

## 2.6 Chairman's report on internal control and risk management procedures for the year ended December 31, 2012

Dear Shareholders,

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

- the composition of the Board and implementation of the principle of balanced representation of women and men, the conditions governing the preparation and organization of the Supervisory Board's work during the year ended December 31, 2012, and the principles and rules governing the determination of all types of remuneration and benefits granted to company directors, which are discussed in Chapters 2.1, 2.2, 2.3 and 2.4 of this document;
- internal control and risk management procedures adopted by BPCE;
- internal control procedures for the preparation and processing of accounting and financial information.

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

The section covering internal control and risk management was presented to the Audit Committee on February 16, 2013; and the governance section was presented to the Appointments and Remuneration Committee on the same date and subsequently approved by the Supervisory Board during its meeting on February 17, 2013.

The external Statutory Auditors will issue a specific report, appended to their report on the annual financial statements, containing their observations on internal control and risk management procedures relating to the preparation and processing of accounting and financial information, and attesting to the

provision of other information as required under Article L. 225-235 of the French Commercial Code.

### INTRODUCTION

Since August 4, 2009, when BPCE became operational, the governance of the internal control system has rested with the Management Board and the Supervisory Board.

The Management Board defines and implements the organization and resources to ensure the proper assessment and management of risks in a comprehensive and optimal manner. Its control framework is appropriate to the financial position and strategy of BPCE and Groupe BPCE. It is responsible for risk management and reports to the Supervisory Board on these activities. It regularly monitors the implementation of policies and strategies defined for all kinds of risks. Together with the heads of the Group's control functions, it keeps the Audit and Risk Committee and Supervisory Board regularly informed of the main items and main conclusions drawn from the analysis and monitoring of risks associated with the activities and results of Groupe BPCE.

The Supervisory Board oversees the management of the principal risks incurred, approves the main risk limits and appraises the internal control system in accordance with the regulatory framework. To this end, the Board is supported by an Audit and Risk Committee in charge of preparing its decisions and formulating recommendations. The duties, resources, make-up and activity of this Committee in 2012 are detailed in the section of this report on corporate governance.

### 2.6.1 Internal control provisions

Groupe BPCE's internal control system is structured in accordance with the legal and regulatory requirements of all texts governing the Group and its activities (particularly the French Monetary and Financial Code and amended CRBF Regulation 97-02), and with the governance framework and principles (charters and standards) established within the Group.

Groupe BPCE's internal control structure is based on four principles:

#### Comprehensiveness of the control scope

The internal control system covers all risks and all Group businesses and activities, including those that are outsourced. It is continually adapted in the event that new businesses are consolidated or the types of risks incurred change.

#### Suitability of controls to the types of risk incurred and auditability of controls

Suitability of controls implies:

- systems, methods and tools for measuring and monitoring risks that result in substantial investment;
- resources, particularly Human Resources, that are appropriate and sufficient in terms of both quantity and quality.

Auditability implies:

- the existence of organizational charts, job descriptions and clear delegation of authority;
- the existence of complete, specific operating procedures that cover all activities, describe control types and responsibilities in detail, and are readily available;
- the definition of reporting lines, alert mechanisms and accountability.

### Independence of controls and separation of functions between those that incur risk and those that monitor it

At all levels and for all activities carried out by Groupe BPCE's businesses, the offices involved in performing internal control are organized under terms that guarantee:

- the distinction between front-office and back-office functions;
- the existence of two levels of permanent controls;
- the distinction between periodic and permanent controls.

Although Level One controls are primarily the responsibility of the operating divisions and support functions, Level Two permanent controls and internal audit are provided by independent central functional divisions, whose managers, as defined by Articles 7 and 11 of amended CRBF Regulation 97-02, report to the executive body as defined by Article 4 of the same regulation.

### Consistency of the internal control system – function-based organization

Standards are laid down by BPCE in accordance with its legal responsibilities and requirements for supervision on a consolidated basis set by amended CRBF Regulation 97-02, and are intended to ensure a consistent, consolidated approach to risks. Process-based operations contribute to this as well: the permanent and control duties located within the Banque Populaire banks, Caisses d'Epargne, subsidiaries and other affiliates, subject to the banking supervision regulatory framework, have a strong functional link, as part of the consolidated control processes, to the relevant BPCE central control divisions: the Group Risk Management division, Group Compliance and Security division and Group *Inspection générale* division. This functional link is described in the various control function charters.

This type of organization is duplicated in the Group's businesses, which themselves are parent companies.

The other central functions that contribute to permanent control (Accounting Review, IT System Security and, to a certain extent, Human Resources and Legal Affairs) are also organized by function.

## 2.6.2 General organization

### AT THE GROUP LEVEL

Like the central institution, the Group control system relies on three levels of controls, in accordance with banking regulations and sound management practices: two levels of permanent controls and one level of periodic control, as well as the establishment of consolidated control processes in accordance with provisions approved by BPCE's Management Board.

### PARTICIPANTS IN THE CONTROL SYSTEM

#### Permanent hierarchical control (Level One)

Permanent hierarchical control (level one) is the first link in internal control and is performed by the operating or support functions under the supervision of their line management.

These departments' responsibilities include:

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

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

Level-one controls are reported formally to the relevant permanent control divisions or functions.

#### Permanent control by dedicated entities (Level Two)

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

Other central functions contribute to the permanent control system: the Group Finance division, responsible for accounting control, the Legal Affairs division, the Operations division responsible for information system security, and the Group Human Resources division responsible for issues affecting the remuneration policy.

#### Periodic control (Level Three)

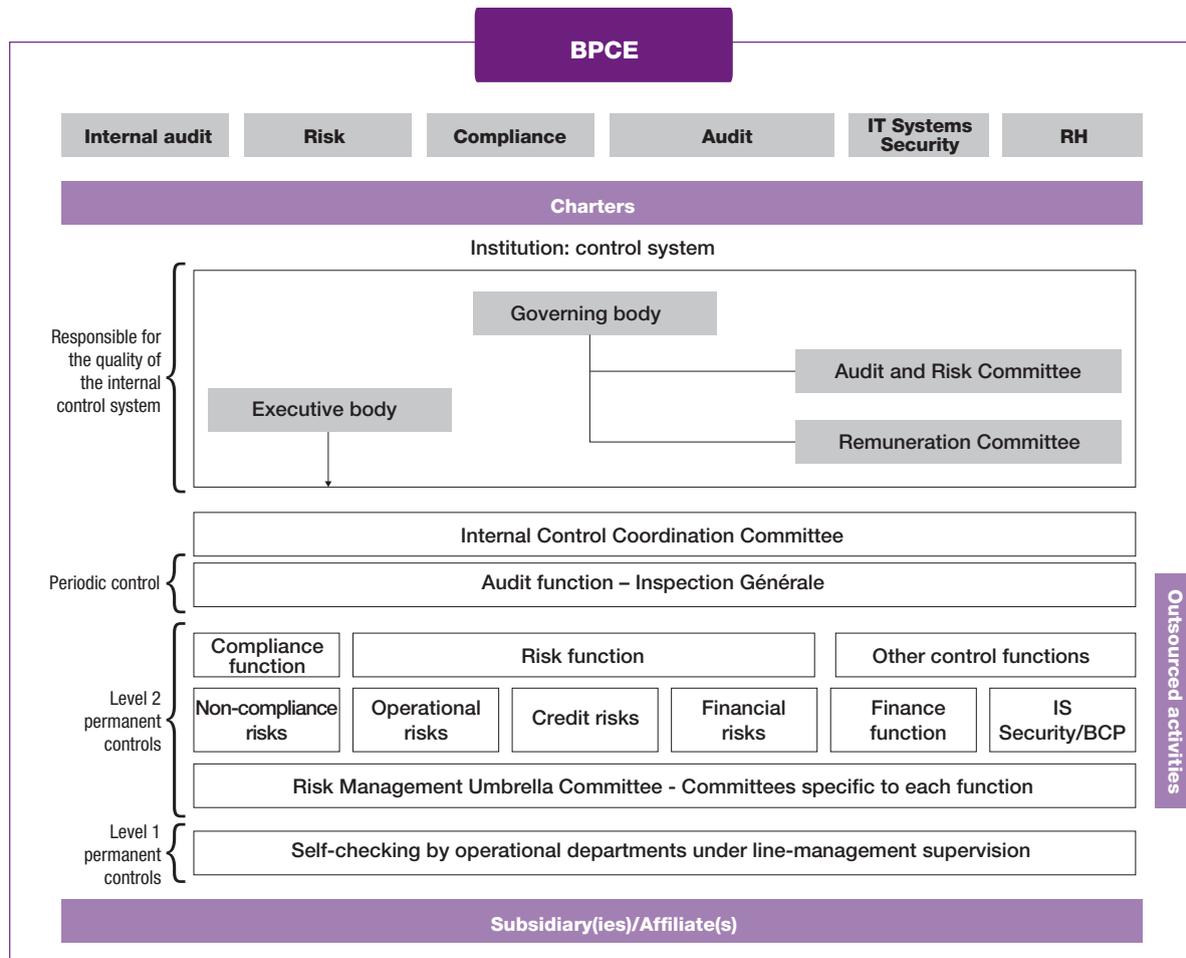
Periodic control within the meaning of Article 6-b of Regulation CRBF 97-02 is performed by the Group's *Inspection générale* division implemented by the audit function across all entities and activities, including permanent control.

### FUNCTIONS

Integrated permanent and periodic control processes have been implemented within Groupe BPCE. Three permanent and periodic control divisions are established within the central institution, which manages these functions: the Group Risk Management division and the Group Compliance and Security division for permanent controls, and the Group *Inspection générale* division for periodic controls. The permanent and periodic control functions, which are located at affiliates and subsidiaries subject to banking supervision, have a strong functional link to BPCE's corresponding central control divisions and a hierarchical link to their entity's executive body (see audit function). This link includes approval of the appointment and dismissal of managers in charge of permanent or periodic control functions at affiliates and direct subsidiaries; reporting, disclosure and alert obligations; standards implemented by the central institution and laid down in a body of standards; and the definition or approval of control plans. These links have been formally defined in charters covering each function. The entire system was approved by the Management Board on December 7, 2009 and presented to the Audit Committee on December 16, 2009. It has also been presented to the Supervisory Board of BPCE.

As mentioned above, the system also includes the Accounting Review, IT System Security and, to a certain extent, the Human Resources and Legal Affairs functions.

## ORGANIZATION OF GROUPE BPCE'S INTERNAL CONTROL SYSTEM



## COORDINATION OF THE CONTROL SYSTEM

**Internal Control Coordination Committee**

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

A Group Internal Control Coordination Committee (CCCIG), chaired by Chairman of the Management Board or his representative, meets periodically.

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

Its responsibilities include:

- keeping executive management regularly updated about developments in the Group control framework;
- highlighting areas of emerging or recurring risk, arising from developments in business, changes in the operating environment or the state of the control systems;
- reporting significant failures to executive management;

- examining the methods for implementing the principal regulatory changes and their potential implications on the control framework and tools;
- ensuring that findings from controls are properly taken into account, reviewing remedial measures decided, prioritizing them and monitoring their implementation;
- deciding measures to be implemented to reinforce the level of security for the Group, and coordinating, where necessary, initiatives developed by the permanent control functions of the central institution.

Committee members include the Management Board member in charge of Finance, Risk and Operations, Heads of periodic control (the Group's *Inspection générale* division) and permanent control functions (Group Risk Management division, Group Compliance and Security division), the Group Head of IT System Security (RSSI), and the person responsible within the Group Finance division for overseeing the accounting review process. The member of the Management Board in charge of Commercial Banking and Insurance is a standing member. If applicable, this committee may hear reports from operational managers about measures taken by them to apply recommendations made by internal and external control bodies.

### Groupe BPCE Risk Management Committee: umbrella committee

Its scope covers the entire Group (central institution, networks and all subsidiaries).

It sets the broad risk policy, decides on the global ceilings and limits for Groupe BPCE and for each institution, validates the delegation limits of other committees, examines the principal risk areas for Groupe BPCE and for each institution, reviews consolidated risk reports, and approves risk action plans for the measurement, supervision and management of risk, as well as Groupe BPCE's principal risk standards and procedures. It monitors limits (CRBF Regulation 97-02, Art. 35), particularly when global limits are likely to be reached (CRBF Regulation 97-02, Art. 36).

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

At the same time, several committees are intended either to define shared methodological standards for measurement, control, reporting and consolidation for all risks within the Group, or to make decisions about risk projects with an IT component.

### Committees specific to each function

#### Credit Risk/Commitment committees

Several kinds of committees were established to manage credit risk for the full Group scope, meeting at varying frequencies depending on their roles (ex-post or decision-making analysis) and their scope of authority.

#### Financial Risk committees

The Group has also established decision-making and supervisory committees for both market and ALM risk. The frequency of their meetings is tailored to institutional and Group needs.

Furthermore, these Financial committees are more specifically dedicated to standardizing the body of accounting and financial information within the Group and to controlling this information, as well as defining the Group's communication strategy with regard to the financial community, along with the methods to be implemented to promote the Group's reputation in the markets.

#### Compliance and Operational Risk Committee

This committee meets quarterly and includes Groupe BPCE's various business lines, which contribute to the consolidated risk map (Compliance, Risk, IT System Security, Business Continuity Planning and Accounting Review). Its purpose is to approve the operational risk mapping and action plans throughout the Group, and to perform consolidated monitoring of the level of losses, incidents, and alerts, including reports made to the ACP under Article 17 ter for operational risks.

## 2.6.3 Periodic control

### STRUCTURE AND ROLE OF THE GROUP'S INSPECTION GÉNÉRALE DIVISION

#### Duties

In accordance with the central institution's responsibilities and because of collective solidarity rules, the Group's *Inspection générale* division has the task of periodically checking that all Group institutions are operating correctly, and it provides company directors with reasonable assurance as to their financial strength.

In this capacity, it ensures the quality, effectiveness, consistency and proper operation of their permanent control framework and the management of their risks. The scope of the Group's *Inspection générale* division covers all risks, institutions and activities, including those that are outsourced.

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

- the quality of the financial position;
- the actual level of risk incurred;
- the quality of organization and management;
- the consistency, suitability and effectiveness of risk measurement and management systems;
- the reliability and integrity of accounting and management information;
- compliance with laws, regulations and rules applicable to Groupe BPCE or each company;

- the effective implementation of recommendations made following previous audits and by regulators.

The Group's *Inspection générale* division reports to the Chairman of the Management Board, and performs its work independently of the operational and permanent control divisions.

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

To fulfill its role and effectively contribute to promoting a control culture, the Group's Head of internal audit participates as a non-voting member in the central institution's key committees involved in risk management.

The Head of internal audit is a member of the Group Internal Control Coordination Committee and is a standing member of BPCE's Audit and Risk Committee, the Natixis Audit Committee, and the Audit Committees of Groupe BPCE's main subsidiaries (BPCE IOM, Crédit Foncier, Banque Palatine).

#### Scope of activity

To fulfill its role, the Group's *Inspection générale* division establishes and maintains an up-to-date Group audit scope inventory, which is defined in coordination with the internal audit teams of the Group's institutions.

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

In this regard, the Group's *Inspection générale* division takes into account not only its own audits, but also those performed by the supervisory authorities and the internal audit divisions.

The annual audit program for the Group's *Inspection générale* division is approved by the Chairman of the Management Board. It is also examined by the Groupe BPCE Audit and Risk Committee. This Committee ensures that the audit program provides satisfactory coverage of the Group's audit scope over several years and may recommend any measures to this effect. It reports on its work to the Supervisory Board of BPCE.

### Reporting

The assignments completed by the Group's *Inspection générale* division result in the formulation of recommendations prioritized by order of importance. These are monitored on a regular basis, at least every six months.

The Group's *Inspection générale* division reports its findings to the company directors of the audited entities and to their deliberating body. It also reports to the Chairman of the Management Board of BPCE, to BPCE's Audit and Risk Committee and to the Supervisory Board of BPCE. It provides these bodies with reports on the implementation of its main recommendations and those of the ACP. It ensures that remedial measures decided as part of the internal control system, in accordance with Article 9-1.b of CRBF Regulation 97-02, are executed within a reasonable timeframe, and can refer matters to the Audit and Risk Committee if measures are not executed.

It coordinates the timetable for drafting regulatory reports.

### Relationship with the central institution's permanent control divisions

The Group's Head of internal audit maintains regular discussions within the central institution and exchanges information with unit heads within his or her audit scope and, more specifically, with divisions responsible for Level Two control.

The division heads must expediently notify the Head of internal audit of any failure or major incident brought to their attention. The Head of internal audit, along with Head of Group Risk Management, and Head of Group Compliance and Security, must expediently inform each other of any audit or disciplinary procedure initiated by the supervisory authorities, or more generally of any external audit brought to their attention.

### Activities in 2012

In addition to the recurring audits conducted at the institutions of both networks, the Group's *Inspection générale* division also audited BPCE's divisions (Group Risk Management division, IT division, Investor Relations and BPCE SFH), as well as economic interest groups providing services within the central institution to Group institutions (BPCE Achats, BPCE Services, Ecureuil Crédit). It also conducted a cross-business assignment on private banking activity within the Group and supervised two audits organized around the themes of home loans and professional market customers.

Furthermore, Natixis was the subject of large-scale assignments carried out by the Group's *Inspection générale* division on various Natixis divisions (Compliance and Security, Human Resources) and some subsidiaries, particularly within the scope of private equity, Natixis Assurances, Natixis Paiements and Coface.

Lastly, Groupe BPCE's *Inspection générale* division will continue to conduct weekly monitoring of the implementation of its own recommendations and

those of the ACP, which are intended to promote, if necessary, the escalation of alerts to the Audit and Risk Committee, pursuant to CRBF Regulation 97-02.

## AUDIT FUNCTION

### Organization of the Audit function

Groupe BPCE's *Inspection générale* division oversees all audit processes. Its operating procedures – aimed at achieving consolidated supervision and optimal use of resources – are set out in a charter approved by BPCE's Management Board on December 7, 2009.

The objective of this organization is to ensure coverage of all Group operational or functional units within the shortest possible timeframe, as well as to achieve effective coordination with entities' internal audit divisions.

The internal audit divisions of affiliates and directly-owned subsidiaries have a strong functional link to the Group's *Inspection générale* division and a hierarchical link to their entity's executive body.

This strong functional link is established through the following rules:

- the appointment or dismissal of internal audit directors of the affiliates or direct subsidiaries are subject to the prior approval of the Group Head of internal audit;
- the existence of a single Group Audit Charter within Groupe BPCE. It sets out the purpose, powers, responsibilities and general organization of the internal audit function in the overall internal control system and is applied to all Group companies monitored on a consolidated basis;
- The Group's *Inspection générale* division ensures that the entities' internal audit divisions have the necessary resources to perform their duties; the budget and staff levels of these departments are set by the executive body of the affiliates and subsidiaries, in conjunction with the Group's *Inspection générale* division;
- the entities' internal audit departments use audit methods defined by the Group's *Inspection générale* division that are drawn up in consultation with them;
- multi-year and annual programs followed by the internal audit divisions of Groupe BPCE institutions are determined in conjunction with and consolidated by the Group's *Inspection générale* division. The Group's *Inspection générale* division is kept regularly informed of progress with these programs and any changes in their scope;
- the institutions' internal audit reports are transmitted to the Group's *Inspection générale* division as and when they are issued;
- audit reports from regulatory authorities relating to entities, related follow-up letters and answers to those letters, and sanction procedures are transmitted to the Group's *Inspection générale* division when they are received or issued, if sent directly to the institution;
- the Group's *Inspection générale* division is notified as soon as possible of the start of audits performed by regulators on entities and subsidiaries, as well as any proceedings against them;
- the annual reports of the entities prepared pursuant to Articles 42 and 43 of CRBF Regulation 97-02 are sent to the Group's *Inspection générale* division, which forwards them to the supervisory authorities.

This type of organization is duplicated in the subsidiaries and affiliates which themselves are parent companies.

The rules governing how the internal inspection business line is managed between Natixis and the central institution are part of Groupe BPCE's audit function.

Given the scope and nature of the activities of the audit function, the Group's *Inspection générale* division and Natixis' *Inspéction Générale* share coverage of the audit scope. They each conduct audits. A Coordination Committee meets regularly and involves both *Inspection générale* divisions. It is responsible for all issues related to the operation of internal audit between the central institution and Natixis group.

### Achievements 2012

BPCE *Inspection générale* continued its in-depth revision of audit standards and methodology based on best practices, started in August 2009. In particular, it finalized the draft of a "resources" standard that, while recalling the human resources principles for the function, aims to give the retail banks the resources to calibrate the needs of their audit teams in terms of number and quality. Furthermore, a "Commercial Network Audit" standard was distributed, with the goal of optimizing the process for this type of audit and building on its conclusions, involving the entire Management line and improving follow-up of recommendations.

At the same time, the operational launch of a shared recommendation follow-up tool ("Reco!") was conducted at the entities of the Caisse d'Épargne network, BPCE IOM and its subsidiaries, Crédit Foncier and Banque Palatine, as well as various central institution divisions. Rollout of the Reco! tool at Natixis and in the Banque Populaire network should be completed in the first half of 2013. In addition, the preparation and updating of audit guides, initiated in 2010, was continued. The goal is to obtain a body of uniform, updated audit guidelines. The results of this work are presented on a regular basis to BPCE's Audit and Risk Committee.

The alignment of Natixis' *Inspection générale* methods with those of Groupe BPCE's *Inspection générale* division also continued. In particular, this related to harmonizing the rating of recommendations, synchronizing respective annual macro-timetables within a shared scope of auditable units, while relying on a consistent risk assessment approach, joint preparation of audit plans, and the joint design of fields of investigation/audit standards, based on joint audit assignments to ensure compliance with these principles.

## 2.6.4 Risk monitoring and measurement

### GRUPE BPCE RISK MANAGEMENT DIVISION

The Groupe BPCE Risk Management division measures, monitors and manages risk, excluding compliance risks, in accordance with amended CRBF Regulation 97-02, as well as the proper implementation of the provisions of the decree of February 20, 2007. It ensures that the risk management system is efficient, complete and consistent, and that the level of risk taken is consistent with the guidelines of the activity (particularly goals and resources), the Group and its institutions.

As part of its functions, the Risk Management division:

- helps draw up risk policy on a consolidated basis, examines overall risk limits, takes part in discussions for capital allocation, and ensures that portfolios are managed in accordance with these limits and allocations;
- helps the Management Board identify emerging risks, concentrations and other adverse developments, and devise strategy; performs stress tests with the goal of identifying areas of risk and the Group's resilience under various predetermined shock scenarios;
- defines and implements standards and methods for consolidated risk measurement, risk mapping, risk-taking approval, risk control and reporting, and compliance with laws and regulations;
- assesses and controls the level of risk on a Group scale;
- is responsible for permanent supervision, including detecting and resolving limit breaches, and centralized forward-looking risk reporting on a consolidated basis;
- is responsible for Level Two control of certain processes for preparing financial information and implements a Group system of Level Two permanent risk

control that covers subjects related to governance, organization, the work of Risk functions and rollout of standards;

- manages risk information systems in close coordination with IT departments, while defining the standards to be applied for the measurement, control, reporting and management of risks. The Risk Management division is responsible for permanent Level Two controls of the reliability of risk information systems;
- maintains strong functional links with the Risk Management function, by participating in the work of local risk management committees or receiving the results of their work, coordinating the function and providing support to all new company directors or Heads of Risk Management.

To carry out its responsibilities, the Risk Management division relies on the consolidated risk management department, which implements cross-functional monitoring of consolidated risks for Groupe BPCE and for each of its subsidiaries, to build a consolidated risk management structure for the entire scope of Groupe BPCE, and conducts or coordinates cross-functional risk analyses at the Group level and, if needed, for the entities.

More specifically, as part of its cross-business monitoring system, the division produces a consolidated risk monitoring scorecard on a quarterly basis. The purpose of the scorecard is to provide a written map of the Group's risk profile by category (map of outstandings, credit risks, financial risks and operational risks). This system is supplemented by prospective risk analyses intended to identify risk factors and their potential impact for the Group and special in-depth reviews of the Group's major credit portfolios. The various analyses are presented to the Group Risk Management Committee, the Group Audit and Risk Committee and the Supervisory Board (projections and consolidated scorecard).

Risk monitoring is also enhanced through specific internal and regulatory reports, which are summarized at dedicated committee meetings.

Finally, stress tests intended to measure the Group's sensitivity to a set of risk factors are performed in order to round out this monitoring system. In this respect, the Risk Management division has significantly enhanced its stress test methods as part of its "internal stress test" project, thus supplementing its ICAAP<sup>(1)</sup> system and management stress tests. The Group was able to test its implementation of methodological developments during the stress test carried out under the aegis of the IMF in the first half of 2012.

The Risk Management division also relies on its permanent control and Risk function coordination department, whose purpose is to provide permanent control of risks incurred by the Group's institutions, independent of the compliance risks that fall within the scope of the Group Compliance & Security division. The division also provides day-to-day coordination of the entire system, which relies on a strong functional link between the institutions' risk management divisions and Groupe BPCE's Risk Management division. Similarly, as part of its role as Risk function coordinator, the division contributes to major cross-business projects that affect Group institutions.

### Risk function

The Groupe BPCE Risk Management division oversees the Group's risk management functions dedicated to credit, financial and operational risks. It ensures that the risk policies of the affiliates and subsidiaries comply with those of Groupe BPCE. Risk Management divisions of the parent company affiliates have a strong functional link with Groupe BPCE's Risk Management division.

This strong functional link is enhanced for subsidiaries subject to the banking supervision regulatory framework. The subsidiaries in question include Natixis, Crédit Foncier (CFF), Banque Palatine and BPCE IOM.

Finally, Risk Management departments of subsidiaries not subject to the banking supervision regulatory framework have a functional reporting link with Groupe BPCE's Risk Management division.

Group institutions are responsible for the definition, monitoring and management of their risk levels, as well as the production of reports and data to be sent to the central institution's Risk Management division, while ensuring the quality, reliability and completeness of the data used to control and monitor risks at the company level and on a consolidated basis.

## MAIN TYPES OF RISK

### Credit risk

#### Organization

Risk measurement relies on rating systems adapted to each type of customer and transaction, which the Group Risk Management division is responsible for defining and controlling its performance.

Decisions are made at Groupe BPCE, subject to regulatory ceilings, a system of internal ceilings and limits, relating to major groups (a company composed of its subsidiaries) on a consolidated basis, and a principle of counter-analysis involving the Risk Management division, with a right of appeal that may result in submission to the higher-level Credit Committee. Decision-making in each Groupe BPCE entity is carried out within the framework of delegation procedures.

The Risk Management division measures and monitors compliance with regulatory ceilings at the Group level for the BPCE Group Risk Management Committee, in accordance with Regulation No. 93-05 of December 21, 1993 relating to the control of large risk exposures. Monitoring of compliance with internal ceilings and limits is regularly checked by the Group Risk Management Committee and the Group Audit and Risk Committee.

Within Groupe BPCE, an internal rating methodology shared by both networks (specific to each customer segment) was established for individual and professional retail customers in early 2010, as well as for the corporate customer segment.

Risk monitoring within Groupe BPCE focuses on the quality of information, which is necessary for proper risk assessment, on the one hand, and the level and development of risks taken on the other. Compliance with the application of standards and quality of data is managed through monitoring established in all asset classes for which applications are shared. In conjunction with the consolidated risk management department, the risk supervision team ensures portfolio analysis to help identify main concentrations of risk.

The different levels of control within Groupe BPCE operate under the supervision of the Risk Management division, which is also responsible for consolidated summary reporting to the various decision-making bodies.

Sensitive matters (cases on the watchlist) and the provisioning policy for the main risks shared by several entities (including Natixis) – are regularly examined by the Group Watchlist and Provisions committee.

#### Activities in 2012

Within the framework of the Group Credit Committee, the Credit Risk Management Department finished rolling out the Group limit system with the renewal of limits for the major counterparties in the banking, corporate, public authority and real estate sectors, as well as for real estate professionals and commodities traders.

In order to supplement its credit risk monitoring system, Groupe BPCE implemented a sector policy system, with its first applications in the automobile, LBO (Leveraged Buy-Out) and transport sectors.

The Group watchlist monitoring process was further improved in order to ensure consistency in provisioning for the main non-performing loans shared by several entities, as well as closer supervision of loans on the performing loan watchlist. Within this framework, the specific corporate provisioning standard was validated by the Group Risk Management Standards & Methods Committee.

Furthermore, the corporate customer rating and monitoring system was rolled out for the Caisse d'Épargne network in January 2012, which by the end of 2012 provided consistency with the existing rating system used by the Banque Populaire network and Natixis.

Finally, reviews of the credit activity's permanent control systems were begun in the first half of 2012.

### Market risks

#### Organization

The Market Risk Management Department of the Financial Risk Management division works in the areas of risk measurement, definition and monitoring of limits, and supervision of market risks:

- Risk measurement:

(1) ICAAP (Internal Capital Adequacy Assessment Process) is a regulatory procedure used to assess whether there is sufficient capital to cover all of the risks incurred by banking institutions. The banking commission must validate ICAAP for a bank to receive Basel II approval.

- determining the principles of market risk measurement, which are then validated by the various appropriate Risk Management committees,
- implementing the tools needed to measure risk on a consolidated basis,
- producing risk measurements, including those corresponding to market operational limits, or ensuring that they are produced as part of the risk process,
- validating appropriate valuation models and performance metrics or ensuring that they are validated as part of the risk process. Where models are developed by the institutions involved, it delegates approval of these valuation models to them and receives mapping of the approved models along with any approval comments,
- determining policies for adjusting values or delegating them to the Risk Management divisions of the institutions involved, and centralizing the information,
- ensuring Level Two validation of management results and cash valuation methods;
- Defining and monitoring limits:
  - examining the limit framework and setting limits (global limits and, where necessary, operational limits) adopted by the various appropriate Risk Management committees, as part of the comprehensive risk analysis process,
  - examining the list of authorized products within the institutions involved, and the conditions to be complied with, and submitting them for approval to the appropriate Market Risk Committee,
  - harmonizing processes for managing the trading book compartments and medium- to long-term portfolios of the Banque Populaire and Caisse d'Épargne networks (monitoring indicators, definition of indicator limits, monitoring and control process, and reporting standards);
- Market Risk Supervision:
  - examining requests for investments in financial products, in new capital market products or activities, by the banking institutions involved via the New Market Product Committee,
  - defining Level Two control procedures for market transactions, valuation prices and management results,
  - consolidating Group risk mapping,
  - carrying out or overseeing daily supervision of positions and risks with respect to allocated limits (overall and operational limits), organizing the decision-making framework for limit breaches and ensuring or overseeing the permanent supervision of limit breaches and their resolution,
  - preparing the consolidated scorecard for the various decision-making bodies.

### Activities in 2012

Following the project to implement a uniform VaR calculation at the Group level, the Group Risk Management division now produces the Group's VaR on a daily basis for all of the trading books.

In addition, the Group's cash management monitoring system was tightened by improving the techniques used for the VaR calculation (new risk factors added) and by aligning the calculation of the sensitivity indicators with the tools used by Natixis.

The Market Risks Department is also involved in monitoring the active management policy for the Crédit Foncier securitization portfolio.

Moreover, the implementation of Group management policy guidelines enabled a reduction of the financial portfolio.

Finally, in October 2012, Natixis switched all of its linear derivative and option products to a bi-curve valuation model. This migration was carried out amid favorable market conditions.

## Interest rate, liquidity and exchange rate risk

### Organization

The Group Risk Management division forms part of the system for managing structural ALM risks (liquidity, interest rate, and exchange-rate risks). The ALM Risk team of the Financial Risk Management department is responsible for Level Two risk controls.

In particular, the following points are subject to controls or validation:

- the list of identified risk factors and on- and off-balance-sheet risk mapping;
- tools for controlling the parameters of the prepayment model;
- run-off distribution agreements, definition of instruments authorized to cover balance sheet risks;
- monitoring indicators (in particular, stress tests and regulatory indicators), rules and frequency of reporting to the ALM Committee;
- control standards relating to the reliability of assessment systems, procedures for setting limits and managing limit breaches, monitoring of action plans.

The Risk Management division examines requests for ALM limits defined by the ALM Committee, subsequently subject to validation by the Group Risk Management Committee.

The Group Risk Standards and Methods Committee, for its part, ultimately validates controls to be carried out by the ALM Risk Management unit.

More precisely, the Financial Risk Management function controls:

- compliance of indicators calculated in accordance with the standards established by the ALM Committee;
- observation of limits on the basis of the required information reported;
- implementation of action plans to reduce risks to bring them back within operational limits.

All of these duties are the responsibility of each entity's risk management function for its own scope and the Group Risk Management division on a consolidated level. Each entity documents controls in a Level Two control report that includes:

- the quality of risk control procedures;
- observation of limits and monitoring of corrective action plans in the event of limit breaches;
- and analysis of changes in balance sheet and risk indicators.

### Activities in 2012

As part of its management and monitoring system for structural balance sheet risks, the ALM Risk Department participated in the updating of Group ALM and Group ALM risk standards.

The department also extended its Level Two controls to BPCE SFH (covered bond-issuing entity), with the implementation of a permanent control plan.

In addition, through a number of liquidity projects, the department continued to participate in the validation of Group internal methodology standards and functional specifications, while following international regulations regarding future Basel III, LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) 1-month and 1-year liquidity ratios. Controls were carried out, especially with regard to liquidity reserves.

Work was also done to automate production of ALM risk reports. During the second half, the Banque Populaire and Caisse d'Épargne networks, their subsidiaries as well as Banque Palatine began production through this automated reporting system.

Finally, initiatives aimed at strengthening controls for collateral serving as a guarantee for various refinancing systems was begun in collaboration with several Group institutions.

## Operational risks

### Organization

The Operational Risk department of the Risk Management division contributes to the operational risk management policy. To this end, it:

- defines and updates operational risk standards applicable to all Group institutions;
- carries out and updates risk mapping based on uniform evaluation standards across the entire Group;
- rolls out and controls the implementation of the operational risk monitoring and management system;
- manages the operational risk, incidents and losses data collection tool, and assists institutions with the approval and use of the tool;
- ensures the escalation of significant incidents (particularly Article 17 ter) to the Group's management bodies;
- issues recommendations and monitors remedial action plans relevant to major incidents;
- contributes to permanent risk supervision by preparing consolidated summary reports for submission to various bodies;
- coordinates the operational Risk function through national operational risk days and theme-based working groups.

### Activities in 2012

In 2012, the Operational Risk division finalized its project on Group operational risk standards and methods and released its policy on operational risks in Group institutions.

At the same time, the roll-out of the single operational risk management application, already in use in the Banque Populaire network, was initiated in the Caisse d'Épargne network and subsidiaries.

The single body of operational risk standards was deployed at all Group entities (excluding Natixis), thus providing an overall, harmonized and consolidated view of risks within the Group.

Finally, coordination of the operational Risk function was strengthened through working groups consisting of representative institutions for both networks, with a focus on sharing best practices within the Group.

## Underwriting risks related to insurance activities

The Risk Management division, in collaboration with the Commercial Banking and Insurance division, ensures the effective implementation and operation of the insurance risk monitoring processes (including underwriting risk) within Groupe BPCE's principal insurance companies, particularly Natixis Assurances, Compagnie Européenne de Garanties et de Cautions (CEGC), BPCE Assurances and Prépar.

In this context, the principle of subsidiarity applies, with controls carried out first by the insurance companies, then at the level of the Risk divisions of the direct parent companies (Natixis and BRED Banque Populaire), and then by the Groupe BPCE's Risk Management division. In this regard, during 2012, the Risk Management division notably carried out a periodical review for each company, relying on steering committees. It also made a presentation to the Group Risk Management Committee.

Furthermore, with respect to Groupe BPCE's provident insurance policies, the Risk Management division participates in several steering committees alongside the Finance division.

## Intermediation risk

### Organization

Intermediation risk is monitored at the central institution level through a system for monitoring transactions that have not yet been adjusted or unwound. Natixis is in charge of brokerage activity, and supplies the necessary data to the central institution for controlling and monitoring this risk.

In concert with the Group Compliance and Security division, Commercial Banking and Insurance conducts a broker review of the brokers selected for customer transactions in both networks' institutions.

## Settlement/delivery risk

Settlement/delivery is a procedure through which securities are delivered in exchange for cash payment, to fulfill the obligations related to the negotiation of transactions. The settlement/delivery deadline is three business days from the time of negotiation.

Failure by the seller/lender to provide securities, or by the buyer/borrower to provide cash, leads to a failure to settle: the securities are not delivered and the cash is not received by the given deadline. This results in an unsettled transaction, which is most commonly caused by a malfunction in the information system.

For our two networks, unsettled transactions are monitored by Natixis EuroTitres, the delegated custody and account-keeping entity, which reconciles transactions with depository banks and conducts permanent controls of custody activities, thus contributing to the evaluation of financial risk.

## 2.6.5 Compliance

The Compliance function takes part in Groupe BPCE's permanent control activities. It comprises all compliance functions, as defined in Groupe BPCE's Compliance Charter, that exist within Group companies and that have dedicated resources.

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

## GROUP COMPLIANCE OBJECTIVES AND ORGANIZATION

### Objectives of the function

The Compliance function conducts permanent Level Two controls which, in accordance with Article 5a of CRBF Regulation 97-02 as amended, include ensuring that the operations and internal procedures of Group companies comply with laws, regulations, professional standards and internal standards applicable to banking, financial and insurance activities, in order to:

- prevent the risk of non-compliance as defined in Article 4-p of CRBF Regulation 97-02 as amended, as "the risk of legal, administrative or disciplinary sanction, material financial loss or reputational damage arising from non-compliance with provisions applicable to banking or finance activities, whether these are of a legislative or regulatory nature, or they relate to professional standards and ethics or instructions from the executive body taken in particular pursuant to guidelines established by the governing body";
- safeguard Groupe BPCE's image and reputation with its customers, employees and partners;
- represent Groupe BPCE before the regulatory authorities and national and international professional organizations in all its areas of expertise.

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

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

### Group Compliance: organizational principles

To ensure its independence, the Compliance function, which is separate from the other internal control functions, must be independent of all functions performing commercial, financial and accounting transactions.

Dedicated compliance teams form a Compliance division, which reports hierarchically to the Chairman of the Management Board or to the Chief Executive Officer of each Groupe BPCE institution. Where the Compliance Officer does not report to the Chairman of the Management Board or the Chief Executive Officer, he reports to the Head of Risk Management. The Head of Risk Management and Compliance reports hierarchically to the Chairman of the Management Board or the Chief Executive Officer.

For Group entities with the status of credit institution or investment company under French law, the Compliance Officer's name is given to the Office of the Secretary General of the ACP by BPCE, and the supervisory body, Board of Directors or Supervisory Board is informed of his identity.

### Role assigned to BPCE by the Act of June 18, 2009

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

"7) defining the principles and conditions for organizing the internal control system of Groupe BPCE and each of its networks, as well as controlling the

organization, management and quality of the financial position of affiliated institutions, including through on-site checks within the scope of intervention defined in paragraph 4 of Article L 511-31;"

Given the scope of Groupe BPCE, several levels of intervention and responsibility have been identified in the area of compliance, in line with the Group's organizational structure:

- BPCE as a central institution for its activities;
- its affiliates, including the Caisse d'Epargne and Banque Populaire parent companies;
- its subsidiaries, including Natixis.

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

The organization of the Group Compliance and Security division (DCSG) complies with the principles set by CRBF Regulation 97-02 as amended, the general regulations of the AMF, and by the Act that established BPCE.

DCSG performs its duties independently from operational divisions as well as from other internal control divisions, though it does work with them. DCSG includes five divisions with Compliance activities:

- ethical compliance, including BPCE's investment services compliance officers (RCSIs) and compliance of BPCE as a company;
- financial security, including BPCE's Tracfin officers;
- insurance compliance;
- banking compliance;
- coordination of the function and permanent control.

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

DCSG oversees all compliance and security processes. To this end, it helps guide and motivate the Compliance Officers of the affiliates and subsidiaries, including Natixis. The Compliance Officers appointed by the various affiliates, including the Caisse d'Epargne and Banque Populaire parent companies, and direct subsidiaries covered by the regulatory system of banking and financial supervision, have a strong functional link with DCSG.

DCSG conducts any necessary initiatives to strengthen compliance throughout Groupe BPCE, including within the BPCE company. Within the BPCE company, compliance is handled by a dedicated team in the Ethics and Compliance division.

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

As a result, DCSG:

- puts together the training materials used by the Compliance function;
- manages interaction with the Group Human Resources division (DRHG);
- trains Compliance staff, mainly through specialized annual seminars (financial security, ethics and compliance, banking compliance, and coordination of permanent compliance controls);
- trains Compliance Officers through appropriate courses.

### Company-level organizational principles

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

The standard organization of a division or entity in charge of Compliance includes at least two units specializing in each area (see below "Main duties in each business area") relating to:

- ethical compliance, with the investment services compliance officer (RCSI);
- financial security, with the Tracfin (French anti-money laundering unit which reports to the French Ministry of the Economy, Finance and Industry) officer(s) and reporting officer(s).

The division or entity in charge of Compliance also designates one or more employees to be DCSG's intermediary in the following areas:

- banking compliance;
- permanent compliance control.

Each Group entity has its own systematic prior approval process for new products and material changes to existing products within the meaning of Article 11-1 of CRBF Regulation 97-02 as amended.

Products marketed by a single company fall within the scope of this approval process. As required, for the launch of all new products, the company's Compliance function meets with DCSG if necessary.

With regard to employee training, the division or entity in charge of compliance:

- contributes to training initiatives undertaken by BPCE;
- signs up employees for BPCE seminars;
- supplements training provided by Compliance on a local basis.

As stated in Groupe BPCE's internal control charter, the other functions in charge of permanent control (Accounting Review, Information System Security Officer, BCP Officer) may be placed under the functional supervision of a permanent control officer, such as the Head of Compliance.

## MAIN AREAS OF NON-COMPLIANCE RISK

### Main duties in each business area

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

#### With regard to Compliance

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

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

##### FINANCIAL SECURITY

This includes the prevention and monitoring of financial crimes, including the prevention of money laundering, the prevention of terrorism financing, compliance with embargoes and the prevention of internal and external fraud. It also encompasses the operating procedures of TRACFIN officer.

##### INSURANCE COMPLIANCE

This covers compliance with all legislative and regulatory areas concerning insurance brokers in their capacity as distributors of insurance products. In this regard, it includes disseminating standards and transposing them in information systems, implementing approval processes for new products distributed in the Group, monitoring sales processes and professional ethics, and approving content, advertisements, and documents intended for the networks and training activities.

##### BANKING COMPLIANCE

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

##### COORDINATION OF THE COMPLIANCE AND PERMANENT CONTROL FUNCTION

This covers the preparation of reporting documents for regulators and internal reporting documents, preparation for committees coordinated by or involving Compliance, and Compliance management meetings. Non-compliance risks are incorporated in the risk mapping coordinated by the Group Risk Management division. In coordination with the risk management function, permanent control covers the implementation of non-compliance risk management, and oversight of the results of permanent controls that cover non-compliance risks.

Compliance is also the main contact for the AMF, the AMF-ACP marketing control coordination department, the Commission nationale de l'informatique et des libertés (CNIL, France's commission on personal data protection), the Directorate-General for Anti-Trust Policy, Consumer Affairs and Fraud Control (DGCCRF), and equivalent foreign authorities. The Compliance function interacts with the ACP and equivalent foreign authorities on matters within its remit.

As a Level Two permanent compliance control function, the Compliance function maintains close relations with all functions involved in performing internal controls within Groupe BPCE: the *Inspection générale* division, Risk Management division, IT System Security division and Accounting Review division.

BPCE ensures permanent compliance control of BPCE IOM, as delegated by BPCE IOM.

#### With regard to other permanent control areas

##### SECURITY AND BUSINESS CONTINUITY

The Group Security and Business Continuity division is part of BPCE's Group Compliance and Security division, and performs its tasks independently of operational divisions. These tasks involve:

- security of staff and property:
  - overseeing the security of Groupe BPCE's staff and property,
  - coordinating the security function for Groupe BPCE staff and property,

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

### Achievements 2012

In terms of investment service compliance, DCSG continued to strengthen its procedures for analyzing submitted documents, employing its expertise in the validation of products and marketing documents. In addition, it helped update the e-learning training catalogue and drew up an inventory of analytical tools for "market abuse alerts" in Group institutions, which led to the preparation of an IT requirements report. The coordination of the RCSI function saw the launch of a series of inter-regional meetings.

With regard to the prevention of money laundering, Group procedures were updated in order to incorporate regulatory requirements related to sharing of information between financial organizations within and outside the Group, and the Group tool for Tracfin reporting was enhanced. Similarly, a specific procedure was prepared with regard to freezing of assets and embargo management. The convergence of tools and vigilance rules between the Caisses d'Epargne and the Banque Populaire banks is underway, along with the incorporation of effective beneficiaries of business relations in the information systems.

Coordination of the function was enhanced through the implementation of systematic analysis by the Group financial security division of all suspicious activity reporting by Group institutions, on the one hand, and more specifically with BPCE IOM and Natixis management.

In terms of preventing and dealing with internal fraud, a framework procedure was validated which describes the associated IT applications. A request for data processing authorization was submitted to the CNIL.

In terms of banking compliance, a Sales Process Validation Committee was established for the Banque Populaire network. An approval procedure to reduce the number of materials prepared by BPCE or its subsidiaries intended for the sales teams in charge of distributing products and services is currently being rolled out.

A project to bring into compliance and harmonize sales processes, operational procedures, and information systems related to regulated savings products, which was launched in 2011, continued into 2012. Compliance standards are currently being updated, and efforts to bring mandatory customer sales documentation into compliance continued.

In terms of life insurance, in the interest of customer protection, changes to advisory notices and/or warnings were incorporated in the networks' information systems, particularly concerning flexible contributions and the suitability of risks incurred based on the customer's profile. In terms of payment protection insurance, the CCSF's recommendations were extended to institutions, particularly in relation to the Lagarde Act (disassociation of real estate loans from payment protection insurance). In IARD and provident insurance, a working group was established to redesign advisory notices for the Banque Populaire network. Finally, a payment-protection insurance training program was created for new hires, including a quiz. This training will be rolled-out at the institutions.

In terms of permanent control, the Pilcop Group tool convergence plan continued for Banque Populaire banks. Caisses d'Epargne permanent control standards were updated and enhanced. Efforts to harmonize standards concerning BPCE IOM subsidiary banks were completed in 2012.

Institutions scored their non-compliance risks based on a single set of standards, and using the Group scoring method.

In terms of security and business continuity, a set of Group security rules was developed, particularly to account for changes in regulations governing cash transportation. The security of cash-in-transit service providers remains a priority for the Group.

The oversight system (reporting, indicators, controls, etc.) for business continuity was defined and deployed throughout all businesses. The first training program for new employees included 30 business continuity plan officers. European financial crisis and cyber-attack scenarios are carefully examined. The cyber-attack scenario was the focus of the 2012 marketplace solidity test organized by the Banque de France, in which seven Group companies participated.

The BPCE business continuity plan was bolstered with a set of organizational standards and several crisis management and business recovery exercises.

## 2.6.6 Other permanent control functions

### MANAGEMENT OF LEGAL RISK

#### Duties

The Corporate Secretariat – Legal Affairs division (SGDJ) is responsible for the prevention and management of legal risks and Group-level legal risks. It is also involved in the prevention of reputational risks. In this regard it helps to manage the legal risks arising from the activities of the central institution and Group entities.

To this end it provides legal and regulatory oversight, information, assistance and advice for the benefit of all Group institutions.

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

Finally, SGDJ represents Groupe BPCE with respect to the regulatory authorities as well as national and international organizations in all its fields of expertise.

SGDJ exercises its role independently of the Operational divisions.

### Organization

SGDJ is in continuous contact with the Legal Affairs divisions of Group institutions on all matters relating to the aforementioned duties. It ensures ongoing dialogue and interaction between the Group's legal officers, and maintains up-to-date documentation for their benefit. SGDJ coordinates the Group's legal and litigation policy. In this regard, it oversees all legal risk management processes.

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

With the exception of the special case of Natixis, for which there is a direct functional link, the Legal function operates mainly through coordination between the central institution and the various affiliates or subsidiaries.

### Activities in 2012

Work carried out in 2012 focused mainly on:

- contribution to the Sales Process Validation Committee (CVPC) and to the Review and Validation Committee for New Groupe BPCE Products (CEVANOP);
- regulations applicable to cooperative shares;
- contribution to regulatory topics relating to Capital Requirements Directive (CRD) IV and Capital Requirements Regulation (CRR) IV;
- participation in BPCE securities issues;
- monitoring and studying the impacts of the draft banking law;
- participation in projects related to Banque Populaire and Caisses d'Épargne governance.

### Organization details

In May 2010, the Corporate Secretariat and the legal function were merged into a single division, thereby entrusting to one and the same person the responsibility for providing secretariat services for BPCE's bodies and the Group Legal Affairs division.

The Corporate Secretariat – Legal Affairs division is organized around five departments: the purpose of this organization is to have a legal function capable of fulfilling its duty to provide legal advice to BPCE as an entity, and to act as a Legal Affairs division for the Group in its various components, with the aim of ensuring maximum security.

The duties of the "Commercial Banking and Insurance law" division include a regulatory watch and participation in industry working groups (Fédération Bancaire Française (FBF – French Banking Federation), etc.) charged with preparing, negotiating and explaining (rolling out) all new texts applicable to the profession with regard to their implementation within the Group. This division is also responsible for defining and drafting legal standards applicable to the Group's banks and products sold, in response to changes in these texts. Likewise, it provides legal advice and assistance to the Group in the fields of banking law and insurance law. Lastly, it manages strategic disputes for the Group, handles criminal cases and coordinates litigation on a national level.

The duties of the "banking regulation" division cover the handling of banking regulations, *i.e.*, activities related to the analysis, disclosure and application to the group's institutions of regulatory texts (European directives, Basel Committee or European Banking Authority (EBA) recommendations, texts issued by French regulators). This division is also responsible for handling ACP matters and relationships with authorities, and for monitoring texts relating to key banking ratios and controls of credit institution policies: CRD IV and CRR IV, with the implementation of the LCR and the NSFR, CRBF regulation 97-02 on internal control, and supervision on a consolidated basis. Lastly, this division is responsible for providing advice with regard to banking regulation.

The duties of the "Corporate" division consist in handling complex financing and acquisitions (in particular, mergers/acquisitions and similar transactions). It is the legal advisor to BPCE and the Group regarding strategic partnerships with outside entities and financial engineering, including the creation of financial products intended to be sold to the public. It is in charge of matters relating to antitrust law, community law, relationships with international regulators, and real estate. Lastly, it handles monitoring and protection of brands, licenses and development matters.

The "Governance and Company Life" division first and foremost handles the operation of BPCE's bodies in accordance with the highest standards of governance, as well as ensuring that the Group applies these standards. Its duties also cover the area of corporation law. It also handles the institutional management of the Group's organizations and institutions (including the Caisse d'Épargne and Banque Populaire networks), thereby covering oversight, disclosure, support and advice in matters of institutional and company life (including plans to establish and restructure entities).

The "Information Systems – Legal Documentation and Support" division provides applications and helpful documents to the Group, monitors important texts and distributes them within the Group.

## IT SYSTEM SECURITY

### Duties

The Group IT System Security (SSI) division (DSSI-G) defines, implements and develops Group IT system policies. It provides continuous and consolidated monitoring of information system security, along with technical and regulatory monitoring. It initiates and coordinates Group projects aimed at reducing risks in its field.

Within its remit, DSSI-G represents Groupe BPCE with respect to banking industry groups and to public authorities.

For the purposes of permanent control, the DSSI-G has regular contact with the Risk Management, Compliance and Inspection divisions of the central institution.

The central institution's Head of IT System Security is a member of the Group IT System Security division. And as such ensures the security of the central institution's information system(SI Fédéral) and of BPCE's information system.

### Organization

Groupe BPCE has established a groupwide information system security function. It includes the Head of IT System Security (RSSI), who coordinates the function, and the Heads of IT System Security for all of the institutions.

The heads of IT System Security for parent company affiliates, direct subsidiaries and EIGs are functionally linked to the Group's Head of IT System Security. This functional link is achieved through coordinated actions. This functional link means that:

- the Group's Head of IT System Security is notified of the appointment of any heads of IT system security;
- the Group's IT system security policy is applied within the institutions, and each IT system security policy must be transmitted to the Group's Head of IT System Security prior to approval by Executive Management, the Board of Directors, or the Management Board;
- a report on the institutions' compliance with the Group's IT system security policy, ongoing control, risk level, primary incidents, and actions is submitted to the Group Head of IT System Security.

### Activities in 2012

The BPCE Group's IT system security policy (PSSI-G) incorporates the Group's security requirements. It is comprised of the information system security charter, 373 rules categorized into 19 subject areas, and an organizational instruction document<sup>(1)</sup>. It is revised annually according to an ongoing process of improvement. In December 2012, 39 rules in 12 subject areas were reviewed<sup>(2)</sup>, five were added, two removed and one new subject area was created (46 rules)<sup>(3)</sup>.

Building on work completed in 2011 (assessment of the compliance level of the Group's institutions with each of the PSSIG rules), reconciliation work between the risks incurred by non-compliance and the costs of bringing the systems up to standard was completed in 2012. This reconciliation:

- helped the institutions prioritize their plans to bring their systems up to standard;
- contributed to the ongoing process of improving the PSSIG;
- identified Groupe BPCE's IT system security priorities for the coming years.

In 2011, through assessment of the compliance level of the Group's institutions with each of the PSSI-G rules, the Group obtained its first overview of its level of information system security at a consolidated level. To improve the Group's knowledge of IT risks, a methodology coordinating the IT and information system security approaches with that of the business lines, with regard to risk mapping, was defined and applied to the "check" process. In 2012, all of the group standards necessary for this methodology were finalized (generic supporting asset, generic vulnerability, threat, impact-generating event). Software used by the major Group entities were listed and the level of sensitivity in terms of risk for components of Group information systems was evaluated.

At the same time, the new Group information system security permanent control standards were established in 2012. These are the minimum basis for Level 2 information system security permanent controls applicable by each of the institutions, replacing the current "SMC" system, limited solely to the Caisses d'Epargne. This set of standards includes 57 basic points of control and will be implemented beginning in January 2013, with priority given to institutions using a large information system (i-BP, IT-CE, Natixis, BPCE SA, BRED Banque Populaire, CASDEN Banque Populaire, Crédit Foncier, Crédit Coopératif, Banque Palatine, international IT hubs).

DSSI-G also contributed its security expertise to several Group projects so that security would be taken into account earlier (Group network, SEPA Mail, S-Money, V. Me, etc.).

These projects are in keeping with the roll-out of the strong authentication solutions coordinated by DSSI-G. Within Groupe BPCE, over 650,000 CAP/EMV readers (secure payments protocol) were deployed at year-end 2012 and close to seven million customers were equipped with the SMS solution.

Finally, the Group's IT System Security Committee, the Group's IT System Security supervisory body chaired by the Group's Head of IT System Security, met four times during 2012.

In the scope of BPCE, several projects designed to raise and control the security level of its information systems were continued in 2012.

In coordination with the Information Systems division, DSSI-G contributed to the completion and technical support of the Security Task Force (close to 2,000 man-days over 2 years).

The massive user authorization project defined in 2010 was continued. It will provide BPCE in particular with a database of the rights granted to users, helping to better manage and trace authorizations and to control their reliability.

DSSI-G coordinated the security assessments of several sensitive applications before they were deployed: Norma (memorandum management), Pilcop (permanent control tool), Reco ! (Management of recommendations, etc.).

DSSI-G also contributed its security expertise to the CAMELEA project (new workstation) so that security would be taken into account earlier.

Twelve new theme-based Group information system security permanent controls were also created.

Lastly, in accordance with the Group information system security Charter, BPCE's IT System Security Committee met four times during the year.

(1) Operating procedures of the Groupe BPCE IT System Security function.

(2) Security of subcontracted or outsourced services, system and hardware security, security of operation and production, telephone system security, management of audit trails development security, network security, mobile computing security, fight against malicious code, education and training for human resources staff, control of access to software, security of remote banking and online payments, security of card data.

(3) Security of computer rooms.

## 2.6.7 Controls of accounting and financial reporting quality

### ROLES AND RESPONSIBILITIES IN PREPARING AND PROCESSING ACCOUNTING AND FINANCIAL INFORMATION

Within Groupe BPCE, the preparation and processing of financial and accounting information falls under the responsibility of the Finance function. In the central institution, this function is coordinated by the Group Finance division, headed by a member of the Management Board.

The main rules that govern the Finance function within Groupe BPCE are defined by the "Finance function Framework," approved by BPCE's Management Board on November 2, 2010 and essentially relate to:

- rules for preparing and processing accounting and financial information;
- organizational rules for the Finance function within the Group and for the Group Finance division within the central institution;
- the principles and terms of relationships established between the Group Finance division and the Finance functions of Group institutions as well as other outside parties (other functions within BPCE, AMF, Statutory Auditors, etc.).

### General principles of responsibility within Groupe BPCE

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

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

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

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

In addition to consolidating accounting and financial information, the Group Finance division has broad control duties:

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

### Primary functions contributing to preparing and communicating accounting and financial data and their responsibilities

The main functions involved in preparing and publishing accounting and financial information are Accounting, Finance Control, Investor Relations and the Group Risk Management division for calculating the capital adequacy ratio.

### ACCOUNTING

The Accounting function is in charge of preparing parent company and consolidated financial statements.

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

Within BPCE, the function is performed by the Group Accounting division, for the consolidated financial statements, and by the BPCE Budget and Accounting division for the parent company financial statements. The main duties of these two divisions, the heads of which report to the Chief Financial Officer Executive Group are as follows:

For the Group Accounting division:

- preparing the consolidated financial statements of Groupe BPCE and BPCE, ensuring the Group's compliance with regulatory ratios;
- coordinating the accounting function within the Group;
- providing a regulatory watch as regards French and IFRS accounting standards applied by Groupe BPCE in coordination with shareholder institutions, BPCE subsidiaries and the Statutory Auditors;
- acting as the interface between the regulatory authorities (the Banque de France and the ACP) and affiliated institutions, in accordance with Article L 512-107 of the French Monetary and Financial Code, and ensuring that the affiliated institutions comply with regulatory standards and management ratios;
- representing the Group with respect to industry bodies (Conseil national de la comptabilité, European Banking Federation, etc.).

In addition, the Group Accounting division assists the business lines of the Group Finance division in managing financial information systems projects, and contributes to preserving single and community financial standards both for all functions of the Group Finance division and for shareholder institutions;

For the BPCE Budget and Accounting division:

- providing accounting services and the production of BPCE's regulatory statements;
- managing BPCE's procedures and budget planning;
- handling accounts receivable and the payment of BPCE invoices and those of certain subsidiaries whose accounts are kept by the central institution;
- providing back-office accounting treatment with respect to cash management, securities issues, investments and for the financial management of BPCE and its issuing subsidiaries.

### FINANCE CONTROL

The Finance Control function is in charge of preparing management information.

Within Groupe BPCE, each entity's Finance Control function is in charge of operational coordination, and has responsibility for producing management information within the entity and for the central institution.

Within BPCE, the function is performed by the Group Finance Control division, the head of which reports to the Chief Executive Officer responsible for Finance, Risk and Operations. Its main duties are as follows:

- coordinating the financial planning, budget and multi-year rolling forecast process;
- analyzing the performance of Groupe BPCE, its business lines and accounting entities, especially during the publication of each quarterly results;
- coordinating the Finance Control function within Groupe BPCE;
- coordinating cost analysis procedures based on the Activity Based Costing (ABC) procedure;
- monitoring BPCE subsidiaries financially and administratively;
- coordinating capital management, allocating Group shareholders' equity and liquidity;
- helping prepare the Group strategic and financial plans.

## INVESTOR RELATIONS

The Investor Relations function is responsible for information published through presentations to financial analysts and institutional investors on the BPCE website, and for registration documents and their updates filed with the AMF and also available on the BPCE website.

Within BPCE, the function is performed by the Issues and Investor Relations division, the head of which reports to the Chief Financial Officer Executive Group. Its duties in this area are as follows:

- coordinating and preparing presentations of Groupe BPCE's quarterly results, financial structure and business development, to enable third parties to form an opinion on its financial strength, profitability and outlook;
- coordinating and preparing the presentation of regulated financial information (registration document and its quarterly updates) filed with the AMF while including contributions from other BPCE offices;
- organizing relations with rating agencies by coordinating with the other rated entities of Groupe BPCE;
- organizing and maintaining relationships with credit investors likely to hold and/or acquire debt instruments (short, medium or long term) issued by BPCE or Natixis.

## PRODUCTION PROCESSES FOR CONSOLIDATED ACCOUNTING AND FINANCIAL DATA

### General system

The central institution prepares the consolidated financial statements of Groupe BPCE and its individual company financial statements.

For this purpose, BPCE's Group Finance division has prepared consolidation standards designed to guarantee the reliability of the process. This set of standards is based on the following core principles:

- defining and disseminating accounting policies for Groupe BPCE, including analyzing and interpreting new texts issued during the period, both for French GAAP and international (IFRS) accounting standards;

- regular training of accounting teams within the consolidated entities to promote the use of best practices throughout Groupe BPCE.

In addition, within Groupe BPCE, the institutions publishing financial statements on a consolidated basis under IFRS are:

- among the network banks: all of the Banque Populaire banks and six Caisses d'Epargne (Aquitaine Poitou-Charentes, d'Auvergne et du Limousin, de Bourgogne Franche-Comté, Bretagne Pays de Loire, Île-de-France and de Midi-Pyrénées) ;
- the main subsidiaries of Groupe BPCE – Natixis, Crédit Foncier, Banque Palatine, BPCE IOM and Nexity.

### Preparation process for consolidated accounting and financial data

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

The organization of the consolidation system is based on a combined solution for the Group's business lines:

- in Commercial Banking and Insurance, information is communicated on an individual basis to ensure a more detailed view of the contribution of the accounting entities to Groupe BPCE's results. Preparation of consolidated financial statements is based on monitoring of the individual accounting data of Group institutions under IFRS. The system is based on a single consolidation tool specific to these entities, and for all sub-consolidation work. This ensures internal consistency as regards scopes, charts of accounts, accounting treatment and analysis;
- in Wholesale Banking, Investment Solutions and Specialized Financial Services: Natixis has a consolidation tool that produces an IFRS consolidation package, ensuring the consistency of data from the banking and insurance scopes and giving a transparent overview of its subsidiaries. For the production of Group financial statements, Natixis submits a consolidation package that represents its consolidated financial statements;
- for Equity interests (Nexity in particular) the accounting entities are for the most part consolidated on the basis of packages that represent their consolidated financial statements.

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

## CONTROL PROCESS FOR ACCOUNTING AND FINANCIAL DATA

### General system

Groupe BPCE's internal control system contributes to the management of all types of risk and enhances the quality of accounting information.

It is organized in accordance with legal and regulatory requirements, including those arising from the French Monetary and Financial Code, CRBF Regulation 97-02 as amended, and texts governing BPCE. It concerns all Group companies, which are monitored on a consolidated basis.

The system is governed by the Group Internal Control Charter, approved on April 7, 2010 by the BPCE Management Board. This charter sets out the principles, defines the scope of application, details the participants and their role in ensuring that the internal control system of each company and Groupe BPCE works properly.

The Group's Internal Control Charter, which sets the general principles, has been supplemented by charters organizing the periodic control of subsidiaries (internal audit) and permanent control: risk, compliance, IT system security and finance in the accounting and financial reporting quality control system.

### Application of the control framework with regard to accounting and financial data

#### Within the institutions

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

- a basic level, *i.e.* "Level One controls" (control), relating to operational departments and integrated into accounting treatment procedures;
- an intermediate level, *i.e.* "Level Two controls" (review), organized and executed under the responsibility of a specialist audit function within the Finance divisions dedicated to carrying out accounting and regulatory reviews. This function performs independent controls on accounting treatment procedures to ensure the reliability and completeness of financial statements in conjunction with permanent controls functions;
- an upper level, *i.e.* "Level Three controls" (audit), involving periodic controls organized under the authority of the local internal audit division or the Group's *Inspection générale* division, or controls performed by parties external to Groupe BPCE (particularly Statutory Auditors and the ACP).

#### Within the central institution

##### COORDINATION OF THE "ACCOUNTING AND REGULATORY REVIEW" PROCESS

Within the central institution, the Finance division coordinates the permanent system for accounting and regulatory reviews and regulatory reports, as part of an accounting and regulatory review function, the rules of which are specified in the Accounting and Regulatory Review Charter. Within the Group Finance division, this function is coordinated by the Financial Review division. Reporting to the Executive Chief Financial Officer, the division head has been granted normative powers over the function and is a standing member of the Group Internal Control Coordination Committee.

In conjunction with the shareholder institutions and Group subsidiaries, the Financial Review division maintains a strong functional link between the function within the Group institutions and that of the central institution. This is to guarantee the quality of the Group's accounting and regulatory reporting.

Its main duties are to:

- facilitate sharing of best practices within a special-purpose committee (Auditors' Committee) and working groups;
- organize the drafting and distribution of the set of standards and documents for the function;
- coordinate the reporting system for the function with the central institution;
- work closely with the Group's Statutory Auditors on the statutory system within Groupe BPCE, while ensuring, on behalf of the Audit and Risk Committee, the independence of the Statutory Auditors (monitoring compliance with the selection procedure, review of the fees paid by Groupe BPCE and the type of duties performed by the Statutory Auditors within Groupe BPCE, etc.).

The Financial Review division's other duties are as follows:

- Level Two control of the accounting work and in particular financial and regulatory statements published under the responsibility of the Group Finance division;
- controlling the data produced by other business lines and coordinating the internal control actions within the Group Finance division in conjunction with other permanent control entities.

In 2012, the Accounting and Regulatory Review function continued to implement its procedures in line with the other permanent control functions, in particular:

- structuring the body of standards and its validation process by the appropriate bodies, which is essentially based on the Accounting and Regulatory Review Charter (the "Charter"), which is the basis of the body of standards, Group Review Standards (NRG), adaptations of the "Charter" for the operational divisions, and finally the Group Audit Guidelines (GRG), intended to provide operational and/or methodological clarifications to implement the "Charter" or the standards;
- clarifying and strengthening statutory audit checks and rules within Groupe BPCE by:
  - implementing a tool for monitoring and collecting fees paid to Statutory Auditors, leading to the presentation of an annual report on audit fees and services to the Group Audit and Risk Committee,
  - drafting the "Framework for Statutory Auditor Assignments at Groupe BPCE", approved by the Supervisory Board of BPCE on June 27, 2012,
  - drafting standards and procedures intended to clarify and harmonize rules for disclosing Statutory Auditors' fees, supervise services that are not related to audits and, finally, simplifying the appointment or renewal process for Statutory Auditors;
- completing the roll-out of an auditing and control tool (Comptabase), which has already been implemented in the Caisse d'Epargne network, to Banque Populaire banks that are members of the i-BP community, thus converging the tools used by the shareholder institutions in this area;
- rolling out a permanent reporting tool within the Accounting and Regulatory Review function, designed to characterize the audit and control mechanism within Groupe BPCE, identify the mechanism's weaknesses, and propose suitable solutions;
- continuing departmental training as part of a permanent training system.

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

- the Group Finance division, which coordinates the system for checking the quality of accounting and financial information. For this purpose:
  - in its responsibility for standardizing accounting practices at the Group level it produces parent company and consolidated financial statements under French GAAP and IFRS,
  - it regularly examines the regulatory statements of the Banque Populaire banks, the Caisses d'Epargne and the Caisses de Crédit Maritime before they are transmitted to the ACP (consistency checks and analyses carried out by a dedicated team),

- for consolidated financial statements, this team validates and verifies that the scope of consolidation is compliant with accounting principles in force, and performs various controls on data received on a quarterly basis, through consolidation packages. These controls are supplemented by analytical reviews and consistency controls of the main aggregates in the financial statements, as well as an analysis of changes in equity and deferred tax assets and liabilities during the period through individual and consolidated tax reconciliations;
- the Group's Statutory Auditors, which work on a panel basis and base their opinions partly on the conclusions of each consolidated entity's Statutory Auditors, particularly regarding compliance with the Group's standards as laid down by BPCE, and partly on the effectiveness of local internal control procedures. To make the certification process as efficient as possible, the "Framework for Statutory Auditor Assignments at Groupe BPCE" requires that each entity in the scope of consolidation has at least one representative of the Group's Statutory Auditors on its panel;
- Groupe BPCE's *Inspection générale*'s division as part of its assignments at Group institutions.

Finally, under CRBF Regulation 97-02, as amended, relating to the prudential monitoring of credit institutions, Groupe BPCE's *Inspection générale* division presents to the Audit and Risk Committee and the Supervisory Board an annual report summarizing Group internal control, in coordination with the Group Risk Management divisions and the Group Compliance and Security division. On the basis of detailed questionnaires, this report assesses internal control procedures, particularly in the accounting and financial fields.

## ROLE OF SUPERVISORY BODIES IN ACCOUNTING AND FINANCIAL DISCLOSURE

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

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

The Supervisory Board of BPCE checks and controls the individual and consolidated financial statements prepared by the BPCE Management Board and presents its observations about the financial statements for the fiscal year at the Ordinary General Shareholders' Meeting. For this purpose, the Supervisory

Board has set up a specialist committee in charge of preparing its decisions and formulating recommendations: the Audit and Risk Committee.

Details on this committee's duties, including monitoring the process for preparing financial information, the statutory audit of the annual and consolidated financial statements, as well as the Statutory Auditors' independence, are defined in Paragraph 2.3.2 "Conditions governing the preparation and organization of the Supervisory Board's work".

The Finance Committee consists of executives of both networks and aims to address the most important issues.

In addition, BPCE's Management Board assigns the Group Finance division the task of organizing the process of coordinating, disclosing, and forming a decision on the financial and accounting information through the Finance function's supervisory bodies, organized around three types of bodies:

- coordination and reporting bodies: these comprise key managers from the Finance function or key managers from each business line within the Finance function (Finance Control, Accounting, Cash Management, Asset-Liability Management, Accounting and Regulatory Review, and Taxation);
- temporary bodies that manage and coordinate time-limited projects;
- permanent bodies.

In order to ensure the transparency and security of the system, these instances are formally governed by regulations that define the operation, organization, composition, and role of each committee, along with the rules for reporting on the discussions held by these committees. The Group's Finance Committees always involve representatives from the shareholder institutions and, if applicable, Groupe BPCE's subsidiaries.

The Group Management and Accounting Standards and Methods Committee is chaired by the Chief Financial Officer, in charge of Finance, Risks and Operations. Its main duties are to validate:

- the regulatory framework and management standards needed for Group oversight;
- strategic accounting guidelines and Groupe BPCE's framework of accounting standards, including Groupe BPCE's choices, where options are given by the texts;
- working standards on accounting and regulatory review (Group Review Standards), as part of the internal control system for accounting and regulatory reporting.