

2.1 Chairman's report on the work of the Supervisory Board and on the internal control and risk management procedures for the year ended December 31, 2011

Dear shareholders,

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

- the conditions governing the preparation and organization of the Supervisory Board's work during the year ended December 31, 2011;
- 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.

A preliminary presentation of this report was made to the Appointments and Remuneration Committee on February 21, 2012 (the section on governance) and to the Audit Committee on February 21, 2012 (the section on internal control and risk management). It was then again presented for approval to the Supervisory Board at its meeting held on February 22, 2012.

The external statutory 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.

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

CORPORATE GOVERNANCE

In preparing this report, BPCE referred to the Corporate Governance Code for listed companies published in December 2008 and updated in April 2010 by the French Private Companies Association and the French Business Confederation (hereinafter, the AFEP-MEDEF Code), including the October 2008 recommendations on executive pay, as set out in Article L. 225-68 of the French Commercial Code.

Only certain provisions were not followed, given that they were regarded as inapplicable with respect to BPCE's operating procedures as a cooperative company and the composition of its Board. These provisions were as follows: terms of office and the staggered renewal of Board member terms, Board member ownership of a material number of shares, and the proportion of independent directors on the Supervisory Board and its committees.

Regarding terms of office, unlike the maximum four-year term recommended in the AFEP-MEDEF Code, the statutory term of office of BPCE Supervisory Board members is six years, which meets the requirement that members must have experience and a more comprehensive view of BPCE's business and activities.

Similarly, renewals of BPCE Board members' terms are not staggered due to Groupe BPCE's cooperative structure and the need, given how recently BPCE

was established, to provide a degree of stability and balanced representation of both Groupe BPCE networks (Caisse d'Epargne and Banque Populaire).

Groupe BPCE's cooperative organization also explains why the Appointments and Remuneration Committee's proposals regarding the appointment of Board members only concern members from outside Groupe BPCE.

Regarding a Supervisory Board member's ownership of a material number of shares, BPCE's bylaws take into account the fact that, in accordance with Act No. 2008-776 of August 4, 2008, Supervisory Board members are no longer required to own shares in the company. As a result, BPCE Supervisory Board members do not own a material number of shares and are not shareholders in their personal capacity, but the various categories of shareholders are represented through their appointment, which ensures that the company's interests are respected.

BPCE has chosen not to follow the recommendation concerning the proportion of independent directors on the Board and its committees, in favor of giving majority representation to the Caisses d'Epargne and Banque Populaire banks.

Furthermore, BPCE formally adheres to and implements the AFEP-MEDEF Code recommendations on compensation of company directors.

COMPOSITION OF THE SUPERVISORY BOARD

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

Guidelines

Pursuant to Article 21 of the bylaws amended by the Extraordinary Shareholders' Meeting of May 19, 2011, BPCE's Supervisory Board is made up of 10 to 18 members. At December 31, 2011, it consisted of seven representatives of category A shareholders (Caisses d'Épargne et de Prévoyance), seven representatives of category B shareholders (Banque Populaire banks), and four independent members within the meaning of the Corporate Governance Code for listed companies published in December 2008 by AFEP-MEDEF and updated in April 2010⁽¹⁾.

In accordance with Article L 2323-62 of the French Labor Code, the bylaws also stipulate the presence of non-voting representatives from the company's work council.

Appointment method

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

Independent members are proposed by the Appointments and Remuneration Committee to the Supervisory Board, which asks the Management Board to put their appointment to a vote at the Ordinary General Shareholders' Meeting.

Supervisory Board members hold office for a term of six years. Supervisory Board members' duties end at the close of the Ordinary General Shareholders' Meeting convened to rule on the financial statements for the past fiscal year, held during the year in which their term expires. BPCE Supervisory Board members' duties will therefore end at the close of the Ordinary General Shareholders' Meeting to be held in 2015 to rule on the financial statements for the fiscal year ending December 31, 2014.

Board members may be re-elected subject, to no limitations other than age-related limitations contained in the bylaws (68 years old).

Gender equality of the Supervisory Board

At December 31, 2011, BPCE had four women on its Supervisory Board out of a total of 18 members, i.e., a proportion of over 20%. BPCE is therefore in compliance with the provisions of the Act of January 27, 2011, i.e., the "Copé Zimmermann Act," on the balanced representation of women and men on Boards of Directors and Supervisory Boards. The composition of the Board is now compliant with the proportion that should be reached by 2014 according to the law. A proportion of 40% of women will have to be reached by 2017.

Members

Philippe Dupont served as Chairman of the Supervisory Board until January 1, 2012, in accordance with Article 24 of the BPCE bylaws.

Mr. Dupont, 60, was Chairman and CEO of Banque Fédérale des Banques Populaires from 1999 to 2009, and Chairman of the Management Board of Natixis from 2006 to 2009. For 12 years, he headed of a commodities trading firm and was then Chairman of the Board of Directors of BP ROP Banque Populaire (now Banque Populaire Val de France) from 1983 to 1999.

Yves Toublanc served as Vice-Chairman of the Board until January 1, 2012. On this same date, he became Chairman of the Supervisory Board as per his

appointment at the Board meeting on December 15, 2011, in accordance with Article 24 of the BPCE bylaws.

Yves Toublanc, 65, has been Chairman of the Steering and Supervisory Board (COS) of Caisse d'Épargne Rhône Alpes since 2007. He was active in the fields of finance control and financial management for many years, then in the management in subsidiaries in the Saint-Gobain Group and then the Poliet Group. As a CEO, he founded and managed an industrial companies group in the Rhône-Alpes region until 2011.

Since January 1, 2012, Stève Gentili has served as Vice-Chairman of the Board, and was appointed to that office at the December 15, 2011 Board meeting.

Stève Gentili, 62, has been Chairman of BRED Banque Populaire since 1998. He headed a large agribusiness company until 2004. He is also Chairman of the *Agence des Banques Populaires pour la Coopération et le Développement* (ABPCD) and President of the economic organization for the summit of the Heads of State of French-speaking countries.

The Board includes the following category A shareholder representatives:

- Yves Toublanc, Chairman of the Steering and Supervisory Board of Caisse d'Épargne Rhône Alpes, Chairman of the BPCE Supervisory Board since January 1, 2012;
- Catherine Amin-Garde, Chairman of the Steering and Supervisory Board of Caisse d'Épargne Loire Drôme Ardèche;
- Bernard Comolet, Chairman of the Management Board of Caisse d'Épargne Île-de-France;
- Francis Henry, Chairman of the Steering and Supervisory Board of Caisse d'Épargne Lorraine Champagne-Ardenne;
- Pierre Mackiewicz, Chairman of the Steering and Supervisory Board of Caisse d'Épargne Côte d'Azur;
- Didier Patault, Chairman of the Management Board of Caisse d'Épargne Bretagne Pays de Loire;
- Pierre Valentin, Chairman of the Steering and Supervisory Board of Caisse d'Épargne Languedoc-Roussillon.

The Board includes the following category B shareholder representatives:

- Philippe Dupont, Chairman of the BPCE Supervisory Board until January 1, 2012;
- Stève Gentili, Chairman of BRED Banque Populaire, Vice-Chairman of the BPCE Supervisory Board since January 1, 2012;
- Gérard Bellemon, Chairman of Banque Populaire Val de France;
- Thierry Cahn, Chairman of Banque Populaire d'Alsace;
- Jean Criton, Chief Executive Officer of Banque Populaire Rives de Paris;
- Pierre Desvergnès, Chairman of CASDEN Banque Populaire;
- Bernard Jeannin, Chief Executive Officer of Banque Populaire Bourgogne Franche-Comté.

The following are independent members:

- Maryse Aulagnon, independent member, Chairman and Chief Executive Officer of Groupe Affine;
- Laurence Danon, independent member, Chairman of the Management Board of Edmond de Rothschild Corporate Finance;
- Marwan Lahoud, independent member, Head of Strategy and marketing and member of the Executive Committee of EADS;
- Marie-Christine Lombard, independent member, Chairman and Chief Executive Officer of TNT Express.

⁽¹⁾ A complete description of the shareholder categories is provided on page 397

Non-voting directors

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

Natixis is a non-voting director as of right (Article 28.1 of the BPCE bylaws), represented by its Chief Executive Officer, Laurent Mignon.

The six other non-voting directors are appointed at the Ordinary General Shareholders' Meeting.

Three non-voting members are appointed from among the candidates proposed by category A shareholders, per Article 31, paragraph 9:

- Michel Sorbier, Chairman of the Fédération Nationale des Caisses d'Epargne;
- Pierre Carli, Chairman of the Management Board of Caisse d'Epargne de Midi-Pyrénées;
- Alain Denizot, Chairman of the Management Board of Caisse d'Epargne Nord France Europe.

Three non-voting members are appointed from among the candidates proposed by category B shareholders, per Article 31, paragraph 9:

- Raymond Oligier, Chairman of the Fédération Nationale des Banques Populaires;
- Gils Berrous, Chief Executive Officer of Banque Populaire Nord;
- Alain Condaminas, Chief Executive Officer of Banque Populaire Occitane.

ROLE AND OPERATING PROCEDURES OF THE SUPERVISORY BOARD

Duties and powers

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

The Supervisory Board:

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

In accordance with the law, the following transactions cannot be performed by the Management Board without prior authorization from the Supervisory Board, acting by simple majority of its present or represented members:

- disposal of buildings by type and total or partial disposals of Equity interests (it being specified that the Board set at €200 million the annual amount for disposals of buildings by type and at €200 million the amount for total or partial disposals of Equity interests; the Board's authorization for these transactions shall not be required if the previous limits were not exceeded);

this limit was changed to €100 million by the Supervisory Board on December 15, 2011);

- the provision of company property as collateral.

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

Own powers:

- appoint the Chairman of the Management Board;
- appoint the other members of the Management Board, based on proposals by the Chairman of the Management Board;
- set the method and amount of compensation paid to each Management Board member;
- grant the status of Chief Executive Officer to one or more members of the Management Board on the proposal of the Chairman of the Management Board, and withdraw that status from such members;
- propose the appointment of the Statutory Auditors at the Annual General Shareholders' Meeting;
- decide to move the registered office within the same *département* or to an adjacent *département*, subject to that decision being ratified at the next Ordinary General Shareholders' Meeting.

Decisions subject to a simple majority vote:

- approve the policy and strategic guidelines of Groupe BPCE and each of the networks;
- authorize acquisitions and sales of Equity interests in the networks for an amount greater than €100 million;
- authorize any proposed transaction⁽¹⁾ that is part of the BPCE strategic plan and carried out by BPCE or its subsidiaries for an amount greater than €100 million (by Supervisory Board decision of August 4, 2011, which reduced the limit from €200 million to €100 million);
- authorize any proposed transaction⁽²⁾ by BPCE that is not part of the BPCE strategic plan, regardless of the transaction amount;
- approve the company's annual budget and determine the rules for calculating contributions due from affiliated institutions;
- approve disposals of securities;
- authorize regulated agreements pursuant to the French Commercial Code;
- approve Groupe BPCE's internal solidarity mechanisms;
- approve the national and international agreements involving each of the networks and Groupe BPCE as a whole;
- approve the general criteria that must be met by the directors of Groupe BPCE's affiliated institutions, including age limits, which cannot exceed 65 years old for Chief Executive Officers or members of the Management Board, and 68 years old for Chairmen of Boards of Directors and Steering and Supervisory Boards;
- authorize the directors of affiliated institutions or remove authorizations from directors of affiliated institutions and make other dismissals as set out in Article L. 512-108 of the French Monetary and Financial Code;
- approve the creation or elimination of a Banque Populaire bank or Caisse d'Epargne, including through the merger of two or more Banque Populaire banks or two or more Caisses d'Epargne et de Prévoyance;

(1) Refers to any proposed investment or divestment, any proposed contribution, merger, spin-off, or restructuring, any joint venture or any proposed partnership by the company or its subsidiaries, and the negotiation or signing of any national or international agreements on behalf of the caisses d'épargne et de prévoyance, the banque populaire banks and related entities and, in any of these cases, any banking transactions and transactions connected thereto.

(2) Same as above.

- examine and approve the main risk limits relating to Groupe BPCE and each network, as defined by the Management Board; perform regular examinations and checks on Groupe BPCE's risks, developments in those risks and the systems and procedures used to control them; examine the activity and results of internal control, and the main conclusions of audits performed by the Group's *Inspection générale* division;
- appoint BPCE's representatives to the Natixis Board of Directors; of these representatives, from the Caisses d'Epargne and representatives from the Banque Populaire banks will be of identical number and will hold at least the majority of seats together;
- adopt the Board's internal rules⁽¹⁾.

The Supervisory Board's decisions, taken from the standpoint of the company exercising its functions as the central institution of the networks, are preceded by a consultation with Natixis.

Decisions subject to a qualified majority vote (12 of 18 members):

- any decision to subscribe for or acquire (or to enter into any agreement binding the company for the purpose of subscribing for or acquiring), by any means (including by transfer of assets to the company), securities or rights of any type whatsoever, be they issued by a company or any other entity, and representing an investment or asset transfer value, directly or indirectly, of greater than €1 billion;
- any decision to transfer (or to enter into any agreement binding the company for the purpose of a transfer), by any means, securities or rights of any type whatsoever held by the company and representing for the company a divestment of greater than €1 billion;
- any decision by the company to issue capital securities or securities giving immediate or eventual access to the company's capital, with the shareholders' preemptive rights waived;
- any decision to propose to the Annual General Shareholders' Meeting any changes to the bylaws with regard to the company the terms of governance;
- any merger, demerger, spin-off, or related decision involving the company;
- any decision to appoint the Chairman or remove the Chairman of the company's Management Board from office;
- any decision relating to the listing of the shares of the company or one of its main direct or indirect subsidiaries for trading on a regulated market.

Supervisory Board's internal rules

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

The internal rules enhance the work done by Supervisory Board members, by promoting the application of corporate governance principles and best practices in the interests of ethics and efficiency.

Their purpose is also to supplement the bylaws, mainly by:

- specifying the procedures for convening meetings of the Supervisory Board and Supervisory Board committees, as well as the rules under which they are to deliberate;

- recalling the cases requiring the Board's prior approval, as specified by law, which appear in Article 27.1 of the company's bylaws;
- recalling the decisions requiring the Board's prior approval for significant transactions ("Important Decisions" and "Key Decisions"), which appear in Articles 27.3 and 27.4 of the company bylaws;
- recalling the Board's reporting rules;
- specifying the duties of the various committees, for which they serve as the internal rules;
- specifying the obligation of professional secrecy and the obligation of confidentiality binding the members of the Supervisory Board and its committees;
- defining penalties applicable in the event that members of the Supervisory Board or of a committee fail to comply with any of their obligations.

Independence of members

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

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

In addition, the Supervisory Board and each of its committees include elected or co-opted independent members. The definition below is based on the AFEP-MEDEF Code recommendations. However, BPCE does not follow the AFEP-MEDEF Code recommendations concerning the proportion of independent directors on the Supervisory Board and its committees: because of Groupe BPCE's cooperative structure, the proportion of directors representing the Caisse d'Epargne and Banque Populaire networks is larger than the portion of independent directors as defined in the AFEP-MEDEF Code (four in number).

The criteria stated below are designed to define a member's independent status. The guiding principle is that "a member is independent if he has no relationships of any sort with the company, the Group it belongs to or its management, which might compromise the free exercise of the member's judgment."

An independent member must not:

- be an employee or executive director of the company or Groupe BPCE, or an employee or director of one of the company's shareholders, and must not have been so during the previous five years;
- be a representative of the government, a civil servant or an employee of *Société de Prise de Participation de l'État* (SPPE) or any other entity in which the government has a direct or indirect majority interest;
- be an executive director of a company in which the company directly or indirectly has the office of director or in which a designated employee or executive director of the company (either currently or in the last five years) has the office of director;
- be a client (or directly or indirectly linked to a client), supplier, investment banker, or financing banker, if the business relationship is such that it could compromise the free exercise of the members' judgment;

(1) All provisions are included in the Chairman's report.

- have a close family link with an executive director of the company or its group;
- have been an examiner, accountant, or permanent or temporary statutory auditor of the company or of any of Groupe BPCE's companies during the last five years;
- have been an executive director of the company for more than 12 years; or
- receive or have received any substantial additional compensation from the company or Groupe BPCE, excluding attendance fees and including participation in any stock option package or any other performance-based compensation package.

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

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

Integrity of members

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

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

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

The Chairman of the Board reiterates that the proceedings of a Meeting are confidential whenever regulations or the interests of the company or Groupe BPCE may require it. The Chairmen of each Board committee proceed in the same fashion.

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

If a member of the Board or one of its committees fails to comply with one of his or her obligations, in particular the obligation of confidentiality, the Chairman of the Supervisory Board shall refer the matter to the Board in order to issue a warning to the member concerned, independently of any measures taken under the applicable laws, regulations or bylaws. The member concerned shall be given advance notice of the penalties being considered, and shall be able to present observations to the Supervisory Board.

Supervisory Board members:

- undertake to devote the necessary time and attention to their duties;
- must attend all of the meetings of the Supervisory Board and the committees of which they are members, unless this is impossible;

- shall stay informed about the company's business lines, activities, issues and values;
- shall endeavor to maintain the level of knowledge they need to fulfill their duties;
- must request and make every effort to obtain, within an appropriate time, the information which they consider they need to be able to hold informed discussions at Supervisory Board meetings.

Conflicts of interest

To the company's knowledge:

- there are no potential conflicts of interest between the duties of the Supervisory Board members with regard to the issuer and other private duties or interests. If required, the Supervisory Board's internal rules govern the conflicts of interest of any member of the Supervisory Board;
- there is no arrangement or agreement with an individual shareholder, client, supplier, or other, under which any of the Supervisory Board's members has been selected;
- there are no family ties between the Supervisory Board members;
- no restriction, other than legal, is accepted by any of the Supervisory Board members regarding the disposal of their Equity interest in the company's capital.

Declaration of non-conviction

To the company's knowledge, to date, no member of BPCE's Supervisory Board has been convicted of fraud in the last five years. To the company's knowledge, to date, no member of BPCE's Supervisory Board has been declared bankrupt or in liquidation, or had assets put in receivership, in the last five years.

ACTIVITIES OF THE SUPERVISORY BOARD

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

In accordance with Article L. 823-17 of the French Commercial Code, the Statutory Auditors have been invited to Board meetings examining full-year and half-year financial statements.

The BPCE Supervisory Board met 12 times between January 1 and December 31, 2011. In 2011, the average attendance rate for Supervisory Board members was 91.66%. In addition to issues routinely discussed quarterly Management Board reports, regulated agreements, approvals of executives and various items presented for information purposes) the main issues dealt with at Supervisory Board Meetings were as follows:

Governance – Internal operating procedures of the Board

- Determination of variable pay and remuneration policy for executives;
- Adoption of remuneration policy principles for persons belonging to the "regulated population" within BPCE as well as Groupe BPCE's credit institutions, pursuant to Article 38-4 of Regulation 97-02 of the French Banking and Financial Regulations Committee (CRBF);
- Adoption of rules for the distribution of the attendance fee budget;

- Appointment of Anne Mercier-Gallay as a member of the Management Board, in charge of Group Human Resources, to replace Jean-Luc Vergne;
- Monitoring of the Board evaluation process by an outside firm on the basis of an individual, anonymous questionnaire and review of the evaluation summary. This process to highlighted areas for improvement relating in particular to the type of information and deadlines for submitting matters topics to the Supervisory Board.

Finance

- Presentation of BPCE's annual financial statements for the year ended December 31, 2010;
- Presentation of BPCE's quarterly and first half-year financial statements;
- Approval of the 2012 budget;
- Review of impacts relating to Basel III;
- Review and monitoring of European stress tests;
- Review and monitoring of Groupe BPCE's solvency and liquidity ratios;
- Approval of the terms of the new BPCE home loans securitization fund refinancing program;
- Authorization for BPCE to buy-back all of the preference shares (category C shares) from *Société de Prise de Participation de l'État* and to cancel them;
- Authorization for BPCE to subscribe for to the capital increase of Crédit Foncier de France for up to €1.5 billion.

Audit – Compliance – Risks

- Monitoring of Autorité de Contrôle Prudentiel (ACP, the French Prudential Supervisory Authority) reports and enquiries;
- Improvements made by Groupe BPCE to the management of the Group's risks on a consolidated basis;
- Approval of the Chairman of the Supervisory Board's report on internal control;
- Review of the reports on the operation of internal control prepared pursuant to Article 42 of CRBF Regulation 97-02, and on the measurement and supervision of risks, prepared pursuant to Article 43 of CRBF Regulation 97-02: work of the *Inspection générale* department, annual compliance report, annual report of the investment services compliance offices (RCSI), report of the annual check control program, report on credit risks, update on accounting risks;
- Definition of the threshold criteria on asset-liability management risks (Art. 17 *ter* of CRBF Regulation 97-02).

Strategic operations

- Strategic Plan monitoring;
- Authorization to sell its 98.1% Equity interest in Foncia to the Bridgepoint / Eurazeo consortium;
- Authorization for the merger by absorption of Banque Populaire du Sud Ouest by Banque Populaire Centre Atlantique;
- Authorization to sell BPCE's Equity interests in Eurosic via Nexity (32.1%) and Banque Palatine (20.1%) to Batipart, Covea and ACM Vie.

Depending on the type of matters submitted to the Supervisory Board, discussions were held and decisions made on the basis of reports presented by the relevant Board committees.

OPERATING PROCEDURES OF SUPERVISORY BOARD COMMITTEES

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

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

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

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

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

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

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

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

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

Audit and Risk Committee

Composition

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

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

- Thierry Cahn, Chairman of Banque Populaire d'Alsace;
- Bernard Comolet, Chairman of the Management Board of Caisse d'Epargne Île-de-France;
- Jean Criton, Chief Executive Officer of Banque Populaire Rives de Paris;
- Marie-Christine Lombard, Chairman and Chief Executive Officer of TNT Express;
- Pierre Valentin, Chairman of the Steering and Supervisory Board of Caisse d'Epargne Languedoc-Roussillon.

The Chairman and Vice-Chairman of the Supervisory Board receive the reports of the Audit and Risk Committee and may take part in the Committee's meetings if they so choose.

Duties

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

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

The Audit and Risk Committee monitors:

- a) the process of preparing financial information, the statutory audit of the annual and consolidated financial statements, as well as the Statutory Auditors' independence.

In this respect, its duties include:

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

- b) the efficacy of internal control and risk management systems.

In this respect, its duties include:

- assessing the quality of the internal controls performed by the company and Groupe BPCE, including the consistency and completeness of systems for measuring risk supervision and management; proposing additional action in this area as required; examining annual reports relating to the measurement and supervision of risk, and the conditions in which internal controls are performed within Groupe BPCE;
- reviewing the total risk exposure of the company's and Groupe BPCE's activities, based on relevant reports;
- formulating opinions on Groupe BPCE's broad policies in terms of risk and compliance, specifically on the risk limits reflecting risk tolerance as presented to the Board;

- proposing to the Board the materiality criteria and thresholds mentioned in Article 17 *ter* of CRBF Regulation 97-02, which are used to identify incidents that must be brought to the Board's attention;
- ensuring that the remuneration policy is in line with risk management targets;
- ensuring that Groupe BPCE's *Inspection générale* division is independent, and authorized to receive from Groupe BPCE's institutions, or to itself access, all items, systems, or information required for the successful performance of its duties;
- reviewing the annual schedule of the Group's *Inspection Générale* division;
- ensuring that the findings of audits performed by the *Autorité de contrôle prudentiel* and *Inspection générale* department whose, of which summaries regarding the company and Groupe BPCE's entities are disclosed to it, are addressed;
- reviewing the follow-up letters sent by the *Autorité de contrôle prudentiel* and issuing an opinion on the draft replies to these letters.

Activities

The Audit and Risk Committee met seven times between January 1 and December 31, 2011. The average attendance rate at these meetings was 92.86%.

The main issues that it dealt with were as follows:

FINANCE:

- Presentation of BPCE's annual financial statements for the year ended December 31, 2010;
- 2012 Budget;
- Presentation of BPCE's quarterly and first half-year financial statements;
- Monitoring of European stress tests;
- Review and monitoring of Groupe BPCE's solvency and liquidity ratios;
- Monitoring of management of the intra-group ratio requirements;
- Review of the impacts of Basel III;
- Opinion on the buy-back of all preference shares issued in favor of SPPE;
- Review of the terms of the new BPCE home loans securitization fund funding program;
- Review of the terms and conditions of BPCE's subscription for the capital increase of Crédit Foncier de France for up to €1.5 billion.

AUDIT – COMPLIANCE – RISKS:

- Monitoring of *Autorité de Contrôle Prudentiel* reports and enquiries;
- Review and monitoring of the Chairman of the Supervisory Board's report on internal control;
- Review of the reports on the operation of internal control prepared pursuant to Article 42 of CRBF Regulation 97-02, and on the measurement and supervision of risks, prepared pursuant to Article 43 of CRBF Regulation 97-02: work of the *Inspection générale* division, annual compliance report, annual report of the investment services compliance officer, report of the annual check control program, report on credit risks, update on accounting risks;
- Updates on Group risks: forecasted risk mapping, consolidated risk reporting, focus on the Basel II program;
- Updates on the work of the Compliance and Security division;
- Updates on the work of *Inspection générale*: recommendation follow-up reporting, presentation of the 2012 audit plan;
- Review of risk supervision mechanisms (mapping, reporting Basel II focus program);

- Monitoring of the Group and BPCE business continuity plan;
- Monitoring the work of the Statutory Auditors and update on their compensation;
- Regular reporting management of Natixis workout portfolio assets;
- Review of the threshold criteria on asset-liability management risks (Art. 17 ter of CRBF Regulation 97-02);
- Monitoring the implementation of the run-off management of the limited joint stake company Triton.

STRATEGIC OPERATIONS:

- Review of the plan to sell BPCE's Equity interest in Foncia to the Bridgepoint / Eurazeo consortium;
- Review of the merger by absorption of Banque Populaire du Sud Ouest by Banque Populaire Centre Atlantique;
- Review of the plan to sell BPCE's Equity interests in Eurosic via Nexity (32.1%) and Banque Palatine (20.1%) to Batipart, Covea and ACM Vie.

Appointments and Remuneration Committee**Composition**

This Committee has been chaired by Laurence Danon since July 31, 2009, the date she was appointed by the Supervisory Board as an independent member.

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

- Catherine Amin-Garde, Chairman of the Steering and Supervisory Board of Caisse d'Epargne Loire Drôme Ardèche;
- Maryse Aulagnon, Chairman and Chief Executive Officer of Groupe Affine;
- Gérard Bellemon, Chairman of the Board of Directors of Banque Populaire Val de France;
- Stève Gentili, Chairman of BRED Banque Populaire;
- Pierre Mackiewicz, Chairman of the Steering and Supervisory Board of Caisse d'Epargne Côte d'Azur.

Stève Gentili, appointed Vice-Chairman of the BPCE Supervisory Board starting as of January 1, 2012, resigned from his duties as member of the Appointments and Remuneration Committee. He was replaced as of that date by Pierre Desvergnès, Chairman of CASDEN Banque Populaire.

Duties

The Appointments and Remuneration Committee assists the Supervisory Board on the following matters:

COMPENSATION

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

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

Furthermore, the Appointments and Remuneration Committee:

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

SELECTION

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

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

Its duties also include:

- making proposals to the Board for the appointment of the Chairman of the company's Management Board;
- coordinating the Supervisory Board's evaluation process, which is performed either by itself or under any other appropriate internal or external procedure. In this respect, it proposes any necessary updates to the company's rules of governance (the Board's internal rules). An external evaluation procedure was conducted in 2011;
- examining the draft of the Chairman's corporate governance report.

Activities

The Appointments and Remuneration Committee met eight times between January 1 and December 31, 2011. The average attendance rate at meetings was 100%.

The main issues dealt with by the Appointments and Remuneration Committee in 2011 were as follows:

- Levels and terms of fixed and variable remuneration for Management Board members;
- Remuneration policy for persons belonging to the "regulated population" within BPCE and Groupe BPCE's credit institutions, pursuant to Article 38-4 of CRBF Regulation 97-02;
- Determination of rules for the distribution of the attendance fee budget;
- Determination of the variable compensation budget for BPCE traders⁽¹⁾;
- Appointment of one Management Board member;
- Review and follow-up of the Chairman of the Supervisory Board's report on internal control;
- Selection of two outside directors in compliance with the bill on balanced representation of men and women on Boards of Directors;
- Coordination of the Board evaluation process by an outside firm and review of the evaluation's conclusions.

(1) Traders include persons covered by regulation 97-02 on the internal control of credit institutions, specifically those categories of employees whose activities have a significant impact on the Group's risk profile.

Cooperative Committee

Composition

The Cooperative Committee was chaired by Philippe Dupont, and subsequently by Yves Toubanc, Chairman of the Supervisory Board since January 1, 2012, and member of the Committee as of right (Article 3.4 of the internal rules of BPCE's Supervisory Board).

The committee's other members are:

- Bernard Comolet, Chairman of the Management Board of Caisse d'Épargne Île-de-France;
- Jean Criton, Chief Executive Officer of Banque Populaire Rives de Paris;
- Pierre Desvergnès, Chairman of CASDEN Banque Populaire;
- Francis Henry, Chairman of the Steering and Supervisory Board of Caisse d'Épargne Lorraine Champagne-Ardenne;
- Philippe Dupont, Chairman of the BPCE Supervisory Board until January 1, 2012.

Duties

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

DETAILS CONCERNING TO THE PARTICIPATION OF SHAREHOLDERS AT THE ANNUAL GENERAL SHAREHOLDERS' MEETING (ARTICLE 30 OF BPCE'S BYLAWS)

1° Annual General Shareholders' Meetings are convened and held under the conditions set forth in the applicable regulations.

These meetings are held at the company's registered office or at any other location specified in the meeting notice.

Ordinary General Shareholders' Meetings convened to approve the annual financial statements for the fiscal year ended are held within the five months following the end of said fiscal year.

2° Only shareholders of category A, category B, and ordinary shares are entitled to participate in Annual General Shareholders' Meetings.

To attend these meetings, shareholders must be registered by name in the shareholder register kept by the company by midnight (Paris time) on the third business day prior to the Annual General Shareholders' Meeting.

3° Shareholders who are not able to attend an Annual General Shareholders' Meeting in person may select one of the following three options:

- give a proxy vote to another shareholder or to his or her spouse; or
- vote by post; or
- send an instrument of proxy to the company without indicating the name of the proxy.

4° Annual General Shareholders' Meetings are chaired by the Chairman of the Supervisory Board, or, in his absence, by the Vice-Chairman of the Supervisory Board. In the absence of both the Chairman and the Vice-Chairman, Annual General Shareholders' Meetings are chaired by a member of the Supervisory Board appointed by the Supervisory Board for this purpose. Failing this, the Annual General Shareholders' Meeting elects its own meeting Chairman.

The shareholders at the Annual General Shareholders' Meeting appoint a set of Meeting officers.

The scrutineers consist of two shareholders willing to carry out the task and representing, either by themselves or as proxies, the greatest number of shares. The Meeting officers appoint a secretary, who may or may not be a member of the Annual General Shareholders' Meeting.

An attendance sheet is kept, in accordance with the conditions set forth in the applicable regulations.

5° The Ordinary General Shareholders' Meeting may only be validly held on first notice if the shareholders present or represented own at least one-fifth of the voting shares with rights. The Ordinary General Shareholders' Meeting is validly held on second notice regardless of the number of shareholders present or represented.

The decisions of the Ordinary General Shareholders' Meeting are made by a majority of the votes of the shareholders present or represented, including shareholders voting by post.

6° The Extraordinary Shareholders' Meeting may only be validly held on first notice if the shareholders present or represented own at least one-fourth of the shares with voting rights.

The Extraordinary Shareholders' Meeting may only be validly held on second notice if the shareholders present or represented own at least one-fifth of the shares with voting rights.

The decisions of the Extraordinary Shareholders' Meeting are made by a two-thirds majority of the votes of the shareholders present or represented, including shareholders voting by post.

The Ordinary General and Extraordinary Shareholders' Meetings exercise their respective powers under the conditions set forth in the applicable regulations.

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

8° The Ordinary General and Extraordinary Shareholders' Meetings exercise their respective powers under the conditions set forth in the applicable regulations.

RULES AND PRINCIPLES GOVERNING THE SETTING OF REMUNERATION AND BENEFITS

Remuneration of Supervisory Board members

At the July 31, 2009 Combined General Meeting, the total amount of attendance fees payable by BPCE was set at €600,000. This compensation is detailed in pages 90 to 93.

Remuneration of Philippe Dupont, Chairman of the Supervisory Board until December 31, 2011

- annual fixed pay: €400,000;
- annual housing allowance: €42,000;
- attendance fees: 0.

Remuneration of Yves Toubanc, Chairman of the Supervisory Board as from January 1, 2012

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

Attendance fees paid to Supervisory Board members

Yves Toublanc, Vice-Chairman of the Supervisory Board until December 31, 2011:

- fixed annual attendance fees: €80,000;
- attendance fees paid for each meeting attended, up to a limit of nine meetings during the fiscal year: €1,500.

Stève Gentili, Vice-Chairman of the Supervisory Board as from January 1, 2012:

- fixed annual attendance fees: €80,000;
- attendance fees paid for each meeting attended, up to a limit of nine meetings during the fiscal year: €1,500.

Other Supervisory Board members:

- fixed annual attendance fees: €10,000;
- attendance fees paid for each meeting attended, up to a limit of nine meetings during the fiscal year: €1,000.

Additional Remuneration of Supervisory Board members

Marwan Lahoud, Chairman of the Audit and Risk Committee:

- fixed annual attendance fees: €30,000;
- attendance fees paid for each meeting attended, up to a limit of seven meetings during the fiscal year: €500.

Other members of the Audit and Risk Committee:

- fixed annual attendance fees: €5,000;
- attendance fees paid for each meeting attended, up to a limit of seven meetings during the fiscal year: €500.

Laurence Danon, Chairman of the Appointments and Remuneration Committee:

- fixed annual attendance fees: €15,000;
- attendance fees paid for each meeting attended, up to a limit of seven meetings during the fiscal year: €500.

Other members of the Appointments and Remuneration Committee:

- fixed annual attendance fees: €2,000;
- attendance fees paid for each meeting attended, up to a limit of seven meetings during the fiscal year: €500.

Remuneration of non-voting members

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

Non-voting directors receive:

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

Remuneration of Management Board members

In accordance with Article 19 of BPCE's bylaws and on the recommendation of the Appointments and Remuneration Committee, the Supervisory Board laid out the criteria used to determine the amount of variable pay granted

to Management Board members as respect of 2011 at its February 22, 2011 meeting.

These criteria were defined as follows:

- the share of quantitative criteria in variable pay represents 60%, with the specification that no variable portion would be paid if Groupe BPCE's Tier-1 ratio was less than 8.5% for 2011. These quantitative criteria are defined as follows:
 - income before tax before exceptional items (gross operating income + cost of risk + share in income/(loss) of associates + net gains/losses on other assets + change in goodwill) represents 30% of variable pay. If the target for this criterion as set by the Supervisory Board is reached, Management Board members would be entitled to receive the entire 30%.⁽¹⁾
 - the cost/income ratio represents 30% of variable pay. If the target for this criterion as set by the Supervisory Board is reached, Management Board members would be entitled to receive the entire 30%.⁽¹⁾
- the share of qualitative criteria in variable pay represents 40%. These criteria are comprised of the following duties:
 - completion of the "capital and liquidity" project both from a conceptual standpoint and in terms of the management tool, in response to the new Solvency II and Basel III requirements,
 - consolidated risk management,
 - development of the networks,
 - governance: improved collaboration and liaison with the various decision-making bodies.

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

On the proposal of the Appointments and Remuneration Committee, BPCE's Supervisory Board set the following compensation for the Chairman and the members of the Management Board at its meeting on February 22, 2011:

François Pérol:

- fixed pay: €550,000;
- variable pay: target at 150% of the budget reached, with a maximum of 200%;
- annual housing allowance: €60,000 (for information purposes, François Pérol does not collect this allowance).

Nicolas Duhamel:

- fixed pay: €500,000;
- variable pay: target at 80% of the budget reached, with a maximum of 100%.

Olivier Klein:

- fixed pay: €500,000;
- variable pay: target at 80% of the budget reached, with a maximum of 100%.

Philippe Queuille:

- fixed pay: €500,000;

(1) The Supervisory Board has specified the precise levels expected for these quantitative objectives. They have not been made public for confidentiality reasons.

- variable pay: target at 80% of the budget reached, with a maximum of 100%.

Jean-Luc Vergne (claimed his pension rights as from September 19, 2011):

- fixed pay: €500,000;
- variable pay: target at 80% of the budget reached, with a maximum of 100%.

Anne Mercier-Gallay (replaced Jean-Luc Vergne as from September 19, 2011):

- fixed pay: €500,000;
- variable pay: target at 80% of the budget reached, with a maximum of 100%.

With regard to the terms of payment for the variable pay in respect of 2009:

- deferred for a fraction representing 25%, in 2011 and 2012 (12.5%) for Jean-Luc Vergne and Nicolas Duhamel;
- the deferred portion shall not apply in the event of retirement or death, as well as in special situations assessed by the Board (the variable portion would then be paid at the same time as the event);
- Since François Pérol waived his right to a bonus or variable pay for 2009, he does not receive any deferred portion for this fiscal year.

Payment of the deferred portion is contingent upon attaining a Group Return on Equity (ROE) at least equal to 4%; this level stipulated for with respect to the level of ROE in 2009 and the levels stipulated in 2010 and 2011.

With regard to the terms of payment for the variable pay in respect of 2010:

- deferred for a fraction representing 70%, in 2012, 2013 and 2014 (23.33% each year), for François Pérol;
- deferred for a fraction representing 50%, in 2012, 2013 and 2014 (16.66% each year), for Olivier Klein, Nicolas Duhamel, Philippe Queuille and Jean-Luc Vergne;

- the deferred portion is indexed to the change in net income attributable to equity holders of the parent, assessed as a rolling average over the three calendar years preceding the allocation year and the payment year, without taking into account calendar years prior to 2010;

- the deferred portion shall not apply in the event of retirement or death, as well as in special situations assessed by the Board (the variable portion would then be paid at the same time as the event).

Payment of the deferred portion is contingent upon attaining a Group ROE at least equal to 4%; this level is determined with respect to the level of ROE in 2010 and the levels determined in 2011, 2012 and 2013.

With regard to the terms of payment for the variable pay in respect of 2011:

- deferred for a fraction, based on the amount of the variable portion, in 2013, 2014 and 2015 (in thirds), for all members of the Management Board;
- the deferred portion is indexed to the change in net income attributable to equity holders of the parent, assessed as a rolling average over the three calendar years preceding the allocation year and the payment year, without taking into account calendar years prior to 2010;
- the deferred portion shall not apply in the event of retirement or death, as well as in special situations assessed by the Board (the variable portion would then be paid at the same time as the event).

Payment of the deferred portion is contingent upon attaining a Group ROE at least equal to 4%; this level is determined with respect to the level of ROE in 2011 and the levels determined for 2012, 2013 and 2014.

2.1.2 Internal control and risk management procedures

GENERAL ORGANIZATION

Governance of the internal control system by the central institution

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

The Management Board defines and implements in place the organization and resources to ensure the proper assessment and management of risks in a comprehensive and optimal manner. It has a control framework appropriate to the financial position and strategy of BPCE and Groupe BPCE. It is responsible for risk management and reports to the Supervisory Board on these activities. It defines risk tolerance through general objectives regarding risk supervision and management. The appropriateness of these objectives is evaluated on a regular basis. It keeps the Audit and Risk Committee and Supervisory Board regularly informed of the main items and main conclusions shown 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 framework 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 and make-up and activity of this Committee in 2011 are detailed in the section of this report on corporate governance.

Participants in the internal control system

1. Organization at the Group level

Groupe BPCE's control system, like that of the central institution, is based on three levels of control pursuant to banking regulations and sound management practices: two levels of permanent control and one level of periodic control. Integrated control processes have been set up in accordance with decisions made by BPCE's Management Board.

PERMANENT HIERARCHICAL CONTROL (LEVEL ONE)

Permanent hierarchical control (level one) is the first link in internal control and is performed by the operating or functional departments 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 permanent control divisions or functions concerned.

PERMANENT CONTROL BY DEDICATED ENTITIES (LEVEL TWO)

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

Other central functions are essential participants in the permanent control framework: the Group Finance division, responsible for accounting control, the Legal Affairs division, the Operations division responsible for information systems 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 97-02 is performed by the Group's *Inspection générale* division implemented across all entities and activities, including permanent control.

2. Process-based organization

Integrated permanent and periodic control processes have been implemented within Groupe BPCE. Three permanent control and periodic control divisions have been set up within the central institution that oversees these processes: the Group Risk Management division and Group Compliance and Security division are in charge of permanent control, and the Group's *Inspection générale* division is in charge of periodic control. The permanent and periodic control functions located within affiliates and subsidiaries subject to banking supervision report to BPCE's corresponding central control divisions regarding control processes integrated by a strong functional link. This link includes approval of the appointment and termination of managers in charge of permanent or periodic control functions at affiliates and direct subsidiaries; reporting, disclosure and warning obligations; standards implemented by the central institution and recorded in repositories; and the definition or approval of control plans. These links have been defined in charters covering each business process. The whole 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 BPCE's Supervisory Board.

Coordination of the control system

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, on a monthly basis.

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

Its responsibilities include:

- keeping executive management regularly updated about developments in the Group control framework;
- highlighting areas of emerging or recurrent 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 Group Finance, the Head of Group 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 control 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.

RISK MONITORING AND CONTROL PROCEDURES

Groupe BPCE's Risk Management division oversees the efficiency and uniformity of risk management procedures and the consistency of the level of risk with Groupe BPCE's financial, human and systems resources and its targets, particularly in terms of ratings by ratings agencies. It performs its duties independently of those of Groupe BPCE's operating divisions. Its operating procedures, particularly with regard to business processes, are set out in Groupe BPCE's Risk Management Charter, which was approved by BPCE's Management Board on December 7, 2009 and updated on May 10, 2010. The Risk Management divisions of parent company affiliates and of subsidiaries subject to banking supervision regulations have strong functional links with this committee. Other subsidiaries report functionally to the Risk Management division.

Main duties of the Group Risk Management division:

- helping to draw up risk policy on a consolidated basis, examining overall risk limits, taking part in discussions for capital allocation, and ensuring that portfolios are managed in accordance with these limits and allocations;
- helping the Management Board to identify emerging risks, concentrations and other adverse developments, and to devise strategy;
- defining and implementing standards and methods for consolidated risk measurement, risk mapping, risk acceptance approval, risk control and reporting, and compliance with laws and regulations, in accordance with the principles and rules set out by regulations;

- assessing and controlling the level of risk on a Group scale. Within this framework, performing a comprehensive analysis;
- responsibility for permanent supervision, including detecting and resolving limit breaches, and for centralized forward-looking internal and external risk reporting on a consolidated basis (including reporting to the regulator);
- responsibility for level two control of certain processes for preparing financial information (valuation methods, adjustments, provisioning, determination of market values);
- managing risk information systems in close coordination with the information technology (IT) divisions by 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;
- coordinating the risk management process.

Detailed activities by risk category

1. Credit risk

Risk measurement relies on rating systems adapted to each type of client and transaction. Groupe BPCE's Risk Management division is responsible for defining and controlling its performance.

Decisions are made at Groupe BPCE within the framework of delegation procedures, a system of internal ceilings and limits, relating to each client group (a company composed of its subsidiaries) on a consolidated basis, and a principle of comprehensive analysis involving the Risk Management division, with a right of appeal that may result in submission to the higher-level Credit Committee.

The delegation system within Groupe BPCE and the central institution is structured as follows:

- delegation given to the Group Credit Committee;
- delegation given to Groupe BPCE's Watchlist and Provisions Committee;
- delegation given to the Credit Committee dedicated to credit institution subsidiaries (excluding Natixis) and affiliates;
- delegation given to the Credit Risk Committees dedicated to the Caisses d'Epargne;
- delegation given to the Credit Risk Management Committees dedicated to the Banque Populaire banks;
- delegation given to the BPCE Risk Management Committee (central institution);
- delegation given to the Credit Committees within the institutions.

Within Groupe BPCE, an internal rating methodology shared by both networks (specific to each client segment) was established for individual and professional retail customers in early 2010. Implementation of the corporate rating tool shared by the Banque Populaire network and Natixis was initiated in the Caisses d'Epargne. Deployment is scheduled for early 2012.

Like the process currently in place throughout the Banque Populaire banks, the Risk Management divisions of the Caisses d'Epargne and the former Groupe Caisse d'Epargne subsidiaries are ultimately responsible for approving corporate ratings after a counter-appraisal by the analysts, deploying the principle of the

"advisor" rater (person authorized to approve internal ratings) at the Group level. As concerns the accounts under the authority of the Banque Populaire Credit Risk Committee, the rating is approved by the Committee based on a recommendation by the Risk Management division.

Risk monitoring within Groupe BPCE relates to 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 of the approved areas using an internal rating. A supervision department, in connection with the consolidated Risk Management division, handles 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 managed on the Watchlist⁽¹⁾ – and the provisioning policy for the main risks shared by several entities (including Natixis) are regularly examined by the Group Watchlist and Provisions Committee.

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.

The internal ceiling system based on to entities' net capital within the meaning of CRBF Regulation 90-02 set at a level below the regulatory ceiling, is applied to all Group entities. The Risk Management division measures and monitors compliance with these ceilings for the Group Risk Management Committee.

In addition, a Group limit system was established for the main asset classes. This limit system sets and monitors the maximum exposure levels that Groupe BPCE wishes to maintain to the main counterparty groups in each asset class.

At the same time, Groupe BPCE has continued its Basel II efforts, building on a Group management structure in charge of managing, coordinating and monitoring all of Groupe BPCE's work in this area. The group received approval to use the IRBA method for the Caisse d'Epargne network for the retail customer segment from December 31, 2011.

The next major projects that will be addressed by the Basel II program department within the Risk Management division involve the transition to the advanced method for Crédit Foncier de France's retail customer segment and the corporate segment of the Banque Populaire network.

WORK CARRIED OUT IN 2011

The Credit Risk division defined – and then the Group Standards and Methods Committee approved – the methodology for setting limits for the banking, corporate, regional public sector, and investment segments. Limits on the main counterparties can now be set.

At the same time, a credit risk policy on the regional public sector was defined for the entire Group.

The Group watchlist monitoring process continued to be improved to provide close oversight of counterparties determined to be "sensitive" and consistency in provisioning for the main doubtful loans shared by several entities. Additional provisioning standards were defined and will be presented for approval by the Group Risk Standards and Methods Committee.

(1) Watchlist: list of counterparties that are being specially monitored.

Nearly 1,400 counterparty groups, representing 53% (not including intragroup) of Group commitments excluding retail customers, were brought up to compliance in terms of clustering.

In addition, the Credit Risk division rolled out tools in both networks to help monitor the clusters and review Groupe BPCE's consolidated exposures to counterparty groups. It also provided change management support for the tools.

Lastly, optimization of the risk measurement system continued with the approval of the IRBA method of Caisse d'Epargne's retail customer segment at the end of 2011. Preparation for deploying the corporate rating tool in the Caisse d'Epargne network continued, for implementation in January 2012.

OUTLOOK

The work in 2012 will mainly be devoted to emphasizing and then expanding the Credit Risk division's permanent control system with regard to its activities and processes. Emphasis will also be placed on:

- finalizing the implementation of segment analyses, which may lead to implementing specific policies;
- improving ex-post review in terms of the volume of exposure covered;
- greater support in establishing standards in the information systems.

Lastly, special efforts will be made with regard to anticipating the cost of risk and producing a total Group watchlist, independently of the Group watchlist.

2. Financial Risk

a) Market risk

The Group Risk Management division has three principal areas of action:

MEASUREMENT

- determining the principles of market risk measurement, 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 institutions subject to the market Capital Adequacy Directive, 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 institutions subject to the Capital Adequacy Directive, and centralizing the information;
- providing level two approval of the management results for market activities and approving the central institution's treasury valuation methods.

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 institutions not subject to the Capital Adequacy Directive, and the conditions to be complied with, and submitting them for approval to the appropriate Market Risk Committee;

- harmonizing processes for managing the trading portfolios compartments and medium- to long-term portfolios of the Banque Populaire banks and Caisses d'Epargne (monitoring indicators, setting indicator limits, the monitoring and control process, and reporting standards).

SUPERVISION

- examining requests for investments in financial products, in new capital market products or activities, by banking institutions not subject to the market Capital Adequacy Directive via the New Markets Products Committee;
- defining level two control procedures for market transactions, valuation prices and management results;
- consolidating the mapping of Group risks and establishing that of the central institution;
- carrying out or overseeing daily supervision of positions and risks with respect to allocated limits (overall and operational limits);
- setting reporting standards;
- organizing the decision-making framework for limit breaches;
- ensuring or overseeing the permanent supervision of limit breaches and their resolution;
- preparing the consolidated scorecard for the various decision-making bodies.

WORK CARRIED OUT IN 2011

Work was carried out with the Financial Risk Management departments in order to standardize and reinforce the monitoring of market risks within Groupe BPCE. The Group market risk repository, containing evaluation, control, and reporting standards, was supplemented by controls on private equity risks and by new standards for monitoring securitizations, which were approved by the Group Standards and Methods Committee.

A shared VaR measurement tool will be used to calculate a uniform and consolidated VaR on the trading book for Groupe BPCE as a whole starting in January 2012.

More generally, management of market risk is regularly reviewed by the Group Market Risk Management Committee.

Lastly, special quarterly monitoring of the Lagarde Report recommendations on identifying operational risks of fraud in market transactions which was established in 2010, helped Groupe BPCE reach a 98% aggregate rate of compliance with the recommendations on the trading books over the total scope of Groupe BPCE (Caisse d'Epargne network, Banque Populaire network, subsidiaries, Groupe BPCE SA).

OUTLOOK

In the interest of implementing a uniform, consolidated VaR for the Group, emphasis will be placed on the Group stress test project. The objectives of this project are:

- to measure hypothetical and historic stress tests in a Group application;
- to recalibrate hypothetical stress tests in terms of severity;
- to review the implementation of new scenarios.

Furthermore, the mapping of the networks' products and market risks, which is further detailed with respect to portfolio management, will be deployed groupwide in 2012.

b) Structural ALM risk

The Group Risk Management division forms part of the system for managing structural ALM risks (liquidity, interest rate, and exchange-rate risks). The financial risk management function is responsible for level two controls of these risks, and the Asset-Liability Management (ALM) Risk department validates the assumptions used to measure these risks, in particular:

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

The Group Risk Management division examines requests for ALM limits defined by the ALM Committee, subsequently submitted for approval by the Group Risk Management Committee.

The Group Risk Standards and Methods Committee validates stress test scenarios defined by the ALM Committee. It defines stress test scenarios to supplement Group stress test scenarios, if required. More specifically, the financial risk function controls the following:

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

All of these duties are the responsibility of each entity's risk management unit for its own scope and the 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 to the balance sheet and risk indicators.

In addition, the ALM Risk department is responsible for level two control of structural interest rate, liquidity and foreign exchange risks. The department, comprised of financial risk managers of the affiliated institutions and the Risk Management division, is tasked with prevention, contributing to risk management policy, and permanent supervision of ALM risks.

WORK CARRIED OUT IN 2011

In connection with its system for managing and monitoring structural ALM risks, the ALM Risk department has enhanced its repository by including new control indicators, particularly with regard to liquidity and limit levels, in compliance with Article 17 *ter* of CRBF regulation 97-02.

In addition, the Group ALM risk repository was updated, along with the liquidity business continuity plan, in connection with the Finance division and with the Natixis Finance and Risk divisions.

At the same time, the initiatives of the institutions' Risk divisions were stepped up with the roll-out of harmonized ALM risk reporting. The ALM Risk Department also provided tools to the institutions of the Banque Populaire and Caisse d'Epargne networks to help monitor ALM metrics in order to facilitate

their analysis. All of this reporting is consolidated at the Risk Management division level.

Lastly, both the Banque Populaire and the Caisse d'Epargne networks and Banque Palatine initiated a process to converge their tools and organizational charts, planned for the first half of 2012.

OUTLOOK

In 2012, the ALM Risk division will continue its program relating to the consolidated ALM risk reporting system in all of the institutions.

Likewise, the ALM Risk division will continue to participate in the ALM tools harmonization project, both as a future user of the tool, defining the needs of the risk department in terms of reporting and controls, and by validating decisions (business line, modeling options, processes) made in connection with this program for the purposes of controlling ALM risk management processes. This project will allow the risk department to calculate ALM indicators using its own parameters.

The ALM Risk division will also participate in preparatory work at the Group level for implementing the liquidity component under Basel III. Accordingly, the Risk Management division will review the approval of the methodology standards for producing the LCR (Liquidity Coverage Ratio) and NSFR (net stable funding ratio) Basel ratios.

Lastly, the Group ALM risk repository should be enhanced with more in-depth control collateral.

3. Operational risk

The Risk Management division contributes to the operational risk management policy. Its duties are:

- steering operational risk standards and methods with regard to risk for the Group: updating the operational risk repository and risk-monitoring standards;
- risk mapping based on uniform evaluation standards across the entire Group. The Group Risk Management division works in collaboration with the Compliance division to include non-compliance risk, in accordance with Groupe BPCE's charters;
- defining operational risk indicators;
- monitoring of risk hedging (action plans, business continuity plan, insurance);
- management of a database of losses relating to proven operational risk incidents;
- permanent risk monitoring, in particular consolidated summary reports sent to the various bodies, investigations and analyses of significant major incidents at the Group level, approval and supervision of remedial or preventative action plans relating to such major incidents;
- management of operational risk information systems, in close collaboration with the IT divisions, defining the standards to be applied for the measurement, control, reporting and management of operational risk.

WORK CARRIED OUT IN 2011

Several major priorities were addressed in 2011, including:

- the detailed operational risk repository harmonized for both networks was expanded to include non-compliance risks in order to provide a single risk mapping reference. The main objective of this convergence project is to have an overall, harmonized and consolidated view of the risks for all of Groupe BPCE's institutions;

- in the interest of improving operational risk monitoring mechanisms, records by institution were prepared and cover the main characteristics of the operational risk mechanisms;
- likewise, the permanent control process was improved by defining a standard control plan for the operational risk function. Its main objective is to be deployed throughout Groupe BPCE in order to reinforce the central institution's control tasks in relation to the processes implemented in the institutions. Defined by a working group made up of various institutions representing Groupe BPCE, the proposed control records templates must share best practices and provide a Group consolidation of the various controls carried out with regard to operational risk process components: incident data collection (quality, comprehensiveness, warnings), COREP reports, mapping (scope, consistency of ratings, etc.), indicators, risks to be managed, action plans;
- a preliminary version of an operational risk management tool, for harmonized for both the Banque Populaire and Caisse d'Épargne networks and the subsidiaries, was delivered by the software developer. Acceptance testing and change-management support were undertaken and roll out was initiated. The tool has already been rolled out in the Banque Populaire network;
- the automated production of quarterly or half year consolidated or detailed reporting from the operational risk Datamart was improved in 2011. These various reports define corrective action plans at the Group level, particularly for cross-company incidents;
- a working group comprised of institutions representing both networks was initiated to define risk indicators common to all of Groupe BPCE's institutions. They will be input into the operational risk management tool;
- lastly, the central institution's, the operational risk process was improved through awareness-raising and training of Operational Risk Managers. The scope of the risk mapping was expanded and enhanced to include new ratings.

OUTLOOK

Work in 2012 will be focused on change management and support for the Caisse d'Épargne network and the subsidiaries in the roll-out of the Group's operational risk management tool.

Emphasis will also be placed on strengthening the role of the coordination and supervision unit, particularly with regard to monitoring cross-functional groupwide action plans and monitoring the operational risk function's permanent control plans.

Lastly, the Operational Risk division will continue its efforts to bring data quality up to standard in the drafting of reports.

4. Underwriting risk related to insurance activities

The Risk Management division, in collaboration with the 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 Group Risk Management division.

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

OUTLOOK

In collaboration with the local Risk Management divisions and the Group's various insurance companies, the Risk Management division aims to set up consolidated risk monitoring scorecards covering the entire scope of Groupe BPCE. More specifically, the Group Risk Management division will verify the quality of the financial assets held by the insurance companies and will assess Groupe BPCE's aggregate exposure to sensitive issuers.

5. Intermediation risk

Intermediation risk is monitored at the central institution level by a system for monitoring transactions that have not yet been adjusted or unwound Natixis is in charge of intermediation 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 conducts a broker review of the brokers selected for customer transactions in both networks' institutions.

6. Settlement/delivery risk

Customer orders in financial instruments are transmitted via the central institution to Natixis (Eurotitres), which subcontracts the account keeping and custody services.

7. Consolidated risk management

The division's roles are to implement 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 BPCE, and to conduct or coordinate cross-functional risk analyses at the Group level and, if needed, for the entities.

To this end, it is responsible for:

- creating and administering uniform repositories and defining and then using Group risk-consolidation tools;
- calculating credit-weighted loan assets and managing the Group COREP (Common solvency ratio REPorting) system, and monitoring corrective actions and developments;
- directing cross-functional projects relating to information systems and processes;
- coordinating data quality monitoring.

It also defines and produces recurring (internal and regulatory) or specific reporting to inform the risk analyses. It conducts or coordinates cross-functional analyses of Groupe BPCE's risks and, if needed, of the entities.

Lastly, it structures the operation of the risk management committees and monitors their decisions. It coordinates risk communications, both internal and external, for Groupe BPCE as a whole, and follows the recommendations of the *Inspection générale* Division and the *Autorité de Contrôle Prudenciel*.

WORK CARRIED OUT IN 2011

The Group project on monitoring counterparty risk limits was completed in 2011. At the same time, work continued on harmonizing the clusters in the third-party repository tool (specific database listing the counterparties), with close to 1,400 client groups brought up to standard. The first data streams back to the institutions, information from the third-party repository, were initiated at the end of 2011. Changes were also made to the risk-weighted loan assets calculator in order to:

- incorporate changes in regulations;
- monitor the IRBA, particularly for the Caisse d'Épargne's retail customer outstandings, where change management activities were also completed.

Furthermore, in connection with Groupe BPCE's "scarce resources management project, a project that aims to optimize risk-weighted assets (RWA), mainly by improving the quality of data and processes, helped to identify several short/medium-term levers and related action plans. The division also implemented a risk-weighted asset simulation tool.

The format of Groupe BPCE's consolidated risk mapping was stabilized. The division also implemented forward-looking risk analyses aimed at identifying risk factors and their potential impacts on Groupe BPCE. Identifying these risk areas for the Group led to special in-depth reviews, particularly with regard to real estate loans to individuals. (This review was conducted with the Commercial Banking and Insurance division and the Risk Management division's credit risk division.)

Global stress tests were also conducted and coordinated for Groupe BPCE in close connection with the Finance division and the subsidiaries, under the aegis of the European Banking Authority (EBA). The results were published on July 15, 2011. Likewise, it directed the completion of assessment tests of the banks' capital requirements, taking into account conservative assessments of sovereign debt, also requested by the EBA. These results were published on December 8, 2011.

In addition, the division is overseeing the regulatory project to develop a turnaround and resolution plan for Groupe BPCE. The work is being done in close collaboration with the Finance, Legal Affairs, Strategy, and Group Compliance and Security divisions.

Lastly, a cross-functional process to monitor the insurance activities at the Group level was initiated in connection with the Commercial Banking and Insurance division.

OUTLOOK

The division must oversee the implementation of so-called Basel III regulatory changes affecting the calculation of risk-weighted assets. Several other new regulatory reports will have to be implemented.

The division will also have to continue its analytical work on Groupe BPCE's risk areas by conducting several reviews of specific portfolios. In connection with the Risk Management division's Market Risk Management division, it will focus special attention on will be paid to the securitization portfolio. It will oversee the implementation of a mechanism for internal stress tests with the Internal Methods and Validation division and will work with the Finance division to contribute to this process.

The Group turnaround and resolution plan will have to be finalized in connection with the other divisions of the central institution.

An preliminary insurance risk mapping exercise will have to be performed.

8. Permanent control and coordination of the risk departments

The objective of the Permanent Control and Coordination division of the risk departments is to provide permanent control of the risks of Groupe BPCE's institutions in terms of credit risk, financial risk and operational risk. This is handled independently of the non-compliance risks covered by the Group Compliance & Security division.

The main tasks of this division with regard to coordination of risk management processes are:

- monitoring and updating the risk management documents (charter, repositories, etc.);
- monitoring the organizational processes of the local Risk Management divisions;
- coordinating the management of management processes through several national day-long conferences;

- monitoring the work of the Risk Management Committees of the parent company affiliates;
- monitoring the training initiated by the Risk Management division for the institutions' risk departments;
- contributing to cross-functional projects affecting the Group's institutions.

For permanent control, the division's primary task is to establish and update the level two permanent control system for all of the risk departments (excluding compliance) of the affiliates and subsidiaries. It also consolidates the permanent control work of the Risk Management division.

WORK CARRIED OUT IN 2011

Since it was created, the division has revised the reporting associated with the organizational structure of the institution's Risk Management divisions.

At the same time, the division completed work and implemented working groups on risk-related subjects arising from the risk charters and/or repositories.

Lastly, it prepared summaries of the periodic control work performed both by the Group's *Inspection générale* division and by the Autorité du contrôle prudentiel in order to promote follow-up work.

OUTLOOK

Actions already underway will be stepped up in 2012, including:

- implementing a level two permanent control plan for risks (excluding compliance) in close coordination with all of the institutions. Roll-out in a pilot phase via a permanent control tool is scheduled for year-end 2012 or early 2013, with the development of benchmarks;
- strengthening coordination of the risk management processes;
- proposing standards for resources allocated to the risk management processes;
- updating reference documents, such as the Risk Management Charter and its related repositories.

Risk governance authorities

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

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

1. Cross-functional Committees

GROUPÉ 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 (Regulation 97-02, Art. 35), particularly when global limits are likely to be reached (Regulation 97-02, Art. 36).

Global risk limits are reviewed at least once a year and presented to the 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 (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 (Regulation 97-02, Art. 39).

BPCE RISK MANAGEMENT COMMITTEE: COMMITTEE DEDICATED TO THE CENTRAL INSTITUTION

This Committee covers all types of risks.

With regard to credit risks, it carries out ex-ante validation of counterparty limits and of all commitments made by the central institution in terms of loans or guarantees granted to subsidiaries. It also reviews the commitments of BPCE SA.

With regard to financial risks, this Committee validates the limit mechanism and reviews limit usage and the portfolios.

With regard to operational and non-compliance risks, it validates operational and non-compliance risk mapping and the action plans within its scope. It reviews loss and incident reporting (alert procedure).

GUARANTEE MONITORING COMMITTEE (CSG)

This Committee decides all matters relating to the system for protecting workout portfolio assets (GAPC). Its duties include:

- monitoring the proper application of the guarantee system, and considering all decisions and projects referred to it by the Workout Portfolio Management Committee (CGAC), which may affect the guarantee mechanism and/or the obligations of Natixis or BPCE;
- reviewing quantitative data relating to the guarantee system for the relevant accounting period at each Natixis account-closing;
- carrying out arbitrage in accordance with the guarantee agreement;
- validating Natixis' strategic guidelines to be implemented by CGAC, including its risk policy, as regards workout portfolio management and ensuring that they are complied with;
- making decisions and determining the consequences of accounting reclassifications and, more generally, all changes to applicable accounting and prudential rules;
- validating the periodic call values granted to Natixis;
- validating changes in valuation methods for assets covered by the guarantee, including any shift from "mark-to-market" to "mark-to-model" and vice-versa;
- determining arrangements for the rebilling of management fees relating to assets covered by the financial guarantee;
- analyzing disposals, substitutions and changes of control that have a material impact on the guarantee, and defining rules for selling assets covered by the financial guarantee, including the level of authority given to traders;
- acting as the referral body for any problems relating to the guarantee.

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

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

WORKOUT PORTFOLIO MANAGEMENT COMMITTEE (CGAC)

This Committee, established in 2009, replaced Natixis' Workout Portfolio Risk committee. The aim is for BPCE representatives to have greater involvement in the Committee's decision-making, and for BPCE, as regards certain issues relating to the guarantee system or guaranteed assets, to exercise a right to request that a decision be subject to approval by the Guarantee Monitoring Committee.

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

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

When decisions have a financial impact or pose specific risks for BPCE due to the guarantee system, BPCE representatives may ask for the matter to be referred to the Guarantee Monitoring Committee before a decision is made. *Meetings are held monthly.*

Natixis' Risk Management division and Finance division, along with BPCE representatives, are able to add relevant issues to the agenda.

LOCAL COMMITTEES FOR MANAGING ASSETS CARRIED BY US, UK AND LUXEMBOURG ENTITIES

These committees deal with matters regarding guaranteed assets carried within their jurisdiction. These matters relate to Natixis workout assets managed in the US, Luxembourg and the UK. BPCE representatives take part in these committees. However, CGAC may look at matters beforehand and formulate recommendations.

These local committees are chaired by the Chief Executive Officers of the entities in question, who make decisions after the matters have been discussed. The committees' decisions cannot be deferred.

2. Credit risk

GROUP CREDIT COMMITTEE

This Committee sets limits relating to large counterparty groups common to several entities of Groupe BPCE and sets individual limits for a group of counterparties over a certain threshold. It makes credit decisions for loans over the authorization threshold of Caisses d'Epargne lending committees and of subsidiaries' Credit Risk Committees and caps or freezes enforceable against all Groupe BPCE's entities. Its scope covers the entire Group (central institution, networks and all subsidiaries). *Meetings are held at least every three months.*

BANQUE POPULAIRE CREDIT RISK COMMITTEE

This Committee handles ex-post reviews of loans exceeding a given threshold, credit risk reporting, monitoring, segment analyses, and the review of thematic surveys concerning the Banque Populaire network. It authorizes the opening of proposed syndications proposed to the Banque Populaire network. It also oversees the uncontested loan rule that is in force within the Banque Populaire network by approving the directors' ratings. *Meetings are held monthly.*

CAISSE D'EPARGNE CREDIT RISK COMMITTEE

This Committee applies the above-mentioned prerogatives of the Credit Risk Committee, except the approval of directors' ratings and the ex-post review of ratings (starting in 2012). *Meetings are held monthly.*

CAISSES D'EPARGNE COMMITMENT COMMITTEE

This Committee's duties include making ex ante decisions loans in the Caisse d'Epargne network above a threshold unique to each entity, up to the Group Credit Committee's threshold. *Meetings are held weekly.*

CREDIT RISK COMMITTEE DEDICATED TO SUBSIDIARIES OF CREDIT INSTITUTIONS EXCLUDING NATIXIS

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

GROUP WATCHLIST AND PROVISIONS COMMITTEE

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

3. Market risk

Group decisions regarding market risks are made by the Group Market Risks Committee, which refers new products and capital market activities to the Group New Products Committee.

GROUP MARKET RISK COMMITTEE

This is a Group decision-making and oversight committee.

It supervises the scope of Group Central Treasury by establishing and monitoring limits, approving trader authorizations, and establishing the list of authorized products, limits, outstandings and maturities.

This Committee approves the Group's overall market risk supervision mechanism (Group Value at Risk or VaR), sets the market risk convergence targets at the Group level, and approves the Group's ALM limit mechanism.

With regard to the Group's institutions that handle their market risks using an internal model and above a certain threshold, the Committee monitor market risk ex-post through checks to monitor limit usage, limit breaches and limit changes.

For other institutions, the Committee performs an upstream analysis of the risks associated with a product and sets operational limits for its involvement (qualitative and quantitative conditions to be met and limit setting), conducts reviews annually or more frequently if necessary of the monitoring process and limits, and regularly monitors compliance with the limits. *Meetings are held every six weeks.*

GROUP NEW (MARKET) PRODUCTS COMMITTEE

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

4. Operational risk**GROUP OPERATIONAL RISK COMMITTEE**

This committee includes Groupe BPCE's different business lines that contribute to the single risk mapping reference (Compliance, Information System Security, Business Continuity Plan, and Financial Audit). 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 Autorité de Contrôle Prudentiel under Article 17 *ter* for operational risks. *Meetings are held every three months.*

5. Standards and methods**GROUP RISK STANDARDS AND METHODS COMMITTEE**

This Committee is responsible for defining common methodological, measurement, control and reporting standards for credit, ALM, market and operational risks to be applied within Groupe BPCE, and the consolidation standards for the central institution. It is tasked with approving shared models, comprehensive back-testing, and adjustments to the Basel mechanism. It covers all Group entities. *Meetings are held every two months.*

The Standards and Methods Committees dedicated to the Banque Populaire banks and Caisses d'Epargne, established during the transition period, have now been incorporated into a single Group Risk Standards and Methods Committee.

6. IT system**GROUP IT RISK COMMITTEE**

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

7. ALM (Asset-Liability Management) and Treasury

ALM and treasury risk monitoring is governed by committees coordinated by the Group Finance division. The Group Risk Management division is a standing committee member. The Group Committees always involve representatives from shareholder institutions and, if applicable, Groupe BPCE's subsidiaries.

In 2011, the Group Finance division revised and simplified the structure relating to these bodies. The main bodies are decision-making committees, chaired by the BPCE Management Board Chairman or by the member of the Management Board in charge of finance. Their decisions do not require approval of a higher authority. Their organization is as follows:

ALM (ASSET-LIABILITY MANAGEMENT)**Group ALM Committee**

This Committee examines, on a consolidated basis, Groupe BPCE's structural risks and those of Groupe BPCE's various entities, along with changes in the balance sheet.

It defines the structural risk limits of Groupe BPCE and its institutions, before they are put forward for approval by the relevant Risk Committees.

It approves the organization of ALM indicator production.

It is responsible for allocating liquid assets to the business lines, particularly in crisis situations.

It monitors the refinancing and investment projections of the Group's institutions, based on their expected requirements.

It examines strategies for managing these indicators and, if appropriate, proposes best practices for Group entities. It establishes the strategic framework and the operation of the Group treasury and collateral management arrangement.

It monitors developments in the liquidity position of the Group treasury and collateral management arrangement (aggregate usage, market conditions, spread in relation to competitors).

It monitors usage of the Group's business lines and institutions with regard to the Group treasury and collateral management arrangement and invoicing for liquidity to the institutions.

Meetings are held *at least quarterly.*

BPCE ALM Committee

This Committee reviews BPCE's structural risk indicators and liquidity risk indicators for the Group treasury and collateral management activities undertaken on the Groupe BPCE SA balance sheet. It also examines funding vehicles and balance sheet changes.

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

It defines the liquidity risk limits of the Group treasury and collateral management activities carried out on the Groupe BPCE SA balance sheet.

It works with affiliates to validate the pricing of liquidity.

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

It approves the structure for the production of BPCE's ALM indicators and refinancing vehicles.

Meetings are held monthly.

CASH MANAGEMENT**Solidarity and Guarantee Fund Management Committee**

This Committee selects the asset manager that will be responsible for managing the fund in which the security deposits of the solidarity and guarantee system contributed by the Banque Populaire banks and the Caisses d'Epargne are invested.

It reviews the asset management company's performance, positions, and strategy.

It defines the investment constraints and management objectives of the fund with regard to the nature of the solidarity and guarantee system, the economic situation, and financial market developments.

The Committee meets every six months.

BPCE Own-Account Run-Off Committee (formerly CNCE)

This Committee meets monthly for the purpose of monitoring, on the basis of the analyses and recommendations of Natixis Asset Management, which sits on the Committee, the operations to be performed as part of the run-off of the former CNCE proprietary account as well as the evaluation of the associated risks and outcomes.

Meetings are held monthly.

Operating procedures

The Risk Management division oversees the Group's risk management processes. It ensures that the risk policies of the affiliates and subsidiaries comply with those of Groupe BPCE.

Risk Management divisions set up in the parent company affiliates report to it through a strong functional link and have a hierarchical reporting line to the Executive Committee.

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

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

Risk Management divisions at parent company affiliates

In the case of parent company affiliates, the strong functional link means that:

- the appointment or the termination of the Senior Executive Vice-President, Risk Management, of the parent company affiliate is subject to the approval of the central institution's Senior Executive Vice-President, Risk Management.

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

- the appointment letter for the parent-company affiliate's Senior Executive Vice-President, Risk Management, must be consistent with the template drawn up by the Group Risk Management division in collaboration with senior management. The job description must be appended to it and it must be sent to the Group Risk Management division;
- common standards are applied within entities;
- permanent reporting and the duty to alert the Groupe BPCE Senior Executive Vice-President, Risk Management, are in effect;
- the Group Risk Management division, working with the entities concerned, carries out ex post validation of risk charters, as well as risk delegation systems, and ensures that they are implemented as framework procedures. To this end, it works with the Risk Management division of the entity concerned. It consolidates all sensitive and disputed loans.

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

Risk Management divisions at subsidiaries subject to banking supervision regulations

The strong hierarchical functional link, which is stronger in the case of subsidiaries subject to the banking supervision regulatory framework, is achieved as follows:

- the appointment or the termination of the Senior Executive Vice-President, Risk Management, of the parent company affiliate depends on the approval of the central institution's Senior Executive Vice-President, Risk Management. This formal agreement is based on an examination of the candidate's skills and professional experience. The Group Senior Executive Vice-President, Risk Management, is kept informed about the appointment or termination of Senior Executive Vice-Presidents, Risk Management, of indirect subsidiaries;
- the participation of Group BPCE's Senior Executive Vice-President, Risk Management, in the annual performance evaluation of the subsidiary's Senior Executive Vice-President, Risk Management;
- implementation of shared standards to be adapted for implementation in the entities and the permanent reporting obligation and duty to alert the Group BPCE Senior Executive Vice-President, Risk Management;
- duties are assigned to the entity's Senior Executive Vice-President, Risk Management by the Group Senior Executive Vice-President, Risk Management, and where applicable by the institution's executive management in the form of a mission statement;
- ex-ante approval from the Group Risk Management division in collaboration with the entities concerned of risk charters and adapted framework procedures, in compliance with Group standards. It also examines risk delegation systems prior to their approval in Group Risk Management Committees and consolidates all sensitive and disputed loans;
- preparation by the Group Risk Management division of reporting on all downgraded and disputed loans;
- participation of the Group Risk Management division, if it so chooses, in committees dealing with risk-related matters affecting any subsidiary having a strong functional link;
- the Group Risk Management division has a right of appeal to the competent Group committee of which it is a member.

Entities are responsible for defining, monitoring and managing their risk levels. They are also responsible for producing reports and data to be sent to the central institution's Risk Management division. The latter ensures the quality, reliability and comprehensiveness of data used to control and monitor risks on an individual-company and consolidated basis.

Risk Management divisions of subsidiaries not subject to banking supervision regulations

The functional link for the subsidiaries not subject to the banking supervision regulatory framework includes the following arrangements:

- the appointment or the termination of the Senior Executive Vice-President, Risk Management, of the subsidiary is subject to the approval of the central institution's Senior Executive Vice-President, Risk Management. This formal agreement is based on an examination of the candidate's skills and professional experience. The Group Senior Executive Vice-President, Risk Management, is kept informed about the appointment or termination of Senior Executive Vice-Presidents, Risk Management, of indirect subsidiaries;
- the annual performance and career appraisal of the subsidiary's Senior Executive Vice-President, Risk Management, is sent to the Group Senior Executive Vice-President, Risk Management, his immediate supervisor at the subsidiary;
- common standards are adapted for implementation in all entities;
- the Group Senior Executive Vice-President, Risk Management, must receive permanent reporting documents and alerts.

The Group Risk Management division, in collaboration with the entities, has access ex-post to operational risk standards and procedures established by the entities, along with the entities' system of delegated risk authorizations and all their sensitive and disputed loans.

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

Integration of Natixis into the risk management process

Natixis, as a subsidiary, is integrated into the Groupe BPCE Risk Management process in accordance with the general principles stated above. In fact, the Natixis Risk Management division is a standing member of the Group Risk Standards and Methods Committee.

The Group Risk Management division is a member of the following Natixis committees: Natixis Global Risk Management Committee, Natixis Group Market Risk Committee, Natixis Group Operational Risk Committee, New Products and Activities Committee, Natixis Group Credit Committee and the Counterparty Watchlist Committee. In these committees, the Group Risk Management division may exercise a right of appeal to the competent BPCE Risk Committee regarding decisions made in Natixis Committees.

Natixis participates in the Group IT Risk Committee that decides the requirements and resources implemented by Natixis to enable the central institution to perform its risk monitoring on a consolidated basis.

COMPLIANCE

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

The companies concerned are 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 have, directly or indirectly, sole or joint control, and that as a result form part of the scope of consolidation.

Group compliance: objectives, area of activity and scope of intervention

1. Objectives

Compliance provides 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 the banking or finance activities, whether these are of a legislative or regulatory nature, or they relate to professional standards and ethics or instructions from the executive body taken, notably, pursuant to guidelines established by the governing body";
- safeguard Groupe BPCE's image and reputation with its customers, staff 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 operations carried out within Groupe BPCE's companies, affiliates (including the Caisse d'Epargne and Banque Populaire parent companies) and subsidiaries, ensuring that the interests of its customers, staff and partners are respected at all times.

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

2. Main duties in each business area

The main duties of Groupe BPCE's Compliance 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's general regulations and, more broadly, the prevention of conflicts of interest, ensuring the primacy of customer interests, compliance with market rules and professional standards in the banking and financial sectors, and regulations and internal standards regarding business ethics. It includes oversight of investment departments and the operating procedures of investment services supervisors (RCSIs).

FINANCIAL SECURITY

This includes the prevention and monitoring of financial crime, including the prevention of money laundering, the prevention of terrorist financing, compliance with embargos and the prevention of internal and external fraud. It encompasses the operating procedures of TRACFIN correspondents (French anti-money laundering unit which reports to the French Ministry of the Economy, Finance and Industry).

INSURANCE COMPLIANCE

This covers compliance with all legislative and regulatory areas concerning insurance brokers in their role of insurance products distributors. In this regard, it encompasses 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.

COORDINATING THE COMPLIANCE AND PERMANENT CONTROL DEPARTMENTS

This covers the preparation of reporting documents for regulators and internal reporting documents, the preparation for committees coordinated by or involving Compliance, and Compliance management meetings. As a result 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 a system for managing non-compliance risks, and coordinating the results of permanent controls that cover non-compliance risks.

Compliance is also the main contact for the Autorité des marchés financiers (AMF - French Financial Markets Authority), the AMF-ACP unit for coordinating marketing controls, the Commission nationale de l'informatique et des libertés (CNIL, France's commission on personal data protection), the General Directorate for Anti-Trust Policy, Consumer Affairs and Fraud Control (DGCCRF), and equivalent foreign authorities. The Compliance function interacts with the Autorité de Contrôle Prudential and equivalent foreign authorities on matters under its responsibility.

As a level two permanent compliance control function, Compliance function maintains close relationships with all functions involved in performing internal control within Groupe BPCE: *Inspection générale*, Risk Management division, IT Systems Security division, Audit division.

BPCE ensures permanent compliance control of BPCE IOM, by its delegation.

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:
 - coordinating the security of Groupe BPCE's staff and property,
 - managing the security departments for staff and property within Groupe BPCE,
 - 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 continuity plan,
 - coordinating Group crisis management,
 - coordinating the implementation of the Group Business Continuity Plan, and keeping it in operational condition,
 - leading the Group business continuity process,
 - ensuring compliance with regulations as regards business continuity,
 - participating in Groupe BPCE's internal and external bodies,
 - managing information security within Groupe BPCE.

Group Compliance: organizational principles

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

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

The Compliance Officer is responsible for the Compliance function.

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 Autorité de Contrôle Prudential by BPCE, and the supervisory body, Board of Directors or Supervisory Board is informed of his identity.

1. 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 mechanism 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 onsite 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'Épargne and Banque Populaire parent companies;
- its subsidiaries, including Natixis.

2. 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 Autorité des Marché Financiers, and by the Act that established BPCE.

Reporting to the Chairman of the Management Board, DCSG performs its duties independently from operational divisions as well as from other internal control divisions with which it nevertheless works. DCSG includes five divisions with Compliance activities:

- ethical compliance, including BPCE's investment services supervisor (s) (RCSIs);
- financial security, including BPCE's Tracfin correspondent (s);
- 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 Regulation 97-02, at the level of both the central institution and Groupe BPCE.

DCSG oversees all compliance and security processes. In this regard it performs an orientation and motivation role with respect to Compliance Officers in 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, report to it through a strong functional link.

DCSG conducts all actions to strengthen compliance throughout Groupe BPCE, including within the BPCE company. Within the BPCE company, compliance is handled by a dedicated team within 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 staff training.

As a result, DCSG:

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

3. Company-level organizational principles

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

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

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

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

- banking compliance;
- permanent compliance control.

Each 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 this approval process. As required, for the launch of all new products, the company's Compliance function meets with DCSG.

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

- supports training initiatives undertaken by BPCE;
- ensures that staff sign up 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 (Audit, Information System Security, the head of BCP) may be placed under the functional supervision of a permanent control officer, such as the Senior Executive Vice-President, Compliance.

Participation in Groupe BPCE's governance bodies

Group Audit and Risk Committee

The head of DCSG is invited to take part in meetings of the Groupe BPCE Audit and Risk Committee.

Review and Validation Committee for New Groupe BPCE Products (CEVANOP)

A new committee, resulting of the new product validation procedure of both distribution networks, is in charge of "systematic prior approval of new products and material changes to existing products" within the meaning of Article 11-1 of the CRBF Regulation 97-02 as amended.

The scope of products submitted to this committee includes all banking and financial products (including insurance) marketed to the clientele of each of the networks, if said products are marketed by at least two affiliated institutions. The committee decides on the presentation of new products by marketing or development managers for each network in view of written opinions by experts from division members from the committee, said committee being chaired by the head of DCSG. *Meetings are held monthly.*

Sales Process Validation committees

DCSG takes part in the committee coordinated by the Development division of the Caisse d'Epargne Retail Bank, which approves marketing methods for authorized products, whichever channel is used (remote selling or direct selling via branches).

DCSG is working to external this system throughout all networks and markets. This set-up will ultimately be identical within each Group company.

DCSG is also regularly informed about:

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

Meetings are held four times every six months.

Work carried out in 2011 and outlook

Financial market ethics and compliance with professional standards

All of the Caisses d'Epargne and the BPCE IOM subsidiaries that are classified as investment services providers migrated to the DEFI information systems platform for account keeping and custody between November 2010 and March 2011. Since that date, the Caisse d'Epargne and Banque Populaire networks and the aforementioned BPCE IOM subsidiaries have delegated their account keeping and custody to Natixis.

This pooling of technical resources opened up areas for sharing procedures and controls for all of these institutions. Accordingly, the Caisses d'Epargne's permanent control standards were reviewed during the first half of 2011. Permanent control standards based on the Caisse d'Epargne standards were reviewed for roll-out in the Banque Populaire banks and approved in December 2011. This roll-out will be effective in the first half of 2012.

Furthermore, Natixis (EuroTitres division) completed its first ISAE 34-02 certification of 2011. This certification for procedures and controls for account-keeping service providers is taken into consideration in the control programs for delegated account keeping in the Group's institutions.

For 2012, the Compliance and Ethics function will be coordinated using a dedicated intranet site that will include a forum space that will facilitate discussions. The site will promote the dissemination of information. In connection with other BPCE divisions, Compliance and Ethics will coordinate several projects to prepare Groupe BPCE for future legislative and regulatory changes (MIFID II, Market Abuse Directive).

Financial security

The standard procedure on anti-money laundering and combating the financing of terrorism (AML/CFT) for retail banking was updated in March 2011, mainly to incorporate the due diligence to be applied in onboarding high-risk customers, particularly politically exposed persons (PEPs). The monitoring of PEP customers will be formally documented in a special procedure in 2012. The framework AML/CFT procedure will be reviewed in order to incorporate regulatory changes and details added from the latest sector implementation principles or Autorité de Contrôle Prudentiel guidelines, in particular, use of business introducers.

The tools and vigilance rules of the Caisses d'Epargne and Banque Populaire banks are being converged. The effective beneficiaries of business relationships will be incorporated in the information systems during 2012.

The Group tool for Tracfin reporting was rolled out in most of the institutions. It will facilitate exchanges of regulatory information among BPCE Groupe's Tracfin correspondents in 2012.

Coordination of the function was improved by harmonizing quarterly AML/CFT reporting and the development of summary reporting for the Executive Committee. Interregional meetings promoting the sharing of best practices also contributed to improved coordination.

A project on preventing and dealing with internal fraud was launched this year and will result in a framework of procedures and implementation mechanisms in 2012.

INSURANCE COMPLIANCE

Changes in advisory notices incorporated in the networks' information systems in accordance with the Order of January 30, 2009 (new duty to advise), particularly concerning flexible contributions and arbitrage exceeding the customer's risk profile. In 2012, insurance compliance will oversee the proper implementation of these changes in successive computer versions and will participate in change management support on these subjects.

BPCE bonds in insurance policies: contribution to compliance with the *Autorité de Contrôle Prudentiel's* recommendation of May 6, 2011 concerning "the sale of unit-linked life insurance policies comprising debt securities issued by an entity financially related to the insurance entity," particularly with regard to the process of selling BPCE bonds (use of an independent expert responsible for valuing the securities, inserting a paragraph on "potential conflicts of interest" and revising customer disclosure documents).

Complex products: compliance with the *Autorité de Contrôle Prudentiel* recommendation (and the position of the *Autorité des marchés financiers*) of October 15, 2010 concerning complex products by creating a specific marketing process including traceable training of employees, targeting the customer base and salespeople (private banking) and an additional questionnaire to be filled out by the customer.

Funeral insurance policies: compliance with the *Autorité de Contrôle Prudentiel* recommendation of June 15, 2011. Advisory notices from both networks were modified to include the two required statements.

De-linking payment-protection insurance with regard to real estate loans: issuance of a communication to the networks on the Lagarde Act on de-linking real estate loans and payment-protection insurance, specifying the procedures for implementing the new provisions.

Consumer credit and payment-protection insurance: establishment of a working group on payment-protection insurance for loans subject to the law on consumer credit in order to reiterate the rules on de-linking payment-protection insurance from consumer loans in the networks (through memorandums) and the mandatory inclusion or not of the payment-protection insurance rate in the annual percentage rate. This work will continue in 2012.

BANKING COMPLIANCE

An approval procedure for sales and marketing documents prepared by BPCE divisions intended for customers of the institutions was implemented. An approval procedure for sales and marketing documents prepared by the Group subsidiaries for customers of the institutions was put in place and will be rolled out in 2012.

An approval procedure to reduce the number of materials prepared by BPCE or its subsidiaries intended for the salespeople in charge of distributing products and services was begun and will be rolled out in 2012.

A project to bring into compliance and harmonize sales processes, operational procedures, and information systems was launched in 2011 and will continue in 2012.

Banking Compliance implemented a Group methodology designed to produce a list of French Banking Federation standards and best professional practices implemented by all of the retail banking institutions.

Compliance standards are being updated in order to harmonize the operational procedures for implementing regulations applicable to banking transactions in all of the Group's institutions. This work is going to continue until 2013.

The work to bring mandatory customer sales documentation is ongoing. The project is led by Banking Compliance for the Caisse d'Epargne network. For the Banque Populaire network, Group standards have been distributed and are incorporated in the institutions' procedures. The document digitization project is being rolled out for this second network.

COORDINATING THE COMPLIANCE AND PERMANENT CONTROL FUNCTION

The project aimed at converging the Banque Populaire banks' permanent controls continued in 2011. The AML and RCSI repositories were adapted to their environment for widespread roll-out in the first half of 2012 in the Pilcop tool.

For the Caisses d'Épargne, two additional repositories were rolled out: supervision and remote sales. Repositories concerning private banking and disputes were documented for roll-out scheduled in the first half of 2012.

Harmonization of the BPCE IOM banks' repositories is underway. Some local correspondents are being brought up to standard. This work will continue in fiscal year 2012.

As part of a working group made up of representatives of the Compliance and Risk Management functions, the non-compliance risk repository was finalized and submitted to the Group Risk Management division for inclusion in Groupe BPCE's single risk mapping reference. Pending the roll-out in 2012 of Paro, the Group mapping tool, Compliance developed an independent system for scoring non-compliance risks at year-end 2011.

SECURITY AND BUSINESS CONTINUITY

With regard to security and business continuity, Groupe BPCE has strengthened its organization with a view to protecting the security of staff, property and essential activities, including in the event of extreme shocks. The function responsible for the security of staff and property and the function responsible for the business continuity plan are coordinated by BPCE Groupe's Security and Business Continuity division.

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

In 2011, the Group business continuity policy was supplemented with a repository of best practices to be used by the institutions. The aim is to facilitate the harmonization of processes to improve Groupwide resilience. The operational deployment of requirements started with drawing up an inventory of the processes in order to define the outlines for action plans. On this basis, the reference material will be enhanced in 2012 on an organizational level with operational procedures.

In addition, this reference basis defined by Groupe BPCE's Security and Business Continuity division jointly with all of the departments will help to develop the permanent control framework for the business continuity plan during 2012.

Lastly, the development of training and awareness-raising regarding the business continuity plan are major priorities in 2012.

OTHER PERMANENT CONTROL FUNCTIONS**Management of legal risk****1. Duties**

The Legal Affairs division has responsibility for the prevention and management of legal risks and Group-level legal risks. It is also involved in the prevention of reputational risks. In this regard it helps to manage the legal risks arising from the activities of the central 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 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, the Legal Affairs division represents Groupe BPCE with respect to the regulatory authorities as well as national and international organizations in all its fields of expertise.

The Legal Affairs division exercises its role independently of the Operational divisions.

2. Organization

The Group's Legal Affairs division is in continuous contact with the Legal Affairs divisions of Group institutions on all matters relating to the aforementioned duties. It provides ongoing dialog and interaction between the Group's legal officers, and maintains up-to-date documentation for their benefit. The Group's Legal Affairs division coordinates the Group's legal and litigation policy. In this regard, the Group's Legal Affairs 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.

3. Work carried out in 2011

Work carried out in 2011 focused mainly on:

- contribution to the Sales Process Validation Committee (CVPC) and to the Review and Validation Committee for New Groupe BPCE Products (CEVANOP);
- implementation of the Act of January 27, 2011, the "Copé Zimmermann Act," on the balanced representation of women and men on Boards of Directors and Supervisory Boards;
- regulations applicable to cooperative shares;
- contribution to regulatory topics relating to Capital Requirements Directive (CRD) IV and Capital Requirements Regulation (CRR) IV;
- monitoring the assessment of the Supervisory Board and concrete actions;
- participation in the Group's major disposals.

4. 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 handling the secretariat duties of BPCE's bodies, organizing the Group's market relations and the Legal Affairs division.

The Corporate Secretariat - Legal Affairs division was organized around six divisions. 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 (French Banking Federation, etc.) charged with preparing, explaining and all texts applicable to the profession. This division is also responsible for defining and drafting legal standards applicable to the Group's banks and marketed products, 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 treatment 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 recommendations, texts issued by French regulators). This division is also responsible for handling Autorité de Contrôle Prudentiel matters and relationships with authorities, and for monitoring texts relating to key banking ratios and credit institutions' policy control: CRD IV and CRR IV, with the implementation of the LCR (liquidity coverage ratio) and the NSFR (net stable funding ratio), 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 competition, 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 operations of BPCE's bodies in accordance with the highest standards of governance and their implementation in the Group. 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). This division is also in charge of the Group's structural or restructuring transactions and the legal counsel for BPCE and the Group in connection with intragroup strategic partnerships.

The duties of the "Group Market Relations" division include representing the Group with regard to market bodies and national, European and international institutions. In particular, this involves detecting any subjects that may have an impact on the Group's business lines, coordinating discussions on these matters in order to determine the Group's position, and conveying the Group's position externally (to various associations). In connection with these duties, permanent representation in Brussels contributes to carrying out these duties for all European matters.

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

5. 2012 priorities

In 2012, the Legal Affairs division will continue to play its traditional role, which includes monitoring current events, handling matters common to the marketplace and swiftly responding to requests from BPCE and the Group's institutions. In addition, with regard to its structure, the division will consolidate and improve its internal operations, step up efforts to improve processes, and draft an internal operations charter. It will also draft a charter on compliance with anti-trust, law, prepare legal, literature and best practices for the Caisse d'Épargne and Banque Populaire networks, and draft a policy on contracts and brand protection.

Controls of accounting and financial reporting quality

1. 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. The principles and rules defined by this framework 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 other Group institutions as well as other outside parties (other functions within BPCE, Autorité des marchés financiers, 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 departments 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 supervisory body, and reconciling accounting figures with management figures.

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

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

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, repositories 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, Financial Control and Investor Relations.

Accounting

The Accounting function is in charge of preparing individual 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 individual company financial statements. The main duties of these two divisions, the heads of which report to the Chief Financial Officer, 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, and performing their quarterly analyses,
 - directing the accounting process within the Group,
 - providing a regulatory watch as regards common French and IFRS accounting doctrine within 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 Autorité de Contrôle Prudentiel) 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 from the Group Finance division in managing financial information systems projects, and contributes to ensuring single and community financial repositories 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, issuances, 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 Management Control division, the head of which reports to the Chief Financial Officer. 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;
- coordinating the Finance Control process 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 registered with the Autorité des marchés financiers and also available on the BPCE website.

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

- coordinating and preparing presentations of Groupe BPCE's 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 subject to approval by the Autorité des marchés financiers;
- organizing relations with rating agencies by coordinating with the other rated entities of Groupe BPCE.

2. 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 a consolidation repository designed to guarantee the reliability of the process. It is based on the following core principles:

- defining and communicating 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 are:

- in 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). For the sake of uniformity, consistency and efficiency of Group management, all of the 19 Banque Populaire banks published their consolidated financial statements as of December 31, 2011, according to IFRS (in 2010, 18 Banque Populaire banks published their consolidated financial statements according to French GAAP);
- the main subsidiaries of Groupe BPCE – Natixis, Crédit Foncier de France, Banque Palatine 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.

With regard to the consolidation system, given that Groupe BPCE was only recently created means that it has maintained an organization 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. The system is based on a single consolidation tool used solely by these entities, and for all sub-consolidation work. This ensures internal consistency as regards scopes, charts of accounts, processing and analysis:
 - for the Caisses d'Epargne and their subsidiaries, accounting production is based on overall monitoring of data of institutions in the IFRS reference base,
 - for the Banque Populaire banks, their subsidiaries, and the Caisses du Crédit Maritime Mutuel, the production of Group financial statements involves unitary monitoring of differences between the individual French GAAP financial statements of the institutions and their contribution to IFRS consolidated financial statements. This solution has led to the deployment of an IFRS consolidation package, which lists and automates all adjustments to be made to the French GAAP individual financial statements, to convert them into IFRS financial statements,
 - in the other activities (Crédit Foncier de France, BPCE IOM and Banque Palatine, essentially) the system used is that of the Caisse d'Epargne, enabling Groupe BPCE to monitor IFRS contributions;
- in Corporate and Investment 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. In 2011, Natixis upgraded its consolidation tool to improve the data consolidation process with the implementation of a workflow for the validation of consolidation packages and improved the control process and traceability of consolidation adjustments. For the production of Group financial statements, Natixis submits a consolidation package that represents its consolidated financial statements (an "opaque package");
- 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 ("opaque packages").

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.

3. Control process for accounting and financial data

GENERAL SYSTEM

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

Setting the general principles, the Group Internal Control charter has been supplemented by charters organizing the periodic control processes (internal audit) and permanent control (risk, compliance, information systems security and finance with regard to the mechanism for controlling of the quality of accounting and financial information).

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, the process includes several layers of controls:

- a basic layer of "level one controls" (control), relating to operational departments and integrated into accounting treatment procedures;
- an intermediate layer of "level two controls" (review), organized and executed under the responsibility of a dedicated specialist audit function within the Finance divisions to carry out accounting and regulatory review. This function performs independent controls on accounting treatment procedures to ensure the reliability and completeness of financial statements in conjunction with permanent control functions;
- a higher layer of "level three controls" (audit), involving:
 - periodic controls organized under the authority of the local internal audit unit or the Group *Inspection générale division*,
 - controls performed by parties external to Groupe BPCE (Statutory Auditors and the Autorité de Contrôle Prudentiel).

Within the central institution

Coordination of the "Audit and Regulatory Review" process

Within the central institution, the Finance division coordinates the permanent system for audits and regulatory reports as part of a functional audit and regulatory review process, the rules of which are specified in the Audit and Regulatory Review Charter.

Within the Group Finance division, this functional process is coordinated by the Financial Review division. Reporting to the Executive Chief Financial Officer, the Division head has been granted normative powers over the process. In addition, the head of the Financial Review division is a permanent member of the Group Internal Control Coordination Committee which meets, under the chairmanship of the Management Board Chairman, with the members of the

Management Board in charge of Finance and Operations, respectively, and the managers of the Periodic and Permanent Control functions.

In conjunction with the shareholder institutions and Group subsidiaries, the primary role of the Financial Review division is to ensure 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 process;
- coordinate the reporting system for the process with the central institution;
- work in close collaboration with the Group's Statutory Auditors on the statutory system within Groupe BPCE by ensuring, on behalf of the Audit and Risk Committee, the independence of the Statutory Auditors (monitoring compliance of 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 2011, the Audit 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 Audit and Regulatory Review Charter (the "Charter"), which is the basis of the body of standards,
 - Group Review Standards, adaptations of the "Charter" for the operational divisions;
 - Group Audit Guidelines intended to provide operational and/or methodological clarifications to implement the "Charter" or the standards;
- roll-out of an auditing and control tool (Comptabase), which has already been implemented in the Caisses 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;
- roll-out of a permanent reporting tool within the Audit and Regulatory Review process, designed to qualify the audit and control mechanism within Groupe BPCE, identify the mechanism's weaknesses, and propose suitable solutions;
- implementation of a permanent training system covering two modules, "Audit and Regulatory Review Fundamentals" and "Fundamentals of Regulatory Statements and their Review."

Controls performed at the central institution level

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 individual 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 Autorité de Contrôle Prudentiel. A dedicated team performs analyses and consistency controls of regulatory statements,
 - 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 include: ensuring that data collected have been properly aggregated and that consolidation entries are correct, and accounting for residual differences on reciprocal transactions. These controls are supplemented by analytical reviews and consistency controls of the main headings in the financial statements, as well as an analysis of changes in equity and deferred taxes during the period through individual and consolidated tax reconciliations;
- the Group's 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, BPCE has recommended that each entity in the scope of consolidation has at least one representative of the Group's Statutory Auditors on its panel;
- occasional audit assignments performed by Groupe BPCE *Inspection générale* within the Group's institutions.

Finally, under CRBF Regulation 97-02, amended, relating to the prudential supervision 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.

4. 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.

BPCE's Supervisory Board 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.

In addition, given the unique structure of the Group, 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.

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is tasked with monitoring the process of preparing financial information, the statutory control of the individual and consolidated financial statements, and ensuring the independence of the Statutory Auditors.

In this respect, its duties include:

- examining the individual and consolidated financial statements, checking the clarity of information provided, examining the scope of consolidated companies, assessing the appropriateness of accounting methods used to prepare the individual and consolidated financial statements, and examining the regulatory and accounting impact of any significant acquisition made by BPCE or the Group;
- reviewing the draft of the Supervisory Board Chairman's report on internal control procedures relating to preparing and processing accounting and financial information;
- making a recommendation on the procedure for selecting the Statutory Auditors at the Annual General Shareholders' Meeting, ensuring the independence of the Statutory Auditors, including through a breakdown of fees paid to them by Groupe BPCE, and examining the Statutory Auditors' schedule of work.

The Audit and Risk Committee consists of six members of BPCE's Supervisory Board, including one independent member, who is the committee's Chairman.

The Committee meets in the presence of the panel of Statutory Auditors to examine the financial statements, but may, subject to conditions it determines, hear reports from executive directors, executives responsible for preparing the financial statements, and, more generally, any person whose expertise is deemed relevant by the Committee.

Permanent risk control and compliance managers, as well as the head of internal audit in charge of periodic control, are invited to attend the Committee's meetings.

FINANCIAL SUPERVISORY BODIES

The Finance function's coordination, reporting and decision-making processes are organized around three types of bodies:

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

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

The main Finance Committees are known as "decision-making" bodies whose decisions do not require approval from a higher authority. This qualification applies only under the following conditions:

- the supervisory body is chaired by the Chief Financial Officer;

- decisions are made only in strictly limited financial areas (Asset-Liability Management, Cash Management, Solidarity and Guarantee Fund Management, etc.);
- operating rules and assignments are controlled by the Group's Coordination and Internal Control Committee, which approves regulations.

The main decision-making Finance Committees relating to finance and accounting are the Group Management and Accounting Standards and Methodology Committee and the Group Investor Relations Strategy Committee.

- The Group Management and Accounting Standards and Methodology Committee is chaired by two members of the BPCE Management Board the Chief Financial Officer and the Chief Executive Officer of Commercial Banking and Insurance. Its role is to approve the repository on accounting and financial information and information control. In this regard, its main tasks are to approve:
 - 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 position on options left open in the texts;
 - working standards on audit and regulatory review (Group Review Standards), as part of the internal control mechanism for accounting and regulatory reporting.
- The Group Investor Relations Strategy Committee is chaired by the Chairman of BPCE's Management Board. Its role is to define the Group's communication strategy with regard to the financial community and to agree on the methods to be implemented in Groupe BPCE to promote the Group's reputation in the markets.

5. Outlook

In 2012, Groupe BPCE will continue to harmonize its internal control system relating to accounting and financial information.

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

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

- with regard to processing and standardization of accounting and financial reporting:
 - monitoring regulatory developments, including the revision of IAS 39 and the Basel III developments affecting banking regulations, to prepare Groupe BPCE for changes in to these new rules;
 - harmonizing accounting principles within the Group and implementing a Group chart of accounts according to IFRS;
 - harmonizing of the Group consolidation tool, implementing a single tool to process statutory and regulatory consolidated information for the entire Group, with the exception of Corporate and Investment Banking, Investment Solutions and Specialized Financial Services, which will maintain its own system;
 - improving the Group management tools for closer monitoring in terms of earnings, liquidity, and solvency for all network institutions (Banque Populaire and Caisse d'Epargne) and subsidiaries of the Group;
 - in Corporate and Investment Banking, Investment Solutions, and Specialized Financial Services, roll-out of the registered office's accounting tool in the US scope;

- with regard to information control and the standardization of accounting and financial information:
 - continuing the work of harmonizing and publishing standards dealing with permanent control of accounting and regulatory information;
 - expanding the scope of the audit and regulatory review process to cover regulatory statements and taxation;
 - harmonizing the rules for the Statutory Auditors' involvement in the Group, mainly, in the rules for appointing Statutory Auditors, those relating to the services that may be assigned to them, and the role of audit committees in the Group verifying of the Statutory Auditors' independence;
 - continuing to develop the permanent training system for Audit and Regulatory Review with the creation of a new training module on "Taxation Review."

IT systems security

1. Duties

The Group IT Systems defines, implements and develops Group IT system policies. It provides continuous and consolidated monitoring of the Information system security, along with technical and regulatory monitoring. It initiates and coordinates Group projects aimed at reducing risks in its field.

The Group IT Systems Groupe BPCE in banking industry groups and to public authorities.

For the purposes of permanent control, the Group SSI has regular contact within the central institution with the Risk Management, Compliance and Internal Audit divisions.

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

2. Organization

Groupe BPCE has established a groupwide IT system security process. It includes the Head of IT Systems Security (RSSI), responsible for the process, with the Heads of IT Systems Security for all of the institutions.

The heads of IT Systems Security for parent company affiliates, direct subsidiaries, and EIGs are functionally linked to the Group's head of IT Systems Security. This functional link means that:

- the Group's Head of IT Systems Security is notified of the appointment of any heads of IT system security;
- the Group's IT systems security policy is applied within the institutions, and each IT systems security policy must be communicated to the Group's Head of IT Systems Security prior to approval by executive management, the Board of Directors, or the Management Board;
- security report regarding the level of 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.

3. Work carried out in 2011

The Group work completed in 2011 related primarily to implementing the IT systems security policy (PSSI-G), in line with the actions initiated in 2010:

The Information Systems Security repository was prepared, approved by the BPCE Management Board on January 10, 2011, and circulated to all of the Group's institutions for compliance purposes. It therefore supplements the SSI established in 2010 and is comprised of 373 rules, categorized into 18 subject areas⁽¹⁾ and an organizational instruction document⁽²⁾. The combination of the SSI Charter and this repository of rules forms the PSSI-G, which incorporates the Group's security requirements.

An assessment of the compliance level of the Group's institutions with each of the PSSI-G rules was completed. Through this assessment, the Group obtained its first overview of its level of information systems security at a consolidated level.

The reconciliation work between the risks incurred by non-compliance and the costs of bringing the systems up to standard was begun in the fourth quarter of 2011 and will be completed in early 2012. This work will:

- help the institutions prioritize their plans to bring their systems up to standard;
- contribute to the ongoing process of improving the PSSI-G as from 2012;
- identify the Group's IT system security priorities for the coming years.

The implementation of the PSSI-G constitutes the necessary basis for the Group's SSI risk and control priorities begun in 2011:

- a methodology coordinating out the IT and SSI approaches with that of the business lines with regard to risk mapping was defined and applied to the "check" process. 2012 will be devoted to preparing for its implementation. In particular, the sensitivity risk sensitivity of the Group's information systems components will be assessed;
- the "new Group SSI permanent control repository" project was initiated at year-end 2011. It involves building the minimum basis for SSI permanent controls (levels 1 and 2) applicable by each of the institutions, replacing the current "SMC" system, limited solely to the Caisses d'Épargne.

The DSSI-G also contributed its security expertise to several Group projects so that security would be taken into account earlier (Group network; secure messaging, SEPA mail, computerization of contracts at branches, mobile telephone banking, etc.).

These projects are in keeping with the roll-out of the strong authentication solutions coordinated by the DSSI-G. Within Groupe BPCE, over 400,000 CAP/EMV readers (secure payments protocol) were deployed at year-end 2011 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 2011.

In the scope of BPCE, several projects were initiated in 2011 designed to raise and control the security level of its information systems:

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

(1) Authentication of clients for remote banking transactions and on-line payments; internet access security; e-mail security; control of access to software; computer network security; fight against malicious code; telephone system security; workstation security; IT development security; managing of digital evidence; education and training on IT system security for human resources; systems and equipment security; security of subcontracted or outsourced services; managing back-ups, archives and removable media; security of IT operation and production; security of wireless IT networks; mobile computing security; security of confidential digital information.

(2) Operating procedures of Group IT System Security.

- the massive authorizations 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;
- the DSSI-G also coordinated the security assessments of several sensitive applications before they were deployed (WiFi network, suspicious activity reporting: Tracline; document sharing for the decision-making bodies: E-dataroom, etc.);
- the SSI scorecard was implemented.

Lastly, in accordance with the Group SSI Charter, BPCE's IT Systems Security Committee was established in the fourth quarter of 2011. It met once during the year.

4. Outlook for 2012

In 2012, the Group PSSI will be implemented more widely by the institutions, including BPCE.

At the same time, the Group's work on risk mapping, the permanent control repository and the Group's SSI incident management process will be continued. 2012 will be devoted to developing the future SSI permanent control repository for the Group and preparing for the roll-out of the Group's future method for mapping SSI risks, with the risk classification project for the information systems assets.

The DSSI-G will also initiate the first annual revision of the PSSI-G in order to take into account the emergence of new threats and necessary developments identified during the compliance assessment.

Finally, in 2012, the DSSI-G will further strengthen its support for the business lines and Group institutions in order to integrate security issues as far upstream as possible.

PERIODIC CONTROL

Duties of the Group *Inspection générale* division

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

As part of this work, it ensures the quality, effectiveness, consistency and proper operation of their permanent control framework and the management of their risks. The scope of *Inspection générale* 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;
- the quality of the organization and management;
- the consistency, suitability and effectiveness of risk measurement and management systems to assess and manage risk;
- 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.

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

Scope of activity

To fulfill its role, the Group's *Inspection générale* 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, and in no event less than once every four years for banking activities.

In this regard, Group *Inspection générale* 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 *Inspection générale* is approved by the Chairman of the Management Board. It is 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 Groupe BPCE Supervisory Board.

Reporting

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

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

It coordinates the timetable for drafting regulatory reports.

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 de France, Banque Palatine).

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 two level control.

These divisions 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 Group Senior Executive Vice-Presidents, Risk Management, and Group Senior Executive Vice-Presidents, 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.

Organization

Group BPCE *Inspection générale* oversees all audit processes.

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 report directly to Group *Inspection générale* through a strong functional link and a hierarchical reporting line to their entity's executive body.

This strong functional link is achieved through the following rules:

- the appointment or removal 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;
- Group *Inspection générale* ensures that the entities' internal audit divisions have the resources necessary 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 Group *Inspection générale*;
- the entities' internal audit departments use audit methods defined by Group *Inspection générale* 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 Group *Inspection générale*. Group *Inspection générale* is kept regularly informed of progress with these programs and any changes in their scope;
- the institutions' internal audit reports are communicated to Group *Inspection générale* 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 communicated to Group *Inspection générale* when they are received or issued, if sent directly to the institution;
- Groupe *Inspection générale* 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 Group *Inspection générale*, which distributes 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 audit business line is managed between Natixis and the central institution are part of Groupe BPCE's audit process.

Considering the size and nature of the activities of the audit function, Group *Inspection générale* and the Internal Audit division of Natixis 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.

Work carried out in 2011 and outlook

The implementation of *Inspection générale*'s 2011 audit plan, which will be completed at the end of February 2012, has taken place against an eventful regulatory and financial backdrop. Consequently, in addition to the recurring audits conducting in the retail institutions (nine audits in the Caisses d'Epargne and their subsidiaries, eight in the Banque Populaire banks and their subsidiaries, nine in the BPCE IOM subsidiaries, two in Banque Palatine, and one in the foreign subsidiary of Crédit Foncier de France), six other audits were conducted as part of the Basel II approval process initiated by Groupe BPCE in various customer segments and entities. *Inspection générale* also audited several BPCE divisions, the Commercial Banking and Insurance division, the Group Risk Management division, the Group Compliance and Security division, the General Secretariat – Legal Affairs division, and Accounting. It also supervised two coordinated cross-company audits covering customer protection and mandatory customer documentation.

Aside from the 64 audit assignments launched over the course of 2011 under the audit plan, BPCE *Inspection générale* continued its in-depth revision of the audit standards and methodology based on best practices, started in August 2009. In particular, it finalized the draft of a standard describing the reporting procedures for audit work intended for the governance bodies and another describing the rules of confidentiality and security to be implemented. In addition, a standard entitled "Preparation of Audit Plans for the Retail Business" is being distributed. It is designed to define a uniform method for creating multi-year audit plans for a retail bank based on risk criteria, in order to guarantee coverage of the audit scope.

Lastly, a "resources" standard is currently being drawn up. Its objective, recalling the principles of human resources for the function, is to give the retail banks the resources to calibrate the needs of their audit teams in terms of number and quality.

This work will be extended into 2012 and will cover both the definition of the standards and developments to the tools for the function, particularly the operational implementation in the Group's entities and in the central institution of a shared tool to monitor the implementation of recommendations ("Reco!"). In addition, important updates will continue to be made to the audit guidelines in 2012. This work, initiated in 2010, will result in obtaining 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.

With regard to Natixis, which was also subject to major audits performed by Group *Inspection générale*, particularly in the Risk Management division, Corporate and Investment Banking (CIB), and Workout portfolio management (GAPC), the alignment of Natixis' *Inspection générale* methods with those of Group *Inspection générale* continued. In particular, this related to harmonizing the grading of recommendations, synchronizing respective annual macro-schedules, joint preparation of audit plans, and the joint design of fields of investigation/audit repositories, based on joint audit assignments to ensure compliance with these principles.

Lastly, BPCE *Inspection générale* will continue to conduct weekly monitoring of the implementation of recommendations intended to promote, if necessary, raising alerts intended for the Audit and Risk Committee, pursuant to Regulation 97-02.

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

Fiscal year ended December 31, 2011

To the Shareholders,

BPCE

50, avenue Pierre Mendès-France
75013 Paris

To the Shareholders,

In our capacity as Statutory Auditors of BPCE and in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your company in accordance with Article L. 225-68 of the French Commercial Code for the fiscal year ended December 31, 2011.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report describing the internal control and risk management procedures implemented by the company and containing the other disclosures required by Article L. 225-68 of the French Commercial Code, relating in particular to corporate governance.

It is our responsibility:

- to report to you on the information contained in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of accounting and financial information;
- to attest that the report includes the other information required by Article L. 225-68 of the French Commercial Code, it being specified that we are not responsible for verifying the authenticity of this information.

We conducted our work in accordance with professional standards applicable in France.

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

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

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the financial and accounting information on which the information presented in the Chairman's report is based and of the existing documentation;
- familiarizing ourselves with work done to prepare this information and with existing documentation;
- determining whether any material weakness in internal control relating to the preparation and processing of accounting and financial information noted during our audit are properly reported in the Chairman's report.

On the basis of this work, we have nothing to report on the information concerning the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Supervisory Board in accordance with Article L. 225-68 of the French Commercial Code.

Other information

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

Paris La Défense and Neuilly-sur-Seine, March 30, 2012

The Statutory Auditors

KPMG Audit
Division of KPMG S.A.

Fabrice Odent
Marie-Christine Jolys

PricewaterhouseCoopers Audit

Anik Chaumartin

Mazars

Charles de Boisriou
Jean Latorzeff