income	65.8	71.2	68.6	(3.7%)
Operating expenses	31.4	33.0	34.0	
Gross operating profit	34.4	38.2	34.6	(9.4%)
Cost of risk	(1.3)	(2.2)	(1.7)	
Operating profit	33.1	36.0	32.8	(8.7%)
Non-recurring items	0.6	1.2	0.0	
Income tax	(14.3)	(15.9)	(13.7)	
Profit for the year	**19.5**	**21.3**	**19.2**	**(10.0%)**

ACTIVITY OF BRED BP AND ITS MAIN SUBSIDIARIES

Banque Franco Lao

(54%-owned subsidiary)

Economic growth in Laos rose again to 8.2% in 2012, driven by the construction, services, manufacturing and mining sectors. Public spending and private investment played an important role in boosting domestic demand. Despite this strong growth rate, inflation dropped below 4% thanks to lower inflation in oil and food prices.

The banking sector continued to develop, and to attract new players, in 2012. At the end of the year, there were 31 banks operating in the country and several new banking licences had been granted. Lending continued to grow at a robust pace in 2012 and growth is expected to exceed 30% for the year compared with 38% in 2011. The four state banks continue to dominate, with two-thirds of the market in both loans and deposits. The average market share of the other players in the market is around 1.1%.

2012 was the second full year in operation for BFL Ltd, which opened in October 2010. The bank broke even for the first time in 2012 and generated a profit despite increased investment in its branch network. During the year, BFL Ltd stepped up its business development in all customer segments and continued to expand its network, opening eight new branches, which brought the total to 13 – nine in Vientiane and four in other regions. BFL Ltd's market share in both deposits and loans at the end of 2012 is estimated at 1.2%.

At the end of 2012, BFL Ltd had more than 7,000 accounts and 5,700 customers compared with respectively 2,500 and 2,000 at the end of 2011. In terms of products and services, as well as the increase in sales outlets, 2012 featured the installation of new ATMs, expansion of Visa acceptance in the POS network and the opening of a safe service at the head office. As part of the bank's development, the headcount was multiplied by a factor of 1.7.

Deposits totalled €34.8 million at the end of 2012 compared with €13 million at the end of 2011, i.e. 2.7 times more. Loans and advances to customers, mainly businesses, increased from €10 million at the end of 2011 to €25 million at the end of 2012 and are therefore amply covered by deposits.

Net banking income grew by 95.6% in 2012, reaching €3.1 million, and continues to consist mainly of interest income although fee income is growing strongly. The increases in personnel costs (+41%), operating expenses (+37%) and depreciation and impairment charges (+78%) result mainly from branch openings (new staff, additional rental charges, depreciation charges on works and equipment). The net cost of risk was 0.28% and consisted solely of regulatory provisions on performing loans. 2012 was the first year in which operating expenses were covered by net banking income and the bank therefore recorded its first profit of €130 thousand.

Income statement

(€m)	2010	2011	2012	2012/2011
Net banking income	0.2	1.5	3.1	95.6%
Operating expenses	1.1	2.0	2.9	
Gross operating profit (loss)	**(0.8)**	**(0.5)**	**0.2**	**(142.8%)**
Cost of risk			(0.1)	
Operating profit (loss)	**(0.8)**	**(0.5)**	**0.1**	**(128.1%)**
Non-recurring items				
Income tax				
Profit (loss) for the year	**(0.8)**	**(0.5)**	**0.1**	**(128.1%)**

BIC BRED

(99.95%-owned subsidiary)

Banque Internationale de Commerce-BRED is specialised in international trade finance. The bank services trade in a variety of commodities, including in particular oil products, metals, food and fertilisers.

Economic conditions in 2012 continued to be dominated by uncertainty, linked principally to the sovereign debt crisis involving a number of euro zone countries, whereas most emerging countries continued to record economic growth.

In these conditions, the bank continued to apply the business policy pursued successfully over the past few years in terms of strict selection of transactions financed in keeping with the cash resources allocated to it.

Against this backdrop, net banking income decreased by close to 19% and the growth in assets accelerated slightly, with a 6% increase to €366 million. Customer transactions accounted for 72.6% compared with 76.2% in 2011.

Expenses remained relatively stable during the year, up by 3.5% to €4.4 million.

Net profit increased by 16.5% from €2.6 million to €3 million thanks to reversals of risk provisions for €1.4 million, mainly on country risk.

Income statement

(€m)	2010	2011	2012	2012/2011
Net banking income	**8.3**	**8.8**	**7.1**	**(18.9%)**
Operating expenses	4.2	4.2	4.4	
Gross operating profit	**4.1**	**4.6**	**2.8**	**(39.4%)**
Cost of risk	(1.1)	(1.1)	1.4	
Operating profit	**3.0**	**3.5**	**4.1**	**17.6%**
Other items				
Income tax	(0.8)	(0.9)	(1.1)	
Profit for the year	**2.2**	**2.6**	**3.0**	**16.5%**

BRED Gestion

(wholly-owned subsidiary)

BRED Gestion's main activity is secure processing of large payment flows for institutional and corporate customers.

In 2012, flows processed by BRED Gestion represented:

- €104.7 billion in 181 million transactions in the SEPA zone, corresponding to an increase of 15.9%.
- €2.2 billion in 8.3 million transactions in international flows, corresponding to an increase of 4.7%.

Net banking income amounted to €7.3 million, up by 15% during the year. Revenue from pension payment contracts totalled €6.6 million while the related expenses totalled €4.1 million, leaving a profit of €2.5 million i.e. unchanged relative to 2011.

Operating expenses increased by 12% in line with the growth in net banking income.

Net profit came to €2.1 million, down sharply compared with the previous year despite a €0.6 million increase in income from securities, given the €12.8 million gain recorded on the sale of B-Process in 2011.

Income statement

(€m)	2010	2011	2012	2012/2011
Net banking income	**6.9**	**6.3**	**7.3**	**15.0%**
Operating expenses	4.1	3.8	4.2	
Operating profit	**2.8**	**2.5**	**3.0**	**19.7%**
Non-recurring items	(0.7)	12.8	0.0	
Income tax	(0.6)	(1.1)	(1.0)	
Profit for the year	**1.5**	**14.2**	**2.1**	**(85.5%)**

COFIBRED

(wholly-owned subsidiary)

2012 featured the consolidation of the Group's positions in the Pacific region. Although the participating securities in the province of Chongqing acquired in 2011 were sold at the end of 2012, generating a gain of €1.6 million, new shares were acquired in Bank of Queensland (Australia) and in Acleda (Cambodia). BRED also added to its operations in Asia through the creation of BRED Bank Fiji at the beginning of 2012 for €17.5 million.

Dividends increased from €56 million in 2011 to €66.3 million in 2012. The main contributions came from Bank of Queensland (€11.6 million), Sofider (€10 million), NJR (€10 million), BRED Gestion (€6 million), Bendigo (€5.3 million), BCI NC (€4 million) and Prépar-Vie (€4 million).

Other financial charges came to €9.8 million and related primarily to foreign exchange hedging and interest on loans.

Cofibred's operating expenses decreased substantially in 2012, down by 42% to €2.2 million, reflecting in particular a €1.6 million decrease in impairment charges.

A €4.2 million gain on securities was generated by the write-back of €4.1 million of provisions in respect of Bendigo, partly offset by new impairment provisions, and the sale of the Chongqing securities (€1.6 million).

All in all, Cofibred generated profit for the year of €58.1 million, up by 78% compared with 2011.

Income statement

(€m)	2010	2011	2012	2012/2011
Net banking income	**49.5**	**36.3**	**56.5**	**55.8%**
Operating expenses	2.8	3.8	2.2	
Operating profit	**46.7**	**32.5**	**54.3**	**67.2%**
Non-recurring items	(5.2)	0.2	4.2	
Income tax			(0.5)	
Profit for the year	**41.5**	**32.7**	**58.1**	**77.6%**

NJR

(wholly-owned subsidiary)

Profit on the ABS portfolio came to €14.1 million in 2012 compared with €14.9 million the previous year, with the fall in interest rates and general contraction in margins offset by the increase in the average margin resulting from amortisation and new investments.

NJR continued to limit its investment scope to 'core Europe' issues. In terms of financing, a first issue of €10 million rated AAA was completed in January 2012.

Net profit generated by NJR for the financial year ended 31 December 2012 amounted to €13.7 million, down by 38.6% compared with 2011.

In 2011, NJR had taken advantage of favourable market conditions to terminate part of its swap portfolio, thereby generating substantial gains. No equivalent operation was carried out in 2012. Excluding this non-recurring item, net profit was stable in 2012.

Income statement

(€m)	2010	2011	2012	2012/2011
Net banking income	**14.3**	**28.6**	**16.5**	**(42.4%)**
Operating expenses	0.7	0.8	1.0	
Gross operating profit	**13.6**	**27.8**	**15.4**	**(44.4%)**
Other items	0.0	(1.8)	(0.7)	
Income tax	0.0	(3.7)	(1.0)	
Profit for the year	**13.6**	**22.3**	**13.7**	**(38.6%)**

Prepar-Vie

(wholly-owned subsidiary)

Income statement

(€m)	2010	2011	2012	2012/2011
Premium income	**23.8**	**46.3**	**23.7**	**(48.8%)**
Operating expenses	13.6	15.0	14.0	
Gross operating profit	**10.2**	**31.3**	**9.7**	**(69.1%)**
Non-recurring items			0.3	
Income tax	(0.2)	(14.1)	0.0	
Profit for the year	**10.0**	**17.2**	**9.9**	**(42.2%)**

For the first time ever, 2012 saw a net outflow of savings from life insurance, due to 'small' savers' greater need for available cash and the wait-and-see attitude, and in some cases flight, of wealthy customers in the light of changes in the tax treatment of life insurance.

Prépar-Vie recorded a net outflow, limited to €6 million. It is true that the absence of new Octys policies (€75 million in 2011), due to an excessively low issue rate, had a significant impact.

This outflow had a severe impact on Prépar-Vie's premium income, which was virtually halved to €23.7 million.

Revenues from the insurance activity continue to be driven by assets under management in Euro funds, despite difficult marketing conditions, and personal protection insurance. However, the reinsurance balance on loan insurance had a very negative impact this year, resulting in a 4.2% drop in the net margin on insurance activities.

The impact of market-related provisions (a charge of €8.1 million compared with a gain of €13.1 million in 2011) was negative before tax but neutral after tax. These resulted mainly from a deferred charge in respect of the provision for liquidity risk, offset by the reversal of the provision for economic risk initiated in 2008. These two provisions have now been balanced out.

Prépar-Vie distributed a good level of remuneration to its policyholders, while at the same time favouring reserves by setting aside €72 million to the provision for policyholders' share of profits.

Excluding taxes and duties, operating expenses increased by 1.4%, including €200 thousand in respect of non-recurring building work expenses. The decrease in tax expense relates to the corporate value added tax (Contribution sur la Valeur Ajoutée des Entreprises), whose base includes the movement in the provision for liquidity risk in the non-technical account.

Net profit for 2012 came to €9.9 million, down by nearly 42% compared with €17.2 million in 2011.

ACTIVITY OF BRED BP AND ITS MAIN SUBSIDIARIES

Prepar IARD

(wholly-owned subsidiary)

Premium income grew by 11.1% to €6.6 million. Like in previous years, the greater part of the policies marketed concerned insurance against loss of income and accidental death.

The strongest growth in value was generated by the Protection Budget policy, a product launched in June 2011, and the "work incapacity" cover included in the Prepar Sérénité policy (a tax-advantaged policy for self-employed workers under the so-called Madelin law). The longer-established products, in particular Protection Revenus and Protection Payement, are growing more slowly but steadily at a pace of between 5% and 7%. No new product was launched in 2012.

The loss ratio improved in 2012, with a 35% decrease in claims expense compared with 2011.

With no significant change in management costs, pre-tax profit was up by a strong 11.1% to €6.1 million.

Net profit came to €4 million compared with €3.6 million in 2011.

Income statement

(€m)	2010	2011	2012	2012/2011
Premium income	5.5	5.9	6.6	11.1%
Operating expenses	0.4	0.4	0.5	
Gross operating profit	5.1	5.5	6.1	11.1%
Income tax	(1.7)	(1.9)	(2.1)	
Profit for the year	3.4	3.6	4.0	9.7%

Promepar Gestion

(wholly-owned subsidiary)

2012 was a difficult year for business, particularly in private asset management. For the first time, life insurance did not perform well enough to offset the fall in securities accounts, which is expected to accelerate when its taxation is brought into line with income tax.

In contrast, net banking income grew strongly, by 16.5%, thanks to the market rebound and to the ramping up of the fund management activities. Income from private asset management grew by 11.1% while income from fund management increased by 30.4%. Income from fund management now accounts for nearly 20% of income. Note that assets under management in money market funds are growing very strongly but do not as yet make any [significant] contribution to net banking income.

Operating expenses declined by 3.7% thanks to lower personnel costs.

This resulted in a very strong rebound in both gross operating profit and net profit, with increases of respectively 80.2% and 91.1%.

Net profit came to €1.5 million versus €0.8 million in 2011.

Income statement

(€m)	2010	2011	2012	2012/2011
Net banking income	5.3	5.1	5.9	16.5%
Operating expenses	3.8	3.9	3.7	
Gross operating profit	1.5	1.2	2.2	80.2%
Cost of risk	0.0	(0.1)	0.0	
Operating profit	1.5	1.1	2.2	97.5%
Other items				
Income tax	(0.5)	(0.3)	(0.7)	
Profit for the year	1.0	0.8	1.5	91.1%

SOFIAG

(wholly-owned subsidiary)

Income statement

(€m)	2010	2011	2012	2012/2011
Net banking income	**8.4**	**6.4**	**5.6**	**(12.3%)**
Operating expenses	4.1	4.7	4.3	
Gross operating profit	**4.3**	**1.7**	**1.4**	**(20.4%)**
Cost of risk	0.6	5.1	7.9	
Operating profit	**4.9**	**6.8**	**9.3**	**35.6%**
Other items				
Income tax	(1.0)	(2.0)	(3.0)	
Profit for the year	**3.9**	**4.8**	**6.3**	**30.9%**

Economic conditions remained difficult in 2012, differing from one department to another, with a more positive situation in French Guiana and continuing recession in the Antilles, more pronounced in Martinique than in Guadeloupe.

Guadeloupe and Martinique have not yet returned to economic growth. The uncertainty created by social unrest, the questioning of the region's tax-free status, slowing household spending, sharply rising unemployment, sluggish public spending and the more restrictive lending policies of specialised financial companies have combined to create a depressed climate for households and businesses.

French Guiana, however, is enjoying economic growth buoyed in particular by the construction sector. Infrastructure needs, better use of natural resources, the strengthening of Kourou's position in the space sector with the use of Russian launchers and strong population growth have created a favourable environment for corporate investment and household consumption.

Despite these difficult conditions, in 2012 Sofiag once again managed to do well thanks in particular to three major renewable energy projects. Sofiag also expanded its business in the financing of low-income housing, stepping up its activity in Guadeloupe and re-launching this activity in Martinique thanks to the partnership agreement with Martinique Habitat. Lastly, Sofiag continued to diversify its sources of income with a large-scale launch of personal consumer and home loans in Martinique.

Loan production increased by 32% in volume during the year, enabling the company to meet the target set in terms of gross loan production.

Loans to businesses now account for 56% of loan production with financing of low-income housing accounting for 27%, home loans for 13% and consumer loans for 4%.

Nonetheless, net banking income declined by 12.3% during the year, down from €6.4 million to €5.6 million, due essentially to the fall in the interest margin.

Once again, efficient management of the cost of risk enabled the company to record a 30.9% increase in profit for the year. This reflected the strong debt collection performance over the year, with collections totalling €19 million.

Note that debt owing to AFD came to €62 million at 31 December 2012, down by 18% thanks to regular repayments.

2012 ended with a net profit of €6.3 million and a record cost of risk corresponding to a gain of €7.9 million.

ACTIVITY OF BRED BP AND ITS MAIN SUBSIDIARIES

Sofider

(wholly-owned subsidiary)

2012 was marked by a seesaw trend in economic activity in La Reunion, making the outlook unclear for business leaders (elections, questions hanging over tax regime, no resumption of major works, etc.). The unemployment rate remains very high at 30%, affecting mainly young people and, more recently, the 50s age bracket.

The construction market is struggling to emerge from the crisis even though it receives support from the local authorities through the construction of low-income housing (cement imports increased by 0.8% during the year).

Although energy prices rose by 4.5% in 2012 this was offset by a fall in supermarket and shop prices (-1.2%) and lower prices for manufactured products (-1.9%). All in all, prices rose very little over the year, with an increase of just 0.4%.

Farming and tourism continue to be the most dynamic sectors, with growth of respectively 8% and 10% in passenger numbers and hotel nights.

Home financing accounted for a large part of loan production, with a 4% increase in home loans. On the other hand, consumer loans declined by 1.6%.

Corporate investment is at a standstill, up by 0.1% in the second quarter after falling by 2.3% in the first quarter. All types of financing regressed, with operating loans down by 0.6%, equipment loans down by 11.3%; the only exception was commercial property loans, which grew by 0.4%. Investment focused on renewal rather than production.

Loan production came to €114.5 million in 2012, 2% more than in 2011. Performances differed sharply by market with difficulties in corporate lending and property loan production.

In these conditions, the portfolio of performing loans remained stable at €554.5 million compared with €554 million last year with prudent management of provisions (€35.2 million compared with €34.5 million in 2011).

Net banking income dropped by 9.5% during the year due to a 7.5% fall in interest income.

At the same time, operating expenses remained virtually stable at €5.2 million.

The cost of risk improved slightly at €1.9 million, down by 31.4% compared with 2011.

Finally, profit for the year totalled €6.9 million, down slightly versus €7.3 million in 2011.

Income statement

(€m)	**2010**	**2011**	**2012**	**2012/2011**
Net banking income	**18.9**	**19.1**	**17.3**	**(9.5%)**
Operating expenses	5.3	5.3	5.2	
Gross operating profit	**13.6**	**13.8**	**12.1**	**(12.5%)**
Cost of risk	(3.7)	(2.8)	(1.9)	
Operating profit	**9.9**	**11.0**	**10.1**	**(7.6%)**
Other items	(0.1)			
Income tax	(2.8)	(3.7)	(3.2)	
Profit for the year	**7.0**	**7.3**	**6.9**	**(5.0%)**

5

Changes in the portfolio of equity interests – thresholds crossed

At 31 December 2012, the gross book value of BRED Banque Populaire's portfolio of shareholdings in subsidiaries and associates was virtually unchanged at €1,776.4 million versus €1,776.3 million at the end of 2011 and was equivalent to the net value.

Significant holding thresholds crossed and controlling interests acquired in companies whose registered office is located in France (as a % of capital)

	1 January 2012	During 2012	31 December 2012
Directly held			
Info Vista		7.49	
Indirectly held through Perspectives & Participations			
Cf Développement			**19.5**

5

CONSOLIDATED FINANCIAL STATEMENTS

1.

Consolidated statement of financial position

ASSETS

(€000)	Notes	31/12/2012	31/12/2011
Cash and amounts due from central banks		4,228,914	1,194,706
Financial assets at fair value through profit or loss	5.1.1	5,464,803	4,624,166
Hedging derivatives	5.2	66,946	123,955
Available for sale financial assets	5.3	14,434,480	12,660,147
Loans and receivables due from credit institutions	5.5.1	5,861,452	10,700,110
Loans and receivables due from customers	5.5.2	14,090,069	14,012,059
Remeasurement adjustments on interest-rate risk hedged portfolio			
Held to maturity financial assets	5.7	985,890	1,099,589
Current tax assets		1,882	2,708
Deferred tax assets	5.8	193,298	246,847
Accrued income and other assets	5.9	374,276	586,489
Non-current assets held for sale	5.10		
Deferred profit sharing	5.11		93,629
Investments in associates	5.12	212,190	150,246
Investment property	5.13	150,076	143,221
Property, plant and equipment	5.14	168,066	173,198
Intangible assets	5.14	29,246	30,258
Goodwill	5.15	4,576	4,576
Total assets		**46,266,165**	**45,845,906**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES

(€000)	Notes	31/12/2012	31/12/2011
Amounts due to central banks		6	2,130
Financial liabilities at fair value through profit or loss	5.1.2	989,788	1,563,942
Hedging derivatives	5.2	780,742	264,963
Amounts due to credit institutions	5.16.1	10,784,699	9,457,418
Amounts due to customers	5.16.2	20,350,578	20,738,165
Debt securities	5.17	3,483,819	3,622,765
Remeasurement adjustments on interest-rate risk hedged portfolio			
Current tax liabilities		2,866	32,999
Deferred tax liabilities	5.8	11,738	16,450
Accrued expenses and other liabilities	5.18	604,177	1,664,008
Liabilities directly linked to non-current assets held for sale			
Technical reserves of insurance companies	5.19	5,600,297	5,128,548
Provisions	5.20	207,684	223,857
Subordinated debt	5.21	405,994	478,682
Shareholders' equity		**3,043,777**	**2,651,979**
Equity attributable to equity holders of the parent		**3,006,870**	**2,614,284**
Capital and share premium account		1,004,354	914,690
Consolidated reserves		1,852,792	1,666,541
Gains and losses recognised directly in equity		(30,159)	(200,274)
Profit for the year		179,883	233,327
Minority interests		**36,907**	**37,695**
Total liabilities and equity		**46,266,165**	**45,845,906**

2.

Consolidated income statement

(€000)	Notes	2012	2011
Interest and similar income	6.1	1,009,406	991,032
Interest and similar expense	6.1	(600,825)	(559,404)
Fee and commission income	6.2	405,725	423,559
Fee and commission expense	6.2	(136,566)	(141,658)
Net gains or losses on financial instruments at fair value through profit or loss	6.3	288,944	234,242
Net gains or losses on available for sale financial assets	6.4	26,168	(44,586)
Income from other activities	6.5	588,839	933,683
Expenses on other activities	6.5	(678,491)	(878,993)
Net banking income		**903,200**	**957,875**
Operating expenses	6.6	(569,309)	(530,656)
Depreciation, amortisation and impairment for property, plant and equipment and intangible assets		(37,780)	(38,938)
Gross operating profit		**296,111**	**388,281**
Cost of risk	6.7	(56,032)	(79,834)
Operating profit		**240,079**	**308,447**
Share of profits of associates	6.8	17,790	12,653
Net gains or losses on other assets	6.9	(312)	13,807
Adjustments to goodwill	6.10		(2,433)
Profit before tax		**257,557**	**332,474**
Income tax expense	6.11	(75,137)	(95,294)
Net profit of activities discontinued or being sold			
Total consolidated profit		**182,420**	**237,180**
Profit attributable to equity holders of the parent		179,883	233,327
Minority interests		2,537	3,853

3.

Statement of net income and gains and losses recognised directly in equity

(€000)	Notes	2012	2011
Total consolidated profit		**182,420**	**237,180**
Translation differences		(6,348)	2,281
Changes in the value of available for sale financial assets		207,353	(189,505)
Changes recognised in equity		*207,353*	*(189,505)*
Changes recognised in profit and loss			
Changes in the value of hedging derivatives		4,496	1,150
Change in value for the period recognised in equity		*4,496*	*1,150*
Change in value for the period recognised in profit or loss			
Actuarial differences on defined benefit plans			
Share of gains and losses recognised directly in the equity of associates		(387)	(2,407)
Change in value for the period recognised in equity		*(387)*	*(2,407)*
Change in value for the period recognised in profit or loss			
Taxes	5.8	(38,501)	47,403
Gains and losses recognised directly in equity (after tax)		**166,613**	**(141,078)**
Net profit and gains and losses recognised directly in equity		**349,033**	**96,102**
Equity holders of the parent company		349,996	94,052
Minority interests		(963)	2,050

4.

Statement of changes in shareholders' equity

(€000)	Capital and related premiums		
	Share capital	**Share premiums**	**Consolidated reserves**
Balance at 1 January 2011	**432,488**	**482,202**	**1,702,588**
Changes in capital linked to relations with shareholders			
Capital increase			
Reclassification			
Change of accounting method			9,898
Dividends			
Impact of acquisitions and disposals on minority interests			
Sub-total			*9,898*
Gains and losses recognised directly in equity			
Changes in gains or losses recognised directly in equity taken to profit and loss			(45,945)
Other changes			
Sub-total			*(45,945)*
Other changes			
Profit for the year			
Other changes			
Sub-total			
Balance at 31 December 2011	**432,488**	**482,202**	**1,666,541**
Appropriation of 2011 profit			**204,646**
Balance at 1 January 2012	**432,488**	**482,202**	**1,871,187**
Changes in capital linked to relations with shareholders			
Capital increase	87,798		(26,014)
Reclassification		1,866	(1,866)
Change of accounting method			
Impact of acquisitions and disposals on minority interests			
Sub-total	*87,798*	*1,866*	*(27,880)*
Gains and losses recognised directly in equity			
Changes in gains or losses recognised directly in equity taken to profit and loss			9,485
Other changes			
Sub-total			*9,485*
Other changes			
Profit for the year			
Other changes			
Sub-total			
Balance at 31 December 2012	**520,286**	**484,068**	**1,852,792**

2011: the €9,898 thousand impact arising from a change of accounting method in 2012 had a retroactive impact on the balance at 31 December 2011. The €45,945 thousand decrease in consolidated reserves was attributable to the €16,390 thousand increase in reserves recorded in 2010 and to the €24,040 thousand increase in recyclable reserves on available for sale securities (€5,730 thousand).

2012: the €9,485 thousand increase in consolidated reserves was recognised as a counter entry in deduction from recyclable reserves.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Gains and losses recognised directly in equity						
	Change in fair value of instruments					
Translation differences	Available for sale financial assets	Hedging derivatives	Net profit attributable to equity holders of the parent	Equity attributable to equity holders of the parent	Minority interests	Consolidated shareholders' equity
4,628	**(101,250)**	**37,426**		**2,558,082**	**36,208**	**2,594,290**
				9,898		9,898
				9,898		*9,898*
1,423	(143,255)	754		(187,023)	(563)	(187,586)
1,423	*(143,255)*	*754*		*(187,023)*	*(563)*	*(187,586)*
			233,327	233,327	2,050	235,377
			233,327	*233,327*	*2,050*	*235,377*
6,051	**(244 505)**	**38,180**	**233,327**	**2,614,284**	**37,695**	**2,651,979**
			(233,327)	**(28,681)**		**(28,681)**
6,051	**(244,505)**	**38,180**		**2,585,603**	**37,695**	**2,623,298**
				61,784		61,784
					(1,313)	(1,313)
				61,784	*(1,313)*	*60,471*
(2,828)	172,203	740		179,600	(3,841)	175,759
(2,828)	*172,203*	*740*		*179,600*	*(3,841)*	*175,759*
			179,883	179,883	2,537	182,420
					1,829	1,829
			179,883	*179,883*	*4,366*	*184,249*
3,223	**(72,302)**	**38,920**	**179,883**	**3,006,870**	**36,907**	**3,043,777**

5.

Statement of cash flows

(€000)	2012	2011
Profit before tax	**257,557**	**332,475**
Depreciation and amortisation of property, plant, equipment and intangible assets	37,148	39,164
Goodwill impairment		2,433
Net charge to provisions and provisions for impairment	216,977	220,742
Share of profit (loss) of associates	(10,263)	(12,653)
Net loss (gain) on investing activities	(128,760)	(80,784)
Net loss (gain) on financing activities	23,050	24,517
Other movements	(416,390)	(303,614)
Total non-cash items included in profit before tax	**(278,238)**	**(110,195)**
Cash flows arising from transactions with credit institutions	4,623,309	1,161,177
Cash flows arising from transactions with customers	(125,061)	5,781,266
Cash flows arising from other transactions involving financial assets or financial liabilities	(2,085,522)	(5,970,756)
Cash flows arising from other transactions involving non-financial assets or non-financial liabilities	(923,107)	(60,252)
Tax paid	(96,280)	(66,845)
(Decrease) increase in operating assets and liabilities	**1,393,339**	**844,590**
Net cash from (used in) operating activities (A)	**1,372,658**	**1,066,870**
Cash flows related to financial assets and equity interests	225,954	(12,236)
Cash flows related to investment property	(6,976)	(4,024)
Cash flows related to property, plant, equipment and intangible assets	(31,563)	(25,988)
Net cash from (used in) investing activities (B)	**187,415**	**(42,248)**
Cash flows from (to) the equity holders	29,953	(30,756)
Other cash flows from financing activities	(95,705)	(35,479)
Net cash from (used in) financing activities (C)	**(65,752)**	**(66,235)**
Effect of changes in foreign exchange rates (D)	**(2,661)**	**1,683**
Net increase (decrease) in cash and cash equivalents (A + B + C + D)	**1,491,660**	**960,070**
Cash in hand, debit and credit balances with central banks	1,192,576	1,280,987
Net balance of demand transactions with credit institutions	1,704,471	655,990
Cash and cash equivalents at 1 January	**2,897,047**	**1,936,977**
Cash in hand, debit and credit balances with central banks	4,228,908	1,192,576
Net balance of demand transactions with credit institutions	159,799	1,704,471
Cash and cash equivalents at 31 December	**4,388,707**	**2,897,047**
Change in cash and cash equivalents	**1,491,660**	**960,070**

NOTE 1.

General background

1.1. Significant events

Increase in the capital of BRED Banque Populaire

At the end of June 2012, BRED Banque Populaire raised its share capital from €432,487,500 to €520,285,720 through a cash capital increase and the capitalisation of reserves.

The cash capital increase took the form of the issue at par value of 5,202,857 shares of €9.50 each for a total amount of €49,427,141.50 and the issue at par value of 1,300,715 cooperative investment certificates (CICs) of €9.50 each, for a total amount of €12,356,792.50 entirely subscribed by Natixis.

The capitalisation of reserves amounted to €26,014,286 through the increase from €9.50 to €10.00 of the par value of the shares and cooperative investment certificates.

New loan securitisation transaction

Mid-2012, BRED Banque Populaire completed another home-loans securitisation operation with the issue of around €1 billion in senior bonds and €134 million in subordinated debt fully subscribed by the Bank, bringing to €4 billion the total amount of securitised debt that can be mobilised with the European Central Bank.

1.2. Guarantee mechanism

The BPCE group comprises the Banque Populaire network, the Caisse d'Epargne network, the BPCE central institution, and its subsidiaries.

The two banking networks: the Banque Populaire banks and the Caisses d'Epargne

Groupe BPCE is a cooperative group whose member shareholders own the two retail banking networks, the Banque Populaire banks and the Caisses d'Epargne. Each of the two networks owns an equal share in BPCE, the group's central institution.

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

The Caisse d'Epargne network consists of the Caisses d'Epargne et de Prévoyance, the local savings companies and the Fédération Nationale des Caisses d'Epargne.

The Banque Populaire banks are 80%-owned by their member shareholders and 20%-owned by Natixis via cooperative investment certificates (CICs).

The capital of the Caisses d'Epargne is 80%-owned by the local savings companies (LSC) and 20%-owned by Natixis via the CICs. The local savings companies are cooperative structures with an open-ended share capital owned by the cooperative shareholders. They are tasked with coordinating the cooperative shareholder base, in line with the general objectives defined by the individual Caisse d'Epargne to which they are affiliated, and they cannot perform banking transactions.

BPCE

BPCE, a central body as defined by French banking law and a credit institution approved to operate as a bank, was created pursuant to Law no. 2009-715 of 18 June 2009. BPCE was incorporated as a société anonyme with a Management Board and a Supervisory Board, whose share capital is owned jointly and equally by the Caisse d'Epargne and Banque Populaire banks.

BPCE's corporate mission embodies the continuity of the cooperative principles underlying the Banque Populaire banks and the Caisses d'Epargne.

Specifically, BPCE represents the interests of its various affiliates in dealings with the supervisory authorities, defines the range of products and services that they offer, organises depositor protection, approves key management appointments and oversees the smooth functioning of the group's institutions.

As a holding company, BPCE is the head entity of the group. It owns the subsidiaries common to both networks in retail banking, corporate banking and financial services, and their production entities. It also defines the group's corporate strategy and growth and expansion policies.

In respect of the group's financial functions, BPCE is also responsible, in particular, for the centralised management of surplus funds, for the execution of any financial transactions required to develop and refinance the group, and for choosing the most appropriate counterparty for these transactions in the broader interests of the group. It also provides banking services to other group entities.

As provided for in paragraph 6 of Article L.512-107 of the French Monetary and Financial Code, the purpose of the guarantee and shared support mechanism is to ensure the liquidity and capital adequacy of the BPCE group and its affiliates, and to organise financial support within the Banque Populaire and Caisse d'Epargne networks.

BPCE is responsible for taking all measures necessary to guarantee the capital adequacy of the group and of each of the networks, including implementing the appropriate internal financing mechanisms within the group and establishing a mutual guarantee fund common to both networks, for which it determines the working rules, the conditions for the provision of financial support to the two networks' existing funds, as well as the contributions of affiliates to the fund's initial capital and reconstitution.

BPCE manages the funds for the Banque Populaire network and the Caisse d'Epargne et de Prévoyance network and has put in place the Mutual Guarantee Fund (Fonds de Garantie Mutuel).

The **Banques Populaires Network Fund** consists of a deposit by the banks in the books of BPCE in the form of an indefinitely renewable 10-year term deposit.

The **Caisses d'Epargne et de Prévoyance Network Fund** also consists of a deposit by the Caisses in the books of BPCE in the form of an indefinitely renewable 10-year term deposit.

The joint **Mutual Guarantee Fund** consists of deposits made by the Banques Populaires and Caisses d'Epargne in the books of BPCE in the form of indefinitely renewable 10-year term deposits. The fund will be topped up each year by an amount equivalent to 5% of the contributions made by the Banques Populaires, the Caisses d'Epargne and their subsidiaries to the group's consolidated results.

The total amount of deposits made with BPCE in respect of the Banques Populaires Network Fund, the Caisses d'Epargne et de Prévoyance Network Fund and the Mutual Guarantee Fund may not be less than 0.15% and may not exceed 0.3% of the group's total risk weighted assets.

In the entities' individual financial statements, deposits made under the guarantee and solidarity mechanism are recognised in equity under a separate heading.

The mutual guarantee companies, whose sole corporate purpose is to guarantee loans issued by Banque Populaire banks, are covered by the liquidity and capital adequacy guarantee of the Banque Populaire bank with which they are jointly licensed in accordance with Article R. 515-1 of the French Monetary and Financial Code.

The liquidity and capital adequacy of the Caisses de Crédit Maritime Mutuel are guaranteed in respect of each individual Caisse by the Banque Populaire that is both the core shareholder of and provider of technical and functional support to the Caisse in question as part of its attachment to the partner Banque Populaire bank.

BPCE's management board has full powers to mobilise the resources of the various contributors without notice and in the agreed order, based on the prior authorisations given to BPCE by the contributors.

1.3. Events after the end of the reporting period

On 17 February 2013, BPCE S.A. and Natixis presented to their respective Supervisory Boards and Boards of Directors a project to significantly simplify the BPCE group's structure.

The planned operation would consist in the buy-back by the Banque Populaire banks and the Caisses d'Epargne of all the cooperative investment certificates (CICs) they have issued and which are currently wholly-owned by Natixis. Following the cancellation of the CICs bought back by each Banque Populaire bank and Caisse d'Epargne, these banks would be fully owned by their cooperative shareholders.

The reduction in Natixis' risk weighted assets, linked to the holding of the CICs, would enable Natixis to distribute part of the capital surplus thus generated to its shareholders by proposing payment of an exceptional dividend. Lastly, to ensure an appropriate allocation of its resources within the group, BPCE S.A. would reimburse the deeply-subordinated notes subscribed by the Banque Populaire banks and Caisses d'Epargne, and reduce the capital of BPCE S.A. held by the Banque Populaire banks and the Caisses d'Epargne.

This operation will be submitted, after consultation of the employee representative bodies, for approval by the Boards of the Banque Populaire banks and Caisses d'Epargne (joint and equal shareholders of BPCE S.A.) and by the Boards of BPCE S.A. and Natixis. This operation could be closed during the third quarter of 2013.

NOTE 2.

Applicable accounting standards and comparability

2.1. Regulatory framework and accounting standards

In accordance with EC Regulation No. 1606/2002 of 19 July 2002 on the application of international accounting standards, BRED Banque Populaire has prepared its consolidated financial statements for the financial year ended 31 December 2012 under International Financial Reporting Standards (IFRS) as adopted for use by the European Union and applicable at that date, thereby excluding certain provisions of IAS 39 relating to hedge accounting.

The standards and interpretations used and set forth in BRED's consolidated financial statements for the year ended 31 December 2011 have been supplemented by the standards, amendments and interpretations mandatorily applicable for financial years beginning on or after 1 January 2012, in particular the two amendments to IFRS 7 "Financial instruments: Disclosures", respectively the amendment relating to transfers of financial assets and the amendment Improving Disclosures about "Financial Instruments" relating to guarantees received.

The other standards, amendments and interpretations adopted by the European Union mandatorily applicable in 2012 did not have a material impact on the group's financial statements.

The group has not opted for early adoption of standards, amendments and interpretations adopted by the European Union at 31 December 2012 but not yet in force at that date:

→ Amendment to IAS 1 Presentation of "Financial Statements" adopted by the European Commission on 5 June 2012 and of mandatory application for all financial years starting on or after 1 July 2012. This amendment is aimed at enhancing the financial information contained in the "Statement of profit and loss and other comprehensive income". Other comprehensive income must be presented in such a way as to make a clear distinction between items that can be subsequently reclassified to profit or loss and those that will never be reclassified to profit or loss.

→ Amendment to IAS 19 "Employee Benefits" adopted by the European Commission on 5 June 2012 and of mandatory application with retroactive effect from 1 January 2013 . This amendment introduces changes in the accounting for and presentation of pensions and similar post-employment obligations, in particular with regard to actuarial gains and losses, which will be recognised immediately and in full in equity, past service costs, which will be recognised immediately to profit or loss, and expected return on plan assets, which will be replaced by a net interest amount calculated by applying the discount rate used for the gross liability. The impact of these changes of methods, excluding the tax effect, is mentioned in note 8.2.1.

→ IFRS 13 'Fair Value Measurement is in the process of being adopted by the European Commission. It is applicable on a prospective basis for financial years starting on or after 1 January 2013. IFRS 13 indicates how fair value should be measured but does not change the conditions of application of fair value.

The group is currently assessing the impact of application of these standards on the group's consolidated financial statements.

The group has also set up working groups to assess the financial and organisational implications and impact of IFRS 9, 10, 11 and 12.

2.2. Changes in accounting methods

CRC regulation no. 2009-03, on the accounting treatment of commissions and fees related to granting or acquiring loans, has been applied since the end of 2006, when BRED Banque Populaire adopted IFRS for the preparation of its consolidated financial statements.

It was therefore reported as a change in accounting method as at 1 January 2005. There was a change in the determination of the impact of this change of accounting method in 2012 which had for effect an increase of €9,898 thousand in shareholders' equity at 1 January 2011.

2.3. Use of estimates

Preparation of the financial statements requires management to make estimates and assumptions in certain areas with regard to uncertain future events.

These estimates using the data available at the closing date require the persons preparing the financial statements to use their judgements.

Actual future results may differ from these estimates.

Specifically with respect to the financial statements for the year ended 31 December 2012, accounting estimates drawing on assumptions concerned mainly the following measurements:

→ the fair value of financial instruments determined on the basis of valuation models *(note 4.1.6)*;

→ the amount of impairment of financial assets, and more specifically permanent impairment losses on available for sale assets and impairment losses on an individual basis or calculated on the basis of portfolios *(note 4.1.7)*;

→ provisions recorded under liabilities in the balance sheet and more specifically the provision for home savings products *(note 4.5)* and provisions for insurance contracts *(note 4.13)*;

→ calculations related to the cost of pensions and future employee benefits *(note 4.10)*.

→ deferred taxes *(note 4.12)*;

→ goodwill impairment testing.

2.4. Presentation of the consolidated financial statements and balance sheet date

As no specific format is required under IFRS, the presentation used by the group for the condensed statements follows Recommendation No. 2009 R 04 issued by the Conseil national de la comptabilité (CNC, the French national accounting board) on 2 July 2009.

The consolidated financial statements are based on the accounts for the year ended 31 December 2012. The group's consolidated financial statements for the year ended 31 December 2012 were approved by the Board of Directors on 18 March 2013. They will be presented to the General Meeting of Shareholders on 23 May 2013.

Following changes in the group's information systems in 2012, some data details in the income statement and in the notes to the financial statements have been changed for comparability purposes. The reclassifications in the income statements relate in particular to:

→ Interest and similar income and expense, in an amount of €4,277 thousand;

→ Income and expense on other activities, in an amount of €590 thousand.

In the statement of financial position, the opening column of shareholders' equity has been broken down differently and adjusted in an amount of €9,898 thousand as described in paragraph 2.2 following changes in some of the items included in the calculation of the effective interest rate on loans.

NOTE 3.

Consolidation scope

BRED Banque Populaire's consolidated financial statements include the financial statements of BRED Banque Populaire and all its material subsidiaries.

The concept of materiality is not applied by reference to monetary thresholds but results from a qualitative assessment of the significance of the contribution made by the entities to BRED Banque Populaire's consolidated financial statements.

The Amaren II debt securitisation fund was not consolidated for the reasons indicated below.

Forty-three companies were consolidated in 2012, of which thirty-eight were consolidated under the full method and five were accounted for as associates.

Changes in the consolidation scope since 1 January 2012:

→ Two new fully-consolidated subsidiaries: Bred Bank (Fiji) Ltd (Fiji Islands), NJR Finance BV (Netherlands).

→ Two new associates accounted for by the equity method: Acleda Bank (Cambodia) and BCEL (Laos).

[see table.]

Special purpose entities

Separate legal structures created specifically for the purpose of managing a transaction or group of similar transactions (special purpose entities) are consolidated when they are controlled by the group in substance, even when there are no capital ties.

Control in substance is assessed based on the following criteria:

→ the entity's activities are performed exclusively on the group's behalf, in such a manner as to benefit the group;

→ the group has decision-making and management powers over the entity's ordinary operations or over the assets that compose the entity; such powers may be delegated by putting in place a self-steering system;

→ BRED Banque Populaire is able to benefit from the majority of the advantages procured by the entity;

→ the group is exposed to the majority of the risk relating to the entity.

CONSOLIDATION SCOPE

	Nationality*	Voting interest (%)	Ownership interest (%)
CONSOLIDATED UNDER THE FULL METHOD			
Parent company			
BRED Banque Populaire – 18, quai de la Rapée – 75012 Paris	F		
Financial undertakings – Credit institutions			
Banque Franco Lao-23 Singha Road – 159 Nongbone – Vientiane-LAO	Fo	54.00	58.60
BCI Mer Rouge – place Lagarde – Djibouti	Fo	51.00	51.00
BIC BRED – 18, quai de la Rapée – 75012 Paris	F	99.95	99.95
BRED Bank Fiji Ltd – 96, Thomson Street – Suva – Fiji Islands	Fo	100.00	100.00
BRED Cofilease – 18, quai de la Rapée – 75012 Paris	F	100.00	100.00
BRED Gestion – 18, quai de la Rapée – 75012 Paris	F	100.00	100.00
BRED Vanuatu – Port Vila – Vanuatu	Fo	85.00	85.00
EPBF – 181, chaussée de la Hulpe – B1170 Brussels – Belgium	Fo	100.00	100.00
CMMOM – 36, rue Boisneuf – 97158 Pointe-à-Pitre	F	24.38	24.38
Socama BRED – 18, quai de la Rapée – 75012 Paris	F	100.00	7.52
Socama Normandie – 8, bld Salvador Allende – 27000 Évreux	F	100.00	7.16
Sofiag – 12 bd du général de Gaulle – 97242 Fort-de-France	F	100.00	100.00
Sofider – 3 rue Labourdonnais – 97400 Saint-Denis de La Réunion	F	100.00	100.00
Financial institutions other than credit institutions			
Cofibred – 18 quai de la Rapée – 75012 Paris	F	100.00	100.00
NJR Invest – 149, avenue Louise – 1050 Brussels – Belgium	Fo	100.00	100.00
NJR Finance – BV–Herengracht 450 – NL 1017 Amsterdam – Netherlands	Fo	100.00	100.00
Promepar Gestion – 18, quai de la Rapée – 75012 Paris	F	99.95	99.95
Other financial undertakings			
Brd China Ltd – 78 Yang He Yi Cun – Jiangbei Dt, Chongquing – China	Fo	100.00	100.00
Bercy Gestion Finance – 18, quai de la Rapée – 75012 Paris	F	99.96	99.96
Bercy Patrimoine – 18, quai de la Rapée – 75012 Paris	F	100.00	100.00
BGF + – 18, quai de la Rapée – 75012 Paris	F	100.00	100.00
BRED IT – Thai Wah Tower – Sathorn District – Bangkok – Thailand	Fo	100.00	100.00
Cofeg – 18, quai de la Rapée – 75012 Paris	F	99.94	99.94
Click and Trust – 18, quai de la Rapée – 75012 Paris	F	66.00	66.00
FCC Elide – 41, avenue de l'Opéra – 75002 Paris	F	100.00	100.00
FCT Eridan – 41, avenue de l'Opéra – 75002 Paris	F	100.00	100.00
Fipromer – 35, rue des Mathurins – 75008 Paris	F	100.00	100.00
Foncière du Vanuatu – Port Vila – Vanuatu	Fo	100.00	100.00
IRR Invest – 149, avenue Louise – 1050 Brussels – Belgium	Fo	100.00	100.00
LFI 4 – 18, quai de la Rapée – 75012 Paris	F	100.00	100.00
Perspectives et Participations – 18, quai de la Rapée – 75012 Paris	F	100.00	100.00
Prepar Courtage – Tour Franklin 92040 La Défense	F	99.40	99.40
SPIG – 18, quai de la Rapée – 75012 Paris	F	100.00	100.00
Vialink – 18, quai de la Rapée – 75012 Paris	F	100.00	100.00
Non-financial undertakings – Insurance			
Prepar Iard – Tour Franklin – 101 quartier Boïeldieu – 92040 La Défense	F	99.99	99.99
Prepar-Vie – Tour Franklin – 101 quartier Boïeldieu – 92040 La Défense	F	99.87	99.87
CONSOLIDATED UNDER THE PROPORTIONAL METHOD			
Credit institutions			
SBE – 7, rue Auguste Gervais – 92130 Issy-les-Moulineaux	F	50.00	50.00
CONSOLIDATED UNDER THE EQUITY METHOD			
Credit institutions			
ACLEDA – 61 PreahMonivong Blvd – Kahn Daun Penh – Cambodia	Fo	12.25	12.25
BCEL – 1, Pangkam street – Bang Xiengnheun, Vientiane – Lao	Fo	10.00	10.00
BCI – 54, avenue de la Victoire – 98849 Noumea	F	49.90	49.90
Socredo – 115, rue Dumont d'Urville – Papeete – Tahiti – Polynésia	F	15.00	15.00
Other non-financial companies			
Aurora – 149, avenue Louise – 1050 Brussels – Belgium	Fo		100.00

*F: French / Fo: Foreign

Specific case of the Amaren II debt securitisation fund

Given the specific nature of the Amaren II multi-assignor debt securitisation fund and in view of the fact that BRED holds all the units for the amount of the receivables assigned and risks borne, BRED has chosen to present on its balance sheet the securities held in the fund rather than the receivables assigned. The impact of this accounting choice is as follows:

(€000)	31/12/2012	31/12/2011
Gross amount of securitised receivables	158,857	198,304
Discount on securitised receivables	(10,462)	(10,462)
Cash	(3,398)	(951)
TOTAL ASSETS	144,997	186,891
Amaren II bonds in investment securities	144,997	186,891
Impact on equity: elimination of the discount	10,462	10,462

The Elide debt securitisation fund, created in 2007 and including the new Elide 2 and Elide 3 sub-funds, created in 2008 and 2011 respectively, and the Eridan debt securitisation fund, created in 2010, are consolidated using the full consolidation method.

NOTE 4.

Accounting principles and measurement methods

4.1. Financial assets and liabilities

4.1.1. Loans and receivables

Loans and receivables include loans and advances to credit institutions and customers as well as certain securities that are not quoted on an active market provided these securities are not held for trading purposes (see Note 4.1.2).

Loans and receivables are initially recorded at fair value plus any costs directly related to their issuance, less any proceeds directly attributable to issuance. On subsequent balance sheet dates, they are measured at amortised cost using the effective interest method.

The effective interest rate is the rate that discounts estimated future cash flows (payments or receipts) to the fair value of the loan at inception. This rate includes any discounts recorded in respect of loans granted at below-market rates, as well as any transaction income or costs directly related to the issuance of the loans, which are treated as an adjustment to the actual yield on the loan.

When loans are granted at below-market interest rates, a discount corresponding to the difference between the face value of the loan and the sum of future cash flows discounted to the market rate is deducted from the loan's face value. The market rate of interest is the rate applied by the vast majority of financial institutions at a given point in time for instruments and counterparties with similar characteristics.

In the case of loans restructured when the borrower encounters financial difficulties, a discount is applied to reflect the difference between the present value of the contractual cash flows at inception and the present value of expected principal and interest repayments after restructuring. The discount rate used is the original effective interest rate. This discount is expensed to 'Cost of risk' in the income statement and offset against the corresponding outstanding on the balance sheet. It is written back to net interest income on an actuarial basis in the income statement over the term of the loan. The discount is not recognised in cases where it is covered by impairment of the loan.

The internal costs included in the calculation of the effective interest rate are the variable costs directly related to origination of the loan. The BRED group has adopted a restrictive position whereby only the performance-related component of account managers' salary directly linked to origination of loans is included in the effective interest rate. No other internal costs are taken into account in the calculation of amortised cost.

External costs comprise essentially fees and commissions paid to third parties in connection with arrangement of the loans, mainly commissions paid to business providers.

Income directly attributable to the issuance of new loans principally comprises set-up fees charged to customers, rebilled costs and, if it is more probable than improbable that the loan will be drawn down, commitment fees. Commitment fees received on loans that will not result in any drawdowns are spread on a straight-line basis over the term of the commitment.

Expenses and income arising on loans with a term of less than one year at inception are spread on a pro rata basis with no recalculation of the effective interest rate. For floating or adjustable rate loans, the effective interest rate is recalculated at each interest rate fixing date.

Assets with payment arrears are performing financial assets that have recorded payment incidents. For example:

- a debt instrument may be in arrears when the bond issuer no longer pays the coupon;
- a loan is considered to be in arrears if one of the repayments has not been paid at accounting level;
- an overdrawn current account reported under 'Loans and advances' is considered to be in arrears if the authorised overdraft is exceeded or the overdraft authorisation has expired on the cut-off date.

4.1.2. Securities

Securities recorded as assets are classified into four categories as defined by IAS 39:

- financial assets at fair value through profit or loss;
- financial assets held to maturity;
- loans and receivables; and;
- available for sale financial assets.

Financial assets and liabilities at fair value through profit or loss

This category comprises:

- financial assets and liabilities held for trading, i.e. securities acquired or issued principally for the purpose of selling or repurchasing them in the near term; and;
- financial assets and liabilities that the BRED group has chosen to recognise at fair value though profit or loss at inception using the fair value option available under IAS 39.

The terms and conditions for applying this option are described in note 4.1.4 'Financial assets and liabilities designated at fair value through profit or loss'.

The initial fair value of the assets classified in this category is calculated based on the bid price. These assets are re-measured at fair value at each balance sheet date with any changes in fair value over the period recognised in 'Net gain or loss on financial instruments at fair value through profit or loss'.

Held to maturity financial assets

This category comprises securities with fixed or determinable payments and maturity that the group has the intention and ability to hold to maturity.

IAS 39 does not permit the sale or transfer of these securities before maturity except in certain specific circumstances. In all other instances, sale or transfer would expose the group to the risk of having to reclassify all financial assets held to maturity and of being barred from using this category for a period of two years. Exceptions to the rule apply in the following cases, inter alia:

- a significant deterioration in the issuer's credit quality;
- a change in tax regulations that cancels or significantly reduces the tax exemption on interest earned on investments held to maturity;
- a major business combination or a significant disposal (sale of a sector, for example) requiring the sale or transfer of held to maturity investments in order to maintain the entity's existing situation in terms of interest rate risk or its credit risk policy;
- a change in the legal or regulatory provisions that significantly modifies either the definition of an eligible investment or the limit on certain types of investment, requiring that the entity dispose of a held to maturity asset;
- a significant increase in capital requirements forcing the entity to restructure by selling held to maturity assets;
- a significant increase in the risk weighting of held to maturity assets in terms of prudential capital regulations.

In the exceptional cases described above, the income from the disposal is recorded under 'Net gains or losses on available for sale financial assets'.

Held to maturity assets may not be hedged against interest rate risk.

Financial assets held to maturity are recognised initially at fair value plus transaction costs. They are subsequently measured at amortised cost using the effective interest method, including any premiums, discounts and acquisition fees, where material.

Loans and receivables

This category comprises non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. This category may not include assets exposed to a risk of material losses unrelated to the deterioration in their credit quality.

Certain securities not quoted on an active market may be classified in this category. These securities are recognised initially at fair value, which corresponds to nominal value plus transaction costs minus any discount and transaction income. Subsequently, the same accounting, measurement and impairment loss recognition methods apply to these securities as for loans and receivables.

When a financial asset recorded under loans and receivables is sold before its maturity, the income from the disposal is recorded under 'Net gains or losses on available for sale financial assets'.

Available for sale financial assets

Available for sale financial assets are all securities not included in the categories above.

Available for sale financial assets are initially recognised at purchase cost, including transaction costs.

At the balance sheet date, they are measured at their fair value and changes in fair value are recorded as gains and losses recognised directly in equity (except for foreign currency money market securities, for which changes in the fair value of the foreign currency component are recognised in the income statement). The principles used to determine fair value are described in Note 4.1.6.

If these assets are sold, these changes in fair value are taken to profit or loss.

Income accrued or received on fixed income securities is recorded under 'Interest and similar income'. Income from variable-income securities is included under 'Net gains and losses on financial assets available for sale'.

Date of recognition

Securities are recognised on the balance sheet on the delivery-settlement date.

Rules applicable to partial disposals

The first-in, first-out (FIFO) method is applied to any partial disposals of securities.

4.1.3. Debt and equity instruments issued

Financial instruments issued by the group are classified as debt or equity instruments depending on whether or not the issuer has a contractual obligation to deliver cash or another financial asset to the holder, or to exchange the instrument under conditions that are potentially unfavourable. This obligation must arise from specific contractual terms and conditions, and not from purely economic constraints.

Debt securities issued

Debt instruments issued, if they have not been classified as financial liabilities at fair value through profit or loss, are recognised initially at their issue value including transaction costs. They are subsequently measured at amortised cost at each balance sheet date using the effective interest method.

These instruments are recognised on the balance sheet under 'Amounts due to credit institutions', 'Amounts due to customers' or 'Debt securities'.

Subordinated debt

Debt instruments issued, if they have not been classified as financial liabilities at fair value through profit or loss, are recognised initially at their issue value including transaction costs. They are subsequently measured at amortised cost at each balance sheet date using the effective interest method.

These instruments are recognised on the balance sheet under 'Amounts due to credit institutions', 'Amounts due to customers' or 'Debt securities'.

Members' shares

IFRIC 2, Members' shares in cooperative entities and similar instruments, clarifies the provisions of IAS 32. In particular, it specifies that the member's contractual right to request redemption does not, in itself, automatically give rise to an obligation for the issuer. The entity must take the contractual terms and conditions into consideration to determine its classification as a debt or equity for accounting purposes.

Based on this interpretation, members' shares are classified as equity if the entity has an unconditional right to refuse redemption of the members' shares or if applicable local laws, regulations or the entity's bylaws prohibit or severely restrict their redemption.

Based on the existing statutory provisions relating to minimum capital requirements, members' shares issued by the group are treated as equity.

4.1.4. Financial assets and liabilities designated at fair value through profit or loss by option

Under the amendment to IAS 39 adopted by the European Union on 15 November 2005, financial assets and financial liabilities may be designated at fair value though profit or loss on initial recognition. This decision is irrevocable.

Compliance with the conditions set forth in IAS 39 must be verified prior to recognition using the fair value option.

This option may be applied only under the specific circumstances described below:

Elimination or significant reduction of an accounting mismatch

Applying the option enables the elimination of accounting mismatches arising from different valuation methods being applied to instruments managed as part of the same strategy. This accounting treatment applies in particular to certain structured loans granted to local authorities.

Harmonisation of accounting treatment and performance management and measurement

The fair value option may be applied to a group of financial assets, financial liabilities or both that is managed and whose performance is evaluated on a fair value basis, on condition this is in accordance with a documented risk management or investment strategy and provided internal reporting is based on fair value measurement.

Financial instruments containing one or more embedded derivatives

An embedded derivative is a component of a financial or non-financial hybrid instrument that qualifies as a derivative. It must be separated from the host contract and accounted for as a derivative if the hybrid instrument is not measured at fair value through profit or loss, and if the economic characteristics and risks associated with the derivative are not closely related to those of the host contract.

The fair value option may be applied when the embedded derivative substantially modifies the host contract's cash flows and when the separate recognition of the embedded derivative is not specifically prohibited by IAS 39, e.g. the case of a redemption option embedded in a debt instrument. The option allows the entire instrument to be measured at fair value, avoiding the need to extract, recognise or measure separately the embedded derivative.

This accounting treatment applies in particular to certain structured issues containing significant embedded derivatives.

4.1.5. Derivative instruments and hedge accounting

A derivative is a financial instrument or other contract with the three following characteristics:

- its value changes in response to the change in a specific interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, this variable is not specific to one of the parties to the contract (sometimes called the 'underlying');
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that might be expected to have a similar response to changes in market conditions; and
- it is settled at a future date.

All derivative financial instruments are recognised on the balance sheet at the trade date and measured at fair value at inception. They are remeasured at their fair value at each balance sheet date regardless of whether they were acquired for trading or hedging purposes.

Except for derivate instruments designated as cash flow hedges for accounting purposes or as net investments in foreign operations, changes in fair value are recognised in profit and loss for the period.

Derivative financial instruments are classified into two categories:

Trading derivatives

Trading derivatives are reported in the balance sheet under "Financial assets at fair value through profit or loss" or under "Financial liabilities at fair value through profit or loss". Realised and unrealised gains and losses are recognised in the income statement under "Net gains and losses on financial instruments at fair value through profit or loss".

Hedging derivatives

For a derivative instrument to qualify as a hedging instrument for accounting purposes the hedging relationship must be documented at inception of the hedge (hedging strategy, the nature of the risk being hedged, identification and nature of the hedged item and hedging instrument); In addition, the effectiveness of the hedge must be demonstrated at inception and verified subsequently.

ACCOUNTING PRINCIPLES AND MEASUREMENT METHODS

Derivatives contracted as part of a hedging relationship are designated according to the purpose of the hedge.

Fair value hedges

Fair value hedges seek to reduce exposure to changes in the fair value of an asset or liability carried on the balance sheet, or a firm commitment, and in particular to hedge interest rate risk on fixed-rate assets and liabilities.

The gain or loss on the re-measurement of hedging instruments is recognised in profit and loss symmetrically with the gain or loss on the hedged item within the limit of the risk being hedged. The ineffective portion of the hedge, if any, is recorded in the income statement under "Net gains and losses on financial instruments at fair value through profit or loss".

Accrued interest on a derivative instrument is recognised in profit and loss symmetrically with the accrued interest on the hedged item.

Where identified assets or liabilities are hedged, the remeasurement of the hedged component is recognised on the same line of the balance sheet as the hedged item.

If a hedging relationship is discontinued (investment decision, failure to fulfil effectiveness criteria, or because the hedged item is sold before maturity), the hedging derivative is transferred to the trading portfolio. The re-measurement recorded on the balance sheet in respect of the hedged item is amortised over the residual life of the initial hedge. If the hedged item is sold before maturity or redeemed early, the cumulative amount of the re-measurement gain or loss is recognised in profit and loss for the period.

Cash flow hedges

The purpose of cash flow hedges is to hedge the exposure to cash flow fluctuations attributable to a particular risk associated with a recognised asset or liability or with a future transaction (hedging of interest rate risk on floating-rate assets or liabilities, hedging of conditions relating to future transactions such as future fixed interest rates, future prices, exchange rates, etc.).

The effective portion of changes in the fair value of the derivative instrument is recognised directly in equity under a specific heading recording gains and losses. The ineffective portion is recognised in the income statement under "Net gains and losses on financial instruments at fair value through profit or loss".

Accrued interest on the hedging derivative instrument is recognised in profit and loss symmetrically with the accrued interest on the hedged item and included in net interest income.

The hedged items continue to be accounted for using the treatment applicable to their specific asset category.

If a hedging relationship is discontinued (because the hedge no longer meets the effectiveness criteria, the derivative is sold or the hedged item ceases to exist), the cumulative amounts recognised in equity are transferred to the income statement as and when the hedged item has an impact on profit or loss, or immediately if the hedged item ceases to exist.

Documentation of cash flow hedges

Some group institutions classify their macro-hedges as cash flow hedges (hedging of portfolios of loans and borrowings).

In this case, the portfolios that may be hedged are assessed, for each band of maturity, by reference to:

→ assets and liabilities for which interest flows are currently uncertain (variable-rate loans receivable and payable). The entity incurs a risk of variability in future cash flows from floating-rate assets and liabilities insofar as future interest rate levels are not known in advance;

→ future transactions deemed to be highly probable (forecasts). Assuming total outstandings remain constant, the entity is exposed to the risk of variability in future cash flows on future fixed-rate loans insofar as the interest rate at which the loan will be granted is not yet known. Similarly, the entity may be exposed to the risk of variability in future cash flows on the refinancing that it will need to raise in the market.

IAS 39 does not permit the designation of a net position by maturity band, the hedged item being considered equivalent to a portion of one or more portfolios of identified adjustable-rate instruments (portion of outstanding floating-rate deposits or loans). The effectiveness of the hedges is measured by creating a "hypothetical" instrument for each maturity band and comparing changes in its fair value since inception with those of the derivatives documented as hedges.

The characteristics of this instrument are identical to those of the hedged item. Effectiveness is then assessed by comparing the changes in value of the hypothetical instrument with the actual hedging derivative instrument. This method requires the preparation of a schedule by maturity band.

Hedge effectiveness must be demonstrated both prospectively and retrospectively.

The hedge is effective prospectively if, for each target maturity band, the nominal amount of items to be hedged is higher than the notional amount of the hedging instruments.

The retrospective test verifies whether the hedging relationship was effective at the various balance sheet dates.

At each balance sheet date, changes in the mark-to-market value of hedging instruments, excluding accrued interest, are compared with those of the hypothetical derivative instruments. The ratio of their respective changes should be between 80% and 125%.

If the hedged item is sold or the future transaction is no longer highly probable, the cumulative unrealised gain or loss recognised in equity is transferred immediately to profit or loss.

When the hedging relationship ceases, if the hedged item is still shown on the balance sheet, the cumulative unrealised gains and losses are recognised in equity on a straight-line basis. If the derivative has not been cancelled, it is reclassified as a trading derivative, and subsequent changes in its fair value are recognised in profit or loss.

Documentation as fair value hedges

Some group entities document their macro-hedging as fair value hedges by applying the so-called carve-out arrangements under IAS 39 as adopted by the European Union.

The version of IAS 39 adopted for use by the European Union does not include certain hedge accounting provisions that appear incompatible with the strategies implemented by European banks to reduce overall exposure to interest rate risk. In particular, this "carve-out" allows entities to make use of hedge accounting for interbank interest rate risk on customer transactions at fixed rates (loans, savings accounts and demand deposits). Most of the group's macro-hedges involve plain vanilla interest rate swaps designated at inception as fair value hedges of fixed-rate deposits and loans.

Macro-hedging derivatives are accounted for in the same manner as described above for fair value micro-hedging.

In a macro-hedging relationship, net gains and losses on the revaluation of the hedged item are recorded in "Re-measurement adjustments on interest rate risk hedged portfolios".

The hedges are deemed effective if the derivatives offset the interest rate risk on the underlying fixed-rate portfolio.

Effectiveness is tested in two ways:

- asset-based testing: for plain-vanilla swaps designated as hedging instruments at inception, the group verifies prospectively at the date the instrument is designated as a hedge and retrospectively at each balance sheet date that there is no excess hedging;
- quantitative testing: for other swaps, the change in the fair value of the actual swap must offset the changes in the fair value of a hypothetical swap that exactly reflects the hedged part of the underlying item. These tests are performed prospectively at the date the instrument is designated as a hedge and retrospectively at each balance sheet date.

If a hedging relationship ceases, the revaluation adjustment is amortised on a straight-line basis over the remaining term of the initial hedge, if the hedged item has not been derecognised. It is taken directly to income if the hedged item is no longer recorded in the balance sheet. In particular, derivatives used for macro-hedging may be disqualified for hedge accounting purposes when the nominal amount of the hedged items falls below the nominal amount of the hedging instruments, for example in the case of the early reimbursement of loans or the withdrawal of deposits.

Hedges of a net investment in a foreign operation

The net investment in a foreign operation is the amount of the participating interest held by the consolidating entity in the net assets of the foreign operation.

The purpose of hedging a net investment in a foreign operation is to neutralise the foreign exchange effects of an investment in an entity whose functional currency is different from the consolidating entity's reporting currency. Net investment hedges are accounted for in the same manner as cash flow hedges.

Unrealised gains and losses initially recognised in equity are taken to profit or loss when the net investment is sold in full or in part.

4.1.6. Determination of fair value

General principles

Financial assets and financial liabilities at fair value through profit or loss and available for sale financial assets are measured at fair value on the balance sheet date. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The fair value of a financial instrument on initial recognition is normally equal to the transaction price, i.e., the fair value of the consideration given or received.

For financial instruments, the best indication of fair value is a quoted price in an active market. Entities must make use of quoted prices in active markets when this information is available.

When financial instruments are not quoted, fair value may be determined using appropriate valuation techniques that are generally accepted in the financial markets, with preference given to valuation methods that rely on observable market data rather than data specific to the entity.

Lastly, if adequate observable market data is not available, fair value may be determined using a valuation method that relies on internal models. The models used to this end must be calibrated at regular intervals by comparing their results to recent transaction prices.

Instruments measured based on (unadjusted) quoted prices in an active market (Level 1)

These instruments comprise in particular listed securities and derivatives, such as futures and options, that are actively traded on organised and identifiably liquid markets. All transactions effected by Natixis in listed markets fall into this category.

A market is considered active if the prices are easily and regularly available from a stock market, broker, trader, price provider or regulatory agency and these prices represent actual transactions regularly occurring in the market on an arm's length basis.

The absence of an active market and observable data may be documented on the basis of the following criteria:

- significant drop in transaction volumes and the level of market activity;
- considerable difficulties in obtaining quoted prices;
- limited number of contributors or no contribution by leading market participants;
- widely varying prices available at the same time from the different market participants;
- prices not at all representative of the asset's intrinsic value and/or large disparities between the bid and ask prices (wide bid-ask spread).

These criteria must be tailored to the characteristics of the assets in question and may be supplemented by any other evidence supporting the contention that the asset is no longer quoted in an active market. In the absence of recent transactions, this demonstration requires, in any event, judgment to be exercised in determining whether a market is active or not.

Over-the-counter instruments valued using recognised models and directly or indirectly observable data (Level 2)

Simple instruments

A number of products, notably over-the-counter derivatives, standard interest rate swaps, forward rate agreements, caps, floors and plain vanilla options, are measured using valuation models. The valuation obtained may rely on observable data and on models generally accepted by the market (such as discounted future cash flow method and interpolation techniques) for the financial instruments in question.

For these instruments, the extent to which models are used and data are observable has been fully documented.

Complex instruments

Certain complex and/or long-dated financial instruments are valued using a recognised internal model and market parameters derived from observable data such as yield curves, implied volatility levels of options and consensus data or data obtained from active over-the-counter markets.

The observable nature of the parameters has been demonstrated for all these instruments. In terms of methodology, the observability of these parameters is based on four mandatory criteria:

- they are derived from external sources (via a recognised intermediary if possible);
- they are updated regularly;

- they are representative of recent transactions; and
- their characteristics are identical to those of the transaction concerned.

The trading margin on these financial instruments is recognised immediately in profit or loss.

The fair value of instruments obtained using valuation models is adjusted to take into account counterparty, model and parameter risks.

Instruments measured using Level 2 inputs include:

- mostly over-the-counter simple derivatives;
- securities not listed on an active market whose fair value is determined using observable market data (for example using market data for listed peers or the earnings multiple method);
- shares or units of UCITS whose NAV is not determined and published on a daily basis but is reported regularly, or on which observable data from recent transactions can be obtained.

Over-the-counter instruments valued using unrecognised models or largely non-observable data (Level 3)

When the valuations obtained do not rely either on observable data or on models recognised as market standards, such valuations will be regarded as non-observable.

Recognition of day-one profit

Day-one profit generated on initial recognition of a financial instrument cannot be recognised in profit and loss unless the financial instrument can be measured reliably at inception. Financial instruments traded on active markets and instruments valued using accepted models based solely on observable market data are deemed to meet this condition.

In the case of certain structured products, generally put together to respond to a counterparty's specific needs, the valuation models may use data that are partially non-observable in active markets. On initial recognition of these instruments, the transaction price is deemed to reflect the market price, and the profit generated at inception (day-one profit) is deferred and taken to profit or loss over the period during which the valuation data are expected to remain non-observable.

When the valuation data become observable, or the valuation technique used becomes widely recognised and accepted, the portion of day-one profit neutralised on initial recognisition is taken to income.

Special cases

Fair value of financial instruments recognised at amortised cost

Financial instruments not carried at fair value on the balance sheet are measured using best-estimate models incorporating certain assumptions at the balance sheet date.

In certain cases, the carrying amount is deemed to be representative of market value. These include in particular:

- floating-rate assets and liabilities where changes in interest rates do not have a material impact on fair value and where credit risk sensitivity is not material during the period;
- short-term financial assets and liabilities (whose initial term is one year or less) to the extent that sensitivity to interest-rate and credit risk is not material during the period;
- liabilities repayable on demand; and
- transactions in a regulated market (particularly regulated savings products) whose prices are set by the public authorities.

Fair value of loan portfolio

The fair value of loans is determined using internal valuation models that discount future payments of recoverable principal and interest to their present value over the remaining loan term, at the interest rate at which loans are produced in a given month, for loans in the same category and with the same maturities. Early repayment options are factored into the model by adjusting loan repayment schedules.

Fair value of debt

The fair value of fixed-rate debt with a term of over one year owed to credit institutions and customers is deemed to be equal to the present value of future cash flows discounted at the market interest rate applicable at the balance sheet date.

4.1.7. Impairment of financial assets

Impairment of securities

With the exception of securities classified as financial assets at fair value through profit or loss, an impairment loss is recognised on an individual basis on securities when there is objective evidence of impairment resulting from one or more loss events having occurred after initial recognition of the asset and that the loss event (or events) has an impact that can be reliably estimated on the asset's estimated future cash flows.

The impairment rules differ depending on whether the securities are equity instruments or debt instruments.

For equity instruments, a lasting or significant decrease in value is objective evidence of impairment.

Based on the clarifications provided by IFRIC in July 2009 and the recommendations issued by the stock market regulators, the BRED Banque Populaire group has revised the criteria applied to determine impairment situations for listed equity instruments.

A decline of over 50% or lasting for over 36 months in the value of a security relative to its historical cost is now considered to be evidence of impairment, resulting in recognition of a loss.

Moreover, these impairment criteria are supplemented by a line-by-line review of the assets that have recorded a decline in value relative to their historical cost of over 30% or lasting more than six months or if events occur that could represent a material or prolonged decline. When the group estimates that the value of the asset will not be recovered in full, an impairment loss is recognised in the income statement.

In the case of unlisted equity instruments, a qualitative analysis of their situation is performed using the valuation methods described in Note 4.1.6.

Impairment losses recognised on equity instruments may not be reversed and may not be written back to income. These losses are reported under "Net gains and losses on available for sale financial assets". Any unrealised gains subsequent to recognition of impairment losses are deferred and taken to equity until disposal of the securities.

Impairment losses are recognised in respect of bonds and securitised transactions (asset backed securities, commercial mortgage-backed securities, residential mortgage-backed securities, cash collateralised debt obligations) when there is a known counterparty risk.

The impairment indicators used for debt securities are the same as those used for individually assessing the impairment risk on loans and receivables, irrespective of the portfolio into which the debt securities are ultimately classified. For undated deeply subordinated notes, particular attention is also paid if, under certain conditions, the issuer may be unable to pay the coupon or extend the issue beyond the scheduled redemption date.

Impairment losses in respect of debt securities may be reversed in the income statement if there is an improvement in the issuer's situation. Impairment losses and reversals are recognised in the income statement under "Cost of risk".

Impairment of loans and receivables

IAS 39 defines the methods for calculating and recognising impairment of loans.

A loan or receivable is impaired if the following two conditions are met:

- there is objective evidence of impairment on an individual or portfolio basis, in the form of "triggering events" or "loss events" that identify counterparty risk occurring after initial recognition of the loans in question. On an individual level, the criteria for deciding whether or not a credit risk has been incurred include the existence of payments past due by more than three months (six months for real estate and nine months for loans to local authorities) or, independently of the existence of a missed payment, the existence of a known credit risk or a dispute.
- these events generate incurred losses on estimated future cash flows for loans and these losses can be reliably measured.

Impairment is determined as the difference between the amortised cost and the recoverable amount, i.e., the present value of estimated recoverable future cash flows taking into account the impact of any collateral. For short-term assets (maturity of less than one year), future cash flows are not discounted. Impairment is determined globally, without distinguishing between interest and principal.

Probable losses arising from off-balance sheet commitments are taken into account through provisions recognised on the liability side of the balance sheet.

Two types of impairment are recognised in the cost of risk:

- impairment on an individual basis;
- impairment on a portfolio basis.

Impairment on an individual basis

Impairment is calculated for each receivable on the basis of repayment schedules, determined by reference to collection experience for each category of receivable. Collateral is taken into account for determining the amount of impairment, and, when collateral fully covers the risk of default, no impairment is recognised.

Impairment on a portfolio basis

Impairment on a portfolio basis covers outstandings not impaired on an individual basis. In accordance with IAS 39, these are grouped in portfolios based on similar credit risk characteristics that are collectively tested for impairment.

The outstandings of the Banques Populaires and Caisses d'Epargne are grouped by similar items according to their sensitivity to changes in risk based on the group's internal ratings system. The impairment test is applied to portfolios linked to counterparties whose ratings have considerably deteriorated since approval and which are therefore considered to be sensitive. These outstandings are impaired, although the credit risk cannot be individually allocated to the counterparties making up these portfolios and to the extent that there is objective evidence that they have collectively lost value.

The impairment amount is calculated using historical data on the probability of default at maturity and expected losses, where necessary adjusted to factor in the circumstances prevailing on the balance sheet date.

This approach may be supplemented by sector or geographical analysis generally based on expert appraisal, taking into account various economic factors intrinsic to the loans and receivables in question. Portfolio-based impairment is calculated based on expected losses at maturity across the identified group.

4.1.8. Reclassements d'actifs financiers

Several types of reclassification are authorised:

→ Reclassifications authorised prior to the amendments to IAS 39 and IFRS 7 adopted by the European Union on 15 October 2008:

These include in particular the reclassification of "Available for sale financial assets" as "Held to maturity financial assets":

Any fixed-income security with a set maturity date defined as a "Held to maturity financial asset" may be reclassified if the group changes its management intention and decides to hold the security to maturity. The group must also have the ability to hold this instrument to maturity.

→ Reclassifications authorised since the amendments to IAS 39 and IFRS 7 adopted by the European Union on 15 October 2008:

These standards define the conditions for reclassifying non-derivative financial assets at fair value (with the exception of those initially designated at fair value through profit or loss) to other categories:

– Reclassification of trading securities as "Available for sale financial assets" or "Held to maturity financial assets".

Any non-derivative financial asset may be reclassified whenever the group can demonstrate the existence of "rare circumstances" justifying such reclassification. Note that the IASB classed the financial crisis in the second half of 2008 as a "rare circumstance".

Only securities with fixed or determinable income may be reclassified as "Held to maturity financial assets". Furthermore, the entity must have the intention and ability to hold these instruments to maturity. Instruments included in this category may not be hedged against interest rate risk.

– Reclassification of trading securities or available for sale securities as "Loans and receivables".

Any non-derivative financial asset meeting the definition of "Loans and receivables" and, in particular, any fixed-income instrument not quoted in an active market may be reclassified if the group changes its management strategy and decides to hold the instrument for the foreseeable future or to maturity. The group must also have the ability to hold this instrument over the medium to long term.

Reclassifications are made at fair value at the reclassification date. For instruments transferred to categories measured at amortised cost, this fair value becomes their new amortised cost.

A new effective interest rate is then calculated at the reclassification date so as to bring this new amortised cost into line with the redemption value, which implies that the instrument has been reclassified at a discount.

For securities previously classified as available for sale financial assets, the impact of spreading the discount over the residual life of the security will generally be offset by the amortisation of the unrealised loss recognised directly in equity under gains and losses at the reclassification date and written back to income on an actuarial basis.

If an impairment loss is recognised after the reclassification of a security previously classified as an available for sale financial asset, the unrealised loss recognised directly in equity under gains and losses at the reclassification date is immediately written back to income.

4.1.9. Derecognition of financial assets and liabilities

A financial asset (or group of similar financial assets) is derecognised when the contractual rights to the asset's future cash flows have expired or when such rights are transferred to a third party, together with substantially all of the risks and rewards associated with ownership of the asset.

In such cases, an asset or liability reflecting the rights and obligations created or retained in the transfer of the asset (or group of assets) is recognised separately.

When a financial asset is derecognised in full, a gain or loss on disposal is recorded in the income statement reflecting the difference between the carrying amount of the asset and the consideration received.

If control of the transferred asset is retained, the group continues to recognise the transferred asset to the extent of its continuing involvement in the asset.

If all the conditions for derecognising a financial asset are not met, the group keeps the asset in the balance sheet and records a liability representing the obligations arising when the asset is transferred.

A financial liability (or a part of a financial liability) is removed from the balance sheet only when it is extinguished, which is to say when the obligation specified in the contract is discharged or cancelled or expires.

Repurchase agreements

The securities are not derecognised in the assignor's accounts. A liability representing the commitment to return the funds received is identified and recognised under "Securities sold under repurchase agreements". This represents a financial liability recognised at amortised cost, not at fair value.

The assets received are not recognised in the assignee's books, but a receivable on the assignor is recognised representing the funds lent. The amount disbursed in respect of the asset is recognised under "Securities received under repurchase agreements".

On subsequent balance sheet dates, the securities continue to be accounted for by the assignor in accordance with the rules applicable to the category in which they were initially classified. The purchaser recognises the nominal value of the receivable under "Loans and receivables".

Securities lending

Securities lending/borrowing transactions do not qualify as transfers of financial assets within the meaning of IFRS. Accordingly, these transactions do not lead to derecognition of the securities lent, which continue to be recognised in the category in which they were initially classified and valued accordingly. Borrowed securities are not recognised in the borrower's balance sheet.

Restructuring of financial assets

The group considers that restructurings resulting in substantial changes in the asset warrant derecognition, to the extent that the rights to the initial cash flows have in substance expired. This is the case in particular of:

→ restructurings resulting in a change of counterparty, particularly where the new counterparty's credit rating is very different from that of the former counterparty;

→ restructurings aimed at changing from a highly structured indexation to a simple indexation, to the extent that the two assets do not bear the same risks.

Restructuring of financial liabilities

A substantial change in the terms of an existing debt instrument must be recognised as extinction of the old debt and its replacement by a new debt. To assess the substantial nature of the change, IAS 39 sets a threshold of 10% based on discounted cash flows including any expenses and fees: when the difference is 10% or more, all the costs and expenses incurred are recognised in profit or loss when the debt is extinguished.

The group considers that there are other changes that can be considered substantial, such as a change of issuer (even within a same group) or a change of currency.

4.2. Investment property

In accordance with IAS 40, investment property is property held to earn rentals or for capital appreciation.

The accounting treatment for investment property is the same as that used for property, plant and equipment (see note 4.3) for all group entities except for insurance entities, which recognise the property representing insurance investments at fair value, with any adjustment to fair value recorded in income. The fair value is obtained using a multi-criteria approach based on the capitalisation of rents at the market rate and a comparison with market transactions.

The fair value of the group's investment property is based on regular expert appraisals, except in special circumstances with a material impact on the value of the property.

Investment property leased under an operating lease may have a residual value that will reduce the depreciable amount of the asset.

Gains and losses on the disposal of investment property are taken to profit and loss and reported under "Income from other activities" or "Expenses on other activities".

4.3. Non-current assets

This heading includes operating property, plant and equipment, equipment acquired under operating leases, long-term assets acquired under finance leases and temporarily unrented assets held under finance leases. Interests in non-trading real estate companies (SCIs) are accounted for as property, plant and equipment.

In accordance with IAS 16 and IAS 38, property, plant and equipment and intangible assets are recognised when:

➔ it is probable that the future economic benefits associated with the assets will accrue to the enterprise; and

➔ the cost of the asset can be measured reliably.

Property, plant and equipment and intangible assets used in operations are initially recognised at cost plus any directly attributable acquisition costs. Software developed internally that fulfils the criteria for recognition as a non-current asset is recognised at its production cost, which includes external charges and the personnel expenses that can be directly assigned to the project.

The component-based approach is applied to all buildings.

After initial recognition, non-current assets are measured at cost less any accumulated depreciation or amortisation and impairment losses. The depreciable amount of the asset takes into account its residual value where this is material and can be measured reliably.

Non-current assets are depreciated or amortised according to the time over which the asset's expected economic benefits are consumed by the entity, which generally corresponds to the asset's useful life. Where a non-current asset consists of a number of components that have different uses or procure different economic benefits, each component is depreciated or amortised over the period corresponding to the useful life of that component.

The depreciation and amortisation periods used by the group are as follows:

➔ Facades, roofing and waterproofing: 20 to 40 years;

➔ Foundations and framework: 30 to 60 years;

➔ Renovations: 10 to 20 years;

➔ Technical equipment and installations: 10 to 20 years;

➔ Fixtures and fittings: 8 to 15 years.

The useful life of other items of property, plant and equipment generally ranges from five to ten years.

Non-current assets are tested for impairment when there is evidence at the balance sheet date that their value might be impaired. If there is such evidence, the asset's recoverable amount is determined and compared with its carrying amount. If the asset's value has been impaired, an impairment loss is recognised in the income statement.

This loss is reversed in the event of a change in the estimated recoverable amount or if there is no longer any evidence of impairment.

The accounting method applied to property, plant and equipment and intangible assets used in operations and financed using finance leases is described in note 4.9.

Assets made available to third parties under operating leases are reported under "Property, plant and equipment" when they are movable property.

4.4. Assets held for sale and associated liabilities

Where a decision is made to sell non-current assets and it is highly probable that the sale will occur within 12 months, these assets are shown separately on the balance sheet under "Non-current assets held for sale". Any liabilities associated with these assets are also shown separately in the balance sheet under "Liabilities associated with non-current assets held for sale".

Upon classification in this category, non-current assets are no longer depreciated or amortised and are measured at the lower of carrying amount and fair value less costs to sell. Financial instruments continue to be measured in accordance with IAS 39.

4.5. Provisions

Provisions other than those relating to employee benefit obligations, home savings products, off-balance sheet commitments and insurance contracts relate mainly to claims and litigation, fines and penalties, tax risks and restructurings.

Provisions are liabilities whose maturity or amount is uncertain but may be reliably estimated. They represent legal or constructive obligations resulting from a past event whose settlement is likely to require an outflow of resources.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

Provisions are discounted when the impact of discounting is material.

Allowances to and reversals of provisions are recognised in the income statement on the line items corresponding to the type of future expenditure provisioned.

Commitments in respect of regulated home savings products

Regulated home savings accounts (comptes d'épargne logement, CEL) and regulated home savings plans (plans d'épargne logement, PEL) are investment products marketed in France and governed by the 1965 law on home savings plans and accounts, and subsequent enabling decrees.

Regulated home savings products generate two types of obligations for the banks marketing them:

- ➔ an obligation to provide a loan to the customer in the future at a rate set on inception of the contract (for PEL products) or at a rate contingent upon the savings phase (for CEL products);
- ➔ an obligation to pay interest on the savings in the future at a rate set on inception of the contract for an indefinite period (for PEL products) or at a rate set on a half-yearly basis according to an indexing formula regulated by law (for CEL products).

Obligations with potentially unfavourable consequences are measured for each generation of regulated home savings plans and for regulated home savings accounts as a whole.

A provision is recognised for the associated risks by discounting future potential results from at-risk outstandings:

- ➔ at-risk savings correspond to the uncertain future level of savings for plans in existence at the date the provision is calculated. This is estimated on a statistical basis for each future period taking into account historical customer behaviour patterns, and corresponds to the difference between the probable outstandings and the minimum expected savings;
- ➔ at-risk loans correspond to the outstanding loans granted but not yet due at the calculation date plus statistically probable loan outstandings based on historical customer behaviour patterns as well as earned and forecast rights relating to regulated home savings accounts and plans.

Earnings of future periods during the savings phase are estimated, for a given generation of contracts, based on the difference between the regulated rate offered and the expected interest accruing on a rival savings product on the market.

Earnings for future periods from the loan phase are estimated based on the difference between the fixed rate agreed at inception for PEL contracts or a rate contingent on the savings phase for CEL contracts, and the expected interest rate for home loans in the non-regulated sector.

Where the algebraic sum of the group's estimated future obligations in respect of the savings and loan phases of any generation of contracts indicates a potentially unfavourable situation for the group, a provision is recognised, with no offset between the different generations. The obligations are estimated using the Monte Carlo method in order to reflect the uncertainty of future interest rate trends and their impact on customer behaviour models and at-risk outstandings.

These provisions are recognised under liabilities in the balance sheet and changes are recorded in net interest income.

4.6. Interest income and expense

Interest income and expense are recognised on all financial instruments measured at amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

The effective interest rate calculation takes into account all transaction costs and income as well as premiums and discounts. Transaction costs and income forming an integral part of the effective interest rate of the contract, such as loan set-up fees and commissions paid to financial intermediaries, are treated as additional interest.

4.7. Fees and commissions

Fees and commissions are recorded in the income statement by type of service provided and according to the method used to recognise the associated financial instrument:

- commissions payable on recurring services are spread in profit and loss over the period in which the service is provided (commission on payment instruments, security custody fees, etc.);
- commissions payable on occasional services are recognised in full in profit and loss when the service is provided (fund transfer fees, payment penalties, etc.); and
- commissions payable on execution of a significant transaction are recognised in full in profit and loss on completion of the transaction.

Fees and commissions that are an integral part of the effective interest rate of a financial instrument, such as fees on commitments given and loan origination fees, are recognised and amortised as an adjustment to the loan's effective interest rate over the loan's estimated life. Accordingly these fees and commission are reported as a component of interest income, not under "Fees and commissions".

Fiduciary and similar fees and commissions are those that result in assets being held or invested on behalf of individual customers, pension schemes or other institutions. In particular, fiduciary transactions cover asset management and custody activities performed on behalf of third parties.

4.8. Foreign currency transactions

The method used to account for foreign currency transactions entered into by the group depends on whether the assets and liabilities arising from these transactions are monetary or non-monetary items.

At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are converted at the prevailing exchange rate into the functional currency of the group entity on whose balance sheet they are recognised. The resulting foreign exchange gains and losses are recognised in income, except in the following two cases:

- only the portion of the foreign exchange gains and losses calculated based on the amortised cost of available for sale financial assets is recognised in income, with any additional gains and losses being recognised in equity;
- foreign exchange gains and losses arising on monetary items designated as cash flow hedges or as part of a net investment in a foreign operation are recognised in equity.

Non-monetary assets carried at historical cost are translated using the exchange rate at the transaction date, while non-monetary assets measured at fair value are translated using the exchange rate at the balance sheet date. Foreign exchange gains and losses on non-monetary items are recognised in income if gains and losses relating to the items are recorded in income, and in equity if gains and losses relating to the items are recorded in equity.

4.9. Finance leases and related items

Leases are analysed to determine whether in substance and economic reality they are finance leases or operating leases.

4.9.1. Finance leases

A finance lease is a lease that transfers to the lessee substantially all the risks and rewards inherent in ownership of an asset. It is treated as a loan granted by the lessor to the lessee in order to finance the purchase of an asset.

IAS 17 ("Leases") gives five examples of situations that enable a finance lease to be distinguished from an operating lease:

- the lease transfers ownership of the asset to the lessee at the end of the lease term;
- the lessee has the option to purchase the asset at a price sufficiently below the asset's expected fair value at the end of the contract for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- the leased assets are of such a specialised nature

that only the lessee can use them without major modifications.

IAS 17 also describes three indicators of situations that could lead to a lease being classified as a finance lease:

- when the lessee cancels the lease and the lessor's losses associated with the cancellation are borne by the lessee (capital loss on the asset, etc.);
- when gains or losses from fluctuations in the fair value of the residual value accrue to the lessee;
- when the lessee has the ability to continue the lease at a rent that is substantially below the market rate.

At the inception of the contract, the finance lease receivable is recorded on the lessor's balance sheet in an amount equal to the net investment in the lease, which corresponds to the minimum payments receivable from the lessee discounted at the interest rate implicit in the lease plus any unguaranteed residual value accruing to the lessor.

IAS 17 requires unguaranteed residual values to be reviewed on a regular basis. If there is a reduction in the estimated unguaranteed residual value, the income allocation over the lease term is revised (calculation of a new payment schedule). Any reduction in respect of amounts accrued is recognised immediately in income and any reduction in respect of future amounts is recognised by revising the interest rate implicit in the lease.

Impairment charges for finance leases are determined using the same method as that described for loans and receivables.

Finance lease income corresponding to interest is recognised in the income statement under "Interest and similar income". It is recognised using the interest rate implicit in the lease in such a way as to produce a constant periodic rate of return on the lessor's net investment in the finance lease. The rate of return implicit in the lease is the discount rate that makes the following two items equal:

- the present value of the minimum lease payments receivable by the lessor plus the unguaranteed residual value, and
- the initial value of the asset (i.e. fair value at inception of the lease, plus any direct initial costs comprising expenses incurred specifically by the lessor to set up the lease).

In the lessee's financial statements, finance leases with purchase options are treated as the purchase of a non-current asset financed by a loan.

4.9.2. Operating leases

An operating lease is a lease under which substantially all the risks and rewards of ownership of an asset are not transferred to the lessee.

In the lessor's financial statements, the asset is recognised under property, plant and equipment and depreciated on a straight-line basis over the lease term. The depreciable amount does not take into account the residual value of the asset. Rent is recognised in income over the lease term.

The leased asset is not recognised on the balance sheet of the lessee. Lease payments are recognised in income on a straight-line basis over the lease term.

4.10. Employee benefits

The group grants its employees a variety of benefits that fall into the four categories described below:

4.10.1. Short-term employee benefits

Short-term benefits include mainly salaries, paid annual leave, mandatory and discretionary profit sharing and bonuses payable within 12 months of the end of the period in which the employees render the related service.

They are recognised as an expense for the period, including amounts remaining due at the balance sheet date.

4.10.2. Long-term benefits

Long-term employee benefits are generally linked to length of service accruing to current employees and payable more than 12 months after the end of the period concerned; these include in particular long-service awards.

A provision is recognised based on the estimated value of the obligations at the balance sheet date.

These obligations are valued using an actuarial method that takes into account demographic and financial assumptions such as age, length of service, the likelihood of continuing service at the allocation date and the discount rate. The calculation spreads costs over the working life of each employee (projected unit credit method).

4.10.3. Termination benefits

Termination benefits are granted to employees on termination of their employment contract before the normal retirement date, either as a result of a decision by the group to terminate a contract or a decision by an employee to accept voluntary redundancy. A provision is set aside for termination benefits. Termination benefits payable more than 12 months after the balance sheet date are discounted to present value.

4.10.4. Post-employment benefits

Post-employment benefits include retirement indemnities, pensions and other post-employment benefits.

These benefits fall into two categories:

→ defined contribution plans, which do not give rise to obligations on the part of the group needing to be provisioned;

→ and defined benefit plans, which give rise to an obligation for the group that needs to be measured and provisioned.

The group records a provision in liabilities for employee benefit obligations that are not funded by contributions charged to income and paid out to pension funds or insurance companies.

The valuation method used is the same as for long-term benefits.

The amount provisioned in respect of these obligations takes into account the value of plan assets and unrecognised net actuarial gains and losses.

Actuarial gains and losses on post-employment benefits, arising from changes in actuarial assumptions (early retirement, discount rate, etc.) or experience adjustments (return on plan assets, etc.) are amortised for the portion that falls outside a range of plus or minus 10% of the obligations or plan assets (corridor method).

The annual expense recognised in respect of defined-benefit plans includes the current service cost, interest cost (the effect of discounting the obligations), the expected return on plan assets and, if applicable, the amortisation of any unrecognised items.

4.11. Share-based payments

Share-based payments are those based on shares issued by the group, regardless of whether transactions are settled in the form of equity or cash, the value of which fluctuates in line with the share price.

The cost to the group is calculated on the basis of the fair value at the grant date of the share purchase or subscription options granted by certain subsidiaries. The total cost of the plan is determined by multiplying the unit value of the option by the estimated number of options that will have vested at the end of the vesting period, taking into account the likelihood that the grantees will still be employed by the group, and of any non-market performance conditions that may affect the plan.

The cost to the group is recognised in income from the date the employees are notified of the plan, without waiting for the vesting conditions, if any, to be satisfied (for example, in the case of a subsequent approval process), or for the beneficiaries to exercise their options.

The corresponding adjustment for the expense recorded under equity-settled plans is an increase in equity.

For cash-settled plans, in respect of which the group recognises a liability, the cost corresponds to the fair value of the liability. This amount is taken to income over the vesting period and a corresponding fair value adjustment is booked to a debt account at each balance sheet date.

4.12. Deferred tax

Deferred taxes are recognised when temporary differences arise between the carrying amount of assets and liabilities on the balance sheet and their tax base, regardless of the date at which the tax becomes due or is recoverable.

Deferred tax is calculated applying the tax regulations and tax rates set forth in the tax laws in force and which will apply when the tax becomes due or is recovered.

Deferred tax assets and liabilities are offset at the level of each tax entity, which may be the company itself or the tax group to which it belongs if there is one. Deferred tax assets are recognised only to the extent that it is probable that the entity concerned can recover them in the foreseeable future.

Deferred taxes are recognised as a tax benefit or expense in the income statement, except for those relating to:

→ unrealised gains or losses on available for sale financial assets;

→ and changes in the fair value of derivatives used as cash flow hedges, for which the corresponding deferred taxes are recognised as unrealised gains and losses directly in equity.

Deferred taxes are not discounted to their present value.

4.13. Insurance activities

The financial assets and liabilities of insurance companies are accounted for in accordance with IAS 39. They are classified in the categories defined by this standard and their measurement and accounting complies with the requirements of this standard.

To a large extent, insurance liabilities continue to be valued in accordance with French generally accepted accounting principles pending amendments to the current requirements of IFRS 4.

In accordance with Phase I of IFRS 4, insurance contracts are classified into three categories:

- contracts that expose the insurer to an insurance risk within the meaning of IFRS 4: this category comprises policies covering personal risk insurance, pensions, property and casualty insurance, and unit-linked savings policies carrying a minimum guarantee. Technical reserves in respect of these contracts continue to be measured in accordance with local GAAP;
- financial contracts such as savings schemes that do not expose the insurer to an insurance risk are recognised in accordance with IFRS 4 if they contain a discretionary participation feature. Technical reserves in respect of these contracts also continue to be measured in accordance with local GAAP;
- financial contracts without a discretionary profit-sharing feature such as contracts invested exclusively in units of account, not part of a euro fund and without a minimum guarantee, are accounted for in accordance with IAS 39.

Most of the financial contracts issued by the group's subsidiaries contain discretionary profit-sharing features in favour of holders.

The discretionary profit-sharing feature grants life insurance policyholders the right to receive a share of the financial income generated, in addition to the guaranteed benefits. For these contracts, in accordance with the shadow accounting principles defined in IFRS 4, the deferred participation reserve is adjusted to include the policyholders' rights to a share of unrealised gains or their participation in unrealised losses on financial instruments measured at fair value in accordance with IAS 39. The share of gains attributable to policyholders is determined on the basis of the characteristics of the contracts likely to generate such gains.

Any change in the deferred participation reserve is recognised in equity for the portion representing changes in the value of available for sale financial assets and in profit and loss for that portion representing changes in the value of financial assets at fair value through profit or loss.

In addition to the application of the above policies, the group performs a liability adequacy test at each balance sheet date to assess whether recognised insurance liabilities are adequate, based on the estimated present value of future cash flows from its insurance contracts and investment contracts containing a discretionary profit-sharing feature. This test shows the economic value of the liabilities corresponding to the average derived from stochastic analyses. If the sum of the surrender value and the deferred profit-sharing is lower than the fair value of the technical reserves, the shortfall is recognised in income.

NOTE 5.

Notes to the statement of financial position

5.1. Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value through profit or loss comprise instruments held for trading, including derivatives, and certain assets and liabilities that the group has chosen to recognise at fair value, at their date of acquisition or issue, using the fair value option available under IAS 39.

5.1.1. Financial assets at fair value through profit or loss

(€000)	31/12/2012			31/12/2011		
	Trading	Fair value option	Total	Trading	Fair value option	Total
Treasury bills and similar securities	2,250,229		2,250,229	1,487,343		1,487,343
Bonds and other fixed-income securities	1,314,441	39,868	1,354,309	2,543,671	42,975	2,586,646
Fixed-income securities	**3,564,670**	**39,868**	**3,604,538**	**4,031,014**	**42,975**	**4,073,989**
Shares and other variable-yield securities	**71,669**	**1,418,912**	**1,490,581**	**55,992**	**234,241**	**290,233**
Loans to credit institutions						
Loans to customers						
Loans						
Repurchase agreements						
Trading derivatives	**369,684**		**369,684**	**259,944**		**259,944**
Total financial assets at fair value through profit or loss	**4,006,023**	**1,458,780**	**5,464,803**	**4,346,950**	**277,216**	**4,624,166**

Conditions for designating financial assets at fair value through profit or loss

(€000)	Accounting mismatches	Fair value measurement	Embedded derivatives	Financial assets designated at fair value
Fixed income securities		39,868		**39,868**
Shares and variable-yield securities		1,418,912		**1,418,912**
Repurchase agreements				
Total		**1,458,780**		**1,458,780**

Loans and receivables designated at fair value through profit or loss, and credit risk

(€000)	31/12/2012				3/12/2011			
	Credit risk exposure	Associated credit derivatives	Changes in fair value attributable to credit risk	Changes in fair value of associated credit derivatives	Credit risk exposure	Associated credit derivatives	Changes in fair value attributable to credit risk	Changes in fair value of associated credit derivatives
Loans to credit institutions								
Loans to customers								
Total								

NOTES TO THE STATEMENT OF FINANCIAL POSITION

5.1.2. Financial liabilities at fair value through profit or loss

(€000)	31/12/2012	31/12/2011
Repurchase agreements		
Other financial liabilities	397,276	957,741
Financial liabilities held for trading	**397,276**	**957,741**
Trading derivatives	**592,512**	**525,591**
Interbank term accounts and loans		
Customer term accounts and loans		80,610
Debt securities		
Subordinated debt		
Repurchase agreements		
Other financial liabilities		
Financial liabilities designated at fair value through profit or loss		**80,610**
Total financial liabilities at fair value through profit or loss	**989,788**	**1,563,942**

Conditions for designating financial liabilities at fair value through profit or loss

(€000)	Accounting mismatches	Fair value measurement	Embedded derivatives	Financial liabilities designated at fair value
Interbank term accounts and loans				
Customer term accounts and loans				
Debt securities				
Subordinated debt				
Repurchase agreements				
Total				

Financial liabilities designated at fair value through profit or loss, and credit risk

(€000)	31/12/2012				31/12/2011			
	Fair value	Contractual amount due at maturity	Difference	Difference attributable to credit risk	Fair value	Contractual amount due at maturity	Difference	Difference attributable to credit risk
Interbank term accounts and loans								
Customer term accounts and loans					80,610	80,610		
Debt securities								
Subordinated debt								
Repurchase agreements								
Total					**80,610**	**80,610**		

5.1.3. Trading derivatives

The notional amounts of derivative instruments are merely an indication of the volume of the Group's business in these instruments and do not reflect the market risks associated with such instruments. The positive and negative fair values represent the cost of replacing these instruments, and may fluctuate significantly in response to changes in market parameters.

(€000)	31/12/2012			31/12/2011		
	Notional	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value
Interest rate instruments	278,253,398	283,396	521,870	249,350,214	195,638	402,620
Equity instruments	3,393			1		
Currency instruments	5,182,667	26,876	7,635	13,475,435	(15)	68,940
Other instruments				3,166	35,008	2,635
Forward transactions	**283,439,458**	**310,272**	**529,505**	**262,828,816**	**230,631**	**474,195**
Interest rate instruments	6,374,659	38,915	44,042	7,119,742	16,070	9,832
Equity instruments	95,484	15,385	17,310	106,042	1	14,877
Currency instruments	160,231	1,530	472	253,477	1,237	26,687
Other instruments						
Options	**6,630,374**	**55,830**	**61,824**	**7,479,261**	**17,308**	**51,396**
Credit derivatives	**338,985**	**3,582**	**1,183**	**506,511**	**12,005**	
Total trading derivatives	**290,408,817**	**369,684**	**592,512**	**270,814,588**	**259,944**	**525,591**

5.2. Hedging derivatives

Derivatives only qualify as hedges if they meet the criteria set out in IAS 39 at inception and throughout the term of the hedge. In particular, there must be formal documentation showing that the hedging relationship between the derivative and the hedged item is both prospectively and retrospectively effective.

Fair value hedges consist mainly of interest rate swaps used to hedge fixed-rate instruments against changes in fair value due to changes in market interest rates. They transform fixed-rate assets or liabilities into variable-rate instruments and include mostly hedges of fixed-rate loans, securities, deposits and subordinated debt.

Fair value hedging is also used to manage overall interest rate risk.

Cash flow hedges are used to fix or control the variability of cash flows from variable-rate instruments.

Cash flow hedges are also used to manage overall interest rate risk.

(€000)	31/12/2012			31/12/2011		
	Notional amount	**Positive fair value**	**Negative fair value**	**Notional amount**	**Positive fair value**	**Negative fair value**
Interest rate instruments	15,152,478		775,245	6,943,294		203,820
Currency instruments						
Other instruments						
Futures and forwards	**15,152,478**		**775,245**	**6,943,294**		**203,820**
Interest rate instruments	2,000			1	1	1
Currency instruments						
Other instruments						
Options	**2,000**			**1**	**1**	**1**
Fair value hedges	**15,154,478**		**775,245**	**6,943,295**	**1**	**203,821**
Interest rate instruments	1,335,993	66,946	5,497	2,792,305	123,954	61,142
Currency instruments						
Futures and forwards	**1,335,993**	**66,946**	**5,497**	**2,792,305**	**123,954**	**61 142**
Interest rate instruments						
Other instruments						
Options						
Cash flow hedges	**1,335,993**	**66,946**	**5,497**	**2,792,305**	**123,954**	**61,142**
Credit derivatives	**184,697**					
Total hedging instruments	**16,675,168**	**66,946**	**780,742**	**9,735,600**	**123,955**	**264,963**

5.3. Available for sale financial assets

These are non-derivative financial assets that have not been classified in any other category (financial assets at fair value, financial assets held to maturity, or loans and receivables).

(€000)	31/12/2012	31/12/2011
Fixed income securities	**12,151,135**	**10,341,421**
Shares and variable-yield securities	**2,274,591**	**2,312,339**
Loans to credit institutions and customers		
Loans to customers		
Loans		
Doubtful debt	**8,754**	**6,387**
Total available for sale financial assets	**14,434,480**	**12,660,147**
Gains and losses recognised directly in equity on available for sale financial assets (before tax)	**152,030**	**(303,282)**

Fixed-income securities include the related receivables.

5.4. Fair value of financial assets and financial liabilities

The table below provides a breakdown of financial instruments by type of price and valuation model:

(€000)	31/12/2012			
	Price quoted in an active market (Level 1)	Valuation techniques using observable data (Level 2)	Valuation techniques using non-observable data (Level 3)	Total
FINANCIAL ASSETS				
Securities	3,431,114	205,225		3,636,339
Derivative instruments		369,684		369,684
Other financial assets				
Financial assets held for trading	**3,431,114**	**574,909**		**4,006,023**
Securities	1,458,780			1,458,780
Other financial assets				
Financial assets designated at fair value through profit or loss	**1,458,780**			**1,458,780**
Securities	11,019,875	3,414,605		14,434,480
Other financial assets				
Available for sale financial assets	**11,019,875**	**3,414,605**		**14,434,480**
Hedging derivatives		**66,946**		**66,946**
FINANCIAL LIABILITIES				
Securities	25,689			25,689
Derivative instruments		592,512		592,512
Other financial liabilities	370,249	1,338		371,587
Financial liabilities held for trading	**395,938**	**593,850**		**989,788**
Securities				
Other financial liabilities				
Financial liabilities designated at fair value through profit or loss				
Hedging derivatives		**780,742**		**780,742**

At 31 December 2011, the breakdown was as follows:

(€000)	31/12/2011			
	Price quoted in an active market (Level 1)	Valuation techniques using observable data (Level 2)	Valuation techniques using non-observable data (Level 3)	Total
FINANCIAL ASSETS				
Securities	3,218,965			3,218,965
Derivative instruments		259,945		259,945
Other financial assets				
Financial assets held for trading	**3,218,965**	**259,945**		**3,478,910**
Securities	1,145,257			1,145,257
Other financial assets				
Financial assets designated at fair value through profit or loss	**1,145,257**			**1,145,257**
Securities	9,545,985	3,114,162		12,660,147
Other financial assets				
Available for sale financial assets	**9,545,985**	**3,114,162**		**12,660,147**
Hedging derivatives		**123,955**		**123,955**
FINANCIAL LIABILITIES				
Securities				
Derivative instruments		525,591		525,591
Other financial liabilities		957,741		957,741
Financial liabilities held for trading		**1,483,332**		**1,483,332**
Securities				
Other financial liabilities		80,610		80,610
Financial liabilities designated at fair value through profit or loss		**80,610**		**80,610**
Hedging derivatives		**264,963**		**264,963**

5.5. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded in an active market. Most of the loans granted by the group are classified in this category.

5.5.1. Loans and receivables due from credit institutions

(€000)	31/12/2012	31/12/2011
Loans and receivables due from credit institutions	5,869,114	10,712,773
Specific impairment	(7,662)	(12,663)
Impairment on a portfolio basis		
Total loans and receivables due from credit institutions	**5,861,452**	**10,700,110**

The fair value of loans and receivables due from credit institutions was €5,890,435 thousand at 31 December 2012 versus €10,720,073 thousand at 31 December 2011.

Breakdown of loans and receivables due from credit institutions

(€000)	**31/12/2012**	**31/12/2011**
Current accounts with overdrafts	551,134	1,643,497
Repurchase agreements	2,446,531	5,245,345
Loans and advances	2,858,553	3,806,099
Finance leases		
Subordinated and participating loans	893	1,016
Securities classified as loans and receivables		
Impaired loans and receivables	12,003	16,816
Total loans and receivables due from credit institutions	**5,869,114**	**10,712,773**

Receivables on transactions with the network amounted to €968,812 thousand at 31 December 2012 compared with €1,767,894 thousand at 31 December 2011.

At 31 December 2012, the Livret A and LDD account balances centralised with the Caisse des Dépôts and reported in the "Current accounts with overdrafts" line amounted to €582,099 thousand versus €386,567 thousand at 31 December 2011.

5.5.2. Loans and receivables due from customers

(€000)	**31/12/2012**	**31/12/2011**
Loans and receivables due from customers	14,672,932	14,550,462
Specific impairment	(506,817)	(459,188)
Impairment on a portfolio basis	(76,046)	(79,215)
Total loans and receivables due from customers	**14,090,069**	**14,012,059**

The fair value of loans and receivables due from customers excluding collective provisions was €15,148,409 thousand at 31 December 2012 (€15,143,330 thousand at 31 December 2011).

Breakdown of loans and receivables due from customers

(€000)	**31/12/2012**	**31/12/2011**
Current accounts with overdrafts	**979,965**	**867,131**
Loans to financial sector customers	35,260	37,819
Short-term credit facilities	1,125,554	1,056,621
Equipment loans	4,441,277	4,616,725
Home loans	5,551,430	5,460,861
Export credits	185,999	177,088
Other credits	1,048,864	963,464
Repurchase agreements	69,183	94,069
Subordinated loans	5	
Other facilities to customers	**12,457,572**	**12,406,647**
Securities classified as loans and receivables	249,313	311,806
Other loans and receivables due from customers	129,563	195,740
Impaired loans and receivables	856,519	769,138
Total loans and receivables due from customers	**14,672,932**	**14,550,462**

5.6. Reclassification of financial assets

Portfolio of reclassified financial assets

In accordance with the amendments to IAS 39 and IFRS 7 dealing with the reclassification of financial assets, the group reclassified certain financial assets in the second half of 2008.

(€000)	Carrying amount at reclassification date	Carrying amount at 31 December 2012	Carrying amount at 31 December 2011	Fair value at 31 December 2012	Fair value at 31 December 2011
Assets reclassified between 2008 and 2011					
Trading financial assets reclassified as available for sale financial assets					
Trading financial assets reclassified as loans and receivables					
Available for sale financial assets reclassified as loans and receivables	521,227	244,356	301,026	244,379	300,825
Total securities reclassified between 2008 and 2011	**521,227**	**244,356**	**301,026**	**244,379**	**300,825**
Assets reclassified in 2012					
Trading financial assets reclassified as available for sale financial assets					
Trading financial assets reclassified as loans and receivables					
Available for sale financial assets reclassified as loans and receivables					
Total securities reclassified in 2012					
Total securities reclassified	**521,227**	**244,356**	**301,026**	**244,379**	**300,825**

Profit or loss arising from reclassified securities and profit or loss that would have been recognised

Profit or loss arising from reclassified securities in 2012

(€000)	Net banking income	Cost of risk	Total (before tax)
Trading financial assets reclassified as available for sale financial assets			
Trading financial assets reclassified as loans and receivables			
Available for sale financial assets reclassified as loans and receivables	3,370		3,370
TOTAL	**3,370**		**3,370**

Changes in fair value that would have been recognised if these securities had not been reclassified

(€000)	2012	2011
Changes in fair value that would have been recognised in profit or loss		
- Trading financial assets reclassified as available for sale financial assets		
- Trading financial assets reclassified as loans and receivables		
- Available for sale financial assets reclassified as loans and receivables		
Changes in fair value that would have been recognised in equity		
- Available for sale financial assets reclassified as loans and receivables	*23*	*(201)*
Total	**23**	**(201)**

5.7. Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the group has the clear intention and ability to hold to maturity.

(€000)	31/12/2012	31/12/2011
Treasury bills and similar securities		
Bonds and other fixed-income securities	985,890	1,099,589
Gross amount of held to maturity financial assets	**985,890**	**1,099,589**
Impairment		
Total held to maturity financial assets	**985,890**	**1,099,589**

At 31 December 2012, the fair value of held to maturity financial assets amounted to €1,045,933 thousand compared with €1,074,227 thousand at 31 December 2011.

5.8. Deferred tax

Analysis of deferred tax assets and liabilities by type

Deferred tax was recognised in respect of the temporary differences indicated in the table below in which deferred tax assets are shown as positive amounts and deferred tax liabilities as negative amounts:

(€000)	31 /12/2012	31/12/2011
Unrealised gains on UCITS	19,452	14,096
Tax economic interest groupings		
Provisions for employee-related liabilities	30,826	29,469
Provisions for regulated home savings products	11,093	11,093
Other non-deductible provisions	83,004	110,634
Other sources of temporary differences	(1,956)	4,286
Deferred tax linked to timing differences	**142,419**	**169,578**
Deferred tax resulting from the capitalisation of tax losses carried forward	7,741	
Fair value of financial instruments	20,379	40,188
Other balance sheet adjustments		
Deferred tax resulting from application of IFRS valuation methods	3,747	15,035
Deferred tax on interest-free loans	**31,867**	**55,223**
Net deferred tax	**7,274**	**5,596**
Deferred tax recognised	**181,560**	**230,397**
As assets on the balance sheet		
As liabilities on the balance sheet	193,298	246,847
Au passif du bilan	11,738	16,450

5.9. Accrued income, prepaid expenses and other assets

(€000)	31/12/2012	31/12/2011
Collection accounts	113,796	103,322
Prepaid expenses	44,250	53,651
Accrued income	22,220	240,385
Other accruals	20,941	28,240
Accrual accounts - assets	**201,207**	**425,598**
Guarantee deposits paid		
Settlement accounts in debit on securities transactions		
Reinsurers' share of technical reserves	8,752	9,688
Other debtors	164,317	151,205
Other assets	**173,069**	**160,893**
Total accrued income and other assets	**374,276**	**586,491**

5.10. Non-current assets classified as held for sale and associated liabilities

None

5.11. Deferred policyholders' profit-sharing

(€000)	31/12/2012	31/12/2011
Deferred profit sharing - assets		93,629
Deferred profit sharing - liabilities	207,054	
Deferred profit-sharing	**207,054**	**93,629**
including deferred profit sharing recognised in equity on full consolidation	207,054	35,290

5.12. Investments in associates

The group's main investments in associates are as follows:

(€000)	31/12/2012	31/12/2011
Acleda	40,949	
BCEL	14,979	
BCI	99,615	94,429
Socredo	38,012	37,184
Financial companies	**193,555**	**131,613**
Aurora	18,635	18,633
Non-financial companies	**18,635**	**18,633**
Total investments in associates	**212,190**	**150,246**

5.13. Investment property

(€000)	31/12/2012			31/12/2011		
	Gross amount	Accumulated depreciation and impairment	Carrying amount	Gross amount	Accumulated depreciation and impairment	Carrying amount
Investment property measured at historical cost	153,391	(3,315)	150,076	155,820	(12,599)	143,221
Total investment property	**153,391**	**(3,315)**	**150,076**	**155,820**	**(12,599)**	**143,221**

5.14. Property, plant and equipment and intangible assets

(€000)	31/12/2012			31/12/2011		
	Gross amount	Accumulated depreciation and impairment	Carrying amount	Gross amount	Accumulated depreciation and impairment	Carrying amount
Property, plant and equipment						
Land and buildings	*152,919*	*(83,478)*	**69,441**	*164,641*	*(83,946)*	**80 695**
Made available under finance leases				*42*		**42**
Equipment, furniture and other property, plant and equipment	*271,383*	*(172,758)*	**98,625**	*249,900*	*(157,439)*	**92,461**
Total property, plant and equipment	**424,302**	**(256,236)**	**168,066**	**414,583**	**(241,385)**	**173,198**
Intangible assets						
Leasehold rights	*27,532*	*(25,158)*	**2,374**	*29,252*	*(26,189)*	**3,063**
Software	*43,053*	*(33,464)*	**9,589**	*38,200*	*(28,530)*	**9,670**
Other intangible assets	*38,953*	*(21,670)*	**17,283**	*30,301*	*(12,776)*	**17 525**
Total intangible assets	**109,538**	**(80,292)**	**29 246**	**97 753**	**(67 495)**	**30 258**

5.15. Goodwill

Goodwill generated by transactions during the financial year is analysed in the note relating to the consolidation scope.

(€000)	Carrying amount	
	31/12/2012	**31/12/2011**
BCI Mer Rouge (Djibouti)	4,576	4,576
Total goodwill	**4,576**	**4,576**

5.16. Amounts due to credit institutions and customers

These liabilities, which are not classified as financial liabilities at fair value through profit or loss, are carried on the balance sheet at amortised cost under "Amounts due to credit institutions" or "Amounts due to customers".

5.16.1. Amounts due to credit institutions

(€000)	31/12/2012	31/12/2011
Demand deposits	435,688	252,656
Repurchase agreements		
Related liabilities	14	2,794
Amounts due to credit institutions - repayable on demand	**435,702**	**255,450**
Term loans and deposits	3,653,457	3,264,855
Repurchase agreements	6,669,801	5,929,853
Related liabilities	25,739	7,261
Amounts owed to credit institutions - repayable at agreed maturity dates	**10,348,997**	**9,201,969**
Total amounts due to credit institutions	**10,784,699**	**9,457,419**

Amounts owed in respect of transactions with the network amounted to €859,741 thousand at 31 December 2012 versus €607,659 thousand at 31 December 2011. At 31 December 2012, the fair value of amounts due to credit institutions was €10,904,249 thousand compared with €9,546,975 thousand at 31 December 2011.

5.16.2. Amounts due to customers

(€000)	31/12/2012	31/12/2011
Credit balances on ordinary accounts	**8,054,635**	**8,043,673**
"Livret A" regulated savings accounts	859,332	639,954
"Livret jeune" regulated savings accounts	46,145	44,302
"Livret B" regulated savings accounts	1,161,021	1,152,047
Regulated home savings plans (PEL) and regulated home savings accounts (CEL)	1,399,124	1,392,398
"Livret de développement durable" regulated savings account	731,809	593,553
"PEP" regulated savings plans	152,324	151,348
Other regulated savings accounts	125,534	130,831
Related liabilities		
Regulated savings accounts	**4,475,289**	**4,104,433**
Demand deposits and loans	636,874	2,606,900
Term deposits and loans	5,629,059	2,187,740
Related liabilities	44,627	40,220
Other customer accounts	**6,310,560**	**4,834,860**
Demand accounts		
Term accounts	1,493,218	3,657,846
Related liabilities	111	1,870
Repurchase agreements	**1,493,329**	**3,659,716**
Other amounts due to customers	**16,765**	**95,483**
Total amounts due to customers	**20,350,578**	**20,738,165**

Term accounts included in particular €40,708 thousand in loans subscribed with *Société de Financement de l'Economie Française* (SFEF). The fair value of amounts due to customers totalled €20,359,598 thousand at 31 December 2012 versus €20,746,911 thousand at 31 December 2011.

5.17. Debt securities

The table below provides an analysis of debt securities by type of instrument with the exception of subordinated debt securities which are classified under "Subordinated debt".

(€000)	31/12/2012	31/12/2011
Bonds	196,400	196,400
Interbank instruments and negotiable debt securities	3,270,765	3,411,138
Other debt securities		
Total	**3,467,165**	**3,607,538**
Related liabilities	16,654	15,226
Total debt securities	**3,483,819**	**3,622,765**

The fair value of debt securities amounted to €3,478,679 thousand at 31 December 2012 compared with €3,616,253 thousand at 31 December 2011.

5.18. Accrued expenses and other liabilities

(€000)	31/12/2012	31/12/2011
Collection accounts	146,291	127,321
Prepaid income	118,593	619,416
Accounts payable	86,000	261,762
Other accruals	9,455	27,995
Accrual accounts - liabilities	**360,339**	**1,036,494**
Securities settlement accounts - credit balances	1	
Sundry creditors	243,837	627,514
Other liabilities	**243,838**	**627,514**
Total accrued expenses and other liabilities	**604,177**	**1,664,008**

5.19. Technical reserves of insurance companies

(€000)	31/12/2012	31/12/2011
Technical reserves of non-life insurance companies	**3,821**	**4,061**
Technical reserves of life insurance companies in euro	4,506,927	4,239,862
Technical reserves of life insurance companies in unit-linked accounts	882,495	884,625
Technical reserves of life insurance companies	**5,389,422**	**5,124,487**
Technical reserves of investment contracts		
Unrealised deferred profit sharing (Note 5.11)	**207 054**	
Total insurance companies' technical reserves	**5,600,297**	**5,128,548**

There was no policyholders' profit share at 31 December 2012. The policyholders' profit share was €93,629 thousand at 31 December 2011.

Non-life insurance technical reserves include provisions for unearned premiums and outstanding claims reserves.

Life insurance technical reserves comprise mainly mathematical provisions, which correspond generally to the contracts' redemption value.

Technical reserves relating to investment contracts are mathematical provisions determined by reference to the contracts' underlying assets.

Provisions for deferred profit-sharing represent unrealised investment income accruing to the policyholders that has not yet been distributed to these policyholders.

5.20. Provisions

Provisions relate mainly to employee benefit obligations and risks on regulated home savings products.

(€000)	31/12/2011	Increase	Used	Unused reversals	Other movements	31/12/2012
Provisions for employee benefit obligations	**90,927**	**5,279**		**(1,722)**	**842**	**95,326**
Provisions for regulated home savings products	32,218				2	32,220
Provisions for off balance sheet commitments	32,730	2,563		(26,705)	743	9,331
Provisions for contingencies on real estate development projects						
Provisions for restructuring costs						
Provisions for litigation	41,998				6,049	48,047
Other	25,984			(258)	(2,966)	22,760
Other provisions	**132,930**	**2,563**		**(26,963)**	**3,828**	**112,358**
Total	**223,857**	**7,842**		**(28,685)**	**4,670**	**207,684**

5.20.1. Deposits held in regulated home savings products

(€000)	31/12/2012	31/12/2011
Deposits held in regulated home savings plans (PEL)		
Less than 4 years	422,518	362,706
More than 4 years and less than 10 years	268,965	468,580
More than 10 years	513,985	358,611
Deposits held in PEL regulated home savings plans	**1,205,468**	**1,189,897**
Deposits held in CEL regulated home savings accounts	**161,977**	**170,388**

5.20.2. Loans granted in connection with regulated home savings products

(€000)	31/12/2012	31/12/2011
Loans granted under PEL regulated home savings plans	7,612	8,810
Loans granted under CEL regulated home savings accounts	12,017	13,298

5.20.3. Provisions for regulated home savings products

(€000)	31/12/2011	Additions	Reversals	31/12/2012
Provisions for regulated home savings plans				
Less than 4 years	5,301	1,599		6,900
More than 4 years and less than 10 years	8,996		(5,809)	3,187
More than 10 years	9,857	7,473		17,330
Provisions for regulated home savings plans	**24,154**	**9,072**	**(5,809)**	**27,417**
Provisions for regulated home savings accounts				
Provisions for PEL regulated home savings loans	2,022		(2,013)	9
Provisions for CEL regulated home savings loans	6,042		(1,248)	4,794
Provisions for regulated home savings plan loans	**8,064**		**(3,261)**	**4,803**
Total provisions for regulated home savings products	**32,218**	**9,072**	**(9,070)**	**32,220**

5.21. Subordinated debt

Subordinated debt differs from other debt instruments and bonds issued in that, in the event of liquidation, it will only be repaid once the claims of all secured and unsecured creditors have been met.

(€000)	31/12/2012	31/12/2011
Term subordinated debt	389,352	460,475
Undated subordinated debt		
Undated deeply subordinated debt		
Preference shares		
Mutual guarantee deposits	5,852	6,481
Total	**395,204**	**466,956**
Related liabilities	10,790	11,726
Revaluation of the hedged component		
Total subordinated debt	**405,994**	**478,682**

At 31 December 2012, the fair value of subordinated debt came to €487,294 thousand versus €554,252 thousand at 31 December 2011.

Commissions income and expense

(€000)	31/12/2011	Issued	Redeemed	Other movements	31/12/2012
Term subordinated debt	460,475			(71,123)	389,352
Undated subordinated debt					
Undated deeply subordinated debt					
Preference shares					
Mutual guarantee deposits	6,481			(629)	5,852
Total	**466,956**			**(71,752)**	**395,204**

5.22. Ordinary shares and equity instruments issued

5.22.1. Cooperative shareholders' shares and cooperative investment certificates

(€000)	31/12/2012			31/12/2011		
	Number	Nominal value	Capital	Number	Nominal value	Capital
Members' shares						
At 1 January	36,420,000	9.5	345,990	36,420,000	9.5	345,990
Capital increase	5,202,857	9.5	49,427			
Other changes		0.5	20,812			
At 31 December	**41,622,857**	**10.0**	**416,229**	**36,420,000**	**9.5**	**345,990**
Cooperative investment certificates						
At 1 January						
Capital increase	9,105,000	9.5	86,498	9,105,000	9.5	86,498
Capital reduction	1,300,715	9.5	12,357			
Other changes		0.5	5,202			
At 31 December	**10,405,715**	**10.0**	**104,057**	**9,105,000**	**9.5**	**86,498**

5.22.2. Undated deeply subordinated notes classified as equity

None

NOTE 6.

Notes to the income statement

6.1. Interest and similar income and expense

This heading comprises interest income and expense, calculated using the effective interest method, on financial assets and liabilities measured at amortised cost, which include interbank and customer loans, held to maturity assets, debt securities and subordinated debt.

It also includes accrued interest receivable on fixed-income securities classified as available for sale financial assets and hedging derivatives, it being specified that accrued interest on cash flow hedging derivatives is taken to income in the same manner and period as the accrued interest on the hedged item.

(€000)	2012			2011		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
Loans and receivables with customers	537,310	(148,866)	388,444	544,399	(154,597)	389,802
Loans and receivables with credit institutions	64,943	(98,763)	(33,820)	104,682	(46,877)	57,805
Finance leases	57,659		57,659	56,799		56,799
Debt securities and subordinated debt		(59,348)	(59,348)		(82,504)	(82,504)
Hedging derivatives	118,193	(284,989)	(166,796)	90,784	(201,020)	(110 236)
Available for sale financial assets	121,308		121,308	138,027		138,027
Held to maturity financial assets	109,993		109,993	56,341		56,341
Impaired financial assets						
Other interest income and expense		(8,859)	(8,859)		(74,406)	(74,406)
Total interest income and expense	**1,009,406**	**(600,825)**	**408,581**	**991,032**	**(559,404)**	**431,628**

6.2. Fee and commission income and expense

Fees and commissions are recorded based on the type of service rendered and on the method of accounting for the financial instrument to which the service relates.

These lines include mainly fees and commissions receivable or payable on recurring services (payment processing, custody fees on deposited securities, etc.) and occasional services (fund transfers, payment penalties, etc.), commissions receivable or payable on execution of significant transactions, and commissions receivable or payable on fiduciary and similar assets held or invested on behalf of the group's customers.

On the other hand, fees and commissions that are in the nature of additional interest and form an integral part of the effective interest rate of a financial instrument are reported as a component of interest income.

NOTES TO THE INCOME STATEMENT

Fee and commission income and expense

(€000)	2012			2011		
	Income	Expense	Net	Income	Expense	Net
Cash and interbank transactions	4,877	(1,247)	3,630	1,246	(936)	310
Customer transactions	135,945	(461)	135,484	136,324	5,231	131,093
Financial services	21,675	(5,231)	16,444	19,270	(5,956)	13,314
Sales of life insurance products	1,920		1,920	1,931		1,931
Payment services	191,476	(120,335)	71,141	204,511	(123,326)	81,185
Securities transactions	19,669		19,669	24,198	(2)	24,196
Trust services						
Financial instruments and off balance sheet transactions	27,349	(4,741)	22,608	34,554	(6 808)	27,746
Other	2,814	(4,551)	(1,737)	1,525	601	2,126
Total	**405,725**	**(136,566)**	**269,159**	**423,559**	**(141,658)**	**281,901**

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

This heading includes gains and losses (including the related interest) on financial assets and liabilities classified as held for trading or designated at fair value through profit or loss.

Net gains and losses on hedging transactions include gains and losses arising from the remeasurement of derivative instruments used as fair value hedges as well as the symmetrical re-measurement of the hedged items, the re-measurement at fair value of the macro-hedged portfolio, and the ineffective portion of cash flow hedges.

(€000)	2012	2011
Gains and losses on financial instruments at fair value through profit or loss (excluding hedging derivatives)	**216,041**	**219,522**
Gains and losses on financial instruments held for trading	136,335	146,090
Gains and losses on financial instruments designated at fair value through profit or loss	79,706	73,432
Gains and losses on hedging transactions	**(7,934)**	**1,823**
- Ineffective portion of fair value hedges	*(7,448)*	*2,888*
* Changes in the fair value of the hedging instrument	(47,404)	(108,747)
* Changes in fair value of the hedged items attributable to the risks hedged	39,956	111,635
- Ineffective portion of cash flow hedges	*(486)*	*(1,065)*
- Ineffective portion of net investment hedges		
- Gains and losses on exchange transaction	**80,837**	**12,897**
Total gains and losses on financial instruments at fair value through profit or loss	**288,944**	**234,242**

6.4. Net gains and losses on available for sale financial assets

This heading records dividends from variable-income securities, gains and losses on the disposal of available for sale financial assets and other financial assets not measured at fair value, and impairment recognised on variable-income securities due to lasting loss of value.

(€000)	2012	2011
Gains and losses on disposals	9,535	(4,249)
Dividends received	21,683	17,119
Impairment in value of variable-income securities	(5,050)	(57,456)
Total net gains or losses on available for sale financial assets	**26,168**	**(44,586)**

6.5. Income and expense from other activities

This heading includes in particular:

- income and expense from investment property (rental income and expense, gains and losses on disposal, depreciation and impairment losses);
- income and expense from insurance activities (in particular earned premium income, paid benefits and claims, and changes in insurance technical reserves);
- income and expense from operating leases;
- income and expense from property development activities (revenue, purchases consumed); and
- in 2011, the partial reversal of goodwill on Sofiag amounting to €86,000 thousand, and in 2012 the reversal of the balance of residual goodwill on Sofiag for €20,223 thousand.

	2012			2011		
(€000)	Income	Expense	Net	Income	Expense	Net
Income and expense from insurance activities	**353,476**	**(597,049)**	**(243,573)**	**620,980**	**(828,211)**	**(207,231)**
Income and expense from real estate activities						
Income and expense from leasing transactions				**318**		**318**
Income and expense from investment property	**2,257**	**(1,515)**	**742**	**4,104**	**(302)**	**3,802**
Share in joint venture operations	2,357		2,357	2,166		2,166
Transfers of expenses and income	1,149	(161)	988	1,115	(232)	883
Other operating income and expense	229,600	(78,466)	151,134	305,000	(49,348)	255,652
Additions to and reversals from provisions to other operating income and expense		(1,300)	(1,300)		(900)	(900)
Other banking income and expense	**233,106**	**(79,927)**	**153,179**	**308,281**	**(50,480)**	**257,801**
Total income and expense from other activities	**588,839**	**(678,491)**	**(89,652)**	**933,683**	**(878 993)**	**54,690**

NOTES TO THE INCOME STATEMENT

Income and expense from insurance activities

The table below provides a transition between the financial statements of insurance companies included in the scope of consolidation and their translation into the group's financial statements in accordance with the presentation applicable to banks.

		Banking presentation				
(€000)	Insurance presentation	Net banking income	Operating expenses	Gross operating profit	Tax	Other
Earned premiums	564,369	564,369		**564,369**		
Revenue or income from other activities						
Other operating income	1,444	1,444		**1,444**		
Net financial income (loss) before finance costs	323,663	326,229	(2,566)	**323,663**		
Total income on ordinary activities	**889,476**	**892,042**	**(2,566)**	**889,476**		
Claims and benefits expenses	(802,261)	(799,914)	(2,347)	**(802,261)**		
Net income and expense of outward reinsurance	(4,814)	(4,814)		**(4,814)**		
Policy acquisition costs	(16,485)	(14,088)	(2,397)	**(16,485)**		
Administrative expenses	(21,161)	(18,280)	(2,881	**(21,161)**		
Other recurring operating income and expense	(14,751)	(10,692)	(4,059)	**(14,751)**		
Total other operating income and expense	**(859 472)**	**(847,788)**	**(11,684)**	**(859,472)**		
Operating profit (loss)	**30,004**	**44,254**	**(14,250)**	**30,004**		
Finance costs						
Shares of profits of associates						
Income tax expense	(11,970)				(11,970)	
Profit (loss) on discontinued activities after tax						
Minority interests						
Profit for the year attributable to the equity holders of the parent	**18,034**	**44,254**	**(14,250)**	**30,004**		

Income and expense recognised in respect of insurance contracts are reported under "Income from other activities" and "Expense on other activities", which are both components of net banking income.

The other components of the operating profit of insurance companies of a banking nature, i.e. interest and fees and commissions, are recorded under the corresponding components of net banking income.

The main reclassifications relate to the charging of general operating expenses by type whereas they are charged by function in the insurance presentation.

6.6. Operating expenses

Operating expenses include mainly personnel costs (including wages and salaries net of rebilled amounts), social security charges and employee benefit expenses such as pension costs. Operating expenses also include the full amount of administrative expenses and other external services costs.

('000)	2012	2011
Personnel costs	**(352,581)**	**(339,429)**
Taxes and duties	(28,638)	(24,577)
External services	(183,405)	(164,522)
Other expenses	(4,684)	(2,128)
Other administrative expenses	**(216,727)**	**(191,227)**
Total operating expenses	**(569,309)**	**(530,656)**

The breakdown of personnel costs is provided in Note 8.1.

6.7. Cost of risk

This item records net impairment charges for credit risks, regardless of whether the impairment is calculated on an individual basis or on a collective basis for a portfolio of similar receivables.

Impairment losses are recognised for both loans and receivables and fixed-income securities when there is a known counterparty risk. This heading also includes losses related to other types of instruments (derivatives or securities designated at fair value through profit or loss) recorded as a result of default by counterparties.

Financial year ended 31 December 2012 (€000)	Additions	Net reversals	Losses on non-provisioned receivables	Recoveries of receivables previously written off	Total
Interbank transactions	(143)	324	(222)	243	202
Customer transactions	(126,729)	83,886	(35,271)	2,416	(75,698)
Other financial assets	(1,563)	3,429	(6,337)		(4,471)
Off-balance sheet commitments	(2,769)	26,704			23,935
Cost of risk	**(131,204)**	**114,343**	**(41,830)**	**2,659**	**(56,032)**

Financial year ended 31 December 2011 (€000)	Additions	Net reversals	Losses on non-provisioned receivables	Recoveries of receivables previously written off	Total
Interbank transactions	(263)	395			132
Customer transactions	(100,841)	79,415	(31,973)	1,717	(51,682)
Other financial assets	(2,985)	12,457	(12,992)		(3,520)
Off-balance sheet commitments	(25,190)	427			(24,763)
Cost of risk	**(129,279)**	**92,694**	**(44,965)**	**1,717**	**(79,833)**

6.8. Share of profit or loss of associates

(€000)	2012	2011
Acleda	*5,725*	
BCEL	*1,537*	
Banque Calédonienne d'investissement BCI	*9,708*	*11,965*
Socredo	*820*	*688*
Financial companies	**17,790**	**12,653**
Aurora		
Non-financial companies		
Total share of profit or loss of associates	**17,790**	**12,653**

6.9. Gains and losses on other assets

This heading records gains and losses on the disposal of non-current property, plant and equipment and intangible assets used in operations as well as gains and losses on the disposal of consolidated investments.

(€000)	2012	2011
Gains or losses on disposals of property, plant and equipment and intangible assets used in operations	(312)	690
Gains and losses on the disposal of consolidated investments		13,117
Other		
Total	**(312)**	**13,807**

NOTES TO THE INCOME STATEMENT

6.10. Change in the value of goodwill

(€000)	2012	2011
Fipromer		(2,433)
Total		**(2,433)**

6.11. Income tax expense

(€000)	2012	2011
Current tax	(68,340)	(100,154)
Deferred tax	(6,797)	4,860
Total	**(75,137)**	**(95,294)**

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

(€000)	2012	2011
Net profit attributable to equity holders of the parent	179,883	233,327
Change in value of goodwill		(2,433)
Share of minority interests in consolidated companies	(2,537)	(3,853)
Share of profit or loss of associates	17,790	12,653
Income taxes	(75,137)	(95,294)
Profit before tax and changes in value of goodwill (A)	**239,767**	**322,254**
Standard income tax rate in France (B)	**36,10%**	**36,10%**
Theoretical tax expense (income) at the tax rate in force in France (A*B)	**(86,556)**	**(116,334)**
Impact of permanent differences	11,419	21,040
Income taxes (a)	**(75,137)**	**(95,294)**
Effective tax rate (income tax expense divided by taxable income)	**31,33%**	**29,57%**

(a) Including in 2012, the exit tax of insurance companies in an amount of €2,757 thousand. Without this non-recurring change, the effective tax rate would have been 30.18%, i.e. 0.61% higher than in the previous year.

NOTE 7.

Risk exposure and regulatory ratios

Certain risk management disclosures required by IFRS 7 are provided in the risk management report. They form an integral part of the audited financial statements as certified by the independent auditors.

7.1. Capital management and capital adequacy

The group is required to comply with the prudential regulations established by the French regulatory authorities pursuant to transposition into French law of the European Directives on the capital adequacy of investment firms and credit institutions and on financial conglomerates.

With effect from 1 January 2008, the Order of 20 February 2007 issued by the French Ministry of the Economy, Finance and Industry defines the "Basel II" method of calculating the capital adequacy ratio as the ratio between total regulatory capital and the sum of:

- regulatory capital requirements for credit risk determined using the standard approach or the internal ratings based (IRB) approach, depending on the group entity concerned; and
- capital requirements for the prudential supervision of market risk and operational risk.

Regulatory capital is determined in accordance with Regulation 90-02 issued on 23 February 1990 by the French Banking and Financial Regulatory Committee.

(€000)	**31/12/2012**	**31/12/2011**
Equity attributable to equity holders of the parent	3,006,869	2,604,385
- recyclable reserves	30,159	200,275
+ translation differences	3,223	6,051
Minority interests	36,713	37,514
- Minority interests' share of profit or loss	(2,520)	
- Recyclable minority interests' share of unrealised profits or losses	(2,072)	
Budgeted dividend	(23,127)	(28,681)
Issues of hybrid Tier-1 instruments		
Other items (including goodwill and intangible assets)	(28,375)	(29,977)
Tier 1 capital before deductions	**3,020,870**	**2,789,567**
Tier 2 capital before deductions	**385,659**	**408,849**
Capital deductions	**(1,282,031)**	**(1,136,673)**
o/w deductions from Tier 1 capital	(896,372)	(727,824)
o/w deductions from Tier 2 capital	(385,659)	(408,849)
o/w deductions from total capital		
Tier 3 capital	**64,100**	64,867
Total regulatory capital	**2,188,598**	2,126,610

Regulatory capital is divided into two categories, which each undergo certain regulatory deductions.

Core (or Tier 1) capital corresponds to the group's consolidated equity, excluding gains and losses recognised directly in filtered equity, plus minority interests and issues of hybrid Tier 1 instruments (chiefly undated subordinated notes), less goodwill and intangible assets.

Specific ceilings are applied to certain components of Tier 1 capital. In particular, hybrid instruments, minority interests and preference shares taken together may not represent more than 50% of Tier 1 capital.

Supplementary (or Tier 2) capital is divided into two sub-categories:

→ Upper Tier 2 capital, which comprises undated subordinated debt and certain other financial instruments; and;

→ Lower Tier 2 capital, which in particular includes long-term subordinated debt and certain preference shares. The amount of subordinated debt included in Tier 2 capital is discounted at a rate of 20% a year over the last five years of its term.

Tier 2 capital is taken into account only within the limit of 100% of Tier 1 capital. Lower Tier 2 capital is taken into account only within the limit of 50% of Tier 1 capital.

Deductions to determine regulatory capital concern mainly equity items (equity investments and subordinated loans) of banking entities that are more than 10%-owned by the group or which are accounted for using the equity method. Equal amounts are deducted from Tier 1 and Tier 2 capital.

Further to the ministerial decree of 20 February 2007, the group is required to maintain a capital adequacy ratio of at least 8% at all times.

7.2. Credit risk and counterparty risk

The risk management disclosures required under IFRS 7 and provided in the risk management report include:

7.2.1. Credit risk measurement and management

Credit risk arises when a counterparty is unable to meet its payment obligations, and may be reflected in a deterioration in credit quality and even default by the counterparty.

Credit risk exposures comprise existing or potential receivables, and particularly loans, debt instruments, equity instruments, performance swaps, performance bonds, and confirmed or undrawn facilities.

Information on credit risk management procedures and measurement methods, risk concentration, the quality of performing financial assets and the analysis and breakdown of outstandings is provided in the risk management report.

7.2.2. Overall exposure to credit risk and counterparty risk

The table below summarises the overall credit exposure of all the group's financial assets.

This credit risk exposure corresponds to the carrying amount of these assets without taking into account the impact of any unrecognised netting or collateral.

(€000)	Performing assets	Nonperforming assets	Impairment and provisions	Carrying amount at 31/12/2012	Carrying amount at 31/12/2011
Available for sale financial assets (excluding variable-yield securities)	3,934,354			**3,934,354**	3,422,917
Hedging derivative instruments	66,946			**66,946**	123,955
Available for sale financial assets (excluding variable-yield securities)	9,644,492	11,196	(2,442)	**9,653,246**	8,106,079
Interbank transactions	5,849,791	12,003	(7,662)	**5,854,132**	10,700,089
Customer transactions	13,871,577	856,519	(582,863)	**14,145,233**	14,095,120
Held to maturity financial assets					
Balance sheet exposures	**33,367,160**	**879,718**	**(592,967)**	**33,653,911**	**36,448,160**
Financial guarantees given	3,269,398	31,230		**3,300,628**	3,540,163
Off-balance sheet commitments	1,868,231	34,061	(8,605)	**1,893,687**	2,023,648
Exposures in respect of off-balance sheet commitments and financial guarantees given	5,137,629	65,291	(8,605)	**5,194,316**	**5,563,811**
Overall credit risk exposure	38,504,789	945,009	(601,572)	**38,848,227**	**42,011,971**

The heading "Impairment and provisions" includes both individual and portfolio-based impairment losses.

7.2.3. Impairment and provisions for credit risk

(€000)	31/12/2011	Charges	Reversals	Unused reversals	Other changes	31/12/2012
Available for sale financial assets	1,742	700				2,442
Interbank transactions	12,663	1,428	(4,986)		(1,443)	7,662
Customer transactions	538,637	125,444	(78,557)	(667)	(1,994)	582,863
Held to maturity financial assets						
Other financial assets						
Impairment losses deducted from assets	**553,042**	**127,572**	**(83,543)**	**(667)**	**(3,437)**	**592,967**
Provisions for off-balance sheet commitments and financial guarantees given	12,119	2,063	(7,609)		2,032	8,605
Total impairment and provisions for credit risk	**565,161**	**129,635**	**(91,152)**	**(667)**	**(1,405)**	**601,572**

7.2.4. Past due financial assets and collateral

Assets with past due payments are performing financial assets for which a payment incident has been recorded.

Assets with past due payments (past due principal and accrued interest in the case of loans and total overdrawn balance in the case of current accounts) can be broken down by due date as follows:

Collateral and guarantees covering past due payments and impaired assets include in particular surety, pledges, security and warrants as well as preferential rank and mortgages.

Collateral and guarantees cover mainly loans and advances to customers.

	Non-impaired loans and receivables with past due payment						
(€000)	<=90 days	> 90 days <=180 days	> 180 days <=1 year	> 1 year	Impaired outstanding loans (net value)	Total past-due outstandings at 31/12/2012	Guarantee instruments covering these outstanding loans
Debt instruments					8,995	**11,634**	
Loans and advances	363,713	2,015			353,802	**868,084**	289,968
Other financial assets							
Total	**363,713**	**2,015**			**362,797**	**879,718**	**289 968**

7.2.5. Restructured loans and receivables

The table below shows the carrying amount of restructured loans and receivables (renegotiated due to financial difficulties experienced by the debtor) included in performing loans:

(€000)	31/12/2012	31/12/2011
Available for sale financial assets		
Loans and receivables due from credit institutions		
Loans and receivables due from customers	6,869	6,241
Held to maturity financial assets		
Total restructured loans and receivables	**6,869**	**6,241**

7.3. Market risk

Market risk represents the risk of a financial loss due to changes in market variables, in particular:

- interest rates: interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market rates of interest;
- exchange rates;
- prices: price risk is the risk of a potential loss resulting from changes in market prices, whether they are caused by factors specific to the instrument or its issuer or by factors affecting all instruments traded in the market. Variable-income securities, equity derivatives and commodity derivatives are exposed to this risk; and
- more generally any market variable used in the valuation of portfolios.

The systems for measuring and monitoring market risks are described in the risk management report.

The market risk management disclosures required by IFRS 7 and provided in the risk management report cover the following items:

(€000)	**31/12/2012**	**31/12/2011**
Market risk in respect of interest rate positions under the standard approach	38,493	36,718
Market risk in respect of equity positions under the standard approach	14,110	9,348
Market risk in respect of foreign exchange positions under the standard approach	15,217	18,801
Market risk in respect of commodity positions under the standard approach	16	
Total market risks	**67,836**	**64,867**

7.4. Overall interest rate risk and currency risk

Interest rate risk is the risk that unfavourable changes in interest rates will adversely impact the Bank's annual results and net asset value. Currency risk is the risk that changes in exchange rates will adversely affect profitability. The disclosures required under IFRS 7 are provided in the risk management report.

7.5. Liquidity risk

The information on liquidity risk management required under IFRS 7 is provided in the risk management report.
Liquidity risk is the risk that the Bank may be unable to meet its payment or other obligations at a given moment in time.
The table below analyses financial assets and liabilities by residual maturity based on the current contractual terms:

Assets and liabilities by residual maturity

(€000)	Less than 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	No fixed maturity	Total
Cash in hand and at central banks	4,228,914					4,228,914
Trading derivatives	369,684					369,684
Other financial liabilities at fair value through profit or loss	958,075	1,700,507	916,962	319,884	1,199,691	5,095,119
Hedging derivatives	15,491	3,888	9,048	38,519		66,946
Available for sale financial assets	696,066	4,174,049	3,856,280	3,405,654	2,302,431	14,434,480
Amounts due from credit institutions	5,356,027	141,160	163,923	200,343		5,861,452
Amounts due from customers	3,549,288	1,361,017	4,168,355	5,011,409		14,090,069
Remeasurement adjustments on interest-rate risk hedged portfolio						
Held to maturity financial assets	4,585	25,999	182,145	773,161		985,890
Financial assets by maturity	**15,178,130**	**7,406,620**	**9,296,713**	**9,748,970**	**3,502,122**	**45,132,554**
Central banks	6					6
Trading derivatives	592,512					592,512
Other financial liabilities at fair value through profit or loss	1,338	82,589	290,924	22,425		397,276
Hedging derivatives	780,742					780,742
Amounts due to credit institutions	6,704,088	1,225,960	2,395,250	459,399		10,784,698
Amounts due to customers	19,202,395	480,916	566,084	101,182		20,350,578
Debt securities	2,864,181	178,896	244,565	196,177		3,483,819
Remeasurement adjustments on interest-rate risk hedged portfolio						
Subordinated debt	10,205	20,000	172,649	203,140		405,994
Financial liabilities by maturity	**30,155,467**	**1,988,362**	**3,669,472**	**982,323**		**36,795,624**
Financing commitments given to credit institutions	543,067	569,459	422,547			1,535,073
Financing commitments given to customers	56,735	33,643	1,667,716	7,462		1,765,556
Financing commitments given	**599,802**	**603,102**	**2,090,263**	**7,462**		**3,300,629**
Guarantees given to credit institutions	7,294	2,790	690	99,792		110,566
Guarantees given to customers	14,698	11,505	927	1,764,595		1,791,726
Guarantees given	**21,992**	**14,295**	**1,617**	**1,864,388**		**1,902,292**

NOTE 8.

Employee benefits

8.1. Personnel costs

(€000)	2012	2011
Wages and salaries	(191,927)	(183,436)
o/w cost represented by share-based payments		
Costs of defined-benefit and defined-contribution plans	(42,840)	(39,470)
Other social security costs and taxes	(84,613)	(70,862)
Profit-sharing and incentive plans	(33,201)	(45,661)
Total	**(352,581)**	**(339,429)**

8.2. Employee benefit obligations

Analysis of assets and liabilities recorded on the balance sheet

	31/12/2012				31/12/2011			
(€000)	CARBP pension obligations	Other pension obligations	Other obligations	Total	CARBP pension obligations	Other pension obligations	Other obligations	Total
Present value of funded obligations	105,581	4,156	42,019	151,756	99,933	4,914	37,347	**142,194**
Fair value of plan assets	(27,525)	(1,341)	(13,784)	(42,650)	(24,744)	(1,144)	(16,264)	**(42,152)**
Fair value of reimbursement rights		106		106				
Present value of unfunded obligations								
Unrecognised actuarial gains and losses	(18,134)	(109)	2,661	(15,582)	(14,646)			**(14,646)**
Unrecognised past service cost			(1,190)	(1,190)		(639)	(374)	**(1,013)**
Net amount recorded on the balance sheet	**59,922**	**2,812**	**29,706**	**92,440**	**60,543**	**3,131**	**20,709**	**84,383**
Employee benefit obligations: liabilities	59,922	2,812	29,706	92,440	60,543	3,131	20,709	**84,383**
Employee benefit obligations: assets								

Analysis of expense for the period

	2012				2011			
(€000)	CARBP pension obligations	Other pension obligations	Other obligations	Total	CARBP pension obligations	Other pension obligations	Other obligations	Total
Service cost			2,005	**2,005**	(3,657)		2,467	**(1,190)**
Interest cost	3,566	40	1,259	**4,865**	3,294	37	1,194	**4,525**
Expected return on plan assets	(1,051)	(19)	(369)	**(1,439)**	(1,159)	(30)	(374)	**(1,563)**
Expected return on reimbursement rights								
Actuarial gains and losses	562	(109)	2,977	**3,430**		175		**175**
Past service costs	(3,699)		(1,483)	**(5,182)**		(133)		**(133)**
Other		(18)		**(18)**		(33)	(174)	**(207)**
Total cost of defined benefit plans	**(622)**	**(106)**	**4,389**	**3,661**	**(1,522)**	**16**	**3,113**	**1,607**

IAS 19 as amended is applicable as from 1 January with retroactive effect from 1 January 2012.

At 31 December 2012, the provision for the CAR-BP supplementary pension scheme amounted to €59.9 million. Under revised IAS 19, the amount of the provision for this scheme at 31 December 2012 would be €78.1 million. The impact of this revision on the amount of the provision recorded at 31 December 2012 totals €18.1 million, consisting of three components:
€14.6 million in respect of the opening balance of actuarial gains and losses on 1 January 2012.

A charge of €0.4 million in respect of the change in the net provision charge in profit or loss

€3.9 million arising from the attribution of actuarial gains and losses for 2012 to equity (other comprehensive income).

Main actuarial assumptions

(as a %)	31/12/2012				31/12/2011
	CAR pension fund	FCR pension fund	CAR pension fund	FCR pension fund	FCR
Discount rate	3.00%	2.01%		3.63%	3.30%
Expected return on plan assets	4.40%	3.12%		4.50%	2.30%

The mortality tables used are:
- TF00/02 for retirement indemnities, long service awards and other benefits,
- TGH TGF 05 for the CGPCE and CARBP supplementary pension funds.

8.3. Share-based payments

None

NOTE 9.

Segment reporting

9.1. Income statement

BRED Banque Populaire's operations are organised into six main divisions:
- Commercial banking France and the related subsidiaries, which includes all the various activities developed for retail customers and large corporate and institutional customers in both banking and financial intermediation (capital management, third-party brokerage, etc.),
- International banking subsidiaries, which are also involved in banking intermediation,
- Trading desk,
- Financial management, which is responsible for managing the Bank's surplus equity,
- Working capital, which covers management of the portfolio of equity interests and sundry unallocated items (see table above),
- Asset and liability management, which is responsible for managing the financial structure.

	Commercial banking France		International banking subsidiaries		ALM		Trading desk		Financial management		Working capital and other equity interests	
(€m)	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Interest and similar income	381.1	371.7	36.2	47.1	(16.7)	(24.8)	84.1	73.9	53.4	23.7	51.0	47.4
Fee income	360.5	355.2	7.7	8.5			0.5	0.5				
Net banking income	**741.6**	**726.9**	**43.9**	**55.6**	**(16.7)**	**(24.8)**	**84.6**	**74.4**	**53.4**	**23.7**	**51.0**	**47.4**
Operating expenses	(477.3)	(504.7)	(27.4)	(33.6)			(29.6)	(32.0)	(2.4)	(3.4)	(4.8)	(13.5)
Gross operating profit	**264.3**	**222.2**	**16.6**	**22.0**	**(16.7)**	**(24.8)**	**55.1**	**42.3**	**51.0**	**20.3**	**46.2**	**33.8**
Provisions	(73.6)	(46.0)	(0.5)	(8.6)			(4.0)	(0.7)	(1.7)	(0.7)	0.0	0.0
Operating profit	**190.7**	**176.3**	**16.1**	**13.4**	**(16.7)**	**(24.8)**	**51.1**	**41.6**	**49.2**	**19.6**	**46.2**	**33.8**
Gain or loss on non-current assets											11.4	(0.3)
Share of profit (loss) of associates			12.0	9.7							0.7	8.1
Profit on ordinary activities	**190.7**	**176.3**	**28.0**	**23.1**	**(16.7)**	**(24.8)**	**51.1**	**41.6**	**49.2**	**19.6**	**58.3**	**41.6**

9.2. Consolidated statement of financial position

Utilisation *(€m)*	2011			2012					
	France	French overseas	International	France	French overseas	International	o/w Europe	o/w North America	o/w rest of world
Financial assets	17,649	25	835	20,148	24	780	774		6
Loans and advances to credit institutions	10,908	658	328	9,210	646	235	75		160
Loans and advances to customers	11,070	2,533	408	11,020	2,463	607	280		327
Accrual accounts and other assets	1,302	70	(441)	903	171	(505)	(375)		(131)
Non-current assets	291	153	57	282	157	125	26		100
Total Assets	**41,220**	**3,439**	**1,187**	**41,563**	**3,461**	**1,242**	**780**		**462**

Resources *(€m)*	2011			2012					
	France	French overseas	International	France	French overseas	International	o/w Europe	o/w North America	o/w rest of world
Financial liabilities	1,747		82	1,769		1			1
Amounts due to credit institutions	8,172	730	557	9,516	646	623	542		81
Amounts due to customers	17,910	2,439	389	17,358	2,546	447			447
Debt securities	3,508		115	3,368		116			116
Securities transactions and other liabilities	6,649	211	30	5,999	302	(82)	(99)		15
Provisions and shareholders' equity	3,020	273	14	3,251	271	135	42		95
Total liabilities	**41,006**	**3,653**	**1,187**	**41,261**	**3,765**	**1,240**	**485**		**755**

NOTE 10.

Commitments

10.1. Financing and guarantee commitments

The amounts shown represent the nominal value of the commitments given and received.

Financing commitments

(€000)	31/12/2012	31/12/2011
Financing commitments given	**3,269,398**	**3,523,872**
- credit institutions	1,535,073	1,484,706
- customers	1,734,325	2,039,166
* confirmed credit facilities	1,713,043	2,036,432
* other commitments	21,283	2,734
Financing commitments received	**2,811,154**	**3,709,603**
- credit institutions	2,778,448	3,596,595
- customers	32,706	113,008

Guarantee commitments

(€000)	31/12/2012	31/12/2011
Guarantee commitments given	**6,282,441**	**7,045,841**
- credit institutions	4,524,776	5,177,927
- customers	1,757,665	1,867,914
Guarantee commitments received	**2,579,432**	**2,150,646**
- credit institutions	1,927,013	1,878,632
- customers	652,419	272,014

Guarantee obligations given include off-balance sheet commitments as well as financial instruments provided as collateral.

Financial instruments provided as collateral include in particular receivables allocated as collateral under refinancing arrangements.

Guarantee commitments received from credit institutions include doubtful commitments.

10.2. Assets pledged as collateral

The following table shows the carrying amount of financial assets provided as collateral for liabilities and contingent liabilities, by type of asset, such as securities sold under repurchase agreements and hold-in-custody repurchase agreements, recorded in the various accounting categories.

(€000)	31/12/2012	31/12/2011
Equity instruments		
Debt instruments	8,160,907	10,127,667
Loans and advances	2,249	109
Other financial assets		
Total	**8,163,156**	**10,127,776**

10.3. Financial assets received as collateral which the Bank may re-use

BRED has not recognised any material amount in respect of assets received as collateral and recorded as an asset on the balance sheet under financial guarantee contracts that include a right of re-use.

NOTE 11.

Related party transactions

Related parties are all companies consolidated by the group, including associates consolidated using the equity method, BPCE, Natixis, the information technology centres and the group's senior management.

Transactions with consolidated companies

Transactions carried out during the year and balances outstanding at year end with fully consolidated group companies are wholly eliminated on consolidation.

A list of fully consolidated subsidiaries is presented in the scope of consolidation section.

Accordingly, the table below summarises inter-company transactions with:

→ companies over which the Group exercises joint control (i.e. joint ventures consolidated under the proportional method) for the part not eliminated on consolidation; and

→ companies over which the Group exercises significant influence (i.e. associates consolidated using the equity method).

	31/12/2012			31/12/2011		
(€000)	**Entities exercising joint control or significant influence**	**Joint ventures**	**Associates**	**Entities exercising joint control or significant influence**	**Joint ventures**	**Associates**
Loans and advances	541,017		70,107	1,473,676	4,057	85,310
Other financial assets	988,333	18,000	257,567	1,067,291	18,000	207,845
Other assets				(21,726)		207
Total assets with related parties	**1,529,350**	**18,000**	**327,674**	**2,519,241**	**22,057**	**293,362**
Debt	1,425,999	7,455	3,200	1,377,800	(3,921)	
Other financial liabilities	208,828		51,599	281,347		51,595
Other liabilities				95,438	3,705	
Total liabilities towards related parties	**1,634,827**	**7,455**	**54,799**	**1,754,585**	**(216)**	**51,595**
Interest and similar income	(26,973		(1,027)	(23,615)	(2,433)	(679)
Fees and commissions	790		34,843	1,448		36,455
Net gain or loss on financial transactions		512	11,473			8,500
Net income from other activities	11,187	348		(66,376)		625
Total net banking income with related parties	**(14,996)**	**860**	**45,289**	**(88,543)**	**(2,433)**	**44,901**
Commitments given	603,627			1,351,186		
Commitments received	30,249			30,823		
Commitments in respect of forward financial instruments						
Total commitments involving related parties	**633,876**			**1,382,009**		

NOTE 12.

Asset transfers

12.1. Transferred financial assets not wholly de-recognised

(€000)	31/12/2012				
	Financial assets transferred without full derecognition and related liabilities		Cases where recourse on the related liabilities is limited to the assets transferred		
	Carrying amount	Carrying amount of related liabilities	Fair value of assets	Fair value of related liabilities	Net
Securities	8,160,181	8,160,907			
Derivative instruments					
Other financial assets					
Financial assets held for trading	**8,160,181**	**8,160,907**			
Securities					
Other financial assets					
Financial assets designated at fair value by option					
Hedging derivatives					
Equity interests					
Other securities					
Other financial assets					
Available for sale financial assets					
Loans and receivables due from credit institutions					
Loans and receivables due from customers					
Securities assimilated to loans and receivables due from credit institutions					
Securities assimilated to loans and receivables due from customers					
Loans and receivables					
Treasury bills and similar securities					
Bonds and other fixed income securities					
Held to maturity securities					
Total	**8,160,181**	**8,160,907**			

Repurchase agreements and securities lending

The group carries out securities transactions under repurchase agreements.
Under the terms of the said agreements, the security may be re-sold by the assignee during the term of the repurchase agreement. The assignee must however return the security to the assignor on maturity of the transaction. The cash flows generated by the security also accrue to the assignor.
The group considers that it retains virtually all the risks and benefits of securities sold under repurchase agreements. Accordingly, it does not derecognise these securities. A financing amount is recognised under liabilities in respect of securities sold under repurchase agreements.

NOTE 13.

Other information

13.1. Statutory auditors' fees

	Total					KPMG					PwC				
	2012		2011		% change	2012		2011		% change	2012		2011		% change
(€000)	Amount	%	Amount	%		Amount	%	Amount	%		Amount	%	Amount	%	
Audit															
Statutory audit review of parent company and consolidated financial statements	809	93.6	776	96.3	4.3	429	90.9	401	93	7	380	96.9	375	100	1.3
- Issuer	*378*		*368*			*189*		*184*			*189*		*184*		
- Fully consolidated subsidiaries	*431*		*408*			*240*		*217*			*191*		*191*		
Other audit procedures and assignments linked directly to the statutory audit	55	6.4	30	3.7	83.3	43	9.1	30	7	43.3	12	3.1		3.1	
- Issuer	*24*					*12*					*12*				
- Fully consolidated subsidiaries	*31*		*30*			*31*		*30*							
Sub-total	**864**	**100**	**806**	**100**	**7.2**	**472**	**100**	**431**	**100**	**9.5**	**392**	**100**	**375**	**100**	**4.5**
Services provided by the audit network to fully consolidated															
- Legal, tax, labour															
- Other															
Sub-total															
Total	**864**	**100**	**806**	**100**	**7.2**	**472**	**100**	**431**	**100**	**9.5**	**392**	**100**	**375**	**100**	**4.5**

Statutory auditors' report on the consolidated financial statements

Financial year ended 31 December 2012

Ladies and Gentlemen,

In fulfilment of the assignment entrusted to us by your General Meeting, we hereby submit our report relating to the financial year ended 31 December 2012, on:

- the audit of the consolidated financial statements of Bred Banque Populaire, as appended to this report;
- the basis for our opinion;
- the specific verifications required by law.

The consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the consolidated financial statements

We conducted our audit in accordance with French professional standards. Those standards require that we plan and perform our audit to obtain reasonable assurance that the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis or using other methods of selection, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management in the preparation of the financial statements, as well as evaluating their overall presentation. We believe that the information we have gathered is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements are free from material misstatement and give a true and fair view of the assets and liabilities and of the financial position of the group formed by the companies and other entities included within the consolidation scope, and of the results of its operations, in accordance with IFRS as adopted by the European Union.

2. Basis for our opinion

In accordance with the requirements of Article L.823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

Accounting estimates

Provisions for credit risk

As stated in Notes 4.1.7 and 5.5 to the consolidated financial statements, your group records impairment provisions and other provisions to cover credit risks associated with its operations. In the course of our assessment of significant estimates used to prepare the financial statements, we examined the control systems applicable to the monitoring of credit and counterparty risk, the assessment of the risk of non-recovery and the determination of individual and collective impairment provisions and other provisions to cover these risks.

Impairment provisions for available for sale financial assets

Your group records impairment provisions for available for sale financial assets (see Notes 4.1.7 and 5.3 to the consolidated financial statements):

- For equity instruments when there is objective evidence of a significant or prolonged decline in their value;
- For debt instruments when there is a known counterparty risk.

We have examined the control systems applicable to the identification of indications of impairment losses, the valuation of the most important lines and the estimates that, where applicable, resulted in impairment provisions being recognised.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Valuation of other financial instruments and related impairment provisions

The group holds positions on securities and other financial instruments. Note 4.1 to the consolidated financial statements sets out the rules and accounting methods relating to securities and financial instruments. We examined the control systems applicable to the accounting classification for these positions and the determination of the criteria used for their valuation. We examined the appropriateness of the accounting methods used by the Group and the information contained in the Notes, and we also checked that they had been correctly applied.

Provisions for employee benefit obligations

The group records provisions to cover its employee benefit obligations. We examined the methods used for the valuation of these obligations as well as the assumptions and parameters used, and also verified the appropriateness of the information contained in Notes 4.10 and 5.20 to the financial statements.

On the basis of our review, we believe that such estimates are reasonable.

These assessments were made in the context of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the formation of the opinion expressed in the first part of this report.

3. Specific verification

As provided for by law, and in accordance with French professional standards, we also specifically verified the information about the group contained in the management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine,
25 April 2013

The statutory auditors

KPMG AUDIT
A division of KPMG SA

Marie-Christine Jolys, Partner

PRICEWATERHOUSECOOPERS AUDIT

Agnès Hussherr, Partner
Nicolas Montillot, Partner

6

GENERAL MEETING

Report by the Board of Directors

on the use in 2012 of the delegation of authority with regard to capital increases

On 16 May 2012, the Board of Directors decided to make use of the delegation of authority relating to capital increases granted by the Extraordinary General Meeting held on the same day.

As required by Article L.225-129-5 of the French Commercial Code, this report has been prepared to present the final terms and conditions of the operation.

You are reminded that the aforementioned General Meeting delegated authority to the Board of Directors to increase the capital by a maximum amount of:

- €400,000,000 by the issue at par value of shares, to be subscribed in cash or by the capitalisation of reserves,

- €100,000,000 by the issue at par value of cooperative investment certificates, to be subscribed in cash or by the capitalisation of reserves, so as to maintain the same percentage of cooperative investment certificates in the share capital.

In order to enable the Cooperative Bank to develop while increasing the number of its cooperative shareholders, the Board of Directors has decided to make use of this delegation by carrying out the twofold operation described below, the result being an increase in your Cooperative Bank's share capital from €432,487,500 to €520,285,720.

Capital increase in cash

The capital will be increased by €49,427,141.50 by the issue at par value of 5,202,857 new shares of €9.50 each. The shares will be registered shares, to be subscribed in cash with payment in full at the time of subscription.

Subscriptions will be accepted from Saturday 19 May to Thursday 21 June 2012.

Subscriptions will be reserved first and foremost for current shareholders, who will have a preferential subscription right in proportion to shares already held, which will entitle them to subscribe one new share for every seven shares they currently hold. The subscription right must be exercised by the beneficiary before the end of the subscription period, failing which it will lapse.

Current shareholders will not have a preferential right to subscribe any excess shares, so as to increase the number of shareholders.

Shares that are not subscribed by exercising the preferential subscription rights may be subscribed by shareholders or any person who is not currently a shareholder but who satisfies the criteria for becoming one. They will be allocated on the basis of the number of shares requested, proportionately to the overall number of shares requested by all such persons.

Subscriptions and cash payments may be deposited at any BRED Banque Populaire branch.

The bank will deposit funds from subscriptions in a timely manner with the custodian, BRED Gestion, which will draw up the certificate recording the deposit of the funds required by Article L.225-146 of the French Commercial Code.

The new shares will have dividend rights attached with effect from 1 July 2012. All the provisions of the Memorandum and Articles of Association will apply to the new shares in the same way as existing shares.

The company will be responsible for verifying the validity of subscription rights that are exercised, but the subscribers will not be asked to provide any specific documentary proof.

This cash capital increase will take the form of a public offering, and a prospectus will therefore be prepared and submitted to the AMF for approval.

To maintain the same percentage of cooperative investment certificates in the capital, said capital will be increased by a further €12,356,792.50 by the issue at par value of 1,300,715 cooperative investment certificates to be subscribed in cash and fully paid up, with maintenance of the preferential subscription right granted to Natixis, which is the sole holder of cooperative investment certificates. The certificates will have dividend rights attached with effect from 1 July 2012.

In the event the capital increase is not subscribed in full, the Board of Directors may decide to limit the amount of the subscriptions to the amount of the subscriptions received, provided they exceed 75% of the amount initially set, in which case the proportion of cooperative investment certificates as compared to shares must remain the same upon completion of the operation.

Capital increase by the capitalisation of reserves

On condition the cash capital increases are completed, the capital will then be increased by €26,014,286 by the capitalisation of available reserves and, at the same time, the par value of old and new shares and of old and new cooperative investment certificates will be raised from €9.50 to € 10.

At the end of this twofold operation, Article 7 of the Memorandum and Articles of Association will be amended accordingly.

This twofold capital increase will not have any material impact on the situation of holders of capital securities, as assessed with regard to the Bank's equity.

This report will be made available to shareholders at the registered office within fifteen days of the Board of Directors' decision to make use of the delegation of authority.

Report on the resolutions

to be put to the Annual Ordinary General Meeting of Thursday 23 May 2013

Agenda

1. Management Report by the Board of Directors on the 2012 financial year and reports by the Statutory Auditors on the annual company and consolidated financial statements.
2. Approval of the Statutory Auditors' special report on the agreements referred to in Article L. 225-38 of the French Commercial Code.
3. Approval of the annual company financial statements for 2012. Discharge to the Board of Directors.
4. Approval of the consolidated financial statements for 2012. Discharge to the Board of Directors.
5. Appropriation of 2012 income. Interest to be paid on shares and dividends for cooperative investment certificates.
6. Renewal of the appointments of six directors.
7. Appointment of a director.
8. Ratification of the provisional appointment of an advisory member of the Board *(censeur)*.
9. Appointment of an advisory member of the Board *(censeur)*.
10. Powers to carry out all filings, publications and other formalities laid down by law.

Report by the Board of Directors on the resolutions put to the shareholders

Approval of the 2012 financial statements

Your Board asks that you approve its management report and the annual company and consolidated financial statements for the 2012 financial year. Note that the annual company financial statements reflect the change made to the retained earnings account since 31 December 2011, due to a change in the accounting methods used. More specifically, an adjustment has been made pursuant to CRC regulation 2009-03 on the accounting treatment of fees and charges relating to credit facilities granted or obtained of €15,095,955.81, raising the balance of the retained earnings account from €110,000,000 as at 31 December 2011 after appropriation of income to €125,095,955.81.

Regulated agreements

We ask that you approve the Statutory Auditors' report on the agreements referred to in Article L. 225-38 of the Commercial Code, and the two agreements authorised by the Board of Directors in the previous year.

Appropriation of income

With regard to the appropriation of income for the financial year, i.e., €113,038,735.45, in view of the twofold capital increase in June 2012 (issue of shares and cooperative investment certificates and capitalisation of reserves), you are asked to allocate to the legal reserve – which currently represents less than one tenth of the share capital – 5% of the income, i.e., €5,651,936.77.

REPORT ON THE RESOLUTIONS

Given that the retained earnings account shows a positive balance of €125,095,955.81, the distributable profit stands at €232,482,754.49. We propose that you proceed as follows:

- → pay interest at a rate of 2.7% of the average nominal share value in 2012, i.e., €0.27 on each of the 36,420,000 shares with rights accruing from 1 January 2012, and of €0.135 for each of the 5,202,857 shares with rights accruing from 1 July 2012, giving a total payment of €10,535,785.70,
- → distribute a dividend on the cooperative investment certificates corresponding to 2.34% of the subscription amount, i.e., €1.29 for each cooperative investment certificate with rights accruing from 1 January 2012 and € 0.645 for each cooperative investment certificate with rights accruing from 1 July 2012, giving a total payment of €12,584,411.18,
- → allocate €99,362,557.61 to the other reserves,
- → and carry forward the balance, i.e., €110,000,000.

In euros	Number of shares	Number of cooperative investment certificates	Total interest paid out on shares	Total dividends paid out for cooperative investment certificates	Amounts eligible for the 40% abatement*
2009	30,350,000	7,587,500	10,622,500	14,568,000	10,622,500
2010	30,350,000	7,587,500	9,105,000	17,071,875	9,105,000
2011	36,420,000	9,105,000	12,382,800	16,297,950	12,382,800

*For natural persons

Note that the interest paid on shares is eligible for the 40% tax abatement referred to in Article 158-3 of the French Tax Code for natural persons who are French tax residents.

In accordance with the law, you are informed that the following amounts were paid out in the last three years, and the following income was eligible for the tax abatement:

Board of Directors – Advisory Board members

The terms of office of seven members of your Board of Directors will expire at the close of this meeting. As Serge Arnaud does not wish to renew his appointment, we will ask you to renew six of the seven appointments for a term of five years, namely: Georges Tissié, Deputy Chairman, Michèle Clayzac, Deputy Board Secretary, Jean-Claude Boucherat, Philippe Noyon, Jacques Szmaragd and Leïla Turki.

We also propose that you appoint Michel Chatot as a new Board member. Michel Chatot holds a Masters in Economic Science and is a graduate of the ENA business school. He previously held the position of Director for the Overseas Territories with Caisse des Dépôts et Consignations (CDC). In 1999 he was appointed General Secretary of the AFP Group, and went on to hold the same position within CDC's pensions branch. In 2002 he was appointed technical adviser to the President of the French Republic for internal and overseas affairs. Within CDC he served as Director of the Regional Network and, subsequently, Director for Territorial Development. He has held the position of CDC's Senior Financial Controller since 2010. Michel Chatot was made Knight of the Legion of Honour and Knight of the National Order of Merit.

As a result of these renewed appointments and this new appointment the number of Board members will remain at 18, which is the maximum allowed by the Articles of Association.

You will also be asked to ratify the decision taken by your Board of Directors at the meeting held on 2 July 2012 to appoint Isabelle Pastoret as an advisory member of the Board (censeur), replacing André Berard. Isabelle Pastoret has a background in medicine and information sciences and communication, and is a graduate of the Ecole des Hautes Etudes en Sciences de la Communication et de l'Information. She has held a number of positions within the Ministry of Economy and Finance.

Lastly, we propose that you appoint Nathalie Briot as an advisory member of the Board (censeur). Nathalie Briot was awarded a DEA postgraduate research degree in the law of organisations and international economic relations by the Panthéon-Sorbonne University, Paris. She held the position of consultant to the French Banking Federation (FBF), which defends the interests of the banking industry before the French and European Parliaments. In 2001 she was appointed special adviser to the Minister of Foreign Affairs, subsequently occupying the same position with the Minister of the Interior and the French Prime Minister. In February 2012 she was appointed chief of staff to the President and head of institutional relations at ADEME, the French Environment and Energy Management Agency.

A list of functions and positions held by corporate officers, in office or proposed for renewal or appointment, can be found on page 16.

Resolutions

Annual Ordinary General Meeting of Thursday 13 May 2013

1st RESOLUTION

Approval of the Bank's annual company financial statements

After reviewing the Management Report by the Board of Directors, the general report by the Statutory Auditors and the annual company financial statements for the financial year ended 31 December 2012, the shareholders approved said annual financial statements as presented to them, as well as the transactions shown in these statements or summarised in these reports.

They specifically approved the following change to the retained earnings account since 31 December 2011, due to a change in the accounting methods used.

In euros	
Balance of retained earnings account as at 31 December 2011 after appropriation of 2011 income	110,000,000.00
adjustment pursuant to CRC regulation 2009-03 on the accounting treatment of fees and charges relating to credit facilities granted or obtained	+15,095,955.81
Balance of retained earnings account as at 31 December 2012	125,095,955.81

They gave full discharge to the Board of Directors for its management until 31 December 2012.

2nd RESOLUTION

Approval of the consolidated financial statements

After reviewing the Management Report by the Board of Directors and the Statutory Auditors' report on the consolidated financial statements for the year ended 31 December 2012, the shareholders approved said consolidated financial statements as presented to them, as well as the transactions shown in these statements or summarised in these reports.

They gave full discharge to the Board of Directors for its management until 31 December 2012.

3rd RESOLUTION

Approval of regulated agreements

After reviewing the Statutory Auditors' special report on the agreements referred to in Article L.225-38 of the French Commercial Code, and deliberating on the basis of this report, the shareholders approved the report and the agreements referred to therein.

4th RESOLUTION

Appropriation of income – interest on shares and dividends for cooperative investment certificates

The shareholders noted that 2012 showed a profit of €113,038,735.45 and resolved to allocate it as follows, in accordance with the proposals of the Board of Directors:

In euros	
Profit for the year	113,038,735.45
Allocation to the legal reserve (5%)	(5,651,936.77)
Retained earnings	+125,095,955.81
Distributable profit	232,482,754.49
Interest on shares	(10,535,785.70)
Dividends for cooperative investment certificates	(12,584,411.18)
Allocation to other reserves	(99,362,557.61)
The balance, to be carried forward.	110,000,000.00

The shareholders resolved, as proposed by the Board of Directors, to pay out the following for 2012:

→ interest in the amount of €0.27 on each share with rights accruing from 1 January 2012 and interest in the amount of €0.135 on each share with rights accruing from 1 July 2012,

→ a dividend of €1.29 on each cooperative investment certificate with rights accruing from 1 January 2012 and a dividend of € 0.645 on each cooperative investment certificate with rights accruing from 1 July 2012.

RESOLUTIONS

All the interest paid on shares is eligible for the 40% tax abatement referred to in Article 158 (3) of the French Tax Code for cooperative shareholders who are natural persons.

Interest on the shares and the dividend paid for cooperative investment certificates shall be paid as from 1 June 2013. All the interest on shares and the dividend paid for cooperative investment certificates is payable in cash.

In accordance with the law, the shareholders are informed that following amounts were paid out in the last three years and the following income was eligible for the tax abatement:

	Number of shares	Number of cooperative investment certificates	Total interest paid out on shares	Total dividends paid out for cooperative investment certificates	Amounts eligible for the 40% abatement*
2009	30,350,000	7,587,500	10,622,500	14,568,000	10,622,500
2010	30,350,000	7,587,500	9,105,000	17,071,875	9,105,000
2011	36,420,000	9,105,000	12,382,800	16,297,950	12,382,800

* for natural persons

5th RESOLUTION

Renewal of the appointment of a director

The shareholders renewed, for a term of five years, the appointment of Michèle Clayzac as a director.

Her term of office will end at the close of the General Meeting called to vote on the accounts for 2017.

6th RESOLUTION

Renewal of the appointment of a director

The shareholders renewed, for a term of five years, the appointment of Leïla Turki as a director.

Her term of office will end at the close of the General Meeting called to vote on the accounts for 2017.

7th RESOLUTION

Renewal of the appointment of a director

The shareholders renewed, for a term of five years, the appointment of Jean-Claude Boucherat as a director.

His term of office will end at the close of the General Meeting called to vote on the accounts for 2017.

8th RESOLUTION

Renewal of the appointment of a director

The shareholders renewed, for a term of five years, the appointment of Philippe Noyon as a director.

His term of office will end at the close of the General Meeting called to vote on the accounts for 2017.

9th RESOLUTION

Renewal of the appointment of a director

The shareholders renewed, for a term of five years, the appointment of Jacques Szmaragd as a director.

His term of office will end at the close of the General Meeting called to vote on the accounts for 2017.

10th RESOLUTION

Renewal of the appointment of a director

The shareholders renewed, for a term of five years, the appointment of Georges Tissié as a director.

His term of office will end at the close of the General Meeting called to vote on the accounts for 2017.

11th RESOLUTION

Appointment of a director

The shareholders appointed Michel Chatot as a director for a term of five years.

His term of office will end at the close of the General Meeting called to vote on the accounts for 2017.

12th RESOLUTION

Ratification of the provisional appointment of an advisory member of the Board *(censeur)*

The shareholders ratified the decision taken by the Board of Directors at the meeting held on 2 July 2012 to appoint Isabelle Pastoret as an advisory member of the Board (censeur).

Her term of office will end at the close of the General Meeting called to vote on the accounts for 2016.

13th RESOLUTION

Appointment of an advisory member of the Board *(censeur)*

The shareholders appointed Nathalie Briot as an advisory member of the Board (censeur) for a term of five years.

Her term of office will end at the close of the General Meeting called to vote on the accounts for 2017.

14th RESOLUTION

Powers

Full powers were given to the bearer of a certified true copy or excerpt of the minutes of this meeting to carry out all filings, publications and other formalities laid down by law.

Statutory Auditors' special report on regulated agreements

General Meeting called to vote on the financial statements for the financial year ended 31 December 2012

To the shareholders of BRED Banque Populaire
18, quai de la Rapée, 75012 Paris

Ladies and Gentlemen,

In our capacity as Statutory Auditors of your bank, we hereby present our report on regulated agreements.

We are required to report, based on the information provided, on the main terms and conditions of agreements that have been disclosed to us and that we discovered in the course of our assignment, without commenting on their relevance or substance. We do not have an obligation to establish whether any other agreements exist. Under the provisions of Article R.225-31 of the French Commercial Code, it is your responsibility to determine whether the agreements are appropriate and should be approved.

When applicable, we are also required to provide you with the information stipulated in Article R.225-31 of the French Commercial Code on the performance during the past financial year of any agreements that were previously approved by the General Meeting.

We carried out the work we considered necessary relating to this assignment in view of the professional policies of the French Statutory Auditors' Association (Compagnie nationale des commissaires aux comptes). This included verifying that the information given to us is consistent with the underlying documents.

Agreements requiring the approval of the General Meeting

Agreements authorised during the past financial year

Pursuant to Article L. 225-40 of the French Commercial Code, we have been informed of the following agreements that have been authorised by your Board of Directors.

Authorisation to sign the convertible bond subscription agreement

→ **Holder of two corporate offices on the day of the transaction:** Stève Gentili, Deputy Chairman of BPCE's Supervisory Board and Chairman of BRED Banque Populaire's Board of Directors.

→ **Type and purpose:** On 12 March 2012, your Board of Directors authorised the signature of a subscription agreement for undated deeply subordinated bonds convertible into BPCE shares entered into between BPCE, the Caisses d'Epargne et de Prévoyance and the other Banques Populaires, including BRED Banque Populaire.

The bonds are eligible for classification as Tier 1 additional capital under the new Basel III regulations.

→ **Terms and conditions:** As at 31 December 2012, bonds had been subscribed for €96 million. The convertible bonds bear interest at a fixed annual rate of 11% until the fifth anniversary of the bond issue, after which a floating rate will apply.

As a result of this agreement, BRED Banque Populaire recognised income of €8,133,876.17 in its 2012 financial statements.

Memorandum of understanding on the mechanism for contributing to BPCE Group's solvency

→ **Holder of two corporate offices on the day of the transaction** Stève Gentili, Deputy Chairman of BPCE's Supervisory Board and Chairman of BRED Banque Populaire's Board of Directors.

→ **Type and purpose:** On 3 December 2012, your Board of Directors authorised the signature of a memorandum of understanding on the mechanism for contributing to BPCE Group's solvency. This document provides, inter alia, for the introduction of a system to contribute to the group's prudential capital based on a bonus/netting system.

→ **Terms and conditions:** This agreement has not had any impact on BRED Banque Populaire's 2012 financial statements.

Agreements already approved by the General Meeting

We have not been informed of the continued performance over the past financial year of any agreements previously approved by the General Meeting.

Paris La Défense and Neuilly-sur-Seine,
25 April 2013

The statutory auditors

KPMG AUDIT
Department of KPMG S.A.

Marie-Christine Jolys, Partner
PRICEWATERHOUSECOOPERS AUDIT

Agnès Hussherr, Partner
Nicolas Montillot, Partner

General information

Legal structure of BRED Banque Populaire

Company name and registered office

BRED Banque Populaire (abbreviation: BRED)

18, quai de la Rapée

75604 Paris

Documents relating to the company can be consulted at the registered office.

Commercial and Companies Register and APE business code

Registered with the Paris Commercial and Companies Register under no. 552 091 795

APE code: 6419 Z

Term of the Cooperative Bank and financial year

The Bank was initially incorporated for 99 years as from 7 October 1919. Its term was subsequently extended by a further 99 years as from 21 May 2010. Its financial year starts on 1 January and ends on 31 December of each year.

Legal form and applicable laws

BRED Banque Populaire is a French limited cooperative mutual bank (société anonyme coopérative de banque populaire) [the 'Cooperative Bank'] with fixed capital, governed by Articles L. 512-2 et seq. of the French Monetary and Financial Code and all laws and provisions relating to mutual banks, the French Act of 10 September 1947 governing the status of cooperative bodies, Titles I to IV of Book II of the French Commercial Code, Chapter I of Title I of Book V and Title III of the French Monetary and Financial Code, their implementing decrees and the [Cooperative Bank's] Memorandum and Articles of Association. In addition, the Cooperative Bank is governed by general decisions and in particular the decision relating to the system of guarantee for the network of mutual banks laid down by the BPCE in the context of the powers granted to this Federal Bank under Articles L. 511-30, L. 511-31, L. 511-32, L. 512-12, L.512-106 and L. 512-107 of the French Monetary and Financial Code.

Corporate object

Pursuant to Article 3 of the Memorandum and Articles of Association, the Cooperative Bank has the following corporate object:

I. Conducting all banking transactions with enterprises that are commercial, industrial, small business-related, agricultural or related to professions, either in the form of an individual or a company, and, more generally, with any other organisation or legal person, whether they are cooperative shareholders or not, assisting its customers who are individuals, taking part in the conducting of all transactions guaranteed by a mutual guarantee society incorporated in accordance with Section 3 of Chapter V of Title I of Book IV of the French Monetary and Financial Code, granting holders of accounts or of regulated home savings accounts (plans d'épargne-logement) all credit or loans for the purposes of financing their purchases of real property, receiving deposits from any person or company and, more generally, carrying out all banking transactions referred to in Title I of Book III of the French Monetary and Financial Code.

II. The Cooperative Bank may also carry out all related transactions referred to in Article L. 311-2 of the French Monetary and Financial Code, provide the investment services provided for in Articles L. 321-1 and L. 321-2 of the above-mentioned Code and perform any other activity that banks are permitted to perform under statutory and regulatory provisions. It may in particular conduct all insurance brokerage operations and, more generally, act as an insurance intermediary.

III. The Cooperative Bank may make all investments in real or personal property required for the performance of its activities, subscribe for all investment securities or acquire them for itself, take all holdings in all companies, groupings or associations, and, more generally, conduct all operations of any type whatsoever that are related to the Cooperative Bank's corporate object, directly or indirectly, and which are liable to facilitate the development or completion thereof.

Special clauses in the Memorandum and Articles of Association

Liability of cooperative shareholders

Cooperative shareholders shall only be liable for the nominal value of the shares they own (Article 9 of the Memorandum and Articles of Association).

Approval

All natural and legal persons may become cooperative shareholders, whether they participate in the operations and services of Banque Populaire or not.

To be eligible to be a cooperative shareholder, a person must be approved by the Board of Directors and must be acknowledged to be creditworthy.

If the Board of Directors refuses to approve membership of a person, it need not give any reason for any such refusal.

If membership of a transferee is not approved, the Cooperative Bank is required to acquire or arrange to have acquired the shares [whose transfer is proposed] within three months following the decision to refuse approval. The shares shall be purchased at a price which may not be lower than the par value of the shares.

If, at the end of the above-mentioned period, the shares have not been purchased, the cooperative shareholder selling their shares may carry out the transfer that had been initially planned (Article 13 of the Memorandum and Articles of Association).

Terms and conditions for the exercise of voting rights

I. In Ordinary and Extraordinary General Meetings of cooperative shareholders, quorums are calculated on the basis of all the shares that make up the share capital, less any shares that have no voting rights pursuant to the law.

Each share entitles [the holder thereof] to one vote. In the event of voting by post, only forms received by the Cooperative Bank no later than the day before the date of the General Meeting will be included in the calculation of the quorum, under the terms and conditions laid down in the applicable legal provisions.

II. Pursuant to Article L. 512-5 of the French Monetary and Financial Code, no cooperative shareholders may have more than 0.25% of the total number of voting rights attached to the Cooperative Bank's shares at General Meetings, either themselves or through proxy-holders, as voting rights attached to shares they hold directly and/or indirectly and to the powers given to them.

III. The limit referred to in the foregoing paragraph shall not apply to the chairman of the General Meeting voting as a result of proxies granted in accordance with the legal obligation arising from Article L. 225-106 of the French Commercial Code. The number of voting rights held, directly or indirectly, shall mean in particular those attached to shares that cooperative shareholders hold on a personal basis, shares that are held by a legal person that they control within the meaning of Article L. 233-3 of the French Commercial Code and shares that are equivalent to shares owned as defined in the provisions of Articles L. 233-7 et seq. of said Code (Article 33).

Amending the Memorandum and Articles of Association

Only Extraordinary General Meetings shall be authorised to amend the Memorandum and Articles of Association as shall be appropriate, with the approval of BPCE.

However, said Meetings may not change the type, character, object or the nationality of the Cooperative Bank, nor may they increase the commitments of its cooperative shareholders, notwithstanding operations arising from an exchange or a reverse split of shares duly and properly decided on and carried out (Article 35 of the Memorandum and Articles of Association).

Rights of cooperative shareholders

Cooperative shareholders have the right to receive information on a permanent basis and prior to General Meetings of cooperative shareholders under the conditions laid down in statutory and regulatory provisions (Article 36 of the Memorandum and Articles of Association).

General Meetings of holders of cooperative investment certificates

Any decision that changes the rights of holders of cooperative investment certificates shall only become final after it has been approved by these holders at a Special General Meeting held under regulatory conditions (Article 38 of the Memorandum and Articles of Association).

Appropriation of profits under the Memorandum and Articles of Association

5% shall be drawn from the profits for the financial year, less, where applicable, previous losses, to create the reserve fund laid down by law, until this fund amounts to one tenth of the capital.

The balance, plus, where applicable, any profit carry-fowards, shall constitute the distributable profit, from which shall be drawn the amount required to pay interest on the shares, within the limit of the maximum rate referred to in Article 14 of the French Act of 10 September 1947 governing the status of cooperative bodies, without it being possible, if there are insufficient operating profits in one financial year, for the cooperative shareholders to claim said payments from operating profits in subsequent years, and the amount required to remunerate the [holders of] cooperative investment certificates.

After the appropriation to reserves booked by the General Meeting, the balance shall be divided between customers who are cooperative shareholders in accordance with the applicable statutory and regulatory provisions.

Any profits arising from transactions carried out with customers who are not cooperative shareholders shall not be included in distributions of rebates (ristournes).

Until the various reserves, in total, including the legal reserve, have reached the amount of the share capital, allocations to such reserves may not be less than 15% of profits.

Losses carried forward pursuant to a decision by the General Meeting shall be recognised in a special account contained in the liabilities on the balance sheet, to be set off against profits of subsequent financial years until they no longer exist, or extinguished by drawing from the reserves.

General Meetings, voting on the financial statements for a financial year, shall have the possibility of granting each cooperative shareholder, for all or some of the interest paid out, the choice between payment of the interest in cash or payment in shares (Article 40 of the Memorandum and Articles of Association).

Interest on the shares, rebates (ristournes) and the remuneration of the [holders of] cooperative investment certificates approved by an Ordinary General Meeting shall be paid no later than nine months after the end of the financial year.

The terms and conditions for the payouts shall be set by the General Meeting or, failing this, by the Board of Directors.

Rights to amounts not claimed within the statutory time limits shall lapse in accordance with the law (Article 41 of the Memorandum and Articles of Association).

Dependence

BRED Banque Populaire is not dependent on any patents, licenses or industrial, commercial or financial supply agreements.

Exceptional items and disputes

As at 31 December 2012, there were no exceptional items or disputes which could significantly affect the results, the financial position or the activity of BRED Banque Populaire.

Information relating to the capital of BRED Banque Populaire

Composition of capital

The Cooperative Bank's current capital amounts to € 520,285,720. It is divided into:

- 41,622,857 shares with a par value of € 10, all fully paid up, and all of which must be registered.
- 10,405,715 cooperative investment certificates with a par value of € 10, all fully paid up and all of the same class.

BRED has not issued financial instruments giving access to its capital.

None of the 127,508 cooperative shareholders (figure as at 31 December) holds more than 0.25% of the total shares.

All the cooperative investment certificates are held by Natixis.

Market for the shares

Shares in BRED Banque Populaire are not listed. Transfers, which take place mainly between the Cooperative Bank's customers, are carried out at par value (€ 10) by account to account transfer and approved by the Board of Directors.

Dividend policy

Interest paid on the shares amounted to:

- € 0.40 for 2007
- € 0.40 for 2008
- € 0.35 for 2009
- € 0.30 for 2010
- € 0.34 for 2011

Delegations granted by the General Meeting of cooperative shareholders to the Board of Directors in the area of increases in capital (Article L. 225-100 paragraph 7 of the French Commercial Code)

Date of the General Meeting	Overall cap on authorisation	Validity	Capital increases carried out on the basis of this authorisation
Extraordinary General Meeting of 16 May 2012	- € 400,000,000 million by issuing shares - € 100,000,000 million by issuing cooperative investment certificates at par value	26 months	Capital increase in the amount of € 87,798,220 carried out on 29 June 2012, raising the capital from € 432,487,500 to € 520,285,720: - by the issue at par value of 5,202,857 new shares of € 9.50 each for a total amount of € 49,427,141.50; - by the issue at par value of 1,300,715 cooperative investment certificates of € 9.50 each, for a total amount of € 12,356,792.50; - by the capitalisation of € 26,014,286 drawn from the available reserves, and the corresponding increase of the par value of old and new shares and of cooperative investment certificates from € 9.50 to € 10.

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Published by BRED Banque Populaire – Registered office: 18, quai de la rapée - 75064 Paris Cedex 12 – Tel: +33 (0)1 48 98 60 00 - 552091795 RCS Paris.

Creation/design SPHÈRE PUBLIQUE www.spherepublique.com

Photos: Philippe Matsas, Andrew McLeish, RedDaxLuma (cover)

Report can be viewed online at: www.bred.fr

www.bred.fr

Registered office: 18, quai de la Rapée - 75012 Paris - Tel.: +33 1 48 98 60 00