



# Financial Report

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*This is a free translation into English of the Financial report issued in French.*



# Corporate governance and internal control procedures

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# 1.1 Corporate governance and internal control report prepared by the Chairman of the Supervisory Board

## 1.1.1 Corporate governance

### CORPORATE GOVERNANCE CODE APPLIED

La Banque Postale is a Limited Company with Executive and Supervisory Boards that is wholly-owned by La Poste (a Limited Company). The company began trading as a bank on January 1<sup>st</sup> 2006, after being registered as a credit institution by the French Credit Institution and Investment Firms Committee, or CECEI on December 2<sup>nd</sup> 2005.

The choice of a dual corporate governance structure allows a clear division between management and control powers, and guarantees the separation of those powers and balance between them. This means that there is a clear divide between the steering and management powers exercised by the Executive Board and the control and decision-making powers exercised by the Supervisory Board.

As a trading company, La Banque Postale is bound by the French Monetary and Financial Code. As a credit institution, it is also bound by the regulations of the French Advisory Committee on Legislation and Regulation (CCLRF). Lastly, as a public sector company, the Bank is bound by the July 1983 legislation on the democratisation of the public sector in France.

Moreover, since its foundation, La Banque Postale has based its corporate governance guidelines on the principles set out in the Viénot and Bouton reports on corporate governance for listed companies, which were published by the French Private Companies Association and the French Business Federation, or Afep/Medef, in 2008 ([www.medef.fr](http://www.medef.fr)). In addition, the Bank draws on the report issued by the working group on the French Financial Markets Authority's Audit Committee (AMF).

La Banque Postale complies with most of the recommendations made by these bodies, subject to the distinctive nature of its sole shareholder and to the provisions of the legislation on the democratisation of the public sector, which specifically stipulate:

- the length of Supervisory Board members' term of office and the procedures for renewing their appointment;
- the appointment of a significant number of employee representatives, i.e. one third of the total, to the Supervisory Board, which results in a lower proportion of independent members than is recommended by the Afep/Medef corporate governance code.

The Board is nonetheless of the view that its current operating conditions enable it and its committees to fulfil their duties with the effectiveness, objectivity and independence required, particularly where preventing potential conflicts of interest is concerned.

### CONFLICTS OF INTEREST

To La Banque Postale's knowledge, there are no potential conflicts of interest between the duties of the members of the Supervisory and Executive Boards towards the Bank and their private interests.

La Banque Postale's Supervisory Board members' charter specifies that *"every member of the Board shall inform the Supervisory Board and its Chairman of any situation concerning them that is likely to give rise to a conflict with the interests of La Banque Postale or its potential subsidiaries, even if that situation is of a potential or temporary nature."* The Charter also sets out the principle according to which *"every Board member undertakes to avoid any conflict that might exist between their material and non-material interests and those of La Banque Postale or its potential subsidiaries"*.

To the Board's knowledge, there are no family ties between the members of the Board.

Likewise, to the Board's knowledge, none of its members has been found guilty of fraud over the past five years, or has been associated with any bankruptcy, sequestration or liquidation in their capacity as an Executive or Supervisory Board member over the past five years.

To the Board's knowledge, no Supervisory Board member has been the subject of any charge and/or official public sanction, and no member has been barred from standing as a Board member over the past five years.

Finally, there have been no arrangements or agreements with customers, suppliers and any other third parties resulting in the appointment of a Supervisory Board member, outside the regulated agreements and undertakings.

### 1.1.1.1 Conditions governing the preparation and organization of the work performed by the Board

#### ORGANIZATION AND OPERATION OF THE BOARD

##### Composition of the Board

The Supervisory Board is chaired by Jean-Paul Bailly, Executive director of the La Poste Group (a Limited Company). It has consisted of fifteen members since the General Meeting of February 12<sup>th</sup> 2008, which renewed all existing appointments. Seven Board members hold senior management positions at the La Poste Group, three are independent, and five further members were elected by the employees in February 2008, as required by the legislation on the democratisation of the public sector. All Board members hold French nationality. In accordance with the provisions of the legislation on the democratisation of the public sector, Supervisory Board members are appointed for a five year period.

Moreover, the French Government has seconded a Government Commissioner to La Banque Postale, in view of the Bank's public service responsibilities. Furthermore, the Secretary of the Works Council also attends Supervisory Board meetings.

As at March 9<sup>th</sup> 2011, the Supervisory Board consisted of 12 men and three women; all the women members were employee representatives. La Banque Postale, which does not have any shares listed on regulated markets, shall take the necessary measures to reach balanced gender representation on its Supervisory Board, within the timeframe specified by the law of January 13<sup>th</sup> 2011.

##### Vice-Chairman of the Supervisory Board

The Vice-Chairman of the Supervisory Board advises and assists the Chairman of the Board on corporate governance issues and in organising the work performed by the Board. They also play a role in identifying and reviewing potential conflict of interest situations.

##### New Board Members

When a new Board Member joins the Board, they are given a file that includes the Bank's articles of association, the minutes of recent Supervisory Board meetings, the internal regulations that apply to the Board and its committees, the Bank's authorisation documents, the Board Members' Charter and the latest annual report.

#### Resume of the Board members

The average age of the Board members is 56.

Chairman of the Supervisory Board		
Jean-Paul Bailly (64)	Graduate of the École Polytechnique and the MIT	<ul style="list-style-type: none"><li>• Career at RATP (Paris Public Transport Authority) as Head of the Bus Fleet, Head of the Metro and Regional Rail System and Head of Personnel. Appointed Chief Operating Officer of RATP in 1990, and Chairman and Managing Director in 1994.</li><li>• Also a member of the French Economic, Social and Environmental Council since 1995, Chairman of the International Post Corporation (IPC) since 2006 and Chairman of the International Association of Public Transport (UITP) between 1997 and 2001.</li><li>• Chairman of the La Poste Group between 2002 and 2010, then Chairman and Chief Executive Officer of the Group since March 1<sup>st</sup> 2010, and Chairman of the La Banque Postale Supervisory Board since 2006.</li></ul>
Vice-Chairman of the Supervisory Board		
Marc-André Feffer (61)	Graduate of the IEP Paris, holder of a Master's Degree in Law and former student of the ENA	<ul style="list-style-type: none"><li>• Civil Service Career: successively member of the Conseil d'Etat, advisor to the President of the European Commission and Director in French Prime Minister's Offices until 1988.</li><li>• Executive Vice-Chairman of Canal+ until 2003.</li><li>• Executive Director of the La Poste Group since 2004, Member of the Executive Committee and Chairman of the Poste Immo Executive Board.</li><li>• Executive Vice-President, Director of Strategy, Development, International and Legal Affairs and Regulation of La Poste Group since March 2010, member of the Executive Committee and Chairman of Poste Immo.</li></ul>

**Other members of the Supervisory Board occupying management positions at the La Poste Group**

Didier Brune (54)	Graduate of HEC and the ENSPTT	<ul style="list-style-type: none"> <li>Has pursued a career at the La Poste Group since 1983, including positions as Head of National and International Operations at Chronopost and Head of Finance and Strategy at the Mail Division.</li> <li>Head of Strategy since 2003, with responsibility for corporate strategy, institutional negotiations with the French Government (pensions, La Banque Postale and the legal aspects of La Poste's growth, as well as business monitoring and planning).</li> <li>Head of Regulatory Affairs, La Poste Group, since October 1<sup>st</sup> 2010.</li> </ul>
Paul-Marie Chavanne (59)	Graduate of the École Centrale des Arts et Manufactures, Paris, former student of the ENA and Auditor in the French Finance Ministry	<ul style="list-style-type: none"> <li>Civil Service Career: Head of Administration and then Deputy Director of the French Treasury Department until 1989.</li> <li>Joined the Soparges Group, and then PSA Peugeot Citroën as Deputy Managing Director of Automobiles Citroën (until 1997).</li> <li>Appointed Chief Executive Officer of the Strafor-Facom Group in 1997 and Chairman in 1998, then Chairman of the Auto Distribution Executive Board in 1999.</li> <li>Executive Director of the La Poste Group since 2001, member of the Executive Committee, Head of the Parcels Division and Chairman and Chief Executive Officer of GeoPost.</li> <li>Executive Vice-President, Director of the Parcels Division of La Poste Group since March 2010, member of the Executive Committee, Chairman and Chief Executive Officer of GeoPost.</li> </ul>
Bernard Delpit (46)	Holder of a Law Degree, Graduate of the IEP Paris, former student of the ENA and Auditor in the French Finance Ministry	<ul style="list-style-type: none"> <li>Pursued a career at the French Ministry of the Economy and Finance between 1990 and 2000.</li> <li>Deputy Managing Director at Dongfeng Peugeot Citroën Automobiles in China, part of the PSA Group, between 2000 and 2004.</li> <li>Head of Management Control at the PSA Group between 2004 and 2007.</li> <li>Economic advisor to the President of the French Republic between 2007 and 2009.</li> <li>Chief Financial Officer at the La Poste Group since 2009.</li> <li>Executive Vice-President, Chief Financial Officer of La Poste Group since March 2010 and member of the Executive Committee.</li> </ul>
Georges Lefebvre (58)  <i>Georges Lefebvre represents La Poste on the Supervisory Board.</i>	Holder of a degree in mathematics, graduate of the ENSPTT	<ul style="list-style-type: none"> <li>Pursued a career in the French Post Office and Telecommunications Service, including appointments as Head of Human Resources, then as Senior Executive.</li> <li>Joined the La Poste Senior Management Team in 1991, with responsibility for the employee relations aspects of the change in status.</li> <li>Head of Human Resources at the La Poste Group since 1998, Group Managing Director and member of the Executive Committee.</li> <li>Executive Director of the La Poste Group, Head of Human Resources and Employee Relations and member of the Executive Committee between 2002 and 2010.</li> <li>Senior Vice-President, Director of Human Resources and Employee Relations of La Poste Group, member of the Executive Committee since March 2010.</li> </ul>
Didier Négier (56)  <i>Didier Négier resigned from the Supervisory Board on December 31<sup>st</sup> 2010.</i>	Graduate of the ENSAE, of the IEP and graduate in Monetary Economics Paris and Paris-IX Dauphine University	<ul style="list-style-type: none"> <li>Began his career as an economist at the French Embassy in London, and then as the manager of a SMC in the manufacturing and services sector.</li> <li>Joined McKinsey as a Senior Partner in 1985 to head up the firm's banking and insurance division in France.</li> <li>Appointed Deputy Managing Director of the La Poste Grand Public in 2005. Head of Purchasing, Cost Optimisation and Head of Shared Services at La Poste Group.</li> </ul>

**Independent Members of the Supervisory Board**

Gérard Barbot (64)	Auditor in the French Finance Ministry	<ul style="list-style-type: none"> <li>Pursued a career at the French Ministry of the Economy and Finance until 1984.</li> <li>Joined the Caisse des Dépôts et Consignations in 1984, and was then appointed Chief Executive Officer of CDC Ixis, which he had helped set up, in 2000. Twenty years' experience in senior management positions in the banking and finance sector.</li> <li>Has acted as an independent advisor and non-executive director to companies in the financial and service sector since 2004 and Chairman of several audit committees.</li> </ul>
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Sylvain Lemoyne de Forges (56)	Graduate of the École Polytechnique former student of the ENA	<ul style="list-style-type: none"> <li>• Pursued a career in the French Civil Service, including appointments as Head of Monetary and Financial Affairs at the French Treasury Department, as an Advisory Minister for Financial Affairs at the French Embassy in London, as the Senior French Representative at the EBRD, and as the Head of the French Treasury Agency at the French Ministry of the Economy and Finance.</li> <li>• Joined the Veolia Group in 2003. Head of Risk and Markets at Veolia Environment between 2007 and 2010.</li> <li>• Has been a Managing Director of AG2R La Mondiale since 2010, responsible for the Finance Department, strategy and customer prospection.</li> </ul>
Didier Ribadeau Dumas (64)	Law graduate, former student of the ENA	<ul style="list-style-type: none"> <li>• French Ministry of the Economy and Finance between 1971 and 1984 and as Deputy Head of the French Treasury Department (1981-1984).</li> <li>• Chief Executive Officer of a bank in CIC Group until 1989.</li> <li>• Vice-President, then Senior Vice-President at the Paris office of the Boston Consulting Group until 2006.</li> <li>• Managing Partner of DRD Conseil and Partner of Courcelles, advisor in strategy since 2006.</li> </ul>

#### Employee Representative Members of the Supervisory Board

Jean-Robert Larangé (56)	Graduate of the Institut Supérieur du Commerce International (ISCID IFCE) and holder of a Master's degree in International Affairs from EDHEC	<ul style="list-style-type: none"> <li>• Held sales and marketing positions at a number of companies (including Thomson-CSF, Alliance.com and Iris Développement).</li> <li>• Joined the La Poste Group in 2002 as the Head of Business Finance Sales Development in the Paris Region Financial Centre, then made responsible for monitoring General Audit recommendations at La Banque Postale.</li> <li>• Head of Banking Services for the jointly-managed La Poste network and for non-Post Office entities since 2006</li> </ul>
Steeve Maigne (41)	Background in business and finance	<ul style="list-style-type: none"> <li>• Pursued a career at the La Poste Group, including positions as a Financial Advisor and then as a Customer Service Manager between 1998 and 2004.</li> <li>• Regional Secretary for the Paris Region of the CFE-CGC union with responsibility for the La Poste retail network and member of the La Poste employee relations committees until 2007.</li> <li>• Employee representative on the Supervisory Board of the La Poste Employee Savings Fund until 2007.</li> <li>• Head of the Internal Synergies Project at the La Banque Postale Business, Local Authorities and Voluntary Organizations Department since 2008.</li> </ul>
Maryvonne Michelet (58)	Post-graduate diploma (DESS) in banking and financial law, qualified legal practitioner (CAPA) and graduate in Applied Foreign Languages	<ul style="list-style-type: none"> <li>• Joined the Personnel Department of the French Post and Telecommunications Ministry in 1979, moved to La Poste International Financial Services in 1986 and then to the La Poste Legal Affairs Department in 1997.</li> <li>• Currently banking law counsel at La Banque Postale, with additional responsibility for international consulting assignments performed on behalf of La Banque Postale Consultants.</li> </ul>
Françoise Paget Bitsch (54)	Degree in fluid mechanics (University of Aix-Marseille)	<ul style="list-style-type: none"> <li>• Joined the La Poste Group in 1979 as a branch management executive.</li> <li>• Held positions as Sales Development Manager, Deputy Branch Manager and then Branch Manager until 1994.</li> <li>• Departmental then Deputy Management Controller until 2003, including responsibility for the euro transition project in the Department of Vaucluse.</li> <li>• Operations Controller at La Poste, and Banking Operations Controller since 2006.</li> </ul>
Hélène Wolff (55)	Graduate of the Paris-I University Diploma of Advanced Studies (DEA) in International Economics and of the Paris-IX Dauphine University (Post-graduate diploma (DESS) in Financial Markets and Diploma of Graduate Studies (DESUP) in Management IT) and of the ENSPM (DEA in Energy Economics)	<ul style="list-style-type: none"> <li>• Marketing Manager at Crédit Mutuel until 1988, then held a number of management positions in financial companies.</li> <li>• Joined the La Poste Group in 1993, holding a succession of positions, including Accounting Planner and Project Manager in the compensation and banking process units.</li> <li>• Since 2006, has held positions as Lead Project Management Consultant, then Head of the quality assurance and multi-channel innovation unit at La Banque Postale.</li> </ul>



## Resume of the Government Commissioner

Government Commissioner		
Christian Bodin (58)	Graduate in private law degree, graduate from the IEP Paris, qualified legal practitioner (CAPA) and former student of the ENA (Voltaire class)	<ul style="list-style-type: none"> <li>• Civil Service career, including positions at the Caisse des Dépôts et Consignations and the French Budget Department, then as Deputy Director of Economic Affairs in the Ministry for the French Overseas Departments and Territories until 1995.</li> <li>• Economic and commercial advisor (including appointments as Head of the Regional Economic Mission in Ivory Coast, then in Saudi Arabia up until 2005) and as External Services Auditor at the French Treasury Department and Economic Policy Department (DGTPE).</li> <li>• Since 2006, Economic and Financial General Auditor (DGTPE), Government Commissioner at La Banque Postale, at Subsidised Housing Guarantee Fund (Caisse de Garantie du Logement Social), at Crédit Maritime Mutuel and at film funding companies (Sofica). Internal Auditor of the shell companies (CDR, NSRD and SGGP). Part-time Rapporteur at the Government Audit Office (1<sup>st</sup> Chamber).</li> </ul>

### Assessment of the concept of independent Board Members

Ever since La Banque Postale was founded, the Supervisory Board has applied the general definition of independence set out in the principles of corporate governance for listed companies published by the Afep/Medef in 2008, when assessing whether or not certain of its members meet that criterion. Members of the Supervisory Board are therefore considered to be independent as long as they have no relationship of any kind with the company, its Parent Group or its Management which is likely to compromise their freedom of judgement.

### Role of the Board

The Supervisory Board is granted powers by the French Commercial Code, the legislation of July 26<sup>th</sup> 1983 on the democratisation of the public sector and the company's articles of association, particularly Article 25.

The Supervisory Board discusses major strategic, economic, financial or technology issues that affect the company's business, before submitting them to the Executive Board for a decision.

It provides ongoing supervision of the way in which the Executive Board manages the company and grants prior approval for those transactions that the latter cannot carry out without its permission, in accordance with Article 14 of the articles of association.

The Supervisory Board checks and audits the financial statements. It appoints the members of the Executive Board, sets their compensation and also has the power to dismiss them, in accordance with Article 12 of the articles of association.

### Conditions governing the preparation and structure of the work performed by the Board

The Supervisory Board meets at least three times a year: in March, August and October.

The agenda for the meetings is drawn up by the Chairman, once they have reviewed the main matters to be examined by the Board in accordance with the law, and the issues that will enable an account of the Bank's smooth running and strategic choices to be provided to the Board.

The Board members are invited to attend at least ten days before the meeting. They are sent a copy of the agenda, the draft minutes of the previous meeting, and the background documents for the issues on the agenda, including the reports specified by law (management report, Chairman's report on the work performed by the Board and internal control procedures, etc.), draft resolutions for the Annual General Meeting of Shareholders, and projects where the purpose is to provide information to the Board or on which the Board may be called to issue an opinion.

A list of the significant agreements entered into between La Banque Postale and its directors or companies with which it shares directors or shareholders is circulated at the Board meeting called to approve the annual financial statements.

Supervisory Board meetings usually last around three hours.

Issues are presented by a member of the Board or by the Project Head, when the issue involved is of a technical nature. The presentation is followed by an exchange of views, following which the Board issues an opinion, as and whenever necessary.

General secretary draws up draft minutes of the meeting, and then submits them to the Board members for approval at the beginning of the next meeting.

### Activities of the Board in 2010

The Supervisory Board met five times during the 2010 financial year with an average attendance rate of 97%. Moreover, a Board meeting was held by conference call on November 3<sup>rd</sup> 2010, in order to approve La Banque Postale's Tier 2 bond issue. An information package on this project had been addressed to the Board members beforehand.

In addition to the actual Board members, certain directors of La Banque Postale occasionally attended the Board meetings, depending on the points set down in the agenda. The Statutory Auditors attended those meetings where the annual and interim financial statements were presented.

During 2010, the work performed by the Board focused primarily on the following issues.

### The Bank's subsidiaries

- setting up the Corporate Customer Finance project and drawing up the Bank's Corporate Customer strategy;
- signing of the partnership agreements with La Mutuelle Générale.

### Operation of the Board

Drawing up and amending the internal Board Committee rules.

### The Bank's business review

- the Board's quarterly business reports;
- the Bank's strategic plan for 2011-2015;
- overview of the budget for 2011;
- overview of the half-yearly financial statements;
- overview of the annual parent company and consolidated financial statements as at December 31<sup>st</sup> 2009, together with the proposed net profit allocation and the Executive Board's Management Report.

Controlling the Bank's business activity:

- internal control and risk management reports (reports relating to Articles 42 and 43 of CRBF Rule 97-02);
- the Chairman of the Supervisory Board's report on the conditions under which the work of the Board and the internal control procedures were prepared and organised;
- the business report and work schedule prepared by the Internal Auditor;
- approval of the regulated agreements;
- monitoring the relationship with the Prudential Control Authority (ACP);
- reviewing the operation and the results of the internal control procedures.

### Compensation

- variable compensation paid to the Executive Board members in 2009 and setting their compensation for 2010;
- the Bank's compensation policy;
- the report drawn up in respect of Article 43.1 of CRBF Rule 97-02.

This work and the ensuing discussions enabled the Supervisory Board to exercise its powers of control over the Bank's management team, together with its decision-making powers.

In accordance with the internal rules of procedure, the members of the Supervisory Board are notified 10 days in advance of Board meetings and receive the documents for preparing the Board meeting six days in advance.

### Internal rules of procedure

The Supervisory Board has adopted internal rules of procedure that govern and determine the preparation and organization of its duties. These rules of procedure are updated on a regular basis, in order to ensure that they remain compliant with legal and regulatory changes, as well as with corporate governance recommendations and best practices. The Board has also

adopted a Supervisory Board's members charter, which specifies the principles applying to the latter, particularly their rights and obligations.

## ORGANIZATION AND OPERATION OF THE SPECIALIST COMMITTEES

The Supervisory Board has set up three committees to assist it in its duties: an Audit Committee, an Appointments and Compensation Committee and a Strategy Committee. It thereby adheres to the recommendations of the Afep/Medef corporate governance code.

The duties of each of these Committees, the criteria for selecting their members and their rules of operation are detailed in the internal rules of procedure that have been approved by the Supervisory Board.

To the extent possible, and depending on the circumstances that apply, all Board resolutions that involve the area of competence of a committee that it has set up are preceded by the summoning of said committee, and can only be adopted after obtaining the advice of said committee, which shall inform the Board of its recommendations, suggestions or opinions.

Setting up these committees is not intended to delegate powers to them that are assigned to the Executive Board in law or by the articles of association, or to result in reducing or limiting the Board's powers.

Whenever a Committee meets, the Executive Board provides its members with all the items and documents enabling the Committee to perform its work and draw up its recommendations, suggestions and opinions on the Board's draft resolution within a reasonable timeframe (given the circumstances).

The length of a committee member's remit coincides with the length of their remit as a Board member.

Two of the three Board committees are chaired by an independent Board member.

### Audit Committee

The Audit Committee consisted of six members in 2010:

- three independent members, Didier Ribadeau-Dumas, Gérard Barbot, the Chairman, and Sylvain Lemoyne de Forges, who resigned in December 2010 to enable him to be appointed to the Appointments & Compensation Committee;
- a Board member from La Poste, Bernard Delpit;
- two employee representative members, Hélène Wolff and Steeve Maigne.

Christian Bodin, the Government Commissioner, also attends Audit Committee meetings:

At its meeting of December 2<sup>nd</sup> 2010, the Supervisory Board approved a change to the composition of the Audit Committee, which shall have five members from 2011 onwards. The Committee's internal rules of procedure are updated on a regular basis, in order to ensure that they remain compliant with legal and regulatory changes as well as with corporate governance recommendations and best practices.

Most members of the Committee have financial and accounting experience, primarily arising from the positions that they have held or hold (as a Finance Director, a career in the French Ministry of the Economy and Finance, or as a member of the senior management team of a bank).

Due to the fact that the Bank has a single public shareholder, and pursuant to the application of the law on the democratisation of the public sector, which provides for the inclusion of employee representatives on the Board and its committees, the Committee consists of three members appointed by the Annual General Meeting of Shareholders and two members appointed by the employees. Two of the three Board members appointed by the Annual General Meeting of Shareholders are independent; this means that the Afep/Medef recommendation specifying that two thirds of Audit Committee members should be independent is respected.

The scope of the Committee's responsibilities is primarily:

- to check that the financial information supplied by the Executive Board is clear and to assess the appropriateness of the accounting measures adopted;
- to manage the selection process for the Statutory Auditors;
- to assess the quality of internal control, especially the principles and procedures for managing risk.

The Audit Committee meets at least six times per year and especially before any meeting of the Supervisory Board where one or more questions relating to its area of expertise are on the agenda. It reports on its work to the Supervisory Board after every meeting.

The Committee listens to the opinions of the Statutory Auditors, the Bank's Finance Director, the Heads of Compliance and Risk and the Internal Auditor on issues that concern them. Moreover, a sufficient amount of time is allowed between the review of the financial statements by the Committee and their review by the Board.

The Committee met nine times in 2010 with an average attendance rate of 93%. It plans to meet nine times in 2011.

During 2010, the work performed by the Committee focused mainly on the following issues:

### **Financial data and accounting rules and policies**

- changes to prudential and accounting standards;
- overview of the half-yearly financial statements;
- allocation of shareholders' equity;
- review of the 2009 financial statements and annual report.

### **Internal control procedures**

- the Internal Auditor's work schedule for 2011;
- regulated savings products and access to banking services;
- the cost of risk on home loans;
- review of the operations and results of the internal control procedures (main information gathered from the risk control procedures, measures taken to ensure business continuity;

- measures taken to ensure control over outsourced business activities; summary of the annual cheque control programme);
- updating the risk management policy handbook;
- internal control and risk management reports (reports relating to Articles 42 and 43 of CRBF Rule 97-02);
- the Chairman of the Supervisory Board's report on the conditions under which the work of the Board and the internal control procedures were prepared and organised;
- the Internal Auditor's business report for 2009;
- overview of the major risk matrix.

### **Statutory Auditors**

- overview of the internal control review performed by the Statutory Auditors;
- taking part in the selection process for a new Statutory Auditor.

### **Operation of the Committee**

- work performed by the Audit Committee in 2010 and assessment of its operations;
- the Audit Committee's work schedule for 2011.

### **Appointments & Compensation Committee**

The Appointments & Compensation Committee, which was created on December 16<sup>th</sup> 2005, consisted of three members in 2010: one independent member, Gérard Barbot, who chairs the Committee, and two members from La Poste, Jean-Paul Bailly and Georges Lefebvre.

Christian Bodin, the Government Commissioner, also attends the meetings of the Appointments & Compensation Committee.

At its meeting of December 2<sup>nd</sup> 2010, the Supervisory Board approved a change to the composition of the Appointments & Compensation Committee, which will include five members from 2011 onwards.

The aim of this change is to make the composition of the Committee compliant with the law on the Regulation of the Banking and Financial Sector of October 22<sup>nd</sup> 2010, which specifies that appointments and compensation committees must include a majority of independent members. At present, the Committee has three independent members: Gérard Barbot, Didier Ribadeau Dumas and Sylvain Lemoyne de Forges.

Its members are selected on the basis of their ability and professional experience.

The Committee's internal rules of procedure are updated on a regular basis, in order to ensure that they remain compliant with legal and regulatory changes as well as with corporate governance recommendations and best practices.

The Committee's remit was broadened following the publication of the decrees of November 3<sup>rd</sup> 2009 and December 13<sup>th</sup> 2010.

The scope of the Committee's responsibilities primarily extends to:

- screening the profile of the individuals short-listed for appointment to the Supervisory Board on the basis of their independence from the Bank and the La Poste Group, or the individuals short-listed for appointment to the Executive Board, as well as their proposed compensation, if applicable;
- the policy for allocating directors' attendance fees;
- examining pension and benefits schemes;
- examining the opportunity for introducing share-based or other profit-sharing and incentive schemes for company directors and/or employees;
- reviewing the following issues on an annual basis:
  - the principles of the company and/or Group's compensation policy,
  - compensation, indemnities and benefits of all kinds awarded to the company's corporate officers,
  - the compensation policy for employees who manage collective investment bodies and for employees who are market professionals, whose activities are likely to have a material impact on the company's risk exposure,
  - the report established by the Executive Board pursuant to article 43-1 of CRBF Rule 97-02, which is forwarded to the Prudential Control Authority (ACP).

This review concerns the policy applied by the Bank and may extend to its subsidiaries, when the latter expressly request such an extension from the Committee Chairman.

As part of this annual review, the Committee makes sure that the compensation policy complies with the provisions of CRBF Rule 97-02 and that it is consistent with professional standards, regardless of whether that compensation is fixed or variable, paid in cash or shares, or consists of benefits in kind, and of whether it is deferred. The Appointments & Compensation Committee also makes sure that the Risk and Compliance Departments have been properly consulted.

The Appointments & Compensation Committee met twice in 2010; the attendance rate was 100%.

During 2010, the work performed by the Committee focused mainly on the following issues:

- the changes to the Appointments & Compensation Committee's rules pursuant to the law on Regulation of the Banking and Financial Sector of October 22<sup>nd</sup> 2010;
- the changes to the composition of the Board's Committees;
- attendance fees for 2010;
- variable compensation for 2009 and the 2010 compensation for members of the Executive Board;
- the report relating to Article 43.1 of CRBF Rule 97-02.

### Strategy Committee

The Strategy Committee, which was created on December 16<sup>th</sup> 2005, consists of five members:

- one independent member: Sylvain Lemoyne de Forges;
- two members from the La Poste Group: Marc-André Feffer, who chairs the Committee, and Paul-Marie Chavanne;
- two employee representative members: Jean-Robert Larangé and Françoise Paget Bitsch.

Christian Bodin, the Government Commissioner, also attends Strategy Committee meetings.

The Strategy Committee examines and monitors the implementation of the Bank's multi-year strategic plan, together with the strategic projects and operations of the Bank and its subsidiaries.

The Strategy Committee met twice in 2010, and the average attendance rate was 90%.

During 2010, the work performed by the Committee focused mainly on the following issues:

- La Banque Postale's Corporate Customer strategy;
- drawing up La Banque Postale's strategic plan for the period between 2011 and 2015.

### ASSESSMENT OF THE WORK PERFORMED BY THE BOARD AND THE COMMITTEES

In 2010, the Supervisory Board's assessment process focused on the work performed by the Audit Committee, which was the most active Committee, as it met nine times during the year.

The 2010 assessment of the way in which the Audit Committee operates recorded a significant and ongoing improvement in the way the financial statements are presented compared with the assessment performed in 2009. The improvement of the way in which the Committee operates is also due to the systematic presentation of a summary of the points on the agenda. The Committee is asking for particular emphasis to be placed on the way summaries are presented.

A few areas for improving the way the Committee operates have been identified, including giving management the opportunity to draw the Audit Committee's attention to issues that do not feature in the work schedule at the beginning of each Committee meeting.

### 1.1.1.2 Shareholders participation in the General Meeting

The conditions governing shareholders participation in the La Banque Postale General Meeting are detailed in Article 31 of the articles of association.

### 1.1.1.3 Principles and rules for setting the compensation paid to corporate officers

#### APPLICATION OF THE AFEP/MEDEF RECOMMENDATIONS ON THE COMPENSATION OF COMPANY DIRECTORS

Following the works performed by the Appointments and Compensation Committee, which began during 2008 and continued in 2009, the Supervisory Board meeting of March 11<sup>th</sup> 2009 resolved to comply with the main Afep/Medef recommendations on the compensation of company directors published in December 2008. The main areas that were not compliant concerned severance payments for Executive Board members.

The Supervisory Board has therefore resolved that the dismissal of Executive Board members during their term in office or due to a change in ownership or strategy resulting in their definitely leaving the La Poste Group, could give rise to the payment of an indemnity at the Board's discretion, except in cases of dismissal for gross misconduct or professional error that has a serious effect on the company's financial position. The indemnity will be capped at twice the average amount of their compensation during the last three full financial years. The performance criteria for receiving the indemnity and the rules for determining it were also set by the Board.

Pursuant to the Afep/Medef Code, the variable compensation received by members of the Executive Board cannot exceed a percentage of their fixed compensation. Their variable compensation also includes a performance-based portion.

Members of the Executive Board do not receive non-compete payments and are not awarded either equity or debt options on the Bank's share capital or performance-based share allocations.

Moreover, the Executive Board does not benefit from any complementary retirement scheme.

#### **RULES APPLIED FOR DETERMINING THE COMPENSATION PAID TO SUPERVISORY BOARD MEMBERS**

Attendance fees are paid to all members of the Supervisory Board, except for employee representatives.

The Appointments and Compensation Committee proposes the attendance fee policy to the Supervisory Board. The fee level is set on the basis of a benchmark analysis performed jointly with a panel of banks, insurance companies and a sample of companies in which the Government has a stake in capital.

The Chairman of the Supervisory Board receives attendance fees in the form of a fixed annual amount.

The amount of the attendance fees paid to the other Board members is calculated on the basis of their actual attendance at meetings of the Supervisory Board and the Committees, with the Chairman of each Committee receiving an additional annual fixed amount.

The internal La Poste Group rules governing payment of attendance fees apply to all members of the Supervisory Board who belong to the La Poste Group.

Their attendance fees are therefore paid to La Poste.

Moreover, members of the Bank's Supervisory Board who are employees of the La Poste Group do not receive attendance fees in respect of their appointments to the positions that they hold at companies in the La Banque Postale Group.

#### **RULES APPLIED FOR DETERMINING THE COMPENSATION PAID TO MEMBERS OF THE EXECUTIVE BOARD**

The fixed compensation paid to members of the Executive Board in respect of their appointment is set by the Supervisory Board on the basis of proposals made by the Appointments

and Compensation Committee. It is set on the basis of a benchmark analysis of the compensation paid to the heads of other French retail banks departments, which is supplied by a panel of credit institutions.

The fixed element of annual compensation may be increased by a capped variable element. In accordance with the decision reached by the Supervisory Board of September 25<sup>th</sup> 2008 (on the basis of proposals made by the Appointments & Compensation Committee), the variable element is capped at 80% of the Chairman of the Executive Board's compensation and at 50% of the Board members' compensation. At its meeting of January 18<sup>th</sup> 2011, the Supervisory Board approved an increase in this percentage from 80% to 90% for the Chairman of the Executive Board.

Since 2008, calculation of the variable element has been based on a weighted combination of indicators (including financial indicators such as: the trend in NBI, in the operating ratio and prudential and qualitative ratios). Those indicators reflect three priorities: financial performance, the Bank's growth, and the effectiveness of its organizational and management structure. Precise targets have therefore been established, but are not made public for confidentiality reasons. This methodology was confirmed by a Supervisory Board resolution on March 11<sup>th</sup> 2009.

Executive Board members may also receive a long-term variable compensation element over three years, which is likely to amount to one year's salary.

This report was first presented to the Bank's Audit Committee on March 1<sup>st</sup> 2011 and was subsequently approved by the Supervisory Board on March 9<sup>th</sup> 2011.

## **1.1.2 Internal control procedures**

### **1.1.2.1 Internal control benchmarks**

The internal control function of La Banque Postale is structured according to the provisions of the French Monetary and Financial Code, CRBF Regulation 97-02 (amended), prudential regulations, and the AMF general regulations where business activities linked to investment services are concerned.

These regulatory foundations have been validated or added to through two internal documents approved by the Bank's Executive Board: by the Audit Charter, where periodic checks are concerned, and by the Risk Management Policy where ongoing checks are concerned.

The contents of the documents are then relayed in the form of operating control processes and procedures.



### 1.1.2.2 Guiding principles

La Banque Postale's internal control is based on:

**The responsibility of all those involved.** This is the basis of an effective management and compliance policy.

All employees must ensure that the work they perform and the transactions that they process are executed in accordance with scheduled procedures and at the required quality level. All employees must be in a position to account for their effective management of the work that they perform and the inherent risks of that work at any time. This principle relies on the close involvement of the Management Team.

**Proportionality between the controls in place and the level of risk to be managed.** All managers shall analyse their own risk and implement appropriate control procedures in order to achieve a reasonable level of confidence that their business activities are properly managed and that those activities comply with the Bank's internal and external standards and regulations.

**All-embracing scope of control procedures.** All the business activities of the La Banque Postale Group are covered by the internal control procedures.

Those procedures apply to all kinds of risk, to all those employed directly by the Bank and all those acting in its name and on its behalf, and to all the entities of the La Banque Postale Group. The internal control procedures also extend to essential service supplies that have been outsourced.

### 1.1.2.3 Main parties responsible

La Banque Postale's internal control procedures are structured around:

- control procedures that are as close to the business activities as possible;
- central control functions;
- internal control Corporate Governance Committees.

#### CONTROL THAT IS AS CLOSE AS POSSIBLE TO THE BUSINESS ACTIVITIES

La Banque Postale has established specific procedures for transactions performed in its network. The aim of those procedures is to control the transactions performed in Post Offices, in coordination with the La Poste Retail Network.

The La Poste Retail Network executive board is responsible for designing and managing the Level 1 checks performed by Branch Managers on banking business conducted at Post Offices, based on specifications drawn up by La Banque Postale's Compliance Department. A Control Guide has been made available to those managers for this purpose, which includes control tables for each of the issues or transactions identified, as well as a record card for tracking all the corrective measures taken by Branch Managers when problems have been identified. The implementation of the Control Guide by Branch Managers is continually monitored, so that line management, more specifically the Directors of the La Poste Retail Network, are in a position to ensure that controls have been made and the quality of those controls.

Banking supervisors, who are employed by La Banque Postale, perform Level 2 checks on the banking business conducted in Post Offices, under the responsibility of the Regional Bank Representatives and the management of the Compliance Department.

#### CENTRAL CONTROL FUNCTIONS

##### *Two departments manage ongoing control procedures*

**The Compliance Department.** This department reports directly to the Bank's Executive Board. Its role is:

- to manage the risk of non-compliance, as defined in Article 4 of CRBF Regulation 97-02 (amended), i.e. the risk of non-compliance with legal and regulatory provisions, professional and business ethics standards, together with the aims of the Supervisory Board and the Executive Board's instructions. To that end, it focuses primarily on business ethics and managing the anti-money-laundering and counter-terrorism funding process.
- to coordinate the procedures for ongoing checks, without jeopardising the specific duties of the Risk Department, especially the co-ordination of the Level 2 control teams. The Department is responsible for the functional management of banking supervisors working in the Post Office network. To that end, it provides banking supervisors and their managers with the tools that enable them to perform their control duties: programmes, control questionnaires and systems to consolidate the results compiled according to the managers' levels of responsibility. The scope of this responsibility extends to Internal Control Managers in the Financial Centres and to their internal supervisors via the Operating Department responsible for control within the Banking Operations Department.

**The Risk Department.** This Department also reports directly to the Bank's Executive Board. Its task is to determine the framework within which the operational staff of La Banque Postale conduct their business and enter into commitments on behalf of the Bank, and to check that the rules drawn up for this purpose are adhered to at all times. Lastly, the Department is also responsible for measuring and monitoring risk patterns and for ensuring that they are commensurate with the Bank's equity capital, financial development and strategy.

The Risk Department consists of three divisions:

- the Credit Risk Division, which is responsible for the credit risk unit;
- the Market and Counterparty Risk Division, which ensures that procedures for monitoring and controlling trading risk are implemented;
- the Operating Risk Division, which is responsible for managing and monitoring the Bank's operating risk. This division also encompasses all those functions identified as central to information systems security and business continuity in banking regulations.

Additional information is provided on La Banque Postale risk management procedures. This information is set out in the management report (Section on risk management).

### *One department is dedicated to periodic checks*

**The Internal Audit Division** is responsible for making periodic checks, as defined by CRBF Regulation 97-02 (amended). It evaluates risk management, together with the quality of internal control.

The Internal Audit Department's main duty is to perform the following audit tasks in respect of all the Bank's business activities and entities, its subsidiary Companies and its outsourced service providers:

- checking the existence, quality, effectiveness and the appropriate nature of internal control procedures;
- checking the reliability and the integrity of accounting and management information processing and control;
- analysing, assessing and managing risk, together with the level of risk to which the Bank is effectively exposed;
- checking compliance with laws, regulations, internal rules and instructions, as well as with business ethics and professional best practice.

### **TOP-LEVEL MANAGEMENT STRUCTURES DEDICATED TO CONTROL**

La Banque Postale has established an Audit Committee and has set up several Committees to address internal control issues, which are attended by at least one of the two members of the Bank's Executive Board:

**The Audit Committee** is a Supervisory Board body and consists of three independent members. The Committee checks the clarity of the information supplied, and assesses the appropriateness of the accounting methods adopted by the Bank and the quality of its internal control procedures.

**The Compliance Committee** is conducted by the Head of Compliance. Besides its involvement in compliance and business ethics issues, the Committee co-ordinates control activities and examines the annual reports on internal control.

**The Risk Committee** is conducted by the Head of Risk. Its role is:

- to define the policy for managing credit, market and operating risks;
- to examine material risks and to approve major commitments;
- to validate risk management procedures and be notified about compliance with those procedures.

**The Internal Control Co-ordination Committee** brings together the Heads of the Central Departments responsible for internal control around the Executive Board member responsible for internal control, in order to enable him or her to ensure the consistency and effectiveness of that control. The Committee consists of the Internal Auditor, the Heads of Compliance and Risk and the Head of the Legal Department.

## **1.1.2.4 Policies followed in 2010 and major initiatives**

### **THE RISK DEPARTMENT**

In terms of risk control, one of the main developments in 2010 consisted in integrating the subsidiaries' risks into the La Banque Postale risk management policy and in the risk control procedures co-ordinated by the Bank's Risk Department.

This development, which is in line with the consolidation of the La Banque Postale Group, was also reflected in the setting up of two cross-functional risk committees in early 2010, the Asset Management Risk Committee (which includes all risk managers in the subsidiaries that make up the Asset Management Unit) and the La Banque Postale – La Banque Postale Financement Cross-Functional Risk Committee, set up jointly with the consumer credit subsidiary. These developments take account of the changes made to CRBF Regulation 97-02 on internal control procedures by the Decree of January 19<sup>th</sup> 2010 on the monitoring of risk by the risk division.

La Banque Postale did not encounter any major issues during the 2010 financial year.

### **Trading activities**

La Banque Postale continued to pursue a very cautious trading limits policy in 2010, which excluded all entities located in countries considered as high-risk while amending the list of such countries. It decided to phase out exposure to the sovereign debt of vulnerable countries, namely Ireland and Greece from 2009 onwards, and Spain, Portugal and Italy from 2010, given that those countries belong to the euro zone and the commitments made by their European partners, led by France and Germany.

The policy implemented was characterised by a very tight management of counterparty risk (including the absence of any commitment to entities where the internal rating is below BBB+, the drawing up of country and sector limits, and the absence of investments in subordinated debt or securitisations). Before any investment is made, third parties are systematically rated and are awarded an individual limit about which the Risk Committee is kept informed on a monthly basis (210 counterparties were reviewed accordingly and 29 new counterparties were examined). Lastly, the Risk Department has finalised its own model-based system for awarding internal ratings.

The asset portfolio, which is very high quality, therefore consists almost exclusively of commitments towards France (63.7%) and the rest of the euro zone (32.8%). Any threshold overrun is included in a warning note that includes a proposal for action. Such overruns are rare. In 2010, they were very short-term and involved relatively small amounts; they did not, therefore, increase the Bank's risk.

In 2010, the Bank incorporated the regulatory changes relating to major risk, reducing part of its exposure under conditions that enabled it to set limits for French groups as at January 1<sup>st</sup> 2011, in accordance with the Directive. This development led the Bank to increase its exposure to corporate debt slightly, although the increase was restricted to sectors that are resilient to cyclical factors.

The risk management policy has set a value-at-risk (VaR) limit equal to 2.5% of the Bank's shareholders' equity as a framework for all marked-to-market positions. The Risk Committee has set the amount of this limit at €30 million (i.e. less than 1% of shareholders' equity). This overall limit is broken down into sub-limits for each business activity where VaR is monitored on a daily basis, and is included in a monthly report to the Risk Committee and a quarterly report to the Audit Committee. Overruns are dealt with within the framework of a warning procedure.

The overall €30 million limit was briefly exceeded in May 2010, at the height of the tension surrounding Greece. As La Banque Postale had chosen to maintain its investments in this sovereign euro zone country, the maintenance of those positions was confirmed within the framework of the warning policy.

The appropriateness of the VaR model is regularly tested on an ex post basis. Even though the quality of the model remains high, a review was undertaken in order to add to it (in addition to crisis scenarios, see above) through alternative risk measurement processes (stressed VaR measurement).

The guaranteed funds offered to customers (which the Market and Counterparty Risk Management Division, or MCRMD, controls on an ongoing basis) are included in the scope of the Bank's risk management policy; only approved issuers are therefore eligible for those funds. The MCRMD presents the results of its control procedures to the Asset Management Risk Committee.

The range of crisis scenarios is applied to all marked-to-market portfolios on a monthly basis.

As at the end of December, the most negative impact these hypothetical scenarios could have on shareholders' equity would be €120 millions. Global interest-rate risk is measured through a sensitivity indicator recommended by the Basel Committee. The global limit set by the risk management policy, as proposed by the Risk Committee (15% of shareholders equity in the event of a 200 bp rate shock), was adhered to at all times. The significant rise in that limit in the final quarter (due to the buoyancy of the home loan generation business) led to the decision to calculate the indicator on a forward basis in 2011. All the liquidity limits were adhered to in 2010. Stress tests enabled the Bank's strength in terms of liquidity risk to be checked.

### **Risk relating to the consumer credit business**

Credit granting and commitment conditions are suggested by the Risk Department and approved by the Risk Committee. These conditions are assembled in a guide that includes factsheets and have a general scope. The Bank has introduced an effective delegation system that enables it to raise the decision level granted to regional committees in December 2010. The home loan granting process is based on a decision assistance tool (DAT), which is built into the training tool and used both by the Banking Marketing Business Line and the Financial Centres.

The granting of overdrafts is based on scores, which become monthly after the first three months, and which provide decision-makers with information on which to make assessments. The same applies to the initial granting of bank card limits.

The Risk Department back-tests the risk assessment tool on a monthly basis in order to guarantee that its recommendations are appropriate (DAT and score).

There were a few provision-related amendments to the rules for managing inherent risk in 2010, in order to provide a more accurate overview of that risk.

The level of home loans outstanding increased by 16.8% in 2010, rising to €37.3 billion. Several factors amounted to a potential improvement in risk levels: the length of new loans decreased slightly (17.1 years on average compared with 17.5 in 2009); bridging loans are being repaid faster (8 months compared with 11.8 a year earlier); and referrals to an insurance body increased further (82% of applications compared with 75% the previous year).

The Bank saw an increase in the cost of risk on overnight accounts, which was mainly due to:

- a new provisioning method;
- a sharp increase in deposits;
- the most vulnerable customers increasingly resorting to unauthorised overdrafts.

Where loans are concerned, the Commercial Banking Managers and the Regional Commercial Banking Managers perform the Level 1 checks, while the specialist internal controllers at the Financial Centres perform the Level 2 checks. The results of the checks underline that the application process could still be improved (analysis of banking behaviour, income and expenses review, drafting of reasoned opinions, etc.).

Moves to strengthen the monitoring of overdrafts have underlined the need to improve the risk assessment process and compliance with procedures. In order to meet those requirements, Financial Advisors' awareness of fraud risk during the account-opening process has been raised.

Where the consumer credit business is concerned, the Risk Department, which is responsible for the credit risk arm, monitored the launch of the new business activity very closely through the Cross-Functional Risk Committee.

### **Operating risk**

La Banque Postale has broken down its operating risk into seven categories and 20 sub-categories, according to the framework suggested by the Basel Committee, and has added a third level of its own.

Its procedures are based on:

- drawing up an operating risk map for each process and entity (ORMap);
- a system for escalating incidents and losses to the Risk Department;
- preparing a quarterly report on the main indicators for the Risk Committee and the Management Committee.

Every risk identified during the mapping process is analysed.

The integration of the operating risk assessment and management system into the ongoing control procedures is performed by ensuring that the teams who are in charge of ongoing and periodic checks have access to the ORMap tool and through involving the Risk Department in defining control topics and matrices and in including the results of those checks in the ORMap.

La Banque Postale has set up organizational procedures for its overall business continuity plan, which covers all the business continuity plans (BCPs) implemented within the Group and enables them to be implemented and to be maintained from an operating standpoint. The effectiveness of and the checks on the BCPs are assessed via indicators that feed in to the periodic reports to the Risk and Audit Committees. They are regularly monitored by the Risk Department's Head of Business Continuity, who regularly amends the fallback solutions and has a tool for checking the effectiveness and long-term sustainability of the Bank's business continuity plans. In 2010, the Head of Business Continuity made his expertise available to the subsidiaries, to help them build their own Business Continuity Plans.

The number of internal fraud cases was unchanged in 2010. The Bank's areas for improvement are focused on projects for overhauling cash management and improving the information system. There was a sharp increase in external fraud, due mainly to e-banking and over-the-counter cash withdrawals. Transaction security was strengthened in order to respond to that increase.

Working conditions security risks are identified and controlled. They remain a major focus point due to the fact that planned changes require proper change management. 2010 was marked by the fine relating to the receipt of commissions on the exchange of online cheques imposed on the major banks in the marketplace (including a €33 million fine for La Banque Postale) by the French Competition Authority. The fine is being contested.

There was a major improvement in the customer recognition system, as indicated above (non-compliance risk), but the main area for improvement still lies in the application updating process. Several action plans have been drawn up in this area. In order to improve the management of risk linked to the physical safety of goods and services, the Executive Board created a dedicated Division within the Risk Department.

Even though the number of incidents linked to the information system remains high, most of the issues identified are relatively minor, and none warranted a meeting of the crisis unit.

## THE INTERNAL AUDIT DIVISION

As in previous years, the Internal Audit Division drew up its assignment schedule for 2010 in late 2009, based on the Bank's risk mapping and the lessons learnt from previous assignments, with the aim of covering the full audit range in four years.

The 94 assignments carried out in 2010 enabled the Division to focus on the issues that were considered to be the most sensitive, given the Bank's business activities and structure (particularly regulated savings, advisory duties and credit), while pursuing its coverage of all the business activities and entities of the Bank and its subsidiaries.

Assignments were also performed in the IT, markets and fraud risk areas. Essential external service providers and regulatory

or marketplace assignments were also monitored. Those assignments were fulfilled in addition to surveys on fraud, misappropriation of funds and presumed serious malfunctions. A sustained policy of following recommendations that had been issued and were still valid enabled the recommendation implementation rate to increase to 83.6% as at December 31<sup>st</sup> 2010 (compared with 74.8% as at December 31<sup>st</sup> 2009). There were 1,208 recommendations issued in 2010, including 51 Level 1 (the most critical level out of three) recommendations.

## BUSINESS ETHICS

La Banque Postale continued its efforts to disseminate and pass on fundamental principles and rules in 2010, by updating the business ethics guidelines, which set out the rules of good behaviour towards customers, colleagues and third parties. The business ethics guidelines apply to everyone working at La Banque Postale and to anyone acting or performing transactions in its name or on its behalf.

Aside from those guidelines, La Banque Postale's business ethics framework is based on:

- compulsory training on the issue for all new hires;
- Business Ethics Officers and operational contacts, which enable the Bank to ensure that the business ethics rules are disseminated and adhered to by both the local Marketing Department teams and the employees of the La Poste Network;
- a procedure for circulating and monitoring warnings when the misappropriation of funds or a breach of business ethics is suspected;
- a Business Ethics Committee including the Head of Compliance for Investment Services, which encompasses the La Poste Network and the departments of La Banque Postale.

## COMPLIANCE

Pursuant to article 11-1 of CRBF regulation 97-02, new products are systematically subject to authorisation, which varies depending on the type of customers for which they are intended. The approval of new products for retail customers or companies that are classified as "non-professional" according to the MiFID Directive, is organised by the "Product Assessment Committee", chaired by the Head of Compliance. These meetings all give rise to the drafting of a "written opinion", signed by the Head of Compliance and then circulated to the members of the Marketing Committee. Around 30 committee meetings were held in 2010.

The Bank has established procedures for the systematic review of all the marketing materials issued by the Sales and Marketing Departments. Around 2,000 documents were approved in 2010, whether for the Advisory Business Line, customers or other Departments within La Banque Postale or Group entities providing services in the name and on behalf of La Banque Postale.

The Compliance Department approves the control plan for the Level 2 control bodies. Changes continued to be made to those controls in 2010, in order to take more account of the most sensitive areas and of issues that required priority attention.

Likewise, the Compliance Department approves the control plan for the internal control teams and the Financial Centres' compliance plan. This plan continued to change in 2010, both in order to increase the attention paid to checking Level 1 controls and to take more account of local risk, which sometimes varies between one Centre and the next.

The Compliance Department is responsible for managing regulatory monitoring procedures and for making their application easier. The directors of La Banque Postale, or their representatives, attend a bimonthly Regulatory Monitoring Committee. That Committee approves the impact studies performed within the framework of the Technical Committees and the proposed actions to be taken to implement their contents.

The effective division of tasks and controlling that process are one of La Banque Postale's main priorities. Instructions on this point are reiterated, or reinforced every time that it is necessary, while the Banking Audit Division systematically checks that this rule is in place and is applied.

97% of Financial Centre employees and over 92% of La Poste Network employees acting in the name and on behalf of the Bank have received training on combating money-laundering in the last three years. The action taken since 2009 has resulted in 70% of all La Banque Postale staff receiving training. Training programme attendance is tracked and is the subject of a report. This initial training programme is mandatory for all new hires. Specific training for each business line will be provided at the same time.

A common target for adherence to compliance obligations is defined for the entire Compliance Department. The aim is to support the La Banque Postale Group's development, both by disseminating clear guidelines regarding compulsory application principles for the Group as a whole, and by putting appropriate management procedures in place.

Where actions that are more specific to the different divisions of the Compliance Department are concerned, particular emphasis should be placed on the following:

- ongoing centralisation of the management of the anti money laundering (AML) and counter-terrorism (CT) unit, updating and streamlining the content of procedures for employees (especially La Poste Network employees) and maintaining the awareness of the parties involved, both through adding to e-learning training programmes through the presentation of actual cases on the ground and by providing banking controllers with information on likely risk areas;
- maintaining a high degree of responsiveness in the "Expert Compliance" Division regarding the approval of new products and product marketing documentation;
- managing procedures for escalating information on misappropriation of funds or breach of business ethics indices within the "Business Ethics- Head of Investment Services Compliance" Division, by analysing the way in which the managers involved follow up issues;
- developing a reporting line for between the Head of Investment Services Compliance Issues and the entities responsible for handling investment securities in the Financial Centres;

- assigning greater importance to managing Level 2 risk controls in plans for controlling local risk; improving employees' use of information systems data to identify high-risk areas and transactions, and promoting exchanges between the various control bodies;
- lastly, the launch of a new self-evaluation campaign involving the risk management and control process and essential outsourced activities for the "permanent control summary unit" encompassing the Head Office Departments, Subsidiary Companies and Equity-Accounted Subsidiaries Division.

### **1.1.2.5 Controls applied in the preparation and processing of accounting and financial information**

The La Banque Postale Accounting Department is responsible for the preparation and processing of accounting information. The Department's key tasks are to produce and disseminate high-quality accounting information, supported by the managers of La Banque Postale's accounts function and the accounting project management resources of the Accounts Department. In addition to the Accounts Department, La Banque Postale's accounting function includes the banking back-office accounts teams, who report to the Financial Centre Managers. The Bank's Accounts Department sends these teams the instructions and control programmes necessary to ensure the consistency and quality of the information produced. The accounting function also includes a centre specialising in the accounts processing of the Bank's general services, together with the Financial Transactions Department accounting team, which is responsible for market transaction accounting entries.

The Accounts Department co-ordinates and defines the Level 1 justification and control programmes that need to be implemented by the Bank's operational accounts departments, which are located in the Financial Centres, in the Financial Transactions Department and in the general services accounts departments. These control programmes are reviewed according to the risk analyses that are performed periodically during the accounts control and preparation process.

The Accounts Department finalises the Level 1 controls by performing a series of Level 2 controls. Those controls consist in recurring cross-functional checks, which are designed to ensure the quality and thoroughness of the Level 1 controls performed in the operating entities. The control process is formally set out in control manuals and is also based on the accounts justification and end-of-period data package formalisation procedures scheduled in the work programmes. The Level 2 controls are performed by a dedicated team of accounts supervisors.



The Level 2 controls are documented in the account closing records, a summary of which is drawn up for each cycle, and complemented by a general summary. This system is supported by a progress report, which covers the retail banking accounting process and market transactions. In late 2010, the report's coverage began to be extended to the general resources cycles.

The accounting supervisors' work programmes are periodically updated, in order to:

- adapt them to changes in business activities and the regulatory context;
- incorporate project developments;
- take account of newly identified risk factors, or conversely, of risks that no longer apply;
- optimise the effectiveness of the control process as part of the shortening of end-of-period accounting lead-times.

The checks on retail banking activities are organised on a declarative basis in the Financial Centres and are finalised by control cycles that are based on the sampling of complete records. In this way, all the centres and cycles are tested several times a year.

These recurrent checks are reinforced by tightened control periods known as "pre-year-end periods", which begin one month before the closing date for the half-yearly accounts and allow the contributors (Centres, Head Office Departments) to take part in a "dress rehearsal". These procedures secure timetables and processes, and provide interim information on the status of the financial statements to the Statutory Auditors before they begin their work.

The Accounting Department's resources for monitoring the full range of trading activities have been strengthened since 2009.

They now focus on the account closure control programme, feedback, the observations arising from the accounting control process and the implementation of related action plans in this area. In the same area, the Accounting Department has tightened the co-ordination process for the parties involved (Financial Transactions Department and Market Risk and Counterparty Departments). The aim of this system, which takes the form of monitoring meetings and setting down feedback channels, is to:

- circulate the expected planning for control deliverables in advance;

- provide feedback on the control bodies' observations (Internal Audit and Statutory Auditors);
- draw up action plans that enable the areas for improvement to be monitored.

These procedures are finalised in a meeting before the end-of-period data is presented to the Statutory Auditors, which enables the highlights to be reviewed and the end-of-period options to be examined before implementing them (impact of new regulations, accounting treatment of new products, changes in the scope of consolidation of subsidiaries).

The Accounting Department also co-ordinates the consolidation of the companies that make up the La Banque Postale Group, according to specific instructions.

During 2010, the organization of the information generation and control procedures was reviewed, in order to adapt it to changes in the La Banque Postale Group's business activities as well as to additional requirements concerning the generation of parent company and consolidated financial statements.

As part of this process, several improvements were made to the consolidated financial statement control and generation process, primarily where the subsidiaries are concerned, including the meetings on material accounting decisions that are held with the main subsidiaries. They are enhanced by better co-ordination between the accounting and management functions and Level 2 controls on the contribution that these entities make to the consolidated financial statements.

These meetings, which are scheduled before the La Banque Postale Group meeting on account closure options, enable specific problems encountered when closing the subsidiaries' accounts to be identified, together with the impact of new standards that may apply and any resulting accounting treatment procedures. These meetings are held without the Bank's and the subsidiary's Statutory Auditors being present. They are also supplemented by feedback meetings on the subsidiary's financial statements (analytical reviews).

The subsidiaries also have a system that enables them to perform Level 1 and 2 accounting controls in their own area.

The material accounting choices made by the Group are set out and detailed at specific meetings, and are notified to the College of Statutory Auditors so that the latter can analyse them and come to a conclusion on them before the accounts are closed.

### 1.1.3 Approval of the corporate governance and internal control report prepared by the Chairman of the Supervisory Board

The Supervisory Board approved the corporate governance and internal control report prepared by its Chairman at its meeting of March 9<sup>th</sup> 2011.

# 1.2 Statutory Auditors' Report on the Report prepared by the Chairman

STATUTORY AUDITORS' REPORT ON THE REPORT PREPARED BY THE CHAIRMAN OF THE SUPERVISORY BOARD PURSUANT TO ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE

**Financial year ending December 31<sup>st</sup> 2010**

## **LA BANQUE POSTALE**

Registered Offices: 115, rue de Sèvres - 75275 Paris Cedex 06

A Limited Company with Executive and Supervisory Boards, capitalised at €2,342,454,090.00

Paris Chamber of Commerce Registration No: 421 100 645

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To the Shareholders,

In our capacity as Statutory Auditors of La Banque Postale, and pursuant to the provisions of Article L. 225-235 of the French Commercial Code, we hereby submit our report on the Report prepared by the Chairman of your company in respect of the financial year ending December 31<sup>st</sup> 2010, in accordance with the provisions of Article L. 225-68 of the French Commercial Code.

The Chairman is responsible for preparing and submitting a report on the internal control and risk management procedures implemented at the company to the Supervisory Board. That report also provides the further information required by Article L. 225-68 of the French Commercial Code, including information on corporate governance procedures.

Our role is to:

- inform you of the comments that we are required to make on the information contained in the Chairman's report on the internal control and risk management procedures implemented in the preparation and processing of accounting and financial information;
- certify that the report contains the further information required by Article L. 225-68 of the French Commercial Code, it being specified that it is not our responsibility to verify whether that information is presented in a fair manner.

We performed our work in accordance with the professional standards applicable in France.

### **Information on the internal control and risk management procedures implemented in the preparation and processing of accounting and financial information**

- familiarising ourselves with the internal control and risk management procedures implemented in the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based, together with the existing documentation;
- familiarising ourselves with the work that enabled the information and the existing documentation to be prepared;
- determining whether any major weaknesses in the internal controls implemented in the preparation and processing of the accounting and financial information that we may have identified during our assignment are discussed appropriately in the Chairman's report.

Based on that work, we have no comment to make on the information on the internal control and risk management procedures implemented by the Company in the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Supervisory Board, pursuant to the provisions of Article L. 225-68 of the French Commercial Code.

Other information

We hereby certify that the report prepared by the Chairman of the Supervisory Board contains the further information required by Article L. 225-68 of the French Commercial Code.

*Paris la Défense, Neuilly-sur-Seine and Courbevoie, on March 14<sup>th</sup> 2011*

**KPMG AUDIT**  
**(DÉPARTEMENT DE KPMG SA)**  
Isabelle GOALEC

**MAZARS**  
Pierre MASIERI  
Guy ISIMAT-MIRIN

**PRICEWATERHOUSECOOPERS**  
**AUDIT**  
Catherine PARISET

# 1.3 Information on the members of the Supervisory and Executive Boards

## 1.3.1 List of appointments

*NB: Appointments and positions held in companies whose shares are traded on regulated markets are identified by an asterisk (\*).*

### 1.3.1.1 Members of the Executive Board

■ **Patrick Werner, Chairman of La Banque Postale's Executive Board between December 16<sup>th</sup> 2005 and January 18<sup>th</sup> 2011. Mr Werner resigned from the following appointments on January 18<sup>th</sup> 2011:**

- Executive Vice-President, Director of La Poste Groupe Financial Services (a Limited Company);
- Chairman and Managing Director of SF2 (a Limited Company);
- Chairman of the Supervisory Board of La Banque Postale Asset Management (a Limited Company with Executive and Supervisory Boards);
- Chairman of the Supervisory Board of La Banque Postale Gestion Privée (a Limited Company with Executive and Supervisory Boards);
- Chairman of the Supervisory Board of XAnge Private Equity (a Limited Company with Executive and Supervisory Boards);
- Chairman of EF Primo from November 30<sup>th</sup> 2010 onwards (a Limited Company);
- Permanent representative of SF2, Director of Sopassure (a Limited Company);
- Chairman of La Banque Postale Prévoyance (a Limited Company);
- Director and member of the Audit Committee of CNP Assurances (a Limited Company)\*;
- Chairman of the Supervisory Board of Financière des Paiements (a Simplified Joint-Stock Company) until September 23<sup>rd</sup> 2010, Vice-Chairman of the Supervisory Board since September 23<sup>rd</sup> 2010;
- Chairman of BMS Développement (a Simplified Joint Stock Company) until November 24<sup>th</sup> 2010; company receiver since November 24<sup>th</sup> 2010;
- Chairman of BMS Exploitation (a Simplified Joint-Stock Company) until December 6<sup>th</sup> 2010;
- Chairman of SFPMEI (a Simplified Joint-Stock Company) until December 6<sup>th</sup> 2010;
- Representative of La Banque Postale, the Managing Partner of CRSF Dom (a limited property investment partnership);
- Representative of La Banque Postale, the Managing Partner of CRSF Métropole (a limited property investment partnership);
- Chairman of La Banque Postale Assurances IARD (a Limited Company);

- Director of the Monnet Project;
- Permanent representative of La Banque Postale and Director of the AFPEN charity;
- Member of the Supervisory Board and Audit Committee of the Deposit Guarantee fund (FGD).

**During the 2010 financial year, Patrick Werner also held the following appointments:**

- Member of the Supervisory Board of Oddo & Cie (a Limited Share Partnership);
- Vice-Chairman and Director of the Mutuelle des Sportifs.

■ **Philippe Wahl, Chairman of La Banque Postale's Executive Board, who was appointed for a five-year term on January 18<sup>th</sup> 2011:**

- Executive Vice-President, Director of La Poste Groupe Financial Services (a Limited Company);
- Chairman and Chief Executive Officer of SF2 (a Limited Company);
- Chairman of the Supervisory Board of La Banque Postale Gestion Privée (a Limited Company);
- Chairman of EF Primo (a Limited Company);
- Director of the Paris Europlace organization.

■ **Philippe Bajou, member of the Executive Board of La Banque Postale, who was appointed on December 16<sup>th</sup> 2005 and was reappointed for a five-year term on January 18<sup>th</sup> 2011:**

- Member of the Supervisory Board of La Banque Postale Gestion Privée (a Limited Company with Executive and Supervisory Boards);
- Vice-Chairman of the Supervisory Board of La Banque Postale Asset Management (a Limited Company with Executive and Supervisory Boards);
- Vice-Chairman of Titres-Cadeaux (a simplified joint-stock company);
- Managing Director of EF Primo (a Limited Company) until October 28<sup>th</sup> 2010;
- Permanent representative of SF2, Director and member of the Finance Committee of La Banque Postale Assurances IARD (a Limited Company);
- Chairman of EasyBourse (a Simplified Joint-Stock Company);
- Permanent representative of SF2 and Director of Tocqueville Finance SA (a Limited Company);
- Permanent representative of SF2 and Director of Tocqueville Finance Holding (a Simplified Joint Stock Company);
- Director of the La Poste Foundation;
- Permanent representative of La Banque Postale and Director of the Banking and Finance Co-ordination Agency.

### 1.3.1.2. Members of the Supervisory Board

■ **Jean-Paul Bailly, Chairman of the Supervisory Board and member of the Appointments and Compensation Committee of La Banque Postale, appointed on December 12<sup>th</sup> 2005 and reappointed for a five-year term on February 27<sup>th</sup> 2008:**

- Chairman and Chief Executive Officer of La Poste Group (a Limited Company);
- Director of Sopassure (a Limited Company);
- Member of the Supervisory Board of La Banque Postale Asset Management (a Limited Company with Executive and Supervisory Boards);
- Director and member of the Appointments and Compensation Committee of CNP Assurances (a Limited Company);
- Permanent representative of La Poste and Director of GeoPost (a Limited Company);
- Permanent representative of La Poste and Director of Sofipost (a Limited Company);
- Permanent representative of La Poste and Director of Poste Immo (a Limited Company);
- Director of Systar (a Limited Company) until December 2<sup>nd</sup> 2010;
- Permanent representative of La Poste, Director of Xelian (a Limited Company);
- Director representing the Government and Member of the Ethics, Environment and Sustainable Development Committee of GDF Suez (a Limited Company);
- Director, member of the Audit and Risk Committee and member of the Compensation, Appointments and Corporate Governance Committee of Accor (a Limited Company);
- Director and member of the Commitments Committee and member of the Audit and Risk Committees of Edenred (a Limited Company) since June 29<sup>th</sup> 2010.

■ **G  rard Barbot, member of the Supervisory Board and Audit Committee and Chairman of the Appointments and Compensation Committee of La Banque Postale, appointed on December 12<sup>th</sup> 2005 and reappointed for a five-year term on February 27<sup>th</sup> 2008:**

- Member of the Supervisory Board and Chairman of the Audit Committee of La Banque Postale Asset Management (a Limited Company with Executive and Supervisory Boards);
- Director and Chairman of the Audit Committee of GeoPost (a Limited Company);
- Member of the Supervisory Board of Oddo & Cie (a limited share partnership);
- Member of the Supervisory Board of Cr  dit Foncier de France (a Limited Company with Executive and Supervisory Boards);
- Chairman of the Supervisory Board of Vauban Mobilisation Garanties (a Limited Company with Executive and Supervisory Boards);
- Managing Partner of Gimar Capital Investissement (a limited share partnership);
- Chairman of CFCAL (a Limited Company) until December 21<sup>st</sup> 2010.

■ **Didier Brune, member of the Supervisory Board of La Banque Postale, who was appointed on December 12<sup>th</sup> 2005 and was reappointed for a five-year term on February 27<sup>th</sup> 2008:**

- Head of European and National Regulation, La Poste Group (a Limited Company);
- Director of Sofipost (a Limited Company) until December 5<sup>th</sup> 2010;
- Director of Somepost (a Limited Company) until June 30<sup>th</sup> 2010.

■ **Paul-Marie Chavanne, member of the Supervisory Board and Strategy Committee of La Banque Postale, appointed on December 12<sup>th</sup> 2005 and reappointed for a five-year term on February 27<sup>th</sup> 2008:**

- Executive Vice-President, Director of the Parcels Division of La Poste Group (a Limited Company);
- Chairman and Chief Executive Officer of GeoPost (a Limited Company);
- Chairman of GeoPost Imdh GmbH (a Limited Company incorporated under German law);
- Chairman of GeoPost UK (a Limited Company incorporated under English law);
- Member of the Supervisory Committee of Exapaq (a Simplified Joint-Stock Company);
- Member of the Supervisory Committee until July 9<sup>th</sup> 2010, Permanent representative of GeoPost and Chairman of GeoPost Intercontinental (a Simplified Joint Stock Company) since August 9<sup>th</sup> 2010;
- Permanent representative of GeoPost and Director of Chronopost (a Limited Company);
- Director of Sofipost (a Limited Company);
- Director of Generali Assurances IARD (a Limited Company);
- Director of Generali Assurances Vie (a Limited Company);
- Director of ASL Aviation Group Ltd (a Private Limited Company incorporated under English law).

■ **Bernard Delpit, member of the Supervisory Board and Audit Committee of La Banque Postale, appointed on July 9<sup>th</sup> 2009 to replace Nicolas Duhamel who was reappointed for a five-year term on February 27<sup>th</sup> 2008:**

- Executive Vice-President, Chief Financial Officer of La Poste Goup (a Limited Company);
- Member of the Supervisory Board of La Banque Postale Asset Management (a Limited Company with Executive and Supervisory Boards);
- Director of La Banque Postale Pr  voyance (a Limited Company);
- Director and member of the Audit Committee of GeoPost (a Limited Company);
- Director and member of the Audit Committee of Poste Immo (a Limited Company);
- Director of Sofipost (a Limited Company);
- Director of Renault (a Limited Company) since April 30<sup>th</sup> 2010;
- Director of Renault SAS since April 30<sup>th</sup> 2010.

■ **Marc-André Feffer, Vice-Chairman of the Supervisory Board and Chairman of the Strategy Committee of La Banque Postale, appointed on December 12<sup>th</sup> 2005 and reappointed for a five-year term on February 27<sup>th</sup> 2008:**

- Executive Vice-President, Director of Strategy, Development, International and legal Affairs and Regulation of La Poste Group (a Limited Company);
- Chairman and Executive Director since March 28<sup>th</sup> 2010 and director of Sopassure (a Limited Company);
- Permanent representative of Sopassure, Director and member of the Strategy Committee of CNP Assurances (a Limited Company);
- Director of GeoPost (a Limited Company);
- Member of the Supervisory Committee of GeoPost Intercontinental (a Simplified Joint-Stock Company) until July 9<sup>th</sup> 2010;
- Chairman of Poste Immo (a Limited Company);
- Chairman of the Supervisory Board of XAnge Capital (a Limited Company with Executive and Supervisory Boards);
- Member of the Board of Directors of Hypios (a simplified joint-stock company);
- Nonvoting director of Xelian (a Limited Company).

■ **Jean-Robert Larangé, Head of non-Post Office banking Operations (Marketing Department), employee-elected member of the Supervisory board and member of the Strategy Committee of La Banque Postale, appointed for a five-year term on February 27<sup>th</sup> 2008.**

■ **Georges Lefebvre, Permanent representative of La Poste (a Limited Company), member of the Supervisory board and Appointments and Compensation Committee of La Banque Postale, appointed on December 12<sup>th</sup> 2005 and reappointed for a five-year term on February 27<sup>th</sup> 2008:**

- Senior Vice-President, Director of Human Resources and Employee Relations of La Poste Group (a Limited Company);
- Director and member of the Appointments and Compensation Committee of GeoPost (a Limited Company);
- Director and member of the Appointments and Compensation Committee of Poste Immo (a Limited Company);
- Director and member of the Appointments and Compensation Committee of Sofipost (a Limited Company);
- Chairman of the following UCITS: LBPAM Actions Europe Monde, LBPAM Profil 50, LBPAM Profil 80 and LBPAM Profil 15;
- Chairman of the executive board of Xelian (a Limited Company).

■ **Sylvain Lemoyne de Forges, member of the Supervisory Board and of the Strategy Committee of La Banque Postale, member of the Audit Committee until December 2<sup>nd</sup> 2010 and member of the Appointments & Compensation Committee since December 2<sup>nd</sup> 2010, appointed on December 12<sup>th</sup> 2005 and reappointed for a five-year term on February 27<sup>th</sup> 2008:**

- Head of Risk and Markets at Veolia Environnement (a Limited Company) until October 20<sup>th</sup> 2010;
- Executive Director of SGAM AG2R La Mondiale since October 20<sup>th</sup> 2010;
- Executive Director of La Mondiale (a Medical Assistance Company) since October 20<sup>th</sup> 2010;
- Director of Veolia Environnement Services (a Limited Company) until April 9<sup>th</sup> 2010;

- Chairman and Executive Director of Veolia PPP Finance (a Limited Company) until June 15<sup>th</sup> 2010;
- Chairman of the Supervisory Board of La Mondiale Gestion d'Actifs (a Limited Company) since October 1<sup>st</sup> 2010;
- Permanent representative of La Mondiale, and Chairman of APREP Diffusion (a simplified joint stock company) since September 15<sup>th</sup> 2010;
- Permanent representative of La Mondiale, and Director of La Mondiale Europartner (a Limited Company) since October 15<sup>th</sup> 2010;
- Director and Executive Director of La Mondiale Participations (a Limited Company) since October 15<sup>th</sup> 2010;
- Permanent representative of La Mondiale, and member of the Supervisory Board of Arial Assurance (a Limited Company) since October 11<sup>th</sup> 2010;
- Permanent representative of La Mondiale, and Director of La Mondiale Direct (a Limited Company) since September 21<sup>st</sup> 2010;
- Director of La Mondiale Accidents (a Limited Company) since September 21<sup>st</sup> 2010;
- Director and member of the Strategy Committee of La Monnaie de Paris (a Public Industrial and Commercial Company);
- Chairman of the La Mondiale Cash EIG since December 15<sup>th</sup> 2010;
- Chairman of the La Mondiale Group EIG since September 13<sup>th</sup> 2010;
- Managing partner of the Fond Vert Limited Property Investment Partnership.

■ **Steeve Maigne, Head of EPI Project at the Companies, Local Authorities and Voluntary Organisations' Direction, member of the Supervisory Board elected by the employees and member of the Audit Committee of La Banque Postale, appointed for a five-year term on February 27<sup>th</sup> 2008.**

■ **Maryvonne Michelet, lawyer (Legal Department) and employee-elected member of the Supervisory board of La Banque Postale, appointed for a five-year term on February 27<sup>th</sup> 2008.**

■ **Didier Négier, member of the Supervisory Board of La Banque Postale, who was appointed on January 25<sup>th</sup> 2006, and reappointed on February 27<sup>th</sup> 2008. Mr Négier resigned from his appointment at the Bank and from the following appointments and positions on December 31<sup>st</sup> 2010:**

- Head of Purchasing, Cost Optimisation and Head of Shared Services at La Poste Group (a Limited Company);
- Director and Managing Director of Xelian (a Limited Company);
- Permanent representative of Véhiposte SAS and Director of Véhiposte EIG;
- Permanent representative of Xelian (a Limited Company), Chairman of Véhiposte (a simplified joint-stock company);
- Permanent representative of Xelian (a Limited Company), Chairman of Xelian IT (a simplified joint-stock company);
- Permanent representative of Xelian (a Limited Company), Chairman of Xelian Logistique (a simplified joint-stock company);
- Permanent representative of Xelian (a Limited Company), Chairman of Deskéo (a simplified joint-stock company).



■ **Françoise Paget Bitsch**, banking supervisor (RTB Méditerranée) and employee-elected member of the Supervisory board elected by the employees of La Banque Postale and member of the Strategy Committee, appointed on March 11<sup>th</sup> 2009 to replace Serge Trinca who was reappointed for a five-year term on February 27<sup>th</sup> 2008.

■ **Dung Pham Tran**, member of the Supervisory Board of La Banque Postale, who was appointed on January 18<sup>th</sup> 2011 to replace Didier Négier who was reappointed for a five-year term on February 27<sup>th</sup> 2008:

- Head of Strategy at La Poste (a Limited Company);
- Director of Sofipost (a Limited Company).

■ **Didier Ribadeau Dumas**, member of the Supervisory Board, Chairman of the Audit Committee and member of the Appointments & Compensation Committee of La Banque Postale since December 2<sup>nd</sup> 2010, appointed on February 13<sup>th</sup> 2006 and reappointed for a five-year term on February 27<sup>th</sup> 2008:

- Managing Partner of DRD Conseil (a Private Limited Company);
- Managing Partner of Sauvigny (a Limited Property Investment Partnership);
- Non-voting director of ABC Arbitrage (a Limited Company).

■ **Hélène Wolff**, Head of the Quality Assurance and Multi-Channel Innovation unit (Marketing Department), employee-elected member of the Supervisory board and member of the Audit Committee of La Banque Postale, appointed on October 26<sup>th</sup> 2006 and reappointed for a five-year term on February 27<sup>th</sup> 2008.

## 1.3.2 Compensation

### 1.3.2.1 Compensation of Supervisory Board members

Compensation for Supervisory Board members comes in the form of annual directors' attendance fee payments. The total sum allocated for this purpose by the Annual General Meeting of May 23<sup>rd</sup> 2006 is €450,000.

#### ***Breakdown of directors' attendance fees***

The Chairman of the Supervisory Board benefits from a flat-rate directors' attendance fee of €90,000. The amount received by the other members of the Supervisory Board, except those

members elected by the employees, may not exceed €15,000; the fees are calculated on a pro rata basis, depending on their actual attendance. The Chairman of the Audit Committee receives €12,000 in recognition of their position, while the Chairmen of the Appointments & Compensation and Strategy Committees each receive €8,000. Lastly, actual attendance at each committee meeting results in the award of a €1,500 attendance fee to each committee member.

## AMOUNT OF ATTENDANCE FEES AND OTHER COMPENSATION PAID TO SUPERVISORY BOARD MEMBERS IN RESPECT OF THEIR LA BANQUE POSTALE APPOINTMENTS

Name of the company officers	Amounts paid in respect of 2009 (€)	Recipient	Amounts paid in respect of 2010 (€)	Recipient
<b>Jean-Paul Bailly</b>				
Attendance fees	90,000	La Poste	90,000	La Poste
Other extraordinary compensation	0	-	0	-
<b>Marc-André Feffer</b>				
Attendance fees	23,000	La Poste	26,000	La Poste
Other extraordinary compensation	0	-	0	-
<b>Didier Brune</b>				
Attendance fees	12,000	La Poste	15,000	La Poste
Other extraordinary compensation	0	-	0	-
<b>Paul-Marie Chavanne</b>				
Attendance fees	9,000	La Poste	10,500	La Poste
Other extraordinary compensation	0	-	0	-
<b>Nicolas Duhamel</b> ( <i>attended until June 11<sup>th</sup> 2009</i> )				
Attendance fees	3,000	La Poste	0	La Poste
Other extraordinary compensation	0	-	0	-
<b>Bernard Delpit</b>				
Attendance fees	18,000	La Poste	28,500	La Poste
Other extraordinary compensation	0	-	0	-
<b>Georges Lefebvre</b>				
Attendance fees	19,500	La Poste	18,000	La Poste
Other extraordinary compensation	0	-	0	-
<b>Didier Négjar</b>				
Attendance fees	12,000	La Poste	15,000	La Poste
Other extraordinary compensation	0	-	0	-
<b>Gérard Barbot</b>				
Attendance fees	39,500*	The member	39,500*	The member
Other extraordinary compensation	0	-	0	-
<b>Sylvain Lemoyne de Forges</b>				
Attendance fees	24,000	The member	24,000	The member
Other extraordinary compensation	0	-	0	-
<b>Didier Ribadeau Dumas</b>				
Attendance fees	42,000	The member	40,500	The member
Other extraordinary compensation	0	-	0	-
<b>Jean-Robert Larangé</b>				
Attendance fees	0	-	0	-
Other extraordinary compensation	0	-	0	-

Name of the company officers	Amounts paid in respect of 2009 (€)	Recipient	Amounts paid in respect of 2010 (€)	Recipient
<b>Steeve Maigne</b>				
Attendance fees	0	-	0	-
Other extraordinary compensation	0	-	0	-
<b>Maryvonne Michelet</b>				
Attendance fees	0	-	0	-
Other extraordinary compensation	0	-	0	-
<b>Françoise Paget Bitsch</b>				
Attendance fees	0	-	0	-
Other extraordinary compensation	0	-	0	-
<b>Hélène Wolff</b>				
Attendance fees	0	-	0	-
Other extraordinary compensation	0	-	0	-
<b>TOTAL</b>	<b>292,000</b>		<b>307,000</b>	

\* In addition, Gérard Barbot received attendance fees in respect of his appointment at La Banque Postale Asset Management (€17,000 in 2009 and €17,000 in 2010).

### COMPENSATION PAID TO EMPLOYEE REPRESENTATIVE MEMBERS ON THE SUPERVISORY BOARD

Employee representative members of the Supervisory Board do not receive any compensation in respect of their Supervisory Board appointment.

Gross compensation (including the variable element) paid to employee representative members of the Supervisory Board in respect of their contract of employment amounted to €304,839 in 2010.

### 1.3.2.2 Compensation paid to Executive Board members

Executive Board members have no contract of employment with La Banque Postale. They therefore receive no other compensation than that paid in respect of their appointment as company officers. Likewise, they receive no compensation in respect of their appointments as company officers of subsidiaries of the La Banque Postale Group.

Compensation was paid to Patrick Werner by La Poste due to the fact that he has an employment contract, which was made necessary by the Post Office Banking system that appointed him Head of the La Poste Financial Services Department (Financial Centres). This compensation is included in the amounts set out in the following tables and is broken down in Table 2.

**STANDARD TABLES ACCORDING TO THE AFEP/MEDEF RECOMMENDATIONS****TABLE 1: SUMMARY OF THE GROSS COMPENSATION, SHARE OPTIONS AND SHARES AWARDED TO EXECUTIVE BOARD MEMBERS**

	2009 financial year (€)	2010 financial year (€)
<b>Patrick Werner</b>		
Gross compensation payable for the financial year (see Table 2 for breakdown)	702,712	1,690,712
Value of share options awarded during the financial year	NA	NA
Value of performance-related shares awarded during the financial year	NA	NA
<b>TOTAL</b>	<b>702,712</b>	<b>1,690,712</b>
<b>Philippe Bajou</b>		
Gross compensation payable for the financial year (see Table 2 for breakdown)	409,572	Not known (a)
Value of share options awarded during the financial year	NA	NA
Value of performance-related shares awarded during the financial year	NA	NA
<b>TOTAL</b>	<b>409,572</b>	<b>Not known (a)</b>
<b>EXECUTIVE BOARD TOTAL (a)</b>	<b>1,112,284</b>	<b>Not known (a)</b>

(a) The amount of the variable compensation payable in respect of the 2010 financial year will be set at the meeting of La Banque Postale's Supervisory Board on March 9<sup>th</sup> 2011.

The total amount payable in respect of the 2010 financial year was therefore not known on the date this financial report was published.

**TABLE 2: DETAILED SUMMARY OF THE GROSS COMPENSATION PAID TO EXECUTIVE BOARD MEMBERS**

	2009 financial year (€)		2010 financial year (€)	
	Amounts payable for the financial year	Amounts paid during the financial year	Amounts payable for the financial year	Amounts paid during the financial year
<b>Patrick Werner</b>				
Fixed compensation	430,000	430,000	430,000	430,000
<i>Of which paid by La Banque Postale</i>	<i>344,000</i>	<i>344,000</i>	<i>344,000</i>	<i>344,000</i>
<i>Of which paid by La Poste</i>	<i>86,000</i>	<i>86,000</i>	<i>86,000</i>	<i>86,000</i>
Variable annual compensation	267,000	154,000	275,000	267,000
<i>Of which paid by La Banque Postale</i>	<i>230,000</i>	<i>154,000</i>	<i>275,000</i>	<i>230,000</i>
<i>Of which paid by La Poste</i>	<i>37,000</i>			<i>37,000</i>
Severance payment	0	0	980,000	0
Attendance fees <sup>(b)</sup>	0	0	0	0
Benefits in kind**	5,712	5,712	5,712	5,712
<b>TOTAL</b>	<b>702,712</b>	<b>498,000</b>	<b>1,690,712</b>	<b>702,712</b>
<b>Philippe Bajou</b>				
Fixed compensation	280,000	280,000	292,000	292,000
Annual variable compensation	125,000	117,000	(a)	125,000
Severance payment	0	0	0	0
Attendance fees <sup>(b)</sup>	0	0	0	0
Benefits in kind**	4,572	4,572	4,953	4,953
<b>TOTAL</b>	<b>409,572</b>	<b>401,572</b>	<b>Not known</b>	<b>421,953</b>
<b>EXECUTIVE BOARD TOTAL</b>	<b>1,112,284</b>	<b>899,572</b>	<b>Not known</b>	<b>1,124,665</b>

\*\* Company car.

(a) The amount of the variable compensation payable in respect of the 2010 financial year will be set at the meeting of La Banque Postale's Supervisory Board on March 9<sup>th</sup> 2011.

The total amount payable in respect of the 2010 financial year was therefore not known on the date this financial report was published.

(b) Members of the Executive Board do not receive attendance fees in respect of their appointments to the positions that they hold at companies in the La Banque Postale Group.

The fixed compensation of Executive Board members is set by the Supervisory Board on the basis of proposals made by the Appointments and Compensation Committee. Those proposals are based on a benchmark analysis of the compensation paid to Retail Banking Heads Departments in France provided by a panel of credit institutions.

This fixed annual compensation may be supplemented by a capped annual variable element, for which calculation methods were not changed in 2010. In addition, Executive Board members may receive a three-year long-term variable element.

Executive Board members also benefit from membership of a scheme to cover their health and welfare expenses.

At its meeting of January 18<sup>th</sup> 2011, the Supervisory Board appointed Philippe Wahl as Chairman of the Bank's Executive Board.

The Board awarded him a fixed annual compensation package of €485,000. The variable element of his compensation may amount to up to 90% of his fixed compensation.

### **BENEFITS GRANTED TO DIRECTORS ON TERMINATION OR CHANGES TO THEIR APPOINTMENT**

Executive Board members are eligible for a severance payment in the event that their appointment is terminated. That payment was reviewed in the light of the October 2008 Afep/Medef recommendations on compensation for company directors.

The Supervisory Board meeting of March 11<sup>th</sup> 2009 therefore resolved:

- that a payment would be made on termination of appointment in the following circumstances, except in the case of serious misconduct or gross professional error that has a serious impact on the financial situation of the company:
  - dismissal during the director's term in office,
  - a change in control or strategy resulting in their permanent departure from the La Poste Group;
- that the maximum amount of the payment would be capped at twice the average amount of compensation paid during the last three full financial years;
- that the severance payment would be dependent on the following performance-related conditions being met:
  - a company valuation greater than equity capital,
  - a success rate of 80% or above in meeting the annual targets set for two out of the last three full financial years.

If both the above conditions are met, the severance payment will be made in full. If only the first condition is met, and the success rate falls between 50% and 79%, then it will be reduced by 50%.
- that in the event that an appointment as a company officer is not renewed, the decision of whether to make a severance payment shall be at the Supervisory Board's discretion, on the basis of advice received from the Appointments and Compensation Committee. The severance payment shall be set in accordance with the rules and performance-related conditions described above;

- that in the event that a company officer rejoins the State sector within two years of his or her forced departure from the company, the amount of the severance payment would be reduced in proportion to the annual compensation (including bonuses) payable to a civil servant at the level at which the individual concerned rejoins the State sector.

### **SUPPLEMENTARY PENSION ARRANGEMENTS FOR EXECUTIVE BOARD MEMBERS**

As at December 31<sup>st</sup> 2010, La Banque Postale had made no supplementary pension arrangements for Executive Board members.

#### **1.3.2.3 Compensation of Executive Committee members**

Gross compensation (including the variable portion) paid to Executive Committee members in respect of their contract of employment amounted to €3,577,784 in 2010.

No other compensation is payable to Executive Committee members. Moreover, they do not receive attendance fees in respect of the appointments that they hold in Group companies.

Executive Committee members receive the usual end-of-career payments, which are valued at €553,000 overall.

#### **1.3.2.4 Compensation of market professionals and directors**

Pursuant to the decree of November 3<sup>rd</sup> 2009, regarding the compensation of employees whose activities may affect the risk exposure of credit institutions and investment companies, in amendment to CRBF regulation 97-02 of February 21<sup>st</sup> 1997 on internal control, the Appointments and Compensation Committee of December 16<sup>th</sup> 2009 prepared the agenda for the first Supervisory Board meeting of 2010. Although La Banque Postale does not conduct any Investment Banking (IB) business, the Board had to come to a decision on the compensation policy for market professionals put forward by the Executive Board.

The Committee therefore issued a positive opinion on La Banque Postale's compensation policy, which has established a global framework for the variable compensation of the Bank's directors and salaried market professionals, so as not to jeopardize its ability to generate equity capital and have a negative impact on its liquidity.

That framework is based on the joint fulfilment of the following two criteria:

- the total amount of variable compensation cannot exceed 30% of fixed compensation;
- the total amount of variable compensation must not exceed 5% of the Bank's consolidated gross operating income.



The variable compensation framework for market professionals and members of the executive body was the subject of a detailed analysis, which factored in the specific characteristics of La Banque Postale (share ownership and particularly the level of fixed and variable compensation at the Bank). Following that analysis, the Appointments and Compensation Committee made the following proposal to the Supervisory Board:

- that the variable compensation paid to the executive body for any financial year cannot exceed 100% of fixed compensation and that any compensation above that limit should be spread over three years;
- that the variable compensation paid to market professionals for any financial year cannot exceed 50% of fixed compensation and that any compensation above that limit should be spread over three years.

Finally, the Committee ascertained that control procedures for applying this policy were in place. Application of the policy relies on the Human Resources Department, which is primarily responsible for drawing up a detailed report that is then forwarded to the Heads of permanent and periodic controls, and on the Risk and Compliance Departments.

# Business review and accounting data

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## 2.1 Business environment and highlights

### 2.1.1 Economic environment

#### **AFTER A PERIOD OF CALM IN THE 1<sup>ST</sup> HALF, GLOBAL GROWTH BEGAN GATHERING SPEED AGAIN AT THE END OF THE YEAR.**

After collapsing in late 2008 and early 2009, during the depths of the financial crisis, global business levels rebounded during 2009, thanks to very proactive economic policies, the end of corporate inventory drawdowns and the revival of global trade. The recovery continued and gained strength during 2010, driven by the momentum of emerging markets, which boosted the recovery in developed countries. Global growth undoubtedly lost some of its momentum in the spring and summer, mainly due to budgetary stimulus measures petering out. However, it found a second wind towards the end of the year, particularly in the United States. Overall, GDP in the OECD countries rose by 2.8% in 2010 and by 1.7% in the euro zone (after contracting by 3.4% and 4.1% respectively in 2009). In France, the recovery was milder (+1.5%), although the recession had been less severe (-2.5% in 2009), thanks mainly to more resilient consumer spending.

#### **A DIFFICULT YEAR FOR EURO ZONE SOVEREIGN DEBT**

For the euro zone, 2010 will go down as a crisis year for government finances, in which Greece and Ireland played a leading role. The crisis began in late 2009, following the disclosure of a significant budget deficit in Greece. Despite the adoption of a drastic austerity plan by the Greek Government, investors lost confidence in Greece's solvency. In order to help their partner country, and contain investors' misgivings, which were spreading to other countries, including Spain, Ireland and Portugal, the euro zone Member States set up a European Financial Stability Facility (EFSF) in early May, which granted Greece a loan on condition that it cleaned up its public finances. Meanwhile, the ECB began purchasing limited amounts of the most badly affected countries' government debt on the bond market. However, in late 2010, it was Ireland's turn to call in the EFSF, as rescuing its banks had jeopardised the country's accounts. The other Member States came to Ireland's rescue, and announced that a durable financial stability mechanism would take the EFSF's place in 2013, in response to mounting misgivings over the euro zone.

#### **THE RISK OF INFLATION RE-EMERGED AT THE END OF THE YEAR**

The strong growth experienced by emerging countries, combined with random weather patterns that were unfavourable to harvests, caused the price of a wide range of commodities, including oil and foodstuffs, to surge last year. In developing countries, where inflation was contained by the slowness of the recovery and high unemployment levels, that surge was reflected in a limited increase in consumer prices. Inflation in developed countries (and particularly France)

therefore remained low in 2010, averaging 1.5% for the year. However, inflation in emerging and developing countries was less well contained (averaging 6.3% for the year according to the IMF), and accelerated sharply towards the end of 2010. This acceleration was undoubtedly mostly due to the very high weighting assigned food by household budgets in those countries. However, it is also explained by their economic momentum, which drove prices and wages higher.

#### **MONETARY POLICY: TIGHTENING IN EMERGING COUNTRIES, PROLONGED INTERVENTION IN MAJOR DEVELOPED COUNTRIES**

Faced with the prospect of "overheating", many emerging countries began tightening their monetary policy, in the same way as Brazil, India and China. Conversely, central banks in the major developed countries extended their exceptional bank credit and liquidity support measures, and kept their key interest rates at historically low levels (1% for the ECB, and 0.25% for the US Federal Reserve (the Fed)). In particular, the sovereign debt crisis in the euro zone forced the ECB to slow down the rate at which it was bringing its bank financing transactions back down to normal levels. Meanwhile, last autumn, the Fed launched a new government securities purchasing programming, as it viewed the US recovery as too slow.

#### **A DOUBLE WAVE OF DOUBT SWEEPED OVER THE FINANCIAL MARKETS**

2010 saw two periods when there was a sharp rebound in risk aversion. The first was in the spring, due to the Greek debt crisis, while the second was during the summer, when doubts regarding the sustainability of the US and global recoveries resurfaced. On each occasion, the most highly rated Government bonds acted as safe haven investments, which resulted in their yields dropping by a notch. They only recovered markedly towards the end of the year, once the re-acceleration of global growth had been confirmed. Nonetheless, in late 2010, long-term rates remained below their 2009 year-end level: 3.35% for 10-year French Treasury bonds (OATs) and 2.95% for German Bunds.

Meanwhile, the performance of individual stock markets was a reasonably accurate reflection of the growth rates recorded in different parts of the world. Overall, markets in emerging countries registered much better performances than those in developed countries, except towards the end of the year, when the risk of inflation began to rear its head.

In developed markets, the major US stock market indices turned in a better performance than the indices for their European counterparts, with the notable exception of Northern European markets (led by Denmark, Sweden and Germany). Concerns about government debt, did, in fact, weigh down European bank stocks. This was the reason why the French

CAC 40 Index fell by 3% over the year, although this was a lesser evil compared with the drop in the stock market indices of the countries that were most affected by the debt crisis (-36% for Athens, -19% for Madrid, etc.)

## THE SAVINGS AND CREDIT MARKETS IN FRANCE: RECOVERY IN HOUSEHOLD SAVINGS INFLOWS, AND A SHARP REBOUND IN HOME LOANS

**Financial investment flows** in France held up relatively well in 2010, amounting to around €120 billion (including reinvested capitalised interest, but excluding unlisted securities, where valuations are uncertain), i.e. 9% of after-tax income. Although the savings rate declined, it did so from a very high level, as the financial crisis had prompted people to put money aside as a precaution. Conversely, the amounts available for financial savings increased, thanks to a combined rebound in home loans and the sale of resale homes. Financial investments resulting from the income of those sales therefore increased, after contracting during the depths of the financial crisis. Moreover, the investment inflow structure, which was thrown into confusion in 2008 and 2009, slowly began to return to normal. Although net **cash or quasi-cash savings products** (savings accounts, interest-bearing accounts and money-market UCITS) continued to register net outflows in 2010, due to their exceptionally low yields, the outflows were smaller than in 2009. In fact, withdrawals from **interest-bearing accounts** and **money-market UCITS** were slightly less dramatic, while overall net payments into accounts increased, thanks to **savings accounts**. This was the case despite a logical contraction in **Livret A** account inflows, which had been boosted by the lifting of restrictions on their distribution in 2009. Outflows were apparently limited by an increase in interest paid on Livret A accounts, which rose from 1.25% to 1.75% in August 2010. Finally, we would also note that households once again let their overnight deposits build up, no doubt not bothering to manage their funds because of the very low short-term rates. Meanwhile,

the sharp rebound in overall inflows into **mid to long-term savings products** observed in 2009 did not continue. In fact, inflows into **life insurance** policies barely increased. The increase in payments was much lower than in 2009, while conversely, withdrawals rebounded. A more detailed breakdown shows that payments into euro-denominated life insurance policy products ran out of steam, as the yield gap with cash savings did not provide as much support as in 2009. Meanwhile, the recovery in unit-linked account inflows was limited, given the patchy stock market recovery last year. Moreover, net payments into **non-money market UCITS**, which continued to suffer from competition with unit-linked accounts, appear to have been negative in 2010. Conversely, after experiencing heavy withdrawals between 2005 and 2008, **home loan savings plans (PELs)**, which were supported by an attractive yield in the current environment (3.5% including the Government subsidy for new plans), confirmed their return to favour.

On the credit market, the strength of the recovery in **new home loans**, which began in the spring of 2009, surprised observers, as did the recovery in the residential property market. This trend is mostly explained by the stronger than expected fall in borrowing rates, combined with housing market incentives (the so-called Scellier tax break for investments in rental property, the increase in the zero -rated loan ceiling, etc.). In addition, property undoubtedly benefited from its reputation as a safe haven investment in the eyes of French savers. In fact, new property loans surged by almost 50% over the year, erasing the decline observed in late 2008 and early 2009, and returning to the record level achieved in 2006.

Conversely, the small recovery in **consumer credit**, which emerged in 2009, fell flat last year. It is a fact that new car registrations, which received a boost from scrappage scheme and eco-friendly subsidies, fell back, only to recover temporarily at the end of the year, before the reduction in vehicle purchase assistance schemes came into effect. Overall, the amount of new consumer loans granted (excluding revolving loans) once again fell slightly in 2010. Meanwhile, the amount of revolving loans outstanding continued to decline.

## 2.1.2 News from Retail Banking

La Banque Postale's Retail Banking news is divided into news on the Division's business activities, its product range and changes to its organizational structure.

### BUSINESS ACTIVITIES

In an environment where returns on cash savings remained low, amounts invested in regulated savings accounts declined, as did the amounts invested in money-market UCITS, where the returns obtained fell sharply. Conversely, the amounts invested in overnight deposit accounts increased, once again as a result of the low returns on cash savings.

One exception to the trend was the increase in the amounts deposited in home loan savings accounts, which were boosted by the attractiveness of some home loan savings plan series, where returns appeared relatively attractive compared with those of other products.

The amount of home loans outstanding increased by €5 billion, following on from 2009, which had also already witnessed a €4.3 billion increase in average loans outstanding. 2010 was also marked by the wide-scale launch of the consumer credit range, which generated over €850 million in loans, and where loans accelerated during the second half of 2010.

The surveys regarding La Banque Postale conducted in 2010 reinforced La Banque Postale's positioning in terms of the pricing and quality of the products offered to its customer base. When *Le Revenu* magazine announced its 2010 Bank Trophies last September, it ranked La Banque Postale in second place, due primarily to its particularly competitive positioning on rates. Meanwhile, La Banque Postale was awarded the Lowest Rates Trophy, based on the three customer profiles studied, for the third year running. The Bank also ranked third in terms of home loans and financial management.

These rankings were also corroborated by the *Dossiers de l'Épargne*, which awarded two certificates of excellence to La Banque Postale, one for its consumer credit range (individual car loans), and one for its home loans (*Pactys Réactivité*).

The growth in loans outstanding occurred without any unfavourable drift in the Bank's credit risk exposure. The cost of risk grew proportionately to the increase in loans outstanding.

The quality of the Bank's financial instruments portfolio enabled it to go through the year with no investment management issues. As in 2009, La Banque Postale did not apply the IASB amendments. The portfolio of financial assets that were reclassified from "Assets available for sale" to "Loans and receivables" as at July 1<sup>st</sup> 2008 continued to decrease, due to the effect of disposals and of securities reaching maturity.

## NEW PRODUCT RANGES

La Banque Postale's aim is to be the multi-channel bank that is closest to its customers, in order to enable them to "have their bank the way they want it". In order to improve the service it offers to customers, the range of products and services available through all the Bank's channels was significantly increased. When it launched its new businesses (consumer credit and property and casualty insurance), La Banque Postale chose a fully multi-channel distribution, management and customer relationship system right from the start.

La Banque Postale launched its mobile telephone portal in February 2010; this platform is accessible on smartphones and attracts over 700,000 visitors per month (December 2010), by offering some of the services available on the Bank's website.

Meanwhile, new features were added to the [www.labanquepostale.fr](http://www.labanquepostale.fr) website in 2010 (personal data management, one-off or regular payments into life insurance or retirement savings accounts, access to a secure messaging service to talk to an Advisor, and access to an electronic safe).

In March 2010, La Banque Postale successfully launched its first bank cards for businesses, thereby consolidating its position with professionals, companies and associations.

La Banque Postale Financement's consumer credit range was rolled out nation-wide in April 2010. La Banque Postale has designed a simple, accessible and flexible consumer credit range, which enables its customers to finance their projects (buying a vehicle, equipping their home, and small home improvement jobs) or to meet their specific needs (refinancing existing loans). The range comes with appropriate borrower insurance and at a price that is towards the low average range in the market. In June, the range was boosted by new products designed for young customers and temporary workers, including loans for students and apprentices, a driving licence loan that costs €1 per day, and loans for temporary workers.

La Banque Postale has been marketing *Toscane Vie*, a new high-end life insurance policy, since September 2010, in order to meet the requirements of its high net worth customers. With this life insurance proposal, which includes

a "loyalty guarantee", La Banque Postale has rounded out its range of high-end life insurance policies, which already includes *Cachemire* and *Excelis*.

La Banque Postale extended its range of vouchers to luncheon vouchers, which, if all issuers are included, benefit from a shared, single network that accepts them in 180,000 restaurant outlets. As a result, *Le Chèque de Table* (luncheon vouchers) have been offered to the Bank's corporate customers since November, in addition to subsidised employment (*CESU*) and gift (*Cado*) vouchers.

La Banque Postale, which regularly wins awards for the performance of its UCITS range, received the Gold Trophy for the best performing euro-denominated equity UCITS over a three-year period, and the Silver Trophy for the best performing range of diversified UCITS over a three-year period at the *Trophées du Revenu* awards for the best-performing unit trusts and funds.

The funds' performance was also rewarded at the *Mieux vivre votre argent* magazine awards. La Banque Postale won the long-term award for the quality of its UCITS management over a five-year period, and the prize for the best equity investment product range distributed through major networks over a five-year period. At the end of the year, the Bank won the *Investir Magazine* Golden Laurel Award in the "Equity and Diversified Product Management" category.

At the beginning of August, La Banque Postale obtained permission from the French Ministry for the Economy, Finance and Employment to design a range of corporate products and services that enable it to make an additional contribution to funding the economy and reinforcing the Bank's expansion in this sector.

The end of 2010 was also characterised by the work that the Bank accomplished on taking over La Poste's range of in-home services, working together with *Mutuaide Assistance*, a Groupama subsidiary, by focusing the range on six key services and making it accessible across all its channels. This new product range is expected to be rolled out to customers in early 2011.

Finally, La Banque Postale began distributing its Property and Casualty Insurance (IARD) range via its remote platforms, through its La Banque Postale Assurances IARD subsidiary.

## ORGANISATION

La Banque Postale's organizational structure anticipates its customers' expectations and follows them as closely as possible. Adapting the Bank's work tools, increasing the professionalism of its employees, synergies and the quality and effectiveness of its marketing effort all enter into play in order to satisfy those expectations.

Several initiatives were undertaken to improve the Bank's customer reception facilities during the course of 2010. The Bank continued to set up Corporate Areas, and opened three new areas in Marseille, Lyon and Paris in 2010. These areas enable specialised Advisors to welcome the Bank's corporate customers in dedicated areas, which have been designed as



business centres. The Bank's concerns regarding accessibility for customers were also reflected in the increased features offered via the 36 39 short dialling code.

The guidelines for the Financial Centres are to use the Centres' experience in order to move forward, and define the priorities that will serve the Bank and its customers' strategies. Those guidelines are based on three fundamental points: always putting the customer at the heart of the Bank's organizational structure, reinforcing the single, multi-channel bank model, and continuing to improve the level of professionalism in its banking business lines.

The Customer Services project is one example of how those guidelines are implemented on an operating basis: The Customer Service Departments are now based on one main entry point, namely Customer Services, which handles customers' requests without delay, whether they are made by email, over the telephone, or in a letter. Customer Services

may redirect the customer to specialist services, if necessary. A significant effort has been made in terms of training, employee support, and technology and IT hardware in order to support the project.

The DISFE, (Financial Services and La Poste IT Department) was created in April 2010. The Department is the result of the merger between La Banque Postale and La Poste's IT Departments. It aims to deliver the best possible quality of service to customers and employees, by pooling expertise and resources, while optimising costs.

Where marketing effectiveness is concerned, the Marketing Department has changed its Bank Advisory Business management system, in order to make it easier for customers to access the Advisor who is best suited to their requirements quickly.

## 2.1.3 News from the subsidiary companies

### NEW SUBSIDIARIES AND INVESTMENTS

- During the last quarter of 2010, SF2 acquired an additional 5% minority interest in Tocqueville Finance Holding, thereby raising its stake to 41%;
- La Banque Postale disposed of investments in the following areas during the year:
  - disposal of the Bank's stake in Visa Inc., which it had received following the restructuring of Visa's share capital,
  - partial sale of its stake in Société Financière De Paiements to Western Union, although it retained a 10% interest,
  - disposal of its stake in Carte Bleue SA,
  - disposal of its stake in BMS Exploitation, which resulted in the "amicable" winding up of BMS Développement.
- A second capital increase for La Banque Postale Assurances IARD, which was reserved for Groupama, took place on September 1<sup>st</sup>, and resulted in a cash contribution of €99.5 million. At the same time, SF2 sold part of its stake in La Banque Postale Assurances IARD to Groupama, as a result of which SF2 now has a 65% holding in the Company.

### PARTNERSHIPS

After announcing their intention to enter into exclusive negotiations with a view to agreeing a partnership in the health insurance field, La Banque Postale and La Mutuelle Générale signed the final agreement regarding the setting up of a joint subsidiary (La Banque Postale Assurance Santé). The aim of this subsidiary is to market a full range of health insurance products to the greatest number of people possible from late 2011 onwards. An initial capital increase took place in November 2010, which was 76% subscribed by SF2 and 24% by La Mutuelle Générale. Once approval has been received, a second capital increase will take place, following which the Company will be 65% owned by SF2 and 35% by La Mutuelle Générale.

## 2.2 The La Banque Postale Group in 2010

### 2.2.1 Overview of the Group's business activities

The La Banque Postale Group's primary focus is on the French retail banking market, and specifically on retail customers.

This core business is complemented by insurance and asset management divisions.

## RETAIL BANKING

The Group's presence in the retail banking sector, which was traditionally based on its core activities, continued to expand in 2010, through the business activities of its La Banque Postale Financement subsidiary, which specialises in consumer credit. Following a pilot phase in 2009, and a broad-based training programme aimed at the Bank's employees, the consumer credit product range was rolled out nation-wide in early April 2010. This new business rounds out the sectors in which La Banque Postale was already present, namely e-banking, payment methods, savings products and loans.

In order to deliver these services, La Banque Postale relies primarily on La Poste employees, who are fully funded by the Bank. Those employees include:

- advisory and sales staff, who are mainly located in Post Offices;
- counter staff for the banking side of its business activities;
- staff in the Financial and National Centres, who are responsible for the back-office processing of customer transactions;
- staff at the Financial Services and La Poste IT Department, inasmuch as the banking business is concerned.

The new consumer credit products are distributed via several channels: Post Offices, the [www.labanquepostale.fr](http://www.labanquepostale.fr) website, the 36 39 short dialling code and the La Banque Postale Financement Customer Relationship Centre.

The expansion of the business line that targets companies, local authorities and associations, which was already underway in 2009, continued in 2010, with the aim of improving customer relationships in areas such as understanding the customer, taking orders, and more generally providing proper support to the customer at key points in the relationship.

On the micro-loan side, La Banque Postale remained committed to providing micro-loans to individuals in 2010, thereby funding individual projects backed by private individuals who are unable to obtain a bank loan. The La Banque Postale policy is to partner the players involved on the ground in order to provide support to this group of customers. In this way, 26 partnerships with organizations working in the social inclusion field (UDAF, CCAS, etc.) were agreed, which brings the number of partnerships signed since 2007 to 78.

The average amount of the micro-loans granted by La Banque Postale in 2010 was €2,404 (compared with €2,300 in 2009 and €2,166 in 2008), while the average length of those loans was 36 months (compared with 34 months in 2009).

## INSURANCE ACTIVITIES

This division includes the health and personal risk insurance activities that were introduced from 1998 onwards via a company owned jointly with CNP Assurances. That company, which has since been named La Banque Postale Prévoyance, offers life, health and other insurance cover.

The unit also includes the brokerage activities of La Banque Postale Conseil en Assurance (formerly Sogerco), a company that operates primarily in the payment insurance sector, with products like *Alliatys*, for example, and that has particularly distinguished itself through designing and setting up insurance products specifically designed for "post office staff".

The unit also includes the Group's interest in CNP Assurances.

It also includes La Banque Postale Assurances IARD in its scope of consolidation. This is the joint venture created with Groupama as part of a partnership agreement signed on October 12<sup>th</sup> 2009, the aim of which is to cover essential property and casualty insurance requirements, and which is distributed through all the channels accessible to customers.

Finally, the unit also includes La Banque Postale Assurance Santé, which will offer a full, segmented range of health insurance products aimed at the greatest number of people possible in late 2011.

## ASSET MANAGEMENT ACTIVITIES

There was a marked development in La Banque Postale's asset management business in late 2009, when a majority interest in Tocqueville Finance was acquired. The business remained stable in 2010.

Through the La Banque Postale Asset Management (LBPAM) sub-group, La Banque Postale's asset management unit remains responsible for setting up and managing the UCITS marketed by the retail bank. La Banque Postale Asset Management also includes its structured product management arm, together with a start-up investment company focusing on innovative and/or specialist management companies, the aim of which is to enable La Banque Postale customers to invest in platforms that benefit from such expertise.

The asset management unit also includes a private equity business, and manages property investments (REITs, open-ended property funds, etc.) for La Banque Postale's customers, thus providing them with a wide array of investments.

## 2.2.2 2010 Results

The 2010 financial year was in line with 2009 in terms of business development in the Bank's three business divisions: retail banking, insurance and asset management.

Home loans continued to be granted at a sustained rate during the year, and amounted to €10.2 billion, which enabled total home loans outstanding to reach €37 billion at the end of the period, an increase of €5 billion compared with 2009.

In addition, La Banque Postale rolled out its consumer credit product range on a nation-wide basis in March 2010. Total loans granted amounted to €850 million as at the end of 2010, in response to over 100,000 applications.

In terms of on-balance sheet savings, the amounts held in Savings Accounts continued to stagnate, due to their historically low returns, which made regulated savings accounts less attractive. Only home loan savings accounts saw an increase in the amounts deposited, due to the fact that their returns for customers were more favourable than those of other savings products.

The collective investment management business also suffered from the impact of low short-term rates and of the uncertainty in the financial markets during the year. It recorded outflows from its cash-based products in 2010, as well as a drop in enthusiasm for equity-linked products, where the amounts held fell by over €1 billion compared with 2009.

One corollary of the movements seen in the amounts deposited in ordinary Savings Accounts was the fact that overnight deposits increased very sharply, given that the low rates paid on savings accounts, among other accounts, did not justify investing short-term savings in these products.

Finally, the amounts held in life insurance policies continued to increase sharply. We would also note the launch of the property and casualty (IARD) product range in late 2010, although this range did not have a significant impact on the 2010 results, but is expected to grow in 2011.

In this environment, the net interest margin suffered from divergent effects. On the one hand, as in 2009, low interest rate levels had a negative impact overall, by lowering the gross return on security portfolios when they were reinvested, and by reducing the home loan rates on offer. Furthermore, the refinancing of loans that was seen aggravated the downtrend in the average return on home loans.

Conversely, the home loan volume effect had a significant impact, resulting in an overall increase in the contribution of these products to net banking income. Finally, historically low short-term rates led to a decrease in the interest paid on customer deposits.

Overall, net interest margin for the Retail Banking Division increased by €146 million compared with 2009, reaching €2,555 million.

La Banque Postale's 2010 results were characterised by a €196 million increase in NBI (net banking income), compared

with a €204 million increase in 2009, i.e. a rise of 3.9% compared with last year. Excluding movements in the home loan savings provisions, the rise in NBI was 4.2%.

Meanwhile, operating expenses increased by €93 million (+2.1%). Restated for changes in the scope of consolidation<sup>(1)</sup>, operating expenses rose by 1.8%. Personnel costs increased as a result of the rise in the Group's headcount, which was primarily due to the ramp-up in the consumer credit businesses, and to preparing for new partnerships from an operating standpoint (property and casualty, and health insurance). Expenses linked to service agreements increased very slightly compared with 2009 (by €7 million). Depreciation, amortisation and impairment charges increased by €19 million compared with 2009, primarily due to the IT expenditure generated by the major business line projects, as well as by the various partnerships.

Gross operating profit amounted to €779 million, a rise of €103 million compared with 2009. The cost of risk increased slightly, by €8 million, which was mainly related to overnight deposits. The cost of risk linked to loans fell slightly, underlining La Banque Postale's tight control over the loan granting process.

The operating ratio improved, falling to 85.1% compared with 86.6% in 2009.

The Group's share in the net profits of equity associates (mainly CNP Assurances) increased by €9 million. The Group share of annual net profit was €651 million, up €63.7 million compared with 2009.

## 2.2.3 Ratings

	Standard & Poor's	Fitch
Long-term rating	A+	AA
Outlook	Stable	Stable
Date updated	April 2 <sup>nd</sup> 2010	July 20 <sup>th</sup> 2010
Short-term rating	A-1	F1+

(1) Acquisition of Tocqueville in late 2009.

## 2.3 Corporate governance

### 2.3.1 Executive Board

La Banque Postale is a company with Executive and Supervisory Boards.

Overall management of the company is provided by the Executive Board, which has the most extensive powers to act on behalf of the company in all circumstances, within the limits of its corporate remit and subject to those powers expressly conferred on the Supervisory Board and the Annual Shareholders' Meeting by French law and the company's articles of association.

The Executive Board has two members: during the 2010 financial year, the Executive Board consisted of Patrick Werner, the Chairman, and of Philippe Bajou. As of January 18<sup>th</sup> 2011, the Executive Board consists of:

- Philippe Wahl, Chairman;
- and Philippe Bajou.

Both members of the Executive Board are managing executives within the meaning of Article L. 511-13 of the French Monetary and Financial Code.

As previously authorised by the Supervisory Board, the members of the Executive Board have divided management duties between themselves. They have also set the amounts in excess of which certain actions committing the Company must receive prior approval from the Supervisory Board. Failure to secure that approval may result in the individual concerned being personally liable towards the Company and its shareholders.

#### PROFILE OF THE EXECUTIVE BOARD MEMBERS

Chairman of the Executive Board until January 18 <sup>th</sup> 2011		
Patrick Werner (60)	Graduate of the IEP Paris, former student of the ENA and Government Auditor	<ul style="list-style-type: none"> <li>• Inspection des Finances (French Government Audit Office) between 1976 and 1980.</li> <li>• Appointed Head of Internal Audit at La Caisse des dépôts et Consignations in 1980, member of the Executive Board then Managing Director of C3D (the holding company for CDC subsidiaries) between 1983 and 1991.</li> <li>• Managing Director of the Victoire insurance group between 1991 and 1995.</li> <li>• Appointed Managing Director in 1996, then Vice-Chairman and Managing Director in 1997 of the Federation of French Insurers (FFSA).</li> <li>• Deputy Managing Director of the La Poste Group and member of the Executive Committee from 1999 to January 18<sup>th</sup> 2011.</li> <li>• Chairman of the Executive Board of La Banque Postale from December 16<sup>th</sup> 2005 to January 18<sup>th</sup> 2011.</li> </ul>
Chairman of the Executive Board since January 18 <sup>th</sup> 2011		
Philippe Wahl (54)	Graduate of the IEP, Paris, Research Master's Degree in Monetary and Financial Economics, and former student of the ENA	<ul style="list-style-type: none"> <li>• Auditor, then Master of Requests at the French Council of State, between 1984 and 1988.</li> <li>• Project leader for the Chairman of the French Stock Exchange Commission's Office between 1986 and 1988.</li> <li>• Technical Advisor responsible for Monetary, Financial and Tax Affairs at the Prime Minister's Office between 1988 and 1991.</li> <li>• Appointed Chairman of Compagnie Bancaire in 1991, then as a member of the Management Committee in 1992 and Deputy Chief Executive in 1994.</li> <li>• Appointed Head of Paribas' Specialist Financial Services Division and as a member of the Executive Committee in 1997.</li> <li>• Appointed Chief Executive of the Caisse Nationale des Caisses d'Épargne in 1999.</li> <li>• Appointed Chief Executive of the Havas Group in 2005, and Vice-Chairman of the Bolloré Group in 2006.</li> <li>• Appointed Chief Executive of RBS' French subsidiary in 2007, as Advisor to the RBS Global Banking and Markets Board in London in 2008, and Chief Executive of RBS' French, Belgian and Luxembourg subsidiaries in 2009.</li> <li>• Deputy Executive Director of the La Poste Group, member of the Executive Committee and Chairman of the La Banque Postale Executive Board since January 2011.</li> </ul>

## Member of the Executive Board (mandate renewed on January 18<sup>th</sup> 2011)

Philippe Bajou (52)	Graduate of the ENSPTT, and Degree in Electronics from Paris XI University	<ul style="list-style-type: none"> <li>• Has worked at La Poste Group since 1982, was seconded to the French Ministry of Post and Telecommunications in 1989, then appointed to various positions in the La Poste Finance Department.</li> <li>• Appointed Head of Financial Affairs and Investments at La Poste in 1995, with responsibility for the post-office funds management project from 1998 onwards.</li> <li>• Appointed Managing Director of Etiposte in 2000.</li> <li>• Member of the Executive Board of La Banque Postale since 2006.</li> </ul>
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## 2.3.2 Internal Executive Board Committees

In addition to the Executive Committee and the Management Committee, La Banque Postale has seven internal committees, each chaired by a member of the Executive Board.

The members of these committees are the Heads of the Departments concerned by the matters discussed and the Heads of the insurance and asset management units. The Bank's Regional Representatives also attend certain committee meetings (risk, sustainable development, customer quality assurance, and compliance and business ethics). Likewise, the Financial Centre Heads attend certain committees (risk, sustainable development, customer quality assurance) on a rotation basis.

Minutes are systematically taken by the Policy & Procedures Office and submitted to the Chairman for approval.

- **The Executive Committee (EXCOM)** assists the Executive Board in defining the Bank's strategic orientations, taking major collective decisions and implementing those decisions at the operational level. It draws up the Bank's strategy plan. The Committee meets three times per month.

As at December 31<sup>st</sup> 2010, the EXCOM consisted of the following members:

- Patrick Werner, Chairman of the Executive Board;
- Philippe Bajou, member of the Executive Board;
- Serge Bayard, Head of Strategy;
- Philippe Bettinger, Head of Internal Audit;
- Philippe Blin, Head of Information Systems;
- Yves Brassart, Finance Director;
- Marie Cheval, Head of Operations;
- Bernard Condat, Head of Sales;
- Jean-Luc Enguéhard, Head of the Asset Management Unit;
- Sylvie François, Head of Human Resources;
- Sylvie Lefoll, Head of Communications;
- Marc Levy, Head of Compliance;
- Alain Saubole, Head of Risk;
- François Schwerer, Head of Legal Affairs;
- Pierre-Manuel Sroczyński, Head of Financial Operations;
- Didier Vuillaume, Marketing Director;
- Danielle Wajsbrot, Head of the Insurance Unit.

- The **Management Committee** is a forum for the mutual exchange of information, particularly on the roll-out of the Bank's major policies, on the progress of projects, and on the

Bank's budget and results. It reviews the Bank's performance using key performance indicators that monitor the Bank's business activities and analyses the implementation and the results of the Bank's marketing policy on a quarterly basis. It also manages the career paths of senior executives and potential high-flyers. The Committee meets once a month. As at December 31<sup>st</sup> 2010, it consisted of all the members of the Executive Committee, as well as the Bank's six Regional Representatives (Jean-Paul Barré, Danièle Faivre, Bernard Feissat, Éric Moitié, André Taboni and Jean-Luc Thiebault) together with Philippe Espanol, the Head of the Corporate, Local Authority and Voluntary Associations Banking Department.

- **The Risk Committee** is involved in defining the Bank's lending policy and the guidelines for taking risks. It reviews risk and approves the La Banque Postale Group's major undertakings. It monitors the La Banque Postale Group's market, credit and operating risk and approves the risk control system (limits, delegation, and rules for granting loans). The Committee meets once a month.

- **The Compliance and business Ethics Committee** ensures that the actions taken in respect of legal and regulatory provisions that are specific to the banking industry are coherent and effective. More specifically, it ensures that anti-money laundering and counter-terrorism funding procedures are effective, co-ordinates internal control activities, makes certain that business ethics rules are adhered to, updates the list of "sensitive" staff and investigates major conflicts of interest. The Committee met four times in 2010.

- **The ALM (Asset-Liability Management) Committee** ensures that the Bank's financial and marketing policies are consistent, forecasts and manages future net interest margins, manages future balance sheet risk, particularly liquidity risk, interest rate and credit & counterparty risk. The Committee's remit extends to the La Banque Postale corporate entity, as well as to its subsidiaries. The Committee meets once a month.

- **The Strategic Information Systems Committee** monitors the information systems budget and manages arbitrages within the IT project portfolio, in accordance with the strategy plan. The Committee meets every quarter.



- **The Marketing and Sales Committee** approves the marketing mix implemented in markets identified as priorities for increasing NBI on sales. The Committee meets once a month.
- **The Customer Quality Assurance Committee** issues recommendations on the direction of the quality assurance policy and monitors customer satisfaction, the quality of the service delivered to customers and best practices in the sector. It launches “Quality Assurance” plans and monitors their progress. The Committee meets every quarter.
- **The Sustainable Development Committee**, which was created in late 2008, aims to define, prioritise and direct responsible sustainable development programmes. The Committee studies programmes that have been implemented and promotes their adoption by the Bank’s different business lines. The Committee meets every quarter.

## 2.4 Shareholder relations

### 2.4.1 Shareholder relations

Pursuant to Article 16 of Law 2005-516 of May 20<sup>th</sup> 2005 and its enactment decree of August 30<sup>th</sup> 2005, La Poste, a Public and Commercial Company (EPIC) transferred all the assets, rights and obligations relating to its financial services to La Banque Postale, with effect from December 31<sup>st</sup> 2005. Equity interests were included in the transfer, with the exception, where appropriate, of those required by La Poste for its directly managed activities. In exchange for these contributions, La Poste received 1,008,333,000 shares in La Banque Postale, with a par value of €2.16 each. Following these transactions, La Poste holds a 99.99% interest in La Banque Postale.

The aforementioned Article 16 specifically states that La Poste must retain a majority interest in its subsidiary.

Moreover, under the terms of the transfer agreement, La Poste has committed to hold its shares in the company for a period of at least three years. La Banque Postale has no knowledge of any other agreement that would modify La Poste’s shareholding, if implemented.

The relationship between La Poste and La Banque Postale is very close, both in terms of their corporate governance and bodies and of their industrial and commercial relations. The Executive Chairman of La Banque Postale is therefore the Deputy Managing Director of La Poste, and a member of the Executive Committee. Seven members of La Banque Postale’s Supervisory Board are employees of La Poste, and the Chairman of La Poste chairs the Bank’s Supervisory Board. La Poste is also represented on its Supervisory Board Committees.

La Poste is the main service provider for La Banque Postale, which uses La Poste’s resources to conduct its business activities. Various agreements have been reached between La Poste and La Banque Postale in this respect and pursuant to Article 16 of Law 2005-516 of May 20<sup>th</sup> 2005. The main agreements were approved by the Supervisory Board of La Banque Postale, in accordance with the provisions of Article L. 225-86 of the French Commercial Code. Members of the Executive Committee of La Poste did not take part in the vote. These agreements are updated regularly, depending on the trends observed, and presented to the Supervisory Board for approval.

As a subsidiary of the La Poste Group, the Bank must include the rules established by La Poste in its corporate governance, primarily those established in the internal regulations of the Board of Directors. This means that property disposals and acquisitions, investment in and sales of equity investments, and capital increases where the amount exceeds €30 million must be approved by the La Poste Board of Directors, Internal investment programmes that represent a financial exposure of over €200 million are also concerned, together with transactions that mark a new strategic direction for the Group, and external transactions involving entry into new markets, business lines and business areas.

Lastly, La Banque Postale is La Poste’s main bank.

Besides its close relationship with its parent company, La Banque Postale is in regular contact with the French Government Investment Agency, which is kept informed of the Bank’s strategic orientations, among other matters.

## 2.4.2 The Statutory Auditors' report on regulated agreements and undertakings

### LA BANQUE POSTALE

Registered offices: 115, rue de Sèvres - 75275 Paris Cedex 06

Share capital: € 2,342,454,090.00

Financial year ending December 31<sup>st</sup> 2010

To the Shareholders,

In our capacity as your Company's Statutory Auditors, we hereby present to you our report on regulated agreements and undertakings.

Our role is to inform you, based on the information that has been provided to us, of the features and the main terms and conditions of the agreements and undertakings that have been disclosed to us, or of which we may have become aware during our assignment. It is not up to us to issue an opinion on their usefulness and legitimacy, or to see whether other agreements and undertakings exist. According to the terms of Article R. 225-58 of the French Commercial Code, your role is to assess the benefits linked to entering into these agreements and undertakings, with a view to approving them.

Furthermore, our role, if applicable, is to inform you of the information set out in Article R. 225-58 of the French Commercial Code relating to the execution of agreements and undertakings that have already been approved by the General Meeting of Shareholders during the preceding financial year.

We have performed the checks that we deemed necessary in respect of this assignment, in accordance with the professional code of conduct of the French National Institute of Statutory Auditors. These checks consisted in ensuring that the information provided to us was consistent with the background material from which it was derived.

### AGREEMENTS AND UNDERTAKINGS SUBMITTED TO THE GENERAL MEETING OF SHAREHOLDERS FOR APPROVAL

#### Agreements and undertakings authorised during the past financial year

Pursuant to Article L. 225-88 of the French Commercial Code, we have been informed of the following agreements and undertakings, which were the subject of prior authorisation by your Supervisory Board.

#### **Amendment No. 2 to the Implementation Agreement regarding the framework agreement between La Banque Postale and La Poste concerning "Over-the-Counter Transactions Performed in La Poste Outlets in the Name and on Behalf of La Banque Postale"**

#### Directors involved on the day of the transaction:

- Patrick Werner, Chairman of the La Banque Postale Executive Board and Deputy Chief Executive of La Poste, who is responsible for financial activities;
- Jean-Paul Bailly, Chairman of the Supervisory Board and member of the Appointments and Compensation Committee of La Banque Postale, Chairman and Chief Executive of La Poste;
- Marc-André Feffer, Deputy Chairman of the Supervisory Board and Chairman of La Banque Postale's Strategy Committee, Deputy Chief Executive responsible for strategy and the development of international and legal affairs, and for the regulation of La Poste;
- Georges Lefebvre, Permanent Representative of La Poste on the Supervisory Board, member of the Appointments and Compensation Committee of La Banque Postale, and Managing Director of La Poste;
- Paul-Marie Chavanne, member of La Banque Postale's Supervisory Board and Strategy Committee, and Deputy Chief Executive and Head of Parcels at La Poste;
- Bernard Delpit, member of La Banque Postale's Supervisory Board and Audit Committee, and Deputy Chief Executive and Finance Director of La Poste;
- La Poste, member of the Supervisory Board and shareholder of La Banque Postale.

#### Nature and purpose

The aim of the original agreement, which was entered into on December 30<sup>th</sup> 2005, was to determine the conditions under which La Banque Postale entrusts the execution of its banking, financial and insurance transactions, and services relating to those transactions to La Poste, through the latter's customer service counters.

La Poste re-invoices these services to La Banque Postale according to a price that is based on the cost of the time taken to execute these transactions, which is borne by La Poste.

The aim of this amendment, which was implemented retroactively as of January 1<sup>st</sup> 2010, was to update the implementation agreement concerning "Over-the-Counter Transactions Performed in La Poste Outlets in the Name and on Behalf of La Banque Postale".

The amendment does not involve any significant alterations to the calculation formula used for re-invoicing costs, but establishes the data guidelines for 2010. Indeed, the former amendment of July 9<sup>th</sup> 2009 only ratified the data for the 2009 financial year. In addition, the amendment updates the definition of NBI that should be used in order to calculate La Poste's additional remuneration, depending on the performance of La Banque Postale.

The other clauses set out in the implementation agreement concerning “Over-the-Counter Transactions Performed in La Poste Outlets in the Name and on Behalf of La Banque Postale” and in amendment No 1 thereto, stand, unless they are incompatible with the present amendment.

### Terms and Conditions

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €1,097.1 million. This agreement was authorised by the Supervisory Board on March 10<sup>th</sup> 2010.

### **Amendment No.2 to the Implementation Agreement regarding the framework agreement between La Banque Postale and La Poste concerning the “Conditions under which La Poste Accommodates La Banque Postale Employees on its Premises”**

#### Directors involved on the day of the transaction

- Patrick Werner, Chairman of the La Banque Postale Executive Board and Deputy Chief Executive of La Poste, who is responsible for financial activities;
- Jean-Paul Bailly, Chairman of the Supervisory Board and member of the Appointments and Compensation Committee of La Banque Postale, Chairman and Chief Executive of La Poste;
- Marc-André Feffer, Deputy Chairman of the Supervisory Board and Chairman of La Banque Postale’s Strategy Committee, Deputy Chief Executive responsible for strategy and the development of international and legal affairs and for the regulation of La Poste;
- Georges Lefebvre, Permanent Representative of La Poste on the Supervisory Board, member of the Appointments and Compensation Committee of La Banque Postale and Managing Director of La Poste;
- Paul-Marie Chavanne, member of La Banque Postale’s Supervisory Board and Strategy Committee, and Deputy Chief Executive and Head of Parcels at La Poste;
- Bernard Delpit, member of La Banque Postale’s Supervisory Board and Audit Committee, and Deputy Chief Executive and Finance Director of La Poste;
- La Poste, member of the Supervisory Board and shareholder of La Banque Postale.

#### Nature and purpose

The aim of the implementation agreement between La Banque Postale and La Poste regarding “Accommodation of La Banque Postale Employees”, as outlined in the framework agreement, is to determine the conditions under which La Poste accommodates certain La Banque Postale employees on its premises. An amendment was approved by the Supervisory Board on March 10<sup>th</sup> 2010; the aim of that amendment was to set the rates applied according to each kind of service for 2010 only. La Poste re-invoices La Banque Postale for each member of its staff on a flat-rate basis, according to the accommodation terms and conditions.

### Terms and Conditions

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €1.3 million. This agreement was authorised by the Supervisory Board on March 10<sup>th</sup> 2010.

### **IT systems implementation agreement between La Banque Postale and La Poste**

#### Directors involved on the day of the transaction

- Patrick Werner, Chairman of the La Banque Postale Executive Board and Deputy Chief Executive of La Poste, who is responsible for financial activities;
- Jean-Paul Bailly, Chairman of the Supervisory Board and member of the Appointments and Compensation Committee of La Banque Postale, Chairman and Chief Executive of La Poste;
- Marc-André Feffer, Deputy Chairman of the Supervisory Board and Chairman of La Banque Postale’s Strategy Committee, Deputy Chief Executive responsible for strategy and the development of international and legal affairs and for the regulation of La Poste;
- Georges Lefebvre, Permanent Representative of La Poste on the Supervisory Board, member of the Appointments and Compensation Committee of La Banque Postale and Managing Director of La Poste;
- Paul-Marie Chavanne, member of La Banque Postale’s Supervisory Board and Strategy Committee, and Deputy Chief Executive and Head of Parcels at La Poste;
- Bernard Delpit, member of La Banque Postale’s Supervisory Board and Audit Committee, and Deputy Chief Executive and Finance Director of La Poste;
- La Poste, member of the Supervisory Board and shareholder of La Banque Postale.

#### Nature and purpose

The aim of the “IT systems Implementation” agreement between La Banque Postale and La Poste is to set out the conditions under which La Banque Postale hosts and operates La Poste’s IT systems.

This agreement sets out the services that La Banque Postale must provide in accordance with the specifications drawn up by La Poste. The compensation paid by La Poste to La Banque Postale is calculated on an actual cost basis, i.e. on the basis of the direct and indirect, and personnel and equipment costs incurred by La Banque Postale, in accordance with the work packages specified in the agreement.

### Terms and Conditions

Pursuant to this agreement, the income received by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 amounted to €13.2 million.

This agreement was authorised by the Supervisory Board on June 17<sup>th</sup> 2010.

## **Amendment No. 2 to the framework agreement regarding the implementation agreement between La Banque Postale and La Poste**

### **Directors involved on the day of the transaction**

- Patrick Werner, Chairman of the La Banque Postale Executive Board and Deputy Chief Executive of La Poste, who is responsible for financial activities;
- Jean-Paul Bailly, Chairman of the Supervisory Board and member of the Appointments and Compensation Committee of La Banque Postale, Chairman and Chief Executive of La Poste;
- Marc-André Feffer, Deputy Chairman of the Supervisory Board and Chairman of La Banque Postale's Strategy Committee, Deputy Chief Executive responsible for strategy and the development of international and legal affairs and for the regulation of La Poste;
- Georges Lefebvre, Permanent Representative of La Poste on the Supervisory Board, member of the Appointments and Compensation Committee of La Banque Postale and Managing Director of La Poste;
- Paul-Marie Chavanne, member of La Banque Postale's Supervisory Board and Strategy Committee, and Deputy Chief Executive and Head of Parcels at La Poste;
- Bernard Delpit, member of La Banque Postale's Supervisory Board and Audit Committee, and Deputy Chief Executive and Finance Director of La Poste;
- La Poste, member of the Supervisory Board and shareholder of La Banque Postale.

### **Nature and purpose**

Under the terms of Article 16 of Law No. 2005-516 of May 20<sup>th</sup> 2005 regarding the regulation of the postal service, La Poste and La Banque Postale entered into 12 agreements according to the meaning of Article L. 518-25 of the French Monetary and Financial Code, in order to determine the conditions under which La Banque Postale relies on La Poste for the purpose of conducting its business.

Pursuant to these provisions, La Poste and La Banque Postale entered into a framework agreement on December 30<sup>th</sup> 2005; the aim of that agreement was to determine the fundamental principles governing all the agreements entered into for an initial period of 10 years, pursuant to the aforementioned Article L. 518-25, the purpose of which was to define the respective roles and responsibilities of La Banque Postale and La Poste.

This agreement was amended on June 13<sup>th</sup> 2008, extending its implementation period to December 31<sup>st</sup> 2019. A second amendment was signed on July 12<sup>th</sup> 2010, in order to update the existing contractual framework, in view of the implementation of the IT Systems Implementation Agreement authorised by the Supervisory Board on June 17<sup>th</sup> 2010. The purpose of the amendment was to take into account the setting up of the DISFE (Financial Services and La Poste IT Department) and the extension of the implementation agreement to December 31<sup>st</sup> 2025.

### **Terms and Conditions**

This amendment had no impact on La Banque Postale's financial statements for the financial year ending December 31<sup>st</sup> 2010.

This agreement was authorised by the Supervisory Board on June 17<sup>th</sup> 2010.

## **Memorandum of agreement between CNP Assurances and La Banque Postale regarding the increased autonomy of La Banque Postale Prévoyance**

### **Directors involved on the day of the transaction**

- Patrick Werner, Chairman of the Executive Board of La Banque Postale, member of the CNP Assurances Board of Directors and Chairman of the Board of Directors of La Banque Postale Prévoyance;
- Jean-Paul Bailly, Chairman of La Banque Postale's Supervisory Board and member of the CNP Assurances Board of Directors;
- Marc-André Feffer, Vice-Chairman of the Supervisory Board and Chairman of the Strategy Committee of La Banque Postale, and member of the CNP Assurances Board of Directors;
- Bernard Delpit, member of the La Banque Postale's Supervisory Board and member of La Banque Postale Prévoyance's Board of Directors.

### **Nature and purpose**

The aim of the memorandum of agreement is to determine the terms and conditions for the increased autonomy of La Banque Postale Prévoyance in terms of the duties described in the memorandum of agreement, which may, depending on the case, occur immediately or gradually (within a timeframe of three years at the most) from the date of said memorandum, by granting La Banque Postale Prévoyance the appropriate means and resources.

### **Terms and Conditions**

This memorandum of agreement had no impact on La Banque Postale's financial statements for the financial year ending December 31<sup>st</sup> 2010.

This agreement was authorised by the Supervisory Board on October 7<sup>th</sup> 2010.

## **AGREEMENTS AND UNDERTAKINGS ALREADY APPROVED BY THE GENERAL MEETING OF SHAREHOLDERS**

### **Agreements and undertakings approved in prior financial years**

Pursuant to Article R. 225-57 of the French Commercial Code, we have been informed that implementation of the following agreements, which were approved in prior financial years, was ongoing in the past financial year and has been ongoing since the close of that year.

### **Implementation agreement for the framework agreement between La Banque Postale and La Poste regarding the "Financial Services Marketing Chain", renamed "Implementation Agreement – Conditions**

## **under which La Banque Postale May Use the Services of the La Poste Network Banking Advisors”**

### **Nature and purpose**

Pursuant to the framework agreement, La Banque Postale and La Poste entered into an implementation agreement on December 30<sup>th</sup> 2005 regarding the “Financial Services Marketing Chain”, the aim of which was to determine the conditions under which La Banque Postale may use the services of the La Poste network Banking Advisors within the context of marketing its banking, financial and insurance products and services. An amendment to this agreement was signed on June 13<sup>th</sup> 2008, in order to take changes in La Poste’s internal organizational structure into account.

La Poste re-invoices La Banque Postale for the costs relating to these employees on a euro for euro basis.

### **Terms and Conditions**

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €1,031.5 million.

## **Implementation agreement regarding the framework agreement between La Banque Postale and La Poste concerning the “Regional Financial Services Centres (CRSF)”, renamed “Implementation Agreement – Conditions under which La Banque Postale May Use the Services of Staff in the Financial Centres”**

### **Nature and purpose**

Pursuant to the framework agreement, La Banque Postale and La Poste entered into an implementation agreement regarding the “CRSF” on December 30<sup>th</sup> 2005. The aim of that agreement was to determine the conditions under which La Banque Postale may use the services of La Poste staff assigned to the national and regional financial centres (formerly the CFN and the CRSFs) and to the Head Office (formerly the DESF), who perform banking and marketing services in the name and on behalf of La Banque Postale, within the framework of the General and Operating Policies.

Following the shutdown of the DESF at La Poste, this agreement was the subject of an amendment on June 13<sup>th</sup> 2008: La Banque Postale now uses the services of the staff working in the La Poste network Financial Services Marketing Chain. La Poste re-invoices La Banque Postale for the costs relating to these employees on a euro for euro basis.

### **Terms and Conditions**

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €893.9 million.

## **Implementation agreement between La Banque Postale and La Poste regarding the “Conditions under which La Banque Postale Uses the Services of the La Poste Financial Information Services Division, or DISF” which has now become the DISFE**

### **Nature and purpose**

Pursuant to the framework agreement, La Banque Postale and La Poste entered into an implementation agreement regarding the “DISF” on December 30<sup>th</sup> 2005. The aim of that agreement was to determine the conditions under which La Banque Postale may use the services of the La Poste DISF staff, who are responsible for the information systems (research, development and production) used in banking, financial and insurance services in the name and on behalf of La Banque Postale, within the framework of the General and Operating Policies.

La Poste re-invoices La Banque Postale for the costs relating to these employees on a euro for euro basis.

### **Terms and conditions**

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €105.1 million.

## **Implementation agreement between La Banque Postale and La Poste regarding “Services Provided by La Poste in Relation to Managing Automated Teller Machines (ATMs)”**

### **Nature and purpose**

Pursuant to the framework agreement, La Banque Postale and La Poste entered into an implementation agreement regarding the “Management of Automated Teller Machines” on December 30<sup>th</sup> 2005. The aim of that agreement was to determine the conditions under which La Banque Postale entrusts the provision of services relating to the marketing, roll-out and management of La Banque Postale’s CDMs and ATMs and Moneo terminals to La Poste. An amendment aimed at setting the rates charged according to service type between 2009 and 2011 was signed in 2008. La Poste re-invoices La Banque Postale for these services, based on an annual flat rate for each type of service.

### **Terms and conditions**

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €52.5 million.

## **Implementation agreement between La Banque Postale and La Poste regarding the “Services Provided by La Poste in Relation to Information and Communication Technology”**

### **Nature and purpose**

The aim of the “ICT Services” implementation agreement between La Banque Postale and La Poste, as set out in the framework agreement, is to establish the conditions under which La Poste supplies information, telecommunications and network infrastructure services linked to the La Banque Postale IT tools used by the La Poste staff assigned to banking, financial and insurance services and to the upgrading of the software and hardware for the ATMs.



This agreement was the subject of an amendment on December 11<sup>th</sup> 2008, which redefined the rates charged for each kind of service.

#### **Terms and conditions**

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €13.2 million.

#### **Implementation agreement between La Banque Postale and La Poste regarding the “Purchasing, Procurement and Inventory Management Services Provided by the La Poste Procurement Department (DAPO) on Behalf of La Banque Postale”**

##### **Nature and purpose**

Pursuant to the framework agreement, the aim of the original agreement, which was entered into on December 30<sup>th</sup> 2005, was to establish the conditions under which La Banque Postale entrusts the execution of purchasing, procurement and inventory management services to La Poste on a non-exclusive basis. La Poste re-invoices these services, which were agreed for two years from the date when the implementation agreement entered into force, to La Banque Postale, based on a single rate charged for each transaction performed.

The effect of this amendment, which was retroactive to January 1<sup>st</sup> 2009, was to rename the agreement “Purchasing, Procurement and Inventory Management Services Provided by the La Poste Procurement Department (DAPO) on Behalf of La Banque Postale”. The terms and conditions of the services were redefined, primarily those relating to transportation, which are readjusted on a monthly basis, in order to take fluctuations in the cost of diesel fuel into account. Moreover, an invoice ceiling clause was added to the agreement, in order to enable La Banque Postale to draw up cost forecasts.

##### **Terms and conditions**

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €4.4 million.

#### **Implementation agreement of the framework “IVTF” agreement between La Banque Postale and La Poste**

##### **Nature and purpose**

Pursuant to the framework agreement, La Banque Postale and La Poste entered into an implementation agreement regarding the “IVTF” on December 30<sup>th</sup> 2005. The aim of that agreement was to determine the conditions under which La Banque Postale entrusts the production and delivery of letters with cheques attached, which are printed by the French Stamp and Postal Order Printing Company, or “ITVF”.

La Poste shall re-invoice the letter production and delivery services to La Banque Postale, based on a single rate charged for each transaction performed.

#### **Terms and conditions**

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €2.3 million.

#### **Implementation agreement for the framework agreement between La Banque Postale and La Poste regarding the “Accounting Sub-Contracting Services Performed by La Poste on Behalf of La Banque Postale” (2010 and 2011)**

##### **Nature and purpose**

The aim of the “Accounting Sub-Contracting Services” implementation agreement between La Banque Postale and La Poste, as specified in the framework agreement, and of its amendments, is to establish the conditions under which La Banque Postale entrusts the performance of sub-contracted accounting services to La Poste.

This agreement was the subject of a new amendment on December 2<sup>nd</sup> 2009, which primarily sets out a new invoicing model as the basis for calculating the services performed in 2010 and 2011. This amendment entered into force on January 1<sup>st</sup> 2010.

##### **Terms and conditions**

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €1.4 million.

#### **Implementation agreement between La Banque Postale and La Poste regarding the “Conditions under which La Banque Postale Uses the Services of the Staff Working at La Poste’s Financial Services Head Office”**

##### **Nature and purpose**

Pursuant to the framework agreement, the aim of this agreement is to determine the conditions under which La Banque Postale uses the services of the staff at La Poste’s Financial Services Head Office who perform banking and marketing services in the name and on behalf of La Banque Postale, within the framework of the General and Operating Policies.

La Poste re-invoices La Banque Postale for the costs relating to these employees on a euro for euro basis.

##### **Terms and conditions**

This agreement had no impact on La Banque Postale’s financial statements for the financial year ending December 31<sup>st</sup> 2010.

#### **Implementation agreement between La Banque Postale and La Poste regarding the “Conditions under which La Banque Postale Uses the Services of La Poste’s Financial Services’ Commercial Banking Expertise Business Line Staff”**

**Nature and purpose**

Pursuant to the framework agreement, the aim of this “Financial Services’ Commercial Banking Expertise Business Line” agreement is to establish the conditions under which La Banque Postale uses the services of the La Poste staff assigned to the Financial Services’ Commercial Banking Expertise Business Line as part of the marketing of its banking, financial and insurance products and services, in accordance with the Marketing Charter. La Poste re-invoices La Banque Postale for the costs relating to these employees on a euro for euro basis.

**Terms and conditions**

This agreement had no impact on La Banque Postale’s financial statements for the financial year ending December 31<sup>st</sup> 2010.

**Agreement between La Banque Postale and La Poste on “Banking Benefits Granted to La Poste Staff”****Nature and purpose**

Pursuant to the framework agreement, La Banque Postale and La Poste have entered into an implementation agreement regarding “Banking Benefits Granted to La Poste Staff”. The aim of this agreement is to determine the conditions under which La Banque Postale grants benefits associated with its banking, financial and insurance products and services to La Poste staff. The financial cost of the benefits borne by La Poste, as part of its employee benefits policy, is partly or wholly re-invoiced to the former by La Banque Postale.

**Terms and conditions**

Pursuant to this agreement, the income received by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 amounted to €23 million.

**Agreement between La Banque Postale and La Poste on “In-Home Services Performed by La Poste on Behalf of La Banque Postale’s Customers”****Nature and purpose**

La Banque Postale and La Poste have entered into an agreement to provide in-home services, which establishes the conditions under which La Banque Postale uses the services of La Poste to provide its in-home services range to its customers (primarily in-home payments, which include emergency withdrawals and payments, and in-home cash receipt transactions). La Poste re-invoices these services, which are provided by La Poste’s postmen and women, to La Banque Postale, based on a single rate charged for each transaction performed.

**Terms and conditions**

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €2.2 million.

**Agreement between La Banque Postale and La Poste on the “Cash-on-Delivery Services Provided by La Banque Postale to Senders of Items Payable on Delivery on Behalf of La Poste”****Nature and purpose**

La Banque Postale and La Poste have entered into an agreement regarding “Cash-on-Delivery Services Provided by La Banque Postale to Senders Items Payable on Delivery on Behalf of La Poste”. This agreement aims to determine the conditions under which La Poste assigns to La Banque Postale the exclusive rights to manage the cash-on-delivery services provided to senders of items payable on delivery. The services performed by La Banque Postale in order to provide this option are re-invoiced to La Poste, based on a single rate charged for each transaction performed.

**Terms and conditions**

Pursuant to this agreement, the amount of the costs borne by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 amounts to €1.7 million.

**Framework memorandum of understanding setting out the new principles for collaboration between CNP, Écureuil Vie and La Banque Postale****Nature and purpose**

La Banque Postale has entered into a memorandum of understanding that sets out the principles for collaboration between CNP Assurances, Ecureuil Vie and the La Banque Postale networks in terms of distributing insurance policies. The provisions of this memorandum were retroactive to January 1<sup>st</sup> 2006 and are applicable until December 31<sup>st</sup> 2015.

**Terms and conditions**

This memorandum had no impact on La Banque Postale’s financial statements for the financial year ending December 31<sup>st</sup> 2010.

**Implementation memorandum between La Banque Postale and CNP Assurances regarding the distribution of life insurance and investment-based insurance policies****Nature and purpose**

La Banque Postale has entered into an implementation memorandum that sets out the principles for collaborating with CNP Assurances in distributing CNP Assurances’ life insurance and investment-based policies via La Banque Postale, as part of the latter’s business activities. The provisions of this memorandum have been applied retroactively for the period between January 1<sup>st</sup> 2006 and December 31<sup>st</sup> 2015. The conditions of the partnership are scheduled to be re-examined before the end of 2012, and a negotiation committee, appointed by the Chairman of La Banque Postale’s Executive Board and the Chairman of CNP’s Executive Board, has been assigned the task of suggesting a draft amendment to the partnership agreement for the period between 2013 and 2015 before December 31<sup>st</sup> 2011.

### Terms and conditions

This memorandum had no impact on La Banque Postale's financial statements for the financial year ending December 31<sup>st</sup> 2010.

## Partnership agreement with CNP, as amended on July 9<sup>th</sup> 1998, June 6<sup>th</sup> 2006 and July 24<sup>th</sup> 2006

### Nature and purpose

La Banque Postale has entered into an implementation memorandum that sets out the principles for collaborating with CNP Assurances in distributing CNP Assurances' insurance, life insurance and investment-based insurance policies via La Banque Postale, as part of the latter's business activities.

Pursuant to the framework memoranda mentioned above, an amendment to the partnership agreement between La Banque Postale and CNP was signed on July 24<sup>th</sup> 2006, primarily to establish the new rate breakdowns.

The new provisions of this amendment were signed on July 24<sup>th</sup> 2006, with retroactive effect as of January 1<sup>st</sup> 2006, and are applicable until December 31<sup>st</sup> 2015.

### Terms and conditions

Pursuant to this amendment, the income received by La Banque Postale for the financial year ending December 31<sup>st</sup> 2010 was €490.8 million.

## Memorandum of understanding with Oddo & Cie

### Nature and purpose

A memorandum of understanding aimed at establishing the terms and conditions for a discretionary asset management partnership between La Banque Postale and Oddo & Cie was agreed on October 25<sup>th</sup> 2007.

### Terms and conditions

This memorandum had no impact on La Banque Postale's financial statements for the financial year ending December 31<sup>st</sup> 2010.

## Severance payments in the event of termination of corporate office

### Nature and purpose

In 2006, the Supervisory Board authorised a severance payment for two members of the Executive Board in the event of termination of their office. At its meeting of March 11<sup>th</sup> 2009, the Supervisory Board decided that, subject to the meeting of performance conditions, a severance payment would be paid to members of the Executive Board in the event of termination of their corporate office, except in cases of gross misconduct or serious professional misjudgement that has a material impact on the Company's financial position, in the event that their office is terminated or that a change in the control of the Company or in its strategy results in its definitively leaving the La Poste Group.

The amount of the severance payment shall be twice the average annual amount of the compensation received by Patrick Werner and Philippe Bajou, based on their compensation during the last three full financial years.

The severance payment shall be dependent on the following performance-related conditions being met:

- the valuation of the Company is greater than its equity capital;
- an achievement rate of 80% or above for the annual targets set for two out of the last three full financial years.

If both the above conditions are met, the severance payment shall be made in full. If only the first condition is met, and the target achievement rate falls between 50% and 79%, then it will be reduced by 50%.

In the event that an appointment as a company officer is not renewed, the decision of whether to make a severance payment shall be at the Supervisory Board's discretion, on the basis of advice received from the Appointments and Compensation Committee. This severance payment shall be set in accordance with the rules and performance-related conditions established beforehand.

In the event that a company officer rejoins the public sector within two years of their forced departure from the Company, the amount of the severance payment shall be reduced in proportion to the annual compensation (including bonuses) payable to a public servant at the level at which the individual concerned rejoins the public sector.

### Terms and conditions

After noting the achievement rate of the performance conditions and Patrick Werner's desire not to return to public service, the Supervisory Board set the amount of his severance payment at €980,000 at its meeting of January 18<sup>th</sup> 2011, and authorised its payment in full.

Paris la Défense, Neuilly-sur-Seine and Courbevoie, on March 23<sup>rd</sup> 2011

**KPMG AUDIT**  
Isabelle Goalec

**PRICEWATERHOUSE COOPERS AUDIT**  
Catherine Pariset

**MAZARS (A DIVISION OF KPMG SA)**  
Pierre Masieri  
Guy Isimat-Mirin

## 2.5 Accounting data

As part of the preparation of its unconsolidated financial statements, La Banque Postale has implemented rule CRC 2009-03 on the acquisition cost of loans and commissions received. The external acquisition cost of loans is now spread over the expected lifetime (i.e. their contractual term, after adjusting for the impact of early repayment and reclassification as doubtful receivables) of the transaction. The spread is applied on an actuarial basis.

La Banque Postale's consolidated Net Banking Income (NBI) amounted to €5,215 million as at December 31<sup>st</sup> 2010, an increase of €196 million (3.9%) compared with 2009. After adjustments for movements in the home loan savings provision, NBI was up 4.2%.

NBI increased despite the historically low interest rate environment. The interest margin remained stable compared with 2009. Net commission income rose by €147 million, while net gains on financial instruments at fair value through profit and loss increased by €110 million. These increases were partly offset by a €60 million decrease in other income and expenses.

The soundness of La Banque Postale's economic model was confirmed once again in this environment.

The consumer credit business continued to expand throughout the year, building on the sharp increase that had already been seen in 2009.

On the savings side, inflows from customers were diverted to cash savings products and money-market UCITS because of the low interest rates, for the benefit of life insurance policies.

Overall, as in 2009, the retail banking business accounted for the bulk of net banking income.

Net banking income by sector (€ million)	2010	2009	Variation
Retail banking	5,009.2	4,853.6	3.21%
Asset management	127.6	92.8	37.50%
Insurance	78.4	72.5	8.14%
<b>Total</b>	<b>5,215.2</b>	<b>5,018.9</b>	<b>3.91%</b>

Operating expenses increased by 1.8% to €4,299 million, excluding depreciation and impairments to fixed assets.

Net depreciation and impairments to fixed assets amounted to €137 million, a slight increase (€19 million) compared with 2009.

The cost of risk recorded a slight €8 million increase compared with 2009. This change was primarily due to an increase in the cost of risk on overnight accounts, which reflected the impact of the economic environment on retail customers. Conversely, the cost of risk on loans remained stable, despite the increase in the amounts outstanding.

Operating profit amounted to €719 million, an increase of €95 million.

Profits from equity associates increased by €9 million, due primarily to the rise in the Group's share of CNP Assurances' net profit. Profits from equity associates contributed €195 million to the Group's share of net profit, which amounted to €651 million after tax in 2010, up €64 million compared with the previous year.

## 2.5.1 Retail Banking results

In 2010, the net profit generated by the retail banking sector represented 60.8% of net profit, Group share, a slight (5.8%) increase compared with the level recorded in 2009 (58.8%).

All three Group business segments recorded an increase in net profit.

Retail banking (€ million)	2010	2009	Change
<b>Net banking income</b>	<b>5,009.2</b>	<b>4,853.6</b>	<b>155.6</b>
General operating expenses	-4,194.8	-4,148.0	-46.8
Depreciation	-134.7	-119.3	-15.4
<b>Gross operating profit</b>	<b>679.7</b>	<b>586.3</b>	<b>93.4</b>
Cost of risk	-59.8	-51.1	-8.7
<b>Operating profit/(loss)</b>	<b>619.9</b>	<b>535.2</b>	<b>84.7</b>
Share of profits generated by equity associates	-	-	-
Gains or losses on other assets	2.5	0.6	1.9
<b>Profit before tax and exceptional items</b>	<b>622.3</b>	<b>535.9</b>	<b>86.4</b>

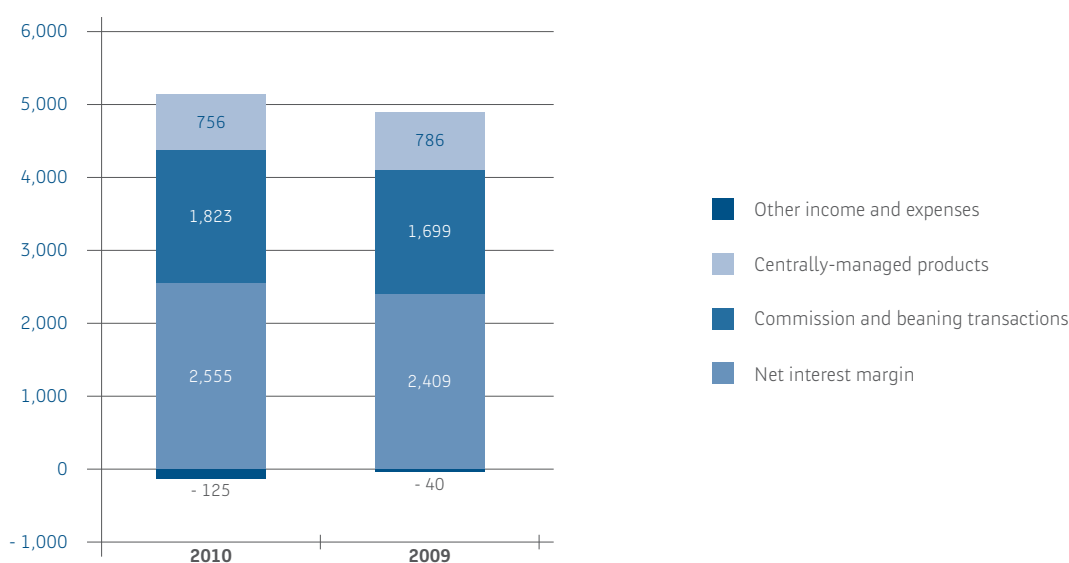
### NET BANKING INCOME

Retail Banking NBI consists of commissions charged to customers, NBI from the financial management activities (interest margins, income from the securities portfolio and income from

cash management), as well as the yield on centrally-managed products.

(€ million)	2010	2009	Change
Net interest margin	2,554.9	2,408.9	146.0
Commission-bearing transactions	1,823.2	1,698.8	124.4
Centrally-managed products	756.3	785.9	-29.6
Other income and expenses	-125.2	-40.1	-85.1
<b>Total net banking income</b>	<b>5,009.2</b>	<b>4,853.5</b>	<b>155.7</b>

### Changes in the breakdown of net banking income from Retail Banking (€ million)





Centrally managed products (€ million)	2010	2009	Change
Livret A and LDD accounts	441.3	457	-15.7
LEP accounts	45	48.9	-3.9
Access to banking services	270	280	-10
<b>Net banking income from centrally-managed products</b>	<b>756.3</b>	<b>785.9</b>	<b>-29.6</b>

There was a slight decrease in the amounts held in Livret A and Sustainable Development (LDD) accounts, due to two opposite effects:

- the unfavourable effect: a decrease in the average amounts deposited in centrally-managed Livret A and LDD accounts between 2009 and 2010;
- the offsetting effect of transferring the LDD accounts on March 2<sup>nd</sup> 2009, which created a “full year” effect in 2010 compared with a partial effect only in 2009.

Net banking income from Livret d'Épargne Populaire (General Savings or LEP) accounts decreased. As in 2009, this contraction is explained by a €1.1 billion reduction in deposits following measures taken by La Banque Postale to close LEP accounts, as well as regular outflows from this savings product.

Meanwhile, commissions from access-to-banking accounts fell by €10 million to €270 million, in accordance with the legal provisions adopted in 2009, when restrictions were lifted on the distribution of Livret A accounts and those accounts were reintegrated into the Bank's balance sheet.

## COMMISSIONS

Net banking income from commission-bearing transactions increased by 7.3% to €1,823.1 million in 2010 compared with a 2.7% increase in 2009.

(€ million)	2010	2009	Change
Customers	1,079.4	1,004.2	75.2
Insurance	569.4	512.8	56.6
Securities and UCITS	174.3	181.8	-7.5
<b>Net banking income from commission-bearing transactions</b>	<b>1,823.1</b>	<b>1,698.8</b>	<b>124.3</b>

Commissions charged on banking services increased by 7.5% to €1,079.4 million, compared with a 3.9% increase in the previous year.

This increase was the result of:

- an increase in account management commissions;
- an increase in commissions received on early home loan repayments, which was boosted by very low interest rates;
- the ongoing provision of services to customers, primarily through promoting service “packages” (over 5.2 million contracts).

Total net banking income from commissions on insurance products increased by €56.6 million, as a result of:

- two main trends, (namely an increase in the return on deposits due to the rise in the latter, and an increase in the return on inflows and outflows);
- two additional trends (an increase in commissions linked to the sustained marketing of personal insurance policies, together with an increase in commissions on borrower insurance policies, which is explained by the rise in home loans outstanding).

Commissions on securities and UCITS fell by €7.5 million, due to the lacklustre performance of the markets, which led to a slowdown in customer transactions and to a decrease in the income received on money-market UCITS in an environment where short-term rates remained exceptionally low.

## NET INTEREST MARGIN

The net interest margin amounted to €2,555 million, an increase of €146 million compared with 2009.

This movement is explained by three main trends:

- the favourable impact of loans granted (€170 million): as at December 31<sup>st</sup> 2010, loan interest amounted to €1,463 million. Most of the increase was due to home loans, where the amounts outstanding continued to rise sharply compared with 2009. Loan interest also included a first-time contribution from the interest received on the consumer credit products marketed by La Banque Postale Financement;
- interest paid on deposits fell by €118 million to €784 million. The contraction compared with 2009 is explained by the low level of short-term interest rates, and was boosted by the effect of transferring the Sustainable Development Savings (LDD) accounts to the Caisse des Dépôts et Consignations on March 2<sup>nd</sup> 2009. This transfer resulted in the absence of any expenses relating to this product category in 2009;
- income of €1,866 million from the securities portfolio, a sharp increase compared with 2009, due to the low interest rate levels, and an overall fall in the volume of assets under management.

(€ million)	2010	2009	Change
Write-back on the home loans savings provision	10.0	25.0	-15.0
Interest paid on deposits <sup>(1)</sup>	-783.8	-902.3	118.5
Interest income from loans	1,462.8	1,292.8	170.0
Securities portfolio	1,865.9	1,993.5	-127.6
<b>Net interest margin</b>	<b>2,554.9</b>	<b>2,409.0</b>	<b>145.9</b>

(1) Excluding interest on the Livret A, LDD and LEP accounts transferred to CDC.

A more detailed analysis of the income from securities transactions performed as part of the Bank's balance sheet management process reveals the following trends:

- an interest rate effect on management of the ALM portfolio, where the fall in interest rates led to a decline in the average yield on the portfolio when reinvestments occurred, and also on the portfolio itself, where returns are based on adjustable rates;
- a similar trend was seen in terms of the securities available-for-sale (AFS) portfolio, where the turnover rate is higher than in the ALM portfolio. These trends were offset by inflation-linked securities, where returns benefited from the rise in inflation;
- the low level of interest rates also affected interest rate hedges, mostly in the ALM management area. As these hedges generally pay interest on a short-term basis, they benefited from the fall in money-market rates and made a positive contribution to net profit;
- the low short-term interest rate levels also resulted in lower short-term financing costs, both in terms of stock repurchasing agreements and short-term securities (certificates of deposit) issues.

## OTHER BANKING OPERATING INCOME AND EXPENSES

Other income and expenses fell by €85 million. This line included two non-recurring items in 2010:

- the recognition of the €33 million fine imposed on La Banque Postale in connection with the transfer of electronic cheque scans (ECS);
- a one-off payment to the deposit guarantee fund where the amount payable by La Banque Postale, which is spread over the period between 2010 and 2012, was recognised in full.

This line was also affected by two further unfavourable developments: a fall in the income received from re-invoicing the benefits awarded to post office staff, where the level of income received is linked to short-term rates, and an impairment charge on non-consolidated investments.

These effects were offset by the recognition of dividends from non-consolidated investments, which amounted to €11 million.

## OPERATING EXPENSES

General operating expenses fell by €62 million, excluding depreciation, amortisation and impairment charges.

(€ million)	2010	2009	Change
Personnel expense	230.1	196.1	34.0
Other operating expenses	3,964.7	3,951.9	12.8
Depreciation, amortisation and impairment charges	134.7	119.3	15.4
<b>Total</b>	<b>4,329.5</b>	<b>4,267.3</b>	<b>62.2</b>

The increase in personnel expenses primarily reflects two developments:

- the increase in the number of people working at La Banque Postale, compounded by the effect of salary increases;
- the expansion of new businesses, primarily within La Banque Postale Financement, which accounted for over a quarter of the increase recorded between 2009 and 2010.

The cost of the services invoiced by La Poste (use of production and distribution resources, together with franking services) fell by €7 million compared with 2009; these costs now amount to 74% of operating expenses compared with 74.5% in 2009.

There was a decrease in agreement-related expenses, which consist of the following:

- expenses re-invoiced under the terms of the "counter agreement" (€1,148 million), which increased by €19 million compared with 2009, when they amounted to €1,129 million. Optimising over-the-counter procedures is helping reduce the time that counters are used for banking transactions. This favourable development was offset by a pricing effect, as well as by a €36 million adjustment made in respect of 2008 transactions in 2009;

- expenses relating to Banking Advisers, which were down €15 million (€1,000 million compared with €1,015 million in 2009); this decrease was the result of the efforts made to optimise the organizational structure of the Advisory Business Line;
- expenses relating to the La Poste staff employed by the Financial Centres, to the Financial Services and La Poste Information Services Department and to the Marketing Expertise Business Line. Overall, these expenses increased by €7 million.

La Banque Postale's postage costs bill continued to fall (by €23 million in 2010), due to the rationalisation of the customer statements mailing process (the number of statements declined due to the imposition of charges for intra-month statements), and the optimisation of procedures for sending out bank cards.

There was a €15 million increase in depreciation and impairment charges, due to the impact of the Bank's current IT projects.

## COST OF RISK

The Retail Banking Division's cost of risk amounted to €60 million, up €9 million compared with 2009.

The main developments were as follows:

- a €2 million decline in the cost of risk for the lending business, due primarily to the decline in provisions on sensitive loans outstanding;
- a net €2 million provision on e-banking, which was less than the amount charged in 2009 due to the switch to 3D Secure technology, which had a favourable impact on the loss increase rate;
- a more significant provision on overnight accounts (€17 million), which was linked to changes in the way the recovery ratio is calculated, to a provisional base effect on closed and open deposit accounts, and to an increase in losses on closed deposit accounts.

## OPERATING PROFIT

There was a €84.7 million increase in the Retail Banking Division's operating profit, which amounted to €619.9 million.

After taking income tax and minority interests into account, net profit, Group share, amounted to €396 million.

## 2.5.2 Asset management results

La Banque Postale Asset Management (La Banque Postale Asset Management), was the Asset Management Unit's main driver in 2010. Despite the difficult economic environment in 2010, La Banque Postale Asset Management's contribution to net banking income continued to increase last year (up €7 million).

For La Banque Postale Asset Management, the year was characterised by particularly low short-term rates, which led to a reduction in the management fees charged on money-market funds.

There was an increase in marketing to institutional customers during the year. The Division also continued to manage the funds entrusted to it by CNP Assurances in 2008, with a parallel strengthening of the control functions. These activities contributed to a €5 million increase in expenses.

La Banque Postale Gestion Privée saw its NBI contribution increase by €8 million, boosted by a sharp rise in the number of new investment management mandates. Expenses increased by €2 million, due to a rise in the headcount.

Tocqueville Finance, which was included in the scope of consolidation in late 2009, made a €23 million contribution to NBI for the 2010 financial year. Its contribution to net profit, Group share, was up €4 million.

NBI increased by €35 million overall over the year, rising from €93 million to €128 million. The difference was primarily due to the impact of the full-year consolidation of Tocqueville Finance.

General operating expenses in this segment increased by €21 million, due primarily to work on the La Banque Postale Asset Management information systems, and to changes in the organizational structure and control systems.

Operating profit increased by €14 million to €52 million.

Group share of net profit amounted to €32 million, compared with €23 million in 2009.

## 2.5.3 Insurance Division results

La Banque Postale Prévoyance's revenues continued to increase, driven by the personal insurance and borrower insurance businesses. This growth was in line with the increase in home loans outstanding on the Bank's balance sheet. The contribution to NBI made by La Banque Postale Conseil en Assurances (formerly Sogerco), amounted to €39 million, and remained primarily driven by the volume of *Alliatys* policies. Operating expenses amounted to €5 million, which resulted in an operating profit of €34 million.

Finally, since La Banque Postale Assurances IARD has not fully launched its business activities, it made a negative contribution of €12 million to Operating profit, which was related to the roll-out of its product range and organizational structure.

Overall, net banking income for the Insurance Division amounted to €78 million in 2010, an increase of €6 million. The Division's operating expenses increased by €10 million, which resulted in a €4 million decrease in operating profit.

CNP Assurances' contribution, which was included in profits from equity associates, amounted to €195 million, up €9 million compared with 2009. CNP Assurances' results improved in 2010, despite the fact that the lower interest rates resulted in provision charges (guaranteed income policies, reduction in discount rates, etc.), and a fall in the income received from short-term investments held for its own account, although there was an opportunity to realise some capital gains on bonds. CNP's results also benefited from the expansion of its international activities (especially in Brazil), which was combined with a favourable currency effect. CNP Assurances' overall net profit amounted to €1,050 million.

After consolidating CNP Assurances as an equity associate, the Insurance Division's contribution amounted to €224 million, up €5 million compared with 2009.

## 2.5.4 French Economic Modernisation Act (LME) information – supplier payables days

Amounts owing to suppliers recorded in La Banque Postale's individual financial statements as at December 31<sup>st</sup> 2010 were

€64 million, of which over three quarters was payable within a period of one month or less.

(€ '000s)	Reminder of the closing balance	=<1 month	>1 month =<2 months	>2 months
<b>2009</b>	94,748	71,011	23,708	29
<b>2010</b>	63,880	49,566	14,266	48

## 2.5.5 Consolidated balance sheet

Following a very sharp €60 billion increase in the Group's total balance sheet in 2009 that was caused by the recognition of the Livret A deposits on the balance sheet, the balance sheet expanded by €1.8 billion to €173 billion in 2010.

The balance sheet structure remained characterised by the trends observed in 2009. On the assets side:

- as in 2009, Livret A deposits were transferred to the Caisse des Dépôts et Consignations and were recognised on the balance sheet as a receivable from a credit institution;
- customer loans and receivables increased by over €6 billion, due mainly to the impact of an increase in home loans outstanding, and to the launch of the consumer credit business to a lesser degree (€764 million as at December 31<sup>st</sup> 2010);
- assets held to maturity increased by around €3 billion, offsetting a €1 billion decrease in assets available for sale, as well as a decrease in financial assets at fair value through profit and loss.

On the liabilities side, customer payables rose by over €1 billion.

In late November 2010, La Banque Postale issued €750 million in (lower Tier 2) subordinated debt. This was the Bank's second Tier 2 bond issue; the first issue, which amounted to €500 million, took place in November 2006.

Overall, the second issue increased the amount of subordinated debt on the balance sheet to €1.2 billion, which enabled the Bank to optimise its balance sheet structure, which is characterised by a very high core equity (Tier 1) ratio. It also gives the Bank room to manoeuvre in terms of the general constraints imposed by the application of the significant risk ratio from January 1<sup>st</sup> 2011 onwards.

## 2.6 Post-balance sheet events

None

## 2.7 Recent developments and outlook

2011 will enshrine the ramp-up of the Group's new businesses.

In the insurance sector, the end of 2010 was marked by the launch of La Banque Postale Assurances IARD's property and casualty insurance product range on the remote channels on December 9<sup>th</sup>. The operating launch of these businesses in late 2010 was in line with forecasts, and their ramp-up is scheduled to begin from the second quarter of 2011 onwards, and then to develop in stages until the end of the year, by extending product distribution to the Post Office network.

The implementation of the health insurance Partnership signed with La Mutuelle Générale is also expected to continue in 2011. The partnership is backed by a joint venture (La Banque Postale Assurance Santé), which was approved by the French Prudential Control Authority (ACP) on January 26<sup>th</sup> 2011.

In the credit sector, the ramp-up of the consumer credit business is also scheduled to continue in 2011. The consumer credit product range will be added to during the year, once approval has been obtained, by a range of corporate credit products, in line with the extension obtained from the French

Ministry of Finance during the summer of 2010, which enabled the launch of finance products to be studied. The aim is to ramp up these products in a cautious and practical way. La Banque Postale already has a substantial corporate customer base, including 475,000 customers divided between all customer segments (micro-companies and professionals, SMCs, large companies, local authorities, associations, etc.), which represent a natural area for expansion.

On the retail banking side, there are still untapped areas for La Banque Postale to move into over the coming years, primarily through its product range and customer services. La Banque Postale pays attention to its retail customers:

- in order to understand them more, win them over and provide services to them by adapting its customer relations methods to changing behaviours;
- by ensuring the quality of its services;
- by strengthening La Banque Postale's positioning with vulnerable customers.

Given the context, La Banque Postale aims to drive its marketing business forward while consolidating its positioning as an accessible bank.

## 2.8 Comments of the Supervisory Board on the Report of the Executive Board and the 2010 financial statements

During the 2010 financial year, the Supervisory Board performed the verifications and checks that it deemed necessary as part of its duty to monitor the way the company was managed by the Executive Board, in accordance with legal and statutory provisions.

In accordance with legal requirements, the Board therefore examined the parent company and consolidated financial statements for the 2010 financial year that were submitted by the Executive Board. It also examined the report on the business activities of La Banque Postale that the Executive Board prepared during the financial year.

The Supervisory Board has no particular comment to make on the financial statements and the Executive Board's management report.

**On behalf of the Supervisory Board,  
The Chairman,  
Jean-Paul Bailly**



## 2.9 Additional information on the Statutory Auditors

Statutory Auditors of La Banque Postale	Start date of first assignment	End date of the assignment
<b>PricewaterhouseCoopers Audit</b> 63, rue de Villiers 92200 Neuilly-sur-Seine  Represented by Catherine Pariset  Deputy: Étienne Boris	April 28 <sup>th</sup> 2004	The General Meeting of Shareholders called in 2016 to approve the financial statements for the year ending December 31 <sup>st</sup> 2015
<b>Mazars</b> Tour Exaltis 61, rue Henri-Régnauld 92400 Courbevoie  Represented by Guy Isimat-Mirin and Pierre Masieri  Deputy: Anne Veauté	May 23 <sup>rd</sup> 2006	The General Meeting of Shareholders called in 2012 to approve the financial statements for the year ending December 31 <sup>st</sup> 2011
<b>KPMG Audit</b> Immeuble KPMG 1, cours Valmy 92923 Paris – La Défense Cedex  Represented by Isabelle Goalec  Deputy: Pascal Brouard	May 27 <sup>th</sup> 2010	The General Meeting of Shareholders called in 2016 to approve the financial statements for the year ending December 31 <sup>st</sup> 2015

# Risk management

# 3

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## 3.1 General procedures

### 3.1.1 Combating non-compliance risk

#### COMPLIANCE

**The articles of CRBF Regulation 97-02 drafted the “compliance” function into French law.** They entered into force on January 1<sup>st</sup> 2006, on the same day that La Banque Postale was founded.

**La Banque Postale’s Corporate Governance Committees have therefore included a Compliance and Business Ethics Committee since the founding of the bank, together with a Compliance Department, the Head of which is a member of the Executive Committee.**

#### The Compliance and Business Ethics Committee

This monthly committee is led by the Head of Compliance. It is chaired by the Chairman of La Banque Postale’s Executive Board.

Its role is to:

- ensure that the actions taken in respect of legal and regulatory provisions specific to banking and financial activities are consistent and effective, particularly where the prevention of money laundering and the financing of terrorism are concerned;
- coordinate internal control procedures;
- monitor the application of business ethics rules and their compliance with changing regulations;
- monitor the updating of the “sensitive staff” list and compliance with confidentiality rules;
- investigate major instances of conflict of interest.

#### The Compliance Department

**This department reports directly to the Bank’s Executive Board.**

**Its role is to:**

- manage non-compliance risk as defined in Article 4 of CRBF Regulation 97-02 (amended). To that end, it focuses primarily on business ethics and combating money-laundering and the funding of terrorism;
- co-ordinate the permanent control procedures, and specifically the Level 2 control teams, without impeding the responsibilities of the Risk Department.

**The Compliance Department has its own budget, and is entitled to examine the budgets of the other compliance functions within the system** (the internal compliance functions of the Financial Centres and of the network banking supervisors). In the event that the Head of Compliance disagrees with those budgets, the Department can request a final decision from the Executive Board on the matter.

**The Head of Compliance has full responsibility for the functional operation of the Compliance Department.** The Division primarily consists of the Heads of Banking Control (who are responsible for managing the banking supervisors) and

of the Operational Risk Department as well as the internal control unit of the Operations Department (which is responsible for managing the Heads of Internal Control and Compliance and the risk supervisors in the Financial Centres).

Those responsibilities specifically involve managing careers in a manner consistent with the requirements of each organization.

**The Compliance Department also manages La Banque Postale’s Level 1 and Level 2 control procedures.** This involves:

- **managing the network Banking Supervisors:** working together with the Bank’s Regional Representatives, the Department drafts and disseminates control procedures, reporting and consolidation procedures in liaison with the Risk Department;
- **co-ordinating the various Level 1 and Level 2 control bodies:** making sure procedures are consistent, contributing to the definition of performance indicators and information escalation channels and consolidating information;
- **drafting or centralising regulatory reports** on internal control.

#### The Compliance Department fulfils its role through different five divisions

**The Expert Compliance Division** examines specific cases and drafts the “written opinion” required by the new product regulations. It also approves all market launch materials, such as the internal procedures attached to products and services, awareness-raising and training documents intended for employees, and all forms of marketing materials intended for customers.

The Division is also responsible for organising the regulatory monitoring process.

**The Business Ethics & Investment Services Compliance Division** is responsible for defining and disseminating good conduct rules and managing the Business Ethics Officers. It draws up the Business Ethics policy of the Bank and its subsidiaries, and disseminates it throughout the network and the operational centres.

The Head of Compliance for Investment Services also reports to this unit.

**The Level 2 Control Management Division** is responsible for the functional management of the banking supervisors working in the Post Office network. To that end, it provides the 18 Heads and Deputy Heads and their 196 banking supervisors with the tools that enable them to perform their control assignments: programmes, control questionnaires and tools for consolidate the aggregated results according to the managers' responsibility levels. The scope of this responsibility extends to the 28 Internal Control Departments in the Financial Centres via the Operational Department responsible for control within the Operations Department.

**The Department in Charge of Combating Money Laundering and the Financing of Terrorism** manages the system used by the TRACFIN informants and/or Officers who report to it, as well as by the dedicated staff in the Financial Centres and the Post Office network. It approves the procedures and training and information materials that are disseminated to all the agents and monitors the effective implementation of that training. Finally, the Department project manages the IT applications dedicated to these activities.

**The Division in Charge of the Ongoing Control Summaries for the Head Office Departments, the Subsidiaries and the Equity-Accounted Subsidiaries** provides support to the Heads of those entities in terms of drawing up or strengthening their risk management and internal control procedures by means of a self-assessment process. The Division is responsible for all initiatives that promote an improvement in these procedures, within the framework of CRBF Regulation 97-02. It also manages the co-ordination process involving the rules for essential service providers. This Division is also responsible for drafting a number of regulatory reports on control procedures.

**All these systems work in a co-ordinated way and fulfil a dual advisory and control role, in order to ensure that the company's best practices, culture and values are reflected in its day-to-day activities, so as to protect:**

- customers against the risk of receiving inappropriate advice;
- the Bank and its employees against the risk of non-compliance with regulations;
- society by combating money laundering and the financing of terrorism.

It is worth noting that the Bank has appointed a Personal Data Protection Officer, or Correspondant Informatique et Libertés (CIL), who operates independently of the Compliance Department and all other departments. The CIL makes sure that French data protection legislation is applied within La Banque Postale, and on behalf of the Chief executive officers of the company.

## Protecting customers

From the moment it was founded, La Banque Postale has been structured so as to take the risk relating to its advisory duties into account within an overall framework. The risk relating to non-compliance with the rules intended to protect customers is handled via a dedicated process within the Bank:

- when a product is designed;
- when it is launched and marketed.

Moreover, the Bank also takes this risk into account through various items that can play a part in managing it, namely the regulatory monitoring process, training, its compensation policy and customer segmentation.

Putting the customer's interests first is a fundamental principle for La Banque Postale. Complying with the rules on customer protection is a way of applying this fundamental principle. This is why the Bank has set up a Product Review Committee. This Committee is required to review all new products designed or distributed by taking into account the primacy of customers' interests as the main criterion and therefore compliance with the rules to protect them.

The Executive Board is required to rule on any unfavourable opinion, in the event that the person responsible for the product requests it. There were two unfavourable opinions in 2010 and no requests for a ruling were made.

The customer/product/Advisor segmentation process established by La Banque Postale is used in this instance to check that a product is intended for the appropriate customer category, with a suitable degree of advice, and is distributed by a Sales Business Line that is equally appropriate.

In its Marketing Ethics Charter, La Banque Postale specifies that the contents of all information, including promotional information on financial instruments and banking and insurance products intended for its customers, must be accurate and clear, and must not be misleading.

In order to achieve this, the Bank has established procedures for managing the stage at which products are sent to the distribution networks and for information intended for customers.

The Expert Compliance Division is also responsible for approving all market launch materials and has the right to veto them. As part of this process, it is also responsible for approving the training materials intended for employees.

Lastly, besides the Control Business Line responsible for ensuring that these directives are properly applied in the field or in the operational unit, a Sales Expertise Business Line, for which the Sales Department is responsible, is in charge of supporting the sales teams as they perfect their skills. This Business Line includes 500 Sales Monitors, 140 employees responsible for the development of Specialist Property and Wealth Management Advisors and 47 product experts.

## BUSINESS ETHICS

**At the time it was founded, La Banque Postale opted to continue calling the Head of Compliance for Investment Services by the following title: “Head of Business Ethics”.**

This decision gives greater meaning and clarity to the function and therefore sets a kind of “benchmark” for “good conduct rules”, which is fully consistent with the “whistle-blowing” guidelines featured in CRBF Regulation 97-02 (amended).

**To this end, the banking business ethics function is structured on three levels:**

- the La Banque Postale business ethics unit, which reports to the Compliance Department;
- Business Ethics officers working in the operational units: the La Poste Retail Network, the Financial Centres, the Financial Services IT Department, the Marketing Department, the Head Office departments and the subsidiaries;
- local contact points.

**The position of Business Ethics Officer**, as defined by La Banque Postale, is held by employees reporting directly to the Head of Operations, the Head of Marketing, the Head of the La Poste Retail Network, the Head of IT for La Poste Financial Services and to the Head Office departments. The role of Business Ethics Officer can be assigned to an employee with other responsibilities, to the extent that those responsibilities are independent from his or her business ethics.

These employees are in charge of disseminating business ethics standards within their unit. They guarantee and promote La Banque Postale’s rules of conduct.

**Local contact points are managed by the Business Ethics Officers.**

Because they are close to the ground, local contact points are well-positioned to pick up any potential breaches or problems that come to their attention, which they then escalate. They also have an educational role to play by providing information to and raising awareness among their colleagues. Around one hundred local contact-points have been set up throughout the network, reporting to the Heads of the La Poste Network. The Head of Internal Control and Compliance also acts as the local contact point in each Financial Centre.

**Recommendations on good conduct rules are incorporated into La Banque Postale and La Poste’s internal rules of procedure.** The Business Ethics rules are appended to the internal rules of procedure.

**Ongoing training** on business ethics issues is provided in all the entities of the Bank and the La Poste Network and in the Financial Centres. Specific training is given to new hires.

In addition, **checks are carried out to ensure that business ethics** standards are applied.

Lastly, La Banque Postale has implemented procedures for **withdrawing the right** to act in its name and on its behalf from

La Poste Network and Financial Centre employees who have breached its business ethics guidelines. This process is managed by the Head of Business Ethics and the Head of Compliance.

## COMBATING MONEY LAUNDERING AND ILLEGAL ACTIVITIES

Combating money laundering and the financing of terrorism is a banking process for which La Banque Postale takes full and entire responsibility. A dedicated framework designed on three levels (national, regional and local) enables the Bank to assume this responsibility both for transactions that it performs on its own account and for transactions that are performed in its name and on its behalf by the La Poste Network.

The La Poste Network is responsible for providing the necessary resources to ensure that the transactions that it performs in the name and on behalf of La Banque Postale are performed properly. These resources are specifically described in the “AML/CFT Cooperation Platform” which was updated in August 2010. This document sets out the reciprocal obligations of the La Poste Network and La Banque Postale.

### The local framework

The local framework relies on the Bureau Managers where the Post Offices are concerned, as well as on the Heads of Internal Control and Compliance (HICCs) in the Financial Centres.

- The Bureau Managers are in charge of “money laundering” at the Post Offices. They are responsible for managing the AML/CFT initiative.

They are responsible for Level 1 checks on anti-money laundering procedures at the Post Offices. These procedures are approved in a factsheet included in the Bureau Managers’ Control Handbook. They must ensure that their staff, particularly new entrants, receive proper training on how to combat money laundering. Level 2 checks are performed by the banking supervisors.

They are also responsible for setting up an alert system for any abnormalities observed in the bureau’s business activities that are likely to represent a money laundering or terrorism financing risk. These alert systems feed into the AML/CFT unit’s tools for combating money laundering.

- The HICCs in the 24 Regional Financial Centres and in the five National Centres are responsible for managing and controlling risk, including the risk of money laundering and financing of terrorism. They are responsible for:

- monitoring specific risks relating to sensitive customers and terminating business relationships;
- Level 2 controls across the whole Financial Centre;
- making sure that the various departments at the Centre monitor the alert systems;
- raising the awareness of and training the staff at the Centre.

### The dedicated AML/CFT unit

Seven AML units (i.e. 60 people in the Financial Centres) are responsible for analysing all the alert systems in place at the Post Offices and the Financial Centres, as well as the warnings generated by a dedicated software package: Searchspace.

In the event that there is a doubt following a review of the warnings and alert systems, the AML unit analysts either close the incident with justification, or draw up an investigation file that is forwarded to one of the fourteen TRACFIN officers of the Bank's AML/CFT Department who have a regional remit. The Officers then perform a new review and may forward a suspicious activity report.

One of the seven AML units is responsible for the initial filtering of financial sanctions lists using the Fircosoft tool (*see the Tool Presentation*). The second level is dedicated to the CFT Unit and the AML/CFT Department.

Where training is concerned, targeted programmes are designed and implemented for each employee group involved in procedures to combat money laundering and the financing of terrorism, under the responsibility of the AML/CFT Department, working together with the Human Resources Department, the Operations Department and the La Poste Network Security Department. All staff acting in the name and on behalf of the Bank undergoes this training. All new entrants receive specific training on the issue. The AML/CFT Department also makes sure that employees and Managers receive information on a regular basis so that they can update their knowledge.

## 3.1.2 Financial management risk

### 3.1.2.1 Structural risk factors

The structural risk factors that affect La Banque Postale are primarily related to its retail banking business, i.e. **liquidity** and **interest rate risk** linked to converting short-term customer deposits to longer-term use, credit risk on home loans and on overdrafts. Given the high level of financial assets as a proportion of total assets, **market and counterparty risks** are also structural risk factors that are closely monitored by La Banque Postale.

#### LIQUIDITY RISK

As a result of the limits on credit approval issued by the CECEI (no corporate funding is allowed, only loans to consumers), La Banque Postale's retail banking balance sheet showed a large surplus as at December 31<sup>st</sup> 2010, due to the fact that customer loans outstanding only amounted to a quarter of customer deposits.

La Banque Postale is therefore not dependent on the market to meet its commitments. It is nonetheless exposed to liquidity risk arising from putting its sources of funding, which consist mainly of demand deposits, to longer-term use, either in the form of home loans, or in the form of debt securities.

The amounts allocated to the held-to-maturity securities portfolio are calculated by applying a benchmark scenario, which models the outflow of liabilities under various stress scenarios. Those scenarios specifically factor in significant demand deposit withdrawals.

The securities available for sale portfolio consists of the portion of funding resources that is not allocated to securities held to maturity or to home loans. Those securities are actually negotiable and can be sold rapidly if the need arises.

La Banque Postale's risk management policy identifies two types of liquidity risk, for which it adopts two different monitoring approaches:

#### Tactical liquidity risk:

- relating to the institution's cash flow management;
- there is an operational limit that enables the funding requirements of the cash flow management unit to be capped. The amount and length of time the cap applies are set by the Risk Committee;
- operational recommendations enable the Cash Flow Management Unit's funding needs to be met on a daily basis. The amounts and maturities are set by the ALM Committee.

#### Structural liquidity risk:

- relating to the Bank's balance sheet structure. It takes into account the outflow agreements validated by the ALM Committee;
- management of this risk is assigned to the ALM Committee in accordance with the principles and limits approved by the Risk Committee.
- structural liquidity risk is currently measured through the medium-to-long term liquidity gap that corresponds to a static outflow of liabilities (through outflow agreements) and assets. The Bank is guaranteed that the liquidity represented by the liquidity gap will be available to it, based on an almost certain confidence interval.



The outflow agreements selected to measure structural liquidity risk are based on modelling the outflow of liabilities with no fixed maturity and the outflow of off-balance sheet loans granted and on taking the realisation potential of the sovereign debt portfolio into account.

Standard outflow agreements for liabilities with no fixed maturity are reviewed at least once a year in order to reset them at the minimum levels required by changes in the deposit volatility trend (behavioural changes, etc.).

Off-balance-sheet loans are subjected to outflows assumptions based on a behavioural model that takes account of the rate of product changes, payment periods and the life-span of new loans.

Although the programme implemented by the ALM Committee and the Risk Committee provides for cautious liquidity risk management, La Banque Postale has diversified its sources of funding:

- a €20 billion certificates of deposit programme, where the amount of securities issued ranges between 15% and 40% of the programme, and which is designed to keep the La Banque Postale name alive on the short-term market;
- a €10 billion EMTN programme was set up at the end of 2006. Two subordinated note issues, one for €500 million and one for €750 million, callable as additional equity capital, were made in November 2006 and November 2010 respectively;
- access to the interbank market;
- the use of buybacks for securities held in the held-to-maturity financial assets portfolio. This portfolio consists mainly of high quality, rapidly-realizable Government securities.

## INTEREST RATE RISK

Interest rate risk represents the likelihood of seeing the Bank's future margins or economic value affected by fluctuations in interest rates.

**La Banque Postale has two different types of indicators for monitoring interest rate risk.**

- indicators that support the hedging decision-making process;
- indicators aimed at assessing an institution's ability to withstand external stresses.

**Sensitivity indicators are part of the first category.**

They involve both future income schedules (**sensitivity to future margins**) and the net present value of future cash flows (**NPV sensitivity**).

These sensitivity ratios are established using deterministic rate scenarios on the one hand, and the stochastic dispersion method on the other. The second method provides a more accurate snapshot of the implicit and explicit balance sheet options.

In fact, it is always necessary to model customer behaviour, and in the present case to model that behaviour in light of changes

to the interest rate environment. Among the implicit options available to customers, the most significant, both in terms of balance sheet and margin impact, are:

- the risk of anticipated repayment of outstanding loans if interest rates fall;
- risks related to home loan savings: deposits are collected at a higher fixed rate than expected if market interest rates fall, and take-up of the entitlement to low fixed-rate home loans is higher than expected, if market interest rates rise. These risks are covered by a special provision, the amount of which is determined on the basis of the same home loan savings account customer behavioural model as the model used in future margin simulations.

**The second category of indicators includes the measurement of economic capital (EC) linked to global interest rate risk.**

- measuring economic capital enables an institution to demonstrate its capacity to withstand adverse market developments within a given confidence interval established on the basis of its equity capital;
- **stress scenarios**, based on historical or hypothetical situations, provide a clearer understanding of an institution's risk profile and are especially useful for estimating measures that would need to be adopted if such a scenario were to materialise.

**Interest rate risk is initially managed through the financial assets portfolio**, by selecting maturity dates and coupon indexation terms for those assets.

Derivative instruments, whether futures or options, are only used in a secondary capacity, for example to manage exposures for which a "cash" hedge is not seen as appropriate.

## MONITORING LIQUIDITY AND INTEREST RATE RISK

The ALM Committee is primarily responsible for monitoring liquidity and interest rate risk. Chaired by an Executive Board member, the Committee consists of the Head of Marketing, the Head of Risk and the Finance Director, along with the Head of Financial Operations, who runs it.

- the ALM Committee periodically reviews customer deposit models and formally validates the outflow assumptions produced;
- it monitors the interest rate and liquidity risk performance indicators, and anticipates their future development, in light of the Bank's sales policy and of observations on customer behaviour;
- finally, it decides the financial asset investment and hedging policies to be implemented. The Risk Committee, which is also chaired by a member of the Executive Board, validates the ALM risk control procedures, especially the limits applicable to ALM.

Operational application of the guidelines set out by these committees is defined partly by the Balance Sheet Management operational Committee, chaired by the Head of Financial Operations, who is responsible for the ALM portfolios and Cash, and partly by the Investment Committee, chaired by the Finance Director, who is responsible for benchmarked portfolios. The Trading Room, acting on behalf of La Banque Postale's ALM Department, is responsible for implementing the guidelines under all circumstances.

Pursuant to IFRS 7 regarding disclosure of risk, a detailed presentation of financial management risk is provided in the notes to the financial statements.

### 3.1.2.2 Market and counterparty risk

Disclosure of exposure to market and counterparty risk, which is provided pursuant to the application of IFRS 7, is featured in the notes to the financial statements (Notes to the financial statements: financial risk management and hedging policy).

### 3.1.2.3 Liquidity risk

Disclosure of exposure to liquidity risk, which is provided pursuant to the application of IFRS 7, is featured in the notes to the financial statements (Notes to the financial statements: financial risk management and hedging policy).

## 3.1.3 Credit risk

### 3.1.3.1 Scope of intervention

The Credit Risk Department, which forms part of the Risk Department, reports to the Risk Committee on the drafting and implementation of the system for monitoring and managing credit risk. In terms of risk monitoring procedures, the Credit Risk Department defines the monthly credit risk monitoring indicators approved by the Risk Committee.

The Credit Risk Department covers credit risk, as defined in Article 4 of Regulation 97-02 (amended), namely the risk incurred in the event that a counterparty or counterparties considered as a single beneficiary according to the meaning of Article 3 of Regulation 93-05 defaults. Operational risk linked to credit risk is handled by the Credit Risk Department.

The business activities conducted by La Banque Postale that give rise to a credit risk include:

- home loans to individuals and Limited Property Investment Partnerships;
- overdrafts and means of payment granted to individuals;
- cash facilities and means of payment granted to companies classified in the retail banking and commercial banking categories;

- consumer credit granted by the Bank's specialist subsidiary, La Banque Postale Financement, as well as those granted to La Poste group's staff by La Banque Postale;
- personal micro-loans.

In 2010, La Banque Postale and La Banque Postale Financement designed a new consumer credit range, which was rolled out on a national basis from April 1<sup>st</sup> 2010 onwards.

### 3.1.3.2 Credit risk management policy

La Banque Postale's Risk Management Department is responsible for the La Banque Postale Group's credit risk division and ensures that risk management procedures at Group level are consistent. It therefore coordinates the work necessary for determining the Bank's risk policy, ensures the conditions for its implementation and the means of controlling its application.

The Department relies on a network of Risk Management Officers working in the Financial Centres, in the Commercial Banking Business Line and in subsidiaries involved in business activities that generate a credit risk to implement the risk policy and check that it is properly applied.

#### MANAGEMENT OF LA BANQUE POSTALE'S DIRECT BUSINESS ACTIVITIES

The Risk Department coordinates the preparatory work undertaken for setting the rules for granting and committing to loans with a threefold aim:

- supporting the development of the Bank's product range and businesses involved in granting loans to retail customers and Limited Property Investment Partnerships;
- making a contribution towards controlling the cost of generating and managing the Bank's outstanding loans, while complying with the quality targets that are part of the service provided to customers;
- guaranteeing compliance with the targets set by the Bank for managing its cost of risk and complying with the regulations in force in the retail lending area.

The Department carries out its work with an active contribution from the other Bank Departments, primarily the Marketing Department, the Commercial Banking Department, the Operations Department and the Compliance Department.

For loans granted and managed by La Banque Postale and recorded on its balance sheet, the Risk Department defines and implements tools (scorecards and expert systems) for granting and managing loans and overdrafts; it makes sure that they work properly and assumes responsibility for any adjustments necessary, and carries out regular back-testing.

Where management of inherent risk is concerned, the Risk Department is responsible for the rules on recovery, working together with the Legal Department, and for the rules governing provisions for accounts receivable, working together with the Accounting Department.

Beyond the scope of its own remit, which is assigned by the Executive Board, it has the rules on credit risk approved by the Risk Committee or the Executive Board if requested to do so by the Chairman of the Risk Committee.

Once the rules have been approved, the Department ensures that they are implemented and monitors their correct application, both through remote checks that it performs itself and through the feedback on Level 1 and Level 2 checks performed by the Commercial Banking Business Line and the internal supervisors in the Financial Centres.

The Department defines and implements credit risk assessment indicators, together with action plans in the event of a deterioration in these indicators. It ensures that credit risk is the subject of reports, both of internal reports for the attention of the Risk Committee and the Executive Board, and of external reports for the attention of the Prudential Control Authority.

## MANAGEMENT OF LA BANQUE POSTALE FINANCEMENT'S BUSINESS ACTIVITIES

Where the distribution of consumer credit by La Banque Postale Financement is concerned, the definition of risk guidelines (for the granting, agreeing and recovery of loans) is the responsibility of La Banque Postale Financement's Risk Department.

The Department keeps La Banque Postale's Risk Department informed of its risk policy and procedures and of material changes in this area, prior to implementing them, through a cross-functional La Banque Postale – La Banque Postale Financement Risk Committee, which has been set up for this purpose. In addition, this cross-functional Committee is kept informed of the status of risks within La Banque Postale Financement through an appropriate reporting process.

The note on IFRS 7 sets out La Banque Postale and La Banque Postale Financement's exposure to credit risk in more detail.

## 3.1.4 Operational risk

### 3.1.4.1 Governance of operational risk management procedures

**The Risk Department is responsible to the Executive Board for managing and monitoring the Bank's operational risk.**

In this context, the Operational Risk Department, which forms part of the Risk Department, reports to the Risk Committee on the drafting and implementation of the operational risk management and control procedures.

In terms of risk monitoring, the Operational Risk Department defines the quarterly operational risk monitoring indicators approved by the Risk Committee. The Operational Risk Department is therefore responsible for ongoing risk management. As part of the guidelines for monitoring all kinds of transaction-related risk (Article 6a of Regulation 97-02

[amended]), the main responsibilities of the Operational Risk Department are:

- to ensure that La Banque Postale has properly defined and formalised targets for the security of its information systems and has identified the main areas of weakness. La Banque Postale's Head of Information Systems Security (HISS) is the project manager in this area. He determines the level of security and the guidelines, in accordance with professional standards and the level requested by the Executive Board. He validates the implementation of these measures and monitors their application;
- to ensure that La Banque Postale has appropriate business continuity plans in place and to conduct tests and make the necessary improvements if required;
- to supply an identification, rating and management methodology for operational risk;
- to identify the operational risks within a risk mapping exercise for each process and entity, supply required analysis to the Risk Committee, rate them (according to their impact and occurrence), rank them, monitor the implementation of the recommended action plans and submit reports, including indicator-based reports;
- to monitor and process risks linked to debit cards and comply with regulatory requirements, specifically in terms of drafting reports (to the French National Bank, the Prudential Control Authority, etc.).

The Operational Risk Department relies on networks of Officers working in the following three areas, either exclusively or in another operational capacity; the Officers are either selected for each entity or each subsidiary, or according to risk management criteria in four areas:

- information systems security;
- business continuity;
- risk mapping and/or monitoring of processing schedules;
- the security of goods and people.

### 3.1.4.2 Operational risk management rules

#### FRAMEWORK

La Banque Postale has adopted the following definition of operational risk: "the risk of loss arising from the inadequacy or failure of procedures, staff members, internal systems or external events, including the risk of damage to the Bank's reputation but excluding strategic risks".

This definition includes legal and non-compliance risks as defined in paragraphs k and p respectively of Article 4 of CRBF Regulation 97-02.

La Banque Postale has selected the standard method of calculating equity requirements to cover operational risk. In this respect, the Operational Risk Department has drawn up guidelines for the analysis, assessment and management of operational risk in accordance with the Ministerial Decree of February 20<sup>th</sup> 2007 regarding equity requirements applicable to credit institutions and investment firms.

These guidelines are primarily based on:

- drawing up an operational risk map for each process and entity;
- putting in place a system for escalating incidents and losses recorded at the various entities of La Banque Postale and the subsidiaries involved to the Risk Department;
- preparing a quarterly report on the main operational risk indicators for the Risk Committee and the Management Committee.

These guidelines must provide the best response possible to the stated requirements for implementing the advanced assessment of operational risk, in order to prepare La Banque Postale for the potential transition to the advanced method.

Their aim is to provide La Banque Postale, and all the entities acting in its name and on its behalf, with an organizational framework that will enable operational risk to be identified, assessed and monitored on an ongoing basis, in order to implement the appropriate preventive or corrective measures. In this way, operational risk management helps reinforce the Bank's internal control procedures.

Risks are identified and assessed on the basis of an "expert opinion", under the responsibility of the Operational Risk Officer involved, and are supplemented by a record of incidents and losses and the related methodology.

Since its foundation, La Banque Postale has developed tools and methodologies intended for all its entities, with the aim of improving the management of operational risk on an ongoing basis. At the same time, the Management Business Lines of the Operational Risk Department have contributed towards developing a risk culture through the support they have provided.

## 2010 DEVELOPMENTS

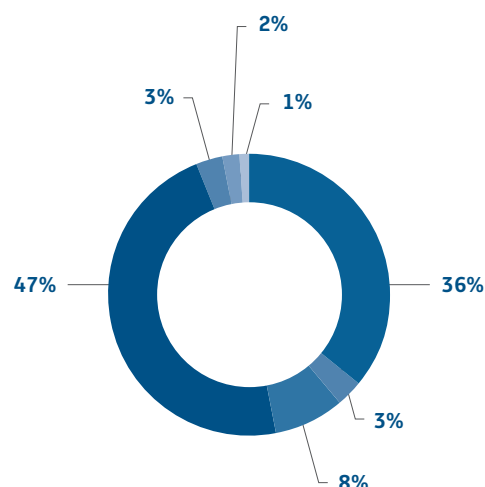
During 2010, the work performed focused mainly on the following issues:

- including the subsidiaries in the operational risk management system, as well as supporting them;
- rolling out a methodology for building a record of losses;
- optimising the tools that have been rolled out;
- supporting La Banque Postale's main projects;
- developing a risk and operational risk culture, particularly within the various entities.

This roll-out was accompanied by a systematisation of the responsibilities of the La Banque Postale agents involved in operational risk management through the risk management policy, which was validated by the Executive Board and approved by the Audit Committee.

In terms of operational risk, the results were as follows:

### Operational risk related losses in 2010 Breakdown by Basel category



- CUSTOMERS, PRODUCTS AND SELLING PRACTICES: 36%
- DAMAGES CAUSED TO PHYSICAL ASSETS: 3%
- PROCESS EXECUTION, DELIVERY AND MANAGEMENT: 8%
- EXTERNAL FRAUD: 47%
- INTERNAL FRAUD: 3%
- BUSINESS INTERRUPTIONS AND SYSTEM MALFUNCTIONS: 2%
- EMPLOYMENT AND SECURITY PRACTICES IN THE WORKPLACE: 1%

## OPERATIONAL RISK RELATED LOSSES IN 2010

### BREAKDOWN BY BUSINESS LINE

COMMERCIAL BANKING	1.92%
RETAIL BANKING	97.37%
RETAIL BROKING	0.30%
ASSET MANAGEMENT	0.13%
NEGOTIATION AND INSTITUTIONAL SALES	0.28%

### 3.1.4.3 Information systems security management guidelines

#### FRAMEWORK

The general information systems (IS) security policy focuses its main interventions on three areas:

- taking the security policy into account across all the Bank's business line projects, and particularly adapting this policy in technical IT areas.  
Taking the policy into account includes end-user training and awareness-raising programmes;
- managing major security programmes, particularly the programme involving the accreditation process that enables individuals to access the Bank's IS, and the accreditation process that enables individuals to track transactions performed on those systems;
- ongoing IS risk measurement (ISR MAP) through identifying the banking processes (e-banking, etc.) and the security criteria (DICT) affected.

In 2010, the general IS security policy was reviewed in order to take organizational changes within the Group into account, particularly the extending of this policy to the subsidiaries. The whole security document collection was also updated in accordance with the risks linked to changing technology. Moreover, particular attention was paid to the security measures applicable to connections between IS.

#### 2010 DEVELOPMENTS

During 2010, the work performed focused mainly on the following issues:

- drawing up a methodology for including security in project management tasks, in accordance with the Bank's project methodology. This methodology was tested on several projects;
- the IS Access Accreditation project focused on implementing the accreditation management tool, for which the technical launch took place at the end of October 2010. At the same time, work began on implementing the organization of the accreditation unit.

Since 2009, the Bank has been developing a system for measuring and assessing information system risk on an ongoing basis (ISR MAP), the aim of which is primarily to assess the level of risk relating to information systems (IS) through an overview of the banking processes, and to monitor the implementation action plans.

In 2010, the assessment of the 30 major and critical business line risks linked to information system security (ISS) was reviewed. The risk assessment process, which is carried out on a quarterly basis, focused on seven risks (four relating to the availability of the systems, one to data confidentiality, one to data integrity and one to data traceability):

- non-availability of inter-bank exchanges (for more than four hours);
- disclosure of information on the transfer of large amounts (TLA);
- non-availability of online banking services;

- lack of traceability and/or failure to archive online banking transactions (in accordance with legal requirements);
- non-availability of systems, which means that end-to-end live securities reception and/or transmission services cannot be provided;
- non-availability of systems, which means that end-to-end UCITS reception and/or transmission services cannot be provided;
- lack of data integrity, which results in processing errors in the order reception and/or transmission process.

### 3.1.4.4 Business continuity planning management guidelines

#### FRAMEWORK

La Banque Postale's general business continuity planning (BCP) policy sets out the guiding principles, the reference framework and the organizational structure that enable the continuity of La Banque Postale's essential services to be guaranteed during a crisis event.

This policy applies to all the entities and to all members of staff working in La Banque Postale's banking and financial businesses and acting in its name or on its behalf. It also applies to all the subsidiary companies of the La Banque Postale Group.

The organizational structure adopted by La Banque Postale to ensure that the BCP is implemented and checked relies on:

- a network of Business Continuity Officers (BCOs) who are responsible for the operational roll-out of the La Banque Postale BCP in their business line, for monitoring the plan and issuing the related reports;
- a business continuity contacts network, (BCCN), formed by each BCO. The BCCNs gather information about priority processes and implement the BCP in each entity.

The global BCP is defined as the business continuity plan that brings together all the plans implemented at the Bank, in order to ensure the back-up, recovery and continuity of the company's essential services, and is the responsibility of La Banque Postale's Head of Business Continuity (HBC) at the Bank's Risk Department.

The BCOs are the HBC's contact points for questions relating to the BCP in their area.

## 2010 DEVELOPMENTS

In 2010:

- in order to handle short and long-term incidents, the HBC has suggested several fall-back solutions for the Head Office to the Bank's Executive Board;
- in order to enable the unit's agents to gain a better understanding of the Bank's BCP, assignment factsheets have been designed and a business line crisis unit has been set up;
- working together with the BCP unit, the HBC has developed a tool to monitor the effectiveness and sustainability of the Bank's BCP. After conducting a pilot project in 2010, the HBC will develop a monitoring plan for the whole subsidiary during 2011;
- all eleven subsidiaries have been supported. They bought in to the initiative and performed a maturity assessment, as well as an impact assessment on their businesses (BIA);

- the HBC has launched a BCP application consolidation process. The aim of this process is to check that the level of commitment shown by the ISD & DISFE is in line with the level of commitment shown by the business lines.

Lastly, La Banque Postale conducted a test on the Banking Crisis Unit in the second half of 2010, based on a scenario where the Head Office's premises were not available, and took part in the Industry test in 2010, which was performed on the basis of a once-in-a-hundred years flooding scenario and organised by the Bank of France and the Industry Continuity Group.

## 3.1.5 Insurance cover and policies

The insurable risks of La Banque Postale and its subsidiaries are covered by an insurance programme that included the following policies as at January 1<sup>st</sup> 2010:

Area	Insurance policy	Comments
CARS	Car pool insurance	Staff and company vehicles
	Car insurance at work	Damage to an employee's personal vehicle when used during a work assignment
	Civil liability	Employer's civil liability for an accident involving an employee's personal vehicle that was being used for business purposes
	Driving Licence Plus	Legal protection in case of loss of driving license points
	Damage to the personal property of employees working in Sensitive Urban Zones	As part of their main job and within the perimeter of Sensitive Urban Zones as defined by decree
CIVIL LIABILITY	General and operating civil liability	Injuries to third parties
	Professional civil liability for financial business activities	Third-party liability linked to financial business activities
	Civil liability of the directors of La Banque Postale	De facto, de jure and additional directors and officers
	Civil liability for the drafting of legal documents	Civil liability insurance for the Group's corporate lawyers
	Financial guarantees	Compulsory insurance for insurance brokers
	Civil liability of employers in relation to employee relations	
DAMAGES	All damages except for Insurance of property and fixtures and fittings and/or Additional Expenses	Damage to moveable and immoveable assets owned by La Banque Postale, regardless of their purpose
	Comprehensive except – Damages insurance for the assets or operating losses of subsidiaries	Damage to moveable and immoveable assets owned by subsidiaries of the La Banque Postale Group, regardless of their purpose
	Fraud	Internal and external fraud
	All IT risks	Damage to computer data
	All securities risks – securities and funds insurance	Valuables in safes or cash dispensers and ATMs (excluding transportation)
	Banking business protection	Loss of banking business following a major incident



Area	Insurance policy	Comments
TRANSPORTATION	Civil responsibility and damages insurance for goods in transport	Including the transportation of cash and securities under escort
CONSTRUCTION	Building defects insurance	Ten-year building defects insurance
	All construction site risks	
EXHIBITIONS, SPORTING AND CULTURAL EVENTS	Civil liability insurance for event organisers	Injury to third parties at events organised by the company and attendance at trade fairs or shows
	Insurance of event attendees	Assistance and insurance for attendees of events organised by the company
	Comprehensive exhibition insurance – Door to door insurance for exhibits	
BUSINESS TRAVEL	Business travel insurance for employees	Assistance and insurance for employees travelling on business (excluding expatriation).

The structuring of these programmes is overseen by the Insurance Unit and implemented working together with the La Poste Group Insurance Department.  
Specific programmes are implemented for certain subsidiaries.

## 3.2 Prudential ratios

La Banque Postale's equity capital is managed in a way that enables the Bank to comply with regulatory ratios and guarantee its solvency, while paying La Poste, its shareholder, a level of dividends that is in line with its expectations and its Group policy. The quality of the Bank's assets as well as the issue of €750 million in subordinated debt enabled the Bank to post prudential ratios that exceeded regulatory requirements in 2010. Despite a sharp increase, the risk quality and the level of guarantees attached to the customer loan portfolio enable the Bank to benefit from low weightings.

Other assets consist mainly of a very high-quality securities portfolio, which is mainly invested in sovereign debt or similar securities.

As a result, La Banque Postale, which applies CRBF Regulation 2000-03 on financial conglomerates, reported a 2010 solvency ratio of 15.3%, and a Tier1/Core Tier 1 ratio of 11%. Lastly, La Banque Postale pursued its cautious liquidity management policy in 2010. That policy resulted in excess liquidity throughout the year, boosted by the quality of the financial assets held by the Bank. La Banque Postale's liquidity ratio therefore remained at a level that is significantly higher than the minimum regulatory requirement of 100%.

(€ '000s)	12.31.2010	12.31.2009
Equity capital, Group share	4,858,256	4,445,284
Planned profit allocation	(292,909)	(264,392)
Minority interests after dividend distribution	(9,505)	115
Prudential deduction, including goodwill and intangible fixed assets	(1,028,581)	(830,780)
Other deductions	(21,947)	(21,752)
Total core equity	3,505,314	3,328,475
Total additional equity	1,405,975	636,835
<b>TOTAL PRUDENTIAL SHAREHOLDERS' EQUITY</b>	<b>4,911,289</b>	<b>3,965,310</b>

Note: La Banque Postale Prévoyance and La Banque Postale Assurances IARD are consolidated via the equity method in the prudential consolidation process although they are respectively consolidated on a proportional basis and in full in the consolidated financial statements presented here.

## INTERNATIONAL SOLVENCY RATIO

The international solvency ratio is the measure used to assess financial institutions' capacity to withstand risk. In order to calculate its equity capital requirements, La Banque Postale uses a consolidated version of the standard approach for calculating credit risk, market risk and operational risk requirements. These ratios include La Banque Postale Financement on a consolidated basis.

Based on the financial statements as at December 31<sup>st</sup> 2010, La Banque Postale's solvency ratio was 15.3%, while its Tier 1 ratio was 11%.

### PRUDENTIAL EQUITY CAPITAL, WEIGHTED DEPOSITS AND SOLVENCY RATIOS

(€ million)	12.31.2010 (Basel II)	12.31.2009 (Basel II)
<b>Prudential capital</b>		
Equity capital (Attributable to equity holders of parent)	4,858	4,445
Dividends	-293	-264
Minority interests after dividend distribution	0	0
Prudential deductions <sup>(1)</sup>	-1,039	-832
Other deductions <sup>(2)</sup>	-21	-21
Total core equity	3,505	3,328
Total additional equity	1,427	658
Other deductions <sup>(2)</sup>	-21	-21
Total prudential capital	4,911	3,965
Capital requirements	2,561	2,360
International solvency ratio	15.3%	13.4%
Tier 1 ratio	11.0%	11.3%
Hedging ratio	191.8%	168.0%

(1) Consists mainly of goodwill, intangible assets, elimination of IFRS effects and insurance entity.

(2) Interests in non-consolidated financial companies.

## CAPITAL ADEQUACY RATIO

The equity capital requirements for the La Banque Postale Group highlight a level of coverage of required equity capital by available equity capital:

- 137% for Tier 1 equity capital only;
- 192% when additional equity capital is taken into account.

Since the La Banque Postale Group has been classified as a financial conglomerate by the French Prudential Control Authority pursuant to the terms of the legislation that drafted the EU Financial Conglomerates Directive into French law, the Group's equity capital must always be greater than, or equivalent to, the total solvency requirements applicable to its banking and insurance business activities.

This requirement was satisfied as at December 31<sup>st</sup> 2010.

## OTHER RATIOS

### Control of major risks

The regulation on major risks has undergone three significant changes, including:

- abolition of the restrictions on the total amount of risk incurred on beneficiaries, which was limited to eight times shareholders' equity;
- abolition of a weighting that promotes banking exposure and the introduction of a "grand-fathering" rule to ensure a transition between both sets of regulations.

In accordance with regulation on major risks, institutions must comply with the following restriction: the total amount of risks incurred in respect of a single beneficiary must not exceed 25% of Group net equity capital.

La Banque Postale complies with this ratio at all times. In addition, pursuant to instruction 2010-I-01 issued by the Prudential Control Authority, La Banque Postale has declared 34 counterparties under the gross risk monitoring framework, of which only eight are considered as major risks.



# Financial data

# 4

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## 4.1 Consolidated financial statements

### 4.1.1 Profit and loss statement as at December 31<sup>st</sup> 2010

(€ '000s)	Notes	12.31.10	12.31.09
Interest and similar income	4.1	5,109,992	5,518,618
Interest and similar expense	4.1	(2,197,695)	(2,607,374)
Commissions (income)	4.2	2,101,501	1,932,196
Commissions (expense)	4.2	(237,091)	(215,049)
Net gains and losses on financial instruments at fair value through profit and loss	4.3	269,467	159,855
Net gains and losses on financial assets available for sale	4.4	160,095	162,049
Income from other activities	4.5	685,272	479,987
Expenses from other activities	4.5	(676,250)	(411,368)
<b>NET BANKING INCOME</b>		<b>5,215,291</b>	<b>5,018,914</b>
General operating expenses	4.6	(4,298,846)	(4,224,638)
Depreciation, amortisation and impairments to tangible and intangible fixed assets		(137,110)	(118,097)
<b>GROSS OPERATING PROFIT</b>		<b>779,335</b>	<b>676,179</b>
Cost of risk	4.7	(59,884)	(51,570)
<b>OPERATING PROFIT</b>		<b>719,451</b>	<b>624,609</b>
Share in profits of equity associates	3.12	194,949	185,792
Net gains or losses on other assets	4.8	2,326	(1,795)
<b>PRE-TAX PROFIT</b>		<b>916,726</b>	<b>808,606</b>
Income tax	4.9	(275,840)	(220,908)
<b>CONSOLIDATED NET PROFIT</b>		<b>640,886</b>	<b>587,698</b>
Minority interests		(10,431)	105
<b>NET PROFIT, ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT</b>		<b>651,317</b>	<b>587,593</b>
Earnings per share (in euros)		31.98	28.85

### STATEMENT OF NET INCOME AND GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY CAPITAL

(€ '000s)	12.31.10	12.31.09
<b>NET PROFIT, ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT</b>	<b>651,317</b>	<b>587,593</b>
Translation differences		
Revaluation of financial assets available for sale	5,618	151,300
Revaluation of hedging derivatives	2,611	13,719
Revaluation of fixed assets		
Gains and losses recognised directly in equity for entities consolidated via the equity method	(6,161)	200,604
<b>TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY NET OF TAX, ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT</b>	<b>2,068</b>	<b>365,623</b>
<b>Net profit and gains and losses recognised directly in equity, attributable to equity holders of parent</b>	<b>653,385</b>	<b>953,216</b>
<b>Minority interests in net profit and gains and losses recognised directly in equity</b>	<b>(10,433)</b>	<b>111</b>
<b>NET PROFIT AND GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY</b>	<b>642,952</b>	<b>953,327</b>

The amounts shown here are net of tax. Detailed information regarding the recycling of gains and losses recognised directly

in equity capital, together with the tax charge for these various items is provided in Note 3.22.

## 4.1.2 Consolidated balance sheet as at December 31<sup>st</sup> 2010

(€ '000s)	Notes	12.31.10	12.31.09
<b>ASSETS</b>			
Cash and central banks	3.1	2,149,998	3,699,660
Financial assets at fair value through profit and loss	3.2	4,270,647	6,580,587
Hedging derivatives	3.3	334,742	363,254
Financial assets available for sale	3.4	9,966,741	11,240,968
Loans and receivables – credit institutions	3.5	73,493,943	73,966,537
Loans and receivables – customers	3.6	39,213,820	33,074,805
Revaluation differences on interest rate risk hedged portfolios	3.8	129,602	94,944
Financial assets held to maturity	3.9	37,413,191	34,626,622
Current and deferred tax assets	3.10	123,395	56,363
Accruals and other assets	3.11	3,155,583	4,953,107
Deferred profit-sharing		-	-
Investments in associates	3.12	1,961,425	1,864,045
Tangible fixed assets	3.13	448,877	421,240
Intangible fixed assets	3.13	300,344	257,920
Goodwill	3.14	53,439	50,978
<b>TOTAL</b>		<b>173,015,747</b>	<b>171,251,030</b>
<b>LIABILITIES</b>			
Financial liabilities at fair value through profit and loss	3.2	112,846	388,228
Hedging derivatives	3.3	181,679	218,095
Due to credit institutions	3.15	6,169,760	5,618,828
Due to customers	3.16	151,068,471	149,830,946
Debt securities	3.17	4,523,400	3,806,899
Current and deferred tax liabilities	3.10	15,090	155,989
Accruals and other liabilities	3.18	4,169,527	5,574,563
Technical reserves of insurance companies	3.19	450,963	383,343
Provisions	3.20	303,805	325,793
Subordinated debt	3.21	1,236,279	502,232
<b>SHAREHOLDERS' EQUITY, ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT</b>		<b>4,793,763</b>	<b>4,445,284</b>
- Share capital		2,342,454	2,342,454
- Consolidated and other retained earnings		1,434,444	1,151,757
- Unrealised or deferred gains/losses		365,548	363,480
- Net profit for the year		651,317	587,593
<b>MINORITY INTERESTS</b>		<b>(9,836)</b>	<b>830</b>
<b>CONSOLIDATED EQUITY</b>		<b>4,783,927</b>	<b>4,446,114</b>
<b>TOTAL</b>		<b>173,015,747</b>	<b>171,251,030</b>



## 4.1.3 Statement of changes in equity capital

(€ '000s)	SHAREHOLDERS' EQUITY, ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT							Total consolidated equity
	Capital (1)	Legal reserves, retained earnings and other reserves	Consolidated reserves	Unrealised or deferred gains and losses net of income tax, attributable to equity holders of parent (2) and (3)	Net profit, attributable to equity holders of parent	Equity capital, attributable to equity holders of parent	Equity capital, minority interests	
<b>IFRS equity capital as at 2008.12.31</b>	<b>2,342,454</b>	<b>488,136</b>	<b>446,449</b>	<b>(2,143)</b>	<b>302,582</b>	<b>3,577,478</b>	<b>86</b>	<b>3,577,564</b>
Allocation of 2008 net income		291,581	11,001		(302,582)	0		0
2009 dividends paid on 2008 net income		(96,142)				(96,142)		(96,142)
Sub-total of movements linked to relations with shareholders		195,439	11,001	0	(302,582)	(96,142)	0	(96,142)
Movements in gains and losses recognised directly in equity			40,004	165,019		205,023	6	205,029
2009 net income					587,593	587,593	105	587,698
Sub-total			40,004	165,019	587,593	792,616	111	792,727
Share in movements in the equity capital of associates consolidated via the equity method			(5,146)	200,604		195,458		195,458
Other movements		(1,067)	(23,059)			(24,126)	633	(23,493)
<b>IFRS equity capital as at 2009.12.31</b>	<b>2,342,454</b>	<b>682,508</b>	<b>469,249</b>	<b>363,480</b>	<b>587,593</b>	<b>4,445,284</b>	<b>830</b>	<b>4,446,114</b>
Allocation of 2009 net movements		353,158	234,435		(587,593)	0		0
2010 dividends paid on 2009 net movements		(264,393)				(264,393)	(508)	(264,901)
Sub-total of movements linked to relations with shareholders		88,765	234,435	0	(587,593)	(264,393)	(508)	(264,901)
Movements in gains and losses recognised directly in equity			2,238	(2,279)		(41)	(2)	(43)
2010 net income					651,317	651,317	(10,431)	640,886
Sub-total			2,238	(2,279)	651,317	651,276	(10,433)	640,843
Share in movements in the equity capital of associates consolidated via the equity method			(3,855)	(6,161)		(10,016)		(10,016)
Other movements		60	(38,956)	10,508		(28,388)	275	(28,113)
<b>IFRS equity capital as at 2010.12.31</b>	<b>2,342,454</b>	<b>771,333</b>	<b>663,111</b>	<b>365,548</b>	<b>651,317</b>	<b>4,793,763</b>	<b>(9,836)</b>	<b>4,783,927</b>

(1) As at December 31<sup>st</sup> 2010, the share capital of La Banque Postale consisted of 20,369,166 shares with a par value of €115.

(2) Unrealised or deferred gains and losses include translation reserves; those reserves originate from the foreign subsidiaries consolidated by the CNP Assurances Group.

(3) As at December 31<sup>st</sup> 2010, unrealised or deferred gains or losses included €227 million in net unrealised gains on assets available for sale recorded by the CNP Assurances Group, compared with €263 million as at December 31<sup>st</sup> 2009.

As at December 31<sup>st</sup> 2009, movements in gains and losses recognised directly in equity included a €36.7 million adjustment for the terms under which the carve out applied.

The other movements were primarily caused by movements in the value of minority interest call options and the impact of a reclassification of unrealised gains on assets available for sale at La Banque Postale Prévoyance. These assets, which amounted to €10,508 million, had previously been shown under consolidated reserves.

The forecast estimated dividend payment is €292,908,000 or €14.38 per share.

## 4.1.4 Cash flow statement for the 2010 financial year

The cash flow statement is presented according to the indirect method model.

**Investment activities** represent cash flows relating to acquisitions and disposals of holdings in consolidated companies, and of financial assets held to maturity and tangible and intangible fixed assets.

**Financing activities** represent changes linked to structural financial transactions involving equity capital and subordinated debt.

**Operating activities** include those cash flows that fall outside the two previous categories. More specifically, securities relating to strategic investments included in "Financial assets available for sale" are classified in operating activities.

The concept of net cash includes cash, receivables and payables to central banks, as well as instant-access deposits (assets and liabilities) held by credit institutions.

(€ '000s)	<b>12.31.10</b>	<b>12.31.09</b>
<b>PRE-TAX PROFIT</b>	<b>916,726</b>	<b>808,606</b>
+/- Depreciation and amortisation on tangible and intangible fixed assets	137,110	118,097
- Impairment of goodwill and other fixed assets		
+/- Provisions	19,076	(28,033)
+/- Net gains and losses on investment activities	(12,018)	1,485
+/- Net gains and losses on funding activities		
+/- Share in the income of associates	(194,949)	(185,792)
+/- Other movements	(120,711)	116,258
<b>= Total non-cash items included in net pre-tax profit and other adjustments</b>	<b>(171,492)</b>	<b>22,015</b>
+/- Cash flows relating to transactions with credit institutions	1,296,770	963,317
+/- Cash flows relating to customers transactions	(4,916,119)	(5,747,699)
+/- Cash flows relating to other transactions that have an impact on financial assets or liabilities	3,971,860	1,123,861
+/- Cash flows relating to other transactions that have an impact on non-financial assets or liabilities	428,533	(98,646)
- Taxes paid	(475,500)	74,202
<b>= Net increase/decrease in assets and liabilities from operating activities</b>	<b>305,544</b>	<b>(3,684,965)</b>
<b>TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES (A)</b>	<b>1,050,778</b>	<b>(2,854,344)</b>
+/- Flows linked to financial assets and investments	(2,714,773)	2,944,641
+/- Flows linked to tangible and intangible fixed assets	(205,168)	(175,577)
<b>TOTAL NET CASH FLOWS LINKED TO INVESTMENT ACTIVITIES (B)</b>	<b>(2,919,941)</b>	<b>2,769,064</b>
+/- Cash flows flows from or to shareholders	(164,798)	(95,376)
+/- Other net cash flows from financing activities	731,075	2,000
<b>TOTAL NET CASH FLOWS LINKED TO FINANCING ACTIVITIES (C)</b>	<b>566,277</b>	<b>(93,376)</b>
<b>IMPACT OF CHANGES IN EXCHANGE RATES AND CHANGES IN CASH MANAGEMENT METHODS (D)</b>		
<b>Net increase (decrease) in cash and cash equivalents (A+B+C+D)</b>	<b>(1,302,886)</b>	<b>(178,656)</b>
<b>Opening cash and cash equivalents</b>	<b>3,401,571</b>	<b>3,580,227</b>
Cash and central banks	3,699,660	2,138,554
Current accounts and instant-access loans with credit institutions	(298,089)	1,441,673
<b>Closing cash and cash equivalents</b>	<b>2,098,685</b>	<b>3,401,571</b>
Cash and central banks	2,149,998	3,699,660
Current accounts and instant-access loans with credit institutions	(51,313)	(298,089)
<b>CHANGE IN NET CASH</b>	<b>(1,302,886)</b>	<b>(178,656)</b>

## 4.1.5 Notes to the consolidated financial statements

The Group's consolidated financial statements for the financial year ending December 31<sup>st</sup> 2010 were approved by the Executive Board on February 28<sup>th</sup> 2011.

# Legal and financial framework

## Founding of La Banque Postale

La Banque Postale is the result of Efposte, which was originally an investment company, becoming an institution approved to operate as a bank.

This change was in line with Law No.2005-516 of May 20<sup>th</sup> 2005 on the regulation of the French postal services.

Pursuant to the above law and to the enacting decree of August 30<sup>th</sup> 2005, the assets, rights and obligations linked to the accounts and agreements of the Caisse National d'Epargne were transferred to La Poste on December 31<sup>st</sup> 2005. On the same date, those items, together with the assets, rights and obligations linked to La Poste's financial services were transferred to Efposte, which then changed its name to La Banque

Postale, with December 31<sup>st</sup> 2005 as the legal and accounting start date.

The assets transferred included La Poste's holdings in SF2, which acts as a holding company (including for its indirect holdings in the Caisse National de Prévoyance [National Provident Fund]) and in the CRSF Métropole and CRSF DOM limited property investment partnerships, which own the Bank's business premises.

Since this was a transaction between jointly-owned entities, the assets and liabilities transferred were valued at their net book value.

## Highlights of the period

### Changes in scope of consolidation

#### TOCQUEVILLE FINANCE

Once the October 6<sup>th</sup> 2009 assignment agreement had been finalised, La Banque Postale acquired 100% of the shares of OFC Finance and a 69.99% interest in Tocqueville Finance Holding (TFH) on November 16<sup>th</sup> 2009. 36.3% of the shares were acquired directly through SF2 while the remaining 33.7% were acquired indirectly via OFC Finance.

OFC Finance, TFH and Tocqueville Finance were fully consolidated for the first time as at December 31<sup>st</sup> 2009. The difference between the fair value of the assets and liabilities acquired and the price paid for the shares resulted in goodwill of €24.8 million being recognised on the balance sheet. During the first half of 2010, the Group paid an earn-out payment of €2.1 million. As the combination took place before January 1<sup>st</sup> 2010, it was recognised through goodwill, in accordance with the provisions of IFRS 3 (2004).

Pursuant to the share assignment agreement signed by the Group and one of Tocqueville Finance Holding's minority shareholders on July 29<sup>th</sup> 2010, SF2 acquired a 5% interest in TFH in the second half of 2010, thereby raising its direct interest to 41% and its overall interest to 75.17%. The difference between the acquisition cost of these shares and the share in net assets that they represent was deducted from equity capital.

As part of the process for allocating the fair value of the assets and liabilities acquired, goodwill was increased by €0.2 million, in order to take account of a commitment made to employees, which had not been identified at the time of the purchase.

#### LA BANQUE POSTALE FINANCEMENT

The La Banque Postale subsidiary, which specialises in consumer credit, began marketing its product range on a national basis from March 1<sup>st</sup> 2010 onwards, and added further products, including student loans, one-euro driving license loans and loans for temporary workers to its range during the summer. As at the end of 2010, over 100,000 loans had been agreed.

## **PARTNERSHIP WITH GROUPAMA IN THE CASUALTY INSURANCE SECTOR**

On October 12<sup>th</sup> 2009, La Banque Postale and Groupama reached a definite agreement regarding their partnership in the casualty insurance sector. The aim of the agreement was to create a joint venture in which La Banque Postale is the majority shareholder. On December 10<sup>th</sup> 2009, La Banque Postale raised €2.5 million in new capital, enabling Groupama to take a 31.3% interest in Fédération SF2, which became La Banque Postale Assurances IARD. A second capital increase took place on September 1<sup>st</sup> 2010, to marking the actual start-up of the partnership. That capital increase resulted in a cash contribution of €99.5 million, €99.4 million of which was in the form of an issuance premium and €0.1 million of which was in the form of capital. The dilution created by these transactions was charged to equity capital.

The Group now owns a 65% stake in La Banque Postale Assurances IARD. As La Banque Postale retains exclusive control over the company, it remains fully consolidated. This subsidiary, which is dedicated to casualty insurance activities, has been licensed by the French Insurance and Private Insurance Companies Authority or ACAM.

## **PARTNERSHIP WITH LA MUTUELLE GÉNÉRALE IN THE HEALTH INSURANCE SECTOR**

On July 15<sup>th</sup> 2010, La Banque Postale and Groupama signed a memorandum of agreement regarding a partnership in the health insurance sector. A first capital increase for EF Primo, for an amount of €2.5 million, took place on November 30<sup>th</sup> 2010. That increase was 76% subscribed by SF2 and 24% by La Mutuelle générale. La Mutuelle générale now has a 23.71% stake in the company. The company became La Banque Postale Assurance Santé and was approved by the French Prudential Control Authority on January 26<sup>th</sup> 2011.

## **Other highlights**

### **BONDS ISSUE**

On November 19<sup>th</sup> 2010, La Banque Postale issued €750 million in bonds. This was La Banque Postale's second Tier 2 bond issue; the first issue, which amounted to €500 million, took place in November 2006. This issue, which was in the form of repayable subordinated debt (Lower Tier 2), was mainly subscribed by European institutional investors. The issue may be converted into senior debt in the event of regulatory disqualification.

## **CNP Assurances highlights**

### **FINALISATION OF SALE OF THE GROUP'S INVESTMENT IN THE GLOBAL SEGUROS GROUP**

Once it had obtained the necessary regulatory authorisations, CNP Assurances concluded on March 3<sup>rd</sup> 2010 the transaction designed to sell its respective stakes of 83.52% and 83.57% in Global - Companhia de Seguros SA and Global Vida - Companhia de Seguros de Vida SA (Global Seguros), with Rentipar Seguros SGPS. The total amount of the transaction was €114.6 million, which put a total value on both companies of €137.2 million. This transaction enabled CNP Assurances to generate a net capital gain of €30 million.

This transaction, which is in line with the recent partnerships signed with Barclays Bank PLC in Spain, Portugal and Italy, and with Marfin Popular Bank in Greece and Cyprus, completes CNP Assurance's refocusing on its core bancassurance business in Southern Europe.

### **CAPITALISATION RESERVE TAX REFORM**

The French 2011 Finance Act, which was published on December 31<sup>st</sup> 2010, introduced an exceptional 10% tax on amounts assigned to tax-free capitalisation reserves by insurance companies until January 1<sup>st</sup> 2010. In exchange, subsequent write-backs of the amounts subject to this tax will not be taxed. In addition, the amounts assigned to the capitalisation reserve or written back from that reserve after January 1<sup>st</sup> 2010 will henceforth be taxable immediately or deductible from taxable profit. The tax charge was recognised as a debt on the balance sheet at December 31<sup>st</sup> 2010. Half of it will be paid when the tax return is filed and the remainder within sixteen months at the latest.

The capitalisation reserve does not feature in the consolidated accounts prepared under IFRS, where all gains or losses on bonds is recognised in the profit and loss statement. Up until January 1<sup>st</sup> 2010, the elimination of this reserve gave rise to a deferred tax charge calculated at a rate of 34.43%

As a consequence of the tax reform, income of €402 million was therefore recognised in the profit and loss statement as at December 31<sup>st</sup> 2010 included in the consolidated financial statements prepared under IFRS. That income broke down as follows:

- a deferred tax charge of €163 million, which corresponds to the exceptional tax levied on the capitalisation reserves built up by French entities as at January 1<sup>st</sup> 2010;
- a deferred tax profit of €565 million, which corresponds to the write-back of liabilities that had previously been entered in respect of these reserves.

# Note 1

## Principal valuation and presentation rules applying to the consolidated financial statements

### 1.1 Regulatory framework

EC Regulation 1606/2002 of July 19<sup>th</sup> 2002 requires companies whose debt securities are listed on a regulated market to apply the accounting standards drawn up by the International Accounting Standards Board (IASB). Pursuant to that regulation, La Banque Postale has prepared its consolidated financial statements in accordance with IFRS (International Financial Reporting Standards) as approved by the European Union, since January 1<sup>st</sup> 2007. More specifically, the Group has chosen to apply the provisions of European Commission Regulation 2086/2004 by adopting IAS 39, with the exception of certain provisions. This European regulation allows certain macro-hedging transactions performed as part of asset-liability management (including customer overnight accounts) to be treated as fair value hedges. The full guidelines for the standards adopted within the European Union can be consulted on the European Commission's website, at the following address: [http://ec.europa.eu/internal\\_market/accounting/ias/index\\_fr.htm](http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm).

The impact of the initial application of IFRS to equity capital, the balance sheet and the profit and loss statement was detailed in the 2007 annual report, together with the specific regulations retained for the initial application according to IFRS 1.

The consolidated financial statements are presented in thousands of euros.

#### PRESENTATION OF THE FINANCIAL STATEMENTS

In the absence of any model imposed by IFRS guidelines, the Group has used the summary statement format suggested in Recommendation 2009 R04 of July 2<sup>nd</sup> 2009 issued by the French National Accounting Council (CNC).

### 1.2 Standards and interpretations applied by the Group as from January 1<sup>st</sup> 2010

#### 1.2.1 IAS 27 (revised) “Consolidated and separate financial statements” and IFRS 3 (revised) “Business Combinations”

The revision of IAS 27 “Consolidated and Separate Financial Statements” and IFRS 3 “Business Combinations” was issued on January 10<sup>th</sup> 2008 by the IASB. These standards, which were revised following the Business combination phase II project, involve accounting for control transactions and their subsequent treatment. Their application could have an impact on the amount of goodwill to be recorded, net profit for the year in which the acquisition was made and net profit in subsequent years.

The main changes concern accounting for costs linked to business combinations, the treatment of additional purchase costs, the valuation of minority interests in the acquired entity, and the treatment of acquisitions in stages. The amendments to IAS 27 primarily provide that a change in the percentage of the interest held in a subsidiary company be treated as a transaction within the equity capital of that company, with no impact on goodwill or net profit. The application of these revised standards is forward-looking and therefore has no impact on the accounting treatment of transactions prior to January 1<sup>st</sup> 2009.

Their application is compulsory for financial years beginning from July 1<sup>st</sup> 2009 onwards. Their application had no impact on the financial statements as at December 31<sup>st</sup> 2010.

## 1.2.2 Other standards or interpretations

Standards or interpretations	Date of adoption by the European Union
Amendment to IFRS 1 – Additional amendments for first-time adopters	June 24 <sup>th</sup> 2010
Amendment to IFRS 2 – Treasury share intra-group transactions	March 24 <sup>th</sup> 2010
Annual improvements to IFRS (2008)	January 24 <sup>th</sup> 2009
Annual improvements to IFRS (2009)	March 24 <sup>th</sup> 2010
IFRS 1 (Revised) – First adoption of IFRS	November 26 <sup>th</sup> 2009
Amendment to IAS 39 – Financial instruments – recognition and valuation: eligible hedged items	September 16 <sup>th</sup> 2009
IFRIC 12 – Service concession arrangements	March 26 <sup>th</sup> 2009
IFRIC 15 – Agreements for the construction of real estate	July 23 <sup>rd</sup> 2009
IFRIC 16 – Hedges of a net investment in a foreign operation	June 5 <sup>th</sup> 2009
IFRIC 17 – Distribution of non-cash assets	November 27 <sup>th</sup> 2009
IFRIC 18 – Transfer of assets from customers	December 1 <sup>st</sup> 2009

The Group is not concerned by these standards and interpretations, or their application had no significant impact on the period in question.

## 1.3 Standards and interpretations not yet applied

The IASB and IFRIC have issued standards and interpretations that were not compulsory as at December 31<sup>st</sup> 2010. Standards or interpretations published by the IASB, but which have

not yet been adopted by the European Union, will only be compulsory once they have been adopted and were not applied by the Group as at December 31<sup>st</sup> 2010.

### 1.3.1 Other standards or interpretations

Standards or interpretations	Date issued by IASB	Date of adoption by the European Union
IFRS 9 – Financial instruments – Classification and valuation	November 12 <sup>th</sup> 2009	-
Improvements to IFRS (2010)	April 16 <sup>th</sup> 2009	-
Amendment to IAS 32 – Classification of subscription rights	October 8 <sup>th</sup> 2009	December 24 <sup>th</sup> 2009
Amendment to IAS 24 – Related party disclosures	November 4 <sup>th</sup> 2009	July 20 <sup>th</sup> 2010
IFRIC 19 – Extinguishing financial liabilities with equity instruments	November 26 <sup>th</sup> 2009	July 26 <sup>th</sup> 2010
Amendment to IFRIC 14	November 27 <sup>th</sup> 2009	July 20 <sup>th</sup> 2010
Amendment to IFRS 1 – Exemptions to IFRS 7 disclosures	January 28 <sup>th</sup> 2010	July 1 <sup>st</sup> 2010
Amendment to IFRS 7 – Disclosures – transfers of financial assets	October 7 <sup>th</sup> 2010	-



## 1.4 Principles adopted for the preparation of the consolidated financial statements

### 1.4.1 Determining the scope of consolidation

The consolidated financial statements include the financial statements of La Banque Postale, the consolidated financial statements of the sub-groups and the financial statements as at December 31<sup>st</sup> 2010 of those subsidiary companies and holdings controlled or significantly influenced by La Banque Postale, where such consolidation has a significant impact on the overall consolidated financial statements.

### 1.4.2 Consolidation methods

The scope of voting rights taken into consideration when assessing the nature of the control exercised by the Group includes the existence and effect of any potential voting rights, from the date when the latter are exercisable or convertible at any time.

The following consolidation methods are applied:

#### FULL CONSOLIDATION

Companies that are exclusively controlled by the Group are fully consolidated.

Exclusive control over a subsidiary is defined as the power to direct its financial and operating policies in order to benefit from its business activities. Such control stems:

- either from holding the majority of the voting rights in the subsidiary, either directly or indirectly;
- or from the ability to appoint or dismiss the majority of the members of the subsidiary's administrative, management, and supervisory bodies, or from holding the majority of the voting rights at meetings of those bodies;
- or from the ability to exercise a dominant influence on a subsidiary under the terms of a contract or clauses in that company's articles of association.

#### PROPORTIONAL CONSOLIDATION

Jointly-controlled Group companies are consolidated on a proportional basis basis.

IFRS guidelines define joint control as shared control of a subsidiary company that is jointly operated by a limited number of shareholders or partners, who agree on the financial and operating policies implemented.

A contractual agreement must ensure that control over the company's economic activities and over target-related decisions requires the agreement of all partners or shareholders involved in the joint control.

### CONSOLIDATION USING THE EQUITY METHOD

Companies over which the Group has a material influence are consolidated using the equity method.

Material influence is defined as the ability to contribute to the financial and operating policies of a subsidiary without having control of that subsidiary. More specifically, that control may stem from representation on the subsidiary's management or supervisory bodies, from involvement in strategic decisions, from the existence of significant inter-company operations, from the exchange of management staff, or from technical dependency. Control is assumed to exist from the moment that the Group holds at least 20% of the voting rights, either directly or indirectly. That assumption may be challenged if the Group can demonstrate that no material influence exists, despite owning over 20% of the voting rights. Conversely, a significant influence can be shown to exist even if the 20% threshold is not reached.

### THE PARTICULAR CASE OF SPECIAL PURPOSE VEHICLES

Distinct legal entities that are specifically created to manage an operation or a group of similar operations are consolidated when they are substantially controlled by the Group, even if there is no equity L.

The following criteria are applied independently to assess whether a special purpose vehicle is controlled by another entity:

- the vehicle's business activities are exclusively conducted on the Group's behalf so that it may benefit from them;
- the Group holds decision-making powers and management control over the vehicle's day-to-day business activities or over its assets;
- the Group is able to benefit from most of the advantages enjoyed by the vehicle;
- the Group remains exposed to most of the risk relating to the vehicle.

To date, the Group has no special purpose vehicles eligible for consolidation.

### 1.4.3 Consolidation rules

#### 1.4.3.1 Restatements and eliminations

The restatements and reclassifications required in order to make the financial statements of all consolidated subsidiary companies comply with the Group's accounting principles are carried out.

Reciprocal accounts are eliminated, together with income and expenses arising from internal Group transactions and which have a material impact on the consolidated financial statements.

### 1.4.3.2 Conversion of the financial statements of foreign subsidiaries

For companies where the functional currency is not the euro, the balance sheet statements of foreign subsidiaries are converted at the applicable year-end exchange rate. Income and expenses in the profit and loss statement are converted at the average exchange rate for the period.

Income and expenses in the profit and loss statement are converted at the average exchange rate for the period. Exchange rate differences that arise from changes in the exchange rates applied to equity capital, reserves and net profit are entered under "Unrealised or deferred gains and losses – Exchange rate differences"

At the time when the Group prepared its first consolidated financial statements according to IFRS guidelines, it made use of the option provided by IFRS 1 to transfer the exchange rate differences accumulated as at that date to equity capital. This option only applied to foreign entities that are part of the CNP Assurances Group, which adopted IFRS for the first time in 2005. In the event that these entities are subsequently sold, the sale proceeds will only include the write-back of exchange rate differences generated from January 1<sup>st</sup> 2006 onwards.

### 1.4.3.3 Business combinations

#### **BUSINESS COMBINATIONS THAT OCCURRED BEFORE JANUARY 1<sup>ST</sup> 2010**

The Group accounts for business combinations using the acquisition method.

The cost of acquisition is defined as the total fair value cost on the date of acquisition of the assets acquired, the liabilities transferred and the equity capital instruments issued in exchange for control over the acquired company. Costs that are directly incurred as part of the transaction are included in the acquisition cost.

The identifiable assets, liabilities and potential liabilities of the acquired entities that meet IFRS accounting criteria are recorded at their fair value at the date of acquisition, in accordance with the provisions set out in IFRS 3 "Business Combinations". Analyses required for the initial valuation of these items and any potential adjustments may be performed within a period of 12 months from the acquisition date.

Any positive difference between the acquisition cost of the entity and the share of net assets acquired that is revalued in this way is recognised as Goodwill in consolidated balance sheet assets. In the event that the difference is negative, it is immediately expensed through the profit and loss statement.

Goodwill is retained on the balance sheet at its historical cost in the reference currency of the subsidiary acquired and converted at the official exchange rate at year-end.

Goodwill is regularly reviewed by the Group, and impairment tests are performed at least once a year, and as soon as any loss in value occurs.

When the recoverable value of the underlying asset, defined as the higher of the market and useful value of the underlying asset concerned, is lower than its book value, a terminal impairment is charged to the net income statement.

The book value of goodwill for associated companies is included in their valuation using the equity method.

In cases where minority interests are purchased in a subsidiary over which control has already been established, additional goodwill corresponding to the difference between the total acquisition cost of the additional interest and the Group's share in the net assets acquired is recognised and deducted from equity capital if positive. Likewise, a fall in the percentage of the Group's interest in an entity over which it retains exclusive control is treated as a transaction within equity capital.

#### **BUSINESS COMBINATIONS THAT OCCURRED AFTER JANUARY 1<sup>ST</sup> 2010**

The adoption of IFRS 3 (revised) changes some of the rules described above. The main changes are as follows:

Costs that are directly attributable to the business combination transaction represent a separate transaction and are recorded in the profit and loss statement.

Any potential additions to the price paid are included in the acquisition cost at fair value, as estimated at the time of acquisition, and subsequent adjustments are recorded in the profit and loss statement.

The potential liabilities of the acquired entities are only recognised on the consolidated balance sheet if they represent an actual obligation (and no longer a potential obligation as was previously the case) at the time of the combination, and if their fair value can be estimated on a reliable basis.

At the takeover date, minority interests may be valued either at fair value or according to their share in the fair value of the identifiable assets and liabilities of the acquired entity. The second method corresponds to the former method described above. A choice between these two methods is made for each business combination.

At the time an entity is taken over, the potential share formerly held in the latter is revalued at market value through the profit and loss statement.

## **PURCHASE UNDERTAKINGS GRANTED TO MINORITY SHAREHOLDERS OF FULLY CONSOLIDATED SUBSIDIARIES**

Minority interests correspond to investments that do not give rise to control as defined by IAS 27 and include instruments that are actually interests, and grant the right to a share of net assets in the event of liquidation, and other equity instruments issued by the subsidiary and not held by the Group.

The current IAS 27 – Consolidated and separate financial statements and IAS 32 – Financial Instruments: disclosures and presentation require the Group to record a debt offset by a reduction in minority assets as a commitment to purchase minority interests. The Group has chosen to deduct the difference between the amount of the commitment and the minority interests offsetting the debt from equity capital.

Subsequent movements are recognised under reserves, Group share.

The share of net profit attributable to minority shareholders who hold purchase options is shown under “Minority interests” in the consolidated profit and loss statement.

### **1.4.3.4 Consolidation of insurance activities**

The financial assets and liabilities of the Group’s insurance companies are mostly valued and recognised according to the provisions set out in IAS 39.

However, the following policies are recognised according to IFRS 4:

- insurance policies that include a contingency clause for the policy holder. This category includes health and personal insurance, retirement and general insurance policies, as well as unit-linked savings policies with a minimum guarantee;
- financial contracts issued by the insurer that include a discretionary profit-sharing (PS) clause use.

In accordance with the provisions of IFRS 4, local guidelines for valuing underwriting reserves are retained for both types of contract.

Financial contracts governed by IAS 39 correspond to investment contracts with no discretionary profit-sharing clause: unit-linked savings policies with no euro-denominated or minimum guarantee.

Pursuant to the “shadow accounting” principles set out in IFRS 4, a provision for deferred profit-sharing is recorded for insurance policies that included a discretionary profit-sharing clause. This provision is determined in a way that reflects the potential rights of policyholders to share in unrealised gains on financial instruments valued at fair value or in potential losses in the event of unrealised losses on those instruments.

At each year-end, the Group’s insurance companies conduct a liability adequacy test, which consists in checking that the insurance liabilities recognised, net of deferred acquisition costs and related intangible assets, are adequate based on current

estimates of future cash flows from insurance policies and financial contracts with discretionary profit-sharing clauses.

## **TECHNICAL AND ACTUARIAL RESERVES**

Technical reserves represent commitments to policy-holders.

Actuarial reserves for euro-denominated policies correspond to the difference between the current value of the insurer and the policyholder’s commitments.

Life insurance reserves are recorded based on discount rates that are at most equal to prudently-estimated rates of return on the underlying assets.

The net present value of commitments is calculated by choosing a discount rate that is at most equal to the pricing rate of the policy involved and by using statutory mortality tables or tables based on experience where these are more cautious. Lower interest rates are factored in to investment income discount rate calculations when the rate is deemed to be too high relative to the expected reinvestment prospects.

Actuarial reserves for on unit-linked policies are valued on the basis of the underlying assets. Gains or losses resulting from the revaluation of these policies are recognised in the profit and loss statement in order to cancel out the impact of movements in technical reserves.

## **ACTIVE DEFERRED PROFIT-SHARING**

Most financial contracts issued to policyholders by the Group’s life insurance subsidiaries include a discretionary profit-sharing clause.

The discretionary profit-sharing clause entitles life insurance policyholders to receive a share in any realised financial gains, as well as the income guaranteed. Pursuant to the “shadow accounting” principles set out in IFRS 4, the provision for deferred profit-sharing for these policies is adjusted to reflect the policyholders’ entitlement to any unrealised gains or to their share of unrealised losses on financial instruments valued at fair value under IAS 39. The share of gains to which policyholders are entitled is determined according to the specific features of the policies likely to benefit from such gains.

The amount of the net deferred share in profits established by “shadow” accounting is recognised either in balance sheet liabilities (Net deferred profit-sharing – Liabilities) or assets (Net deferred profit-sharing – Assets) depending on the situation of the entity concerned.

A recoverability test is conducted on any asset-based deferred profit-sharing. The aim of this test is to show that the profit-sharing amount is recoverable through sharing in future or unrealised gains, against the background of the Group’s business continuity, and will not result in any inadequacy of the commitments recognised in the Group’s accounts in respect of these economic commitments. The recoverability test is performed by using current estimates of future policy cash flows. The test is based on tools for modelling the asset-liability management of the subsidiaries involved, and enables a value to be assigned to commitments under a high number of economic scenarios using a stochastic approach.

In accordance with the recommendation on methods for identifying deferred profit-sharing issued by the French National Accounting Council (CNC), on December 19<sup>th</sup> 2008, profit-sharing recoverability is based on a prudent assessment of the capacity for holding the assets, particularly in terms of their future collection in forecast cash flows.

Likewise, the capacity of future returns to absorb unrealised losses was tested, based on an unfavourable repurchase scenario that has never been experienced up until now.

## 1.5 Presentation and valuation rules

### 1.5.1 Foreign currency transactions

At year-end, monetary assets and liabilities denominated in foreign currencies are converted into euros, the Group's functional currency, at the year-end exchange rate. Unrealised or realised exchange rate gains and losses are recognised in profit and loss.

The value of non-monetary assets is converted into euros at the year-end exchange rate. Exchange differences on non-monetary items denominated in foreign currencies are recognised in profit and loss if the gain or loss on the non-monetary item is recorded in profit and loss or in equity capital if the gain or loss on the non-monetary item is recognised in equity capital.

### 1.5.2 Financial assets and liabilities

When initially recognised, financial assets and liabilities are valued at fair value, net of acquisition expenses that are directly related to the acquisition (except for financial instruments recognised at fair value through profit and loss).

Financial assets and liabilities are classified in one of the following four categories:

#### 1.5.2.1 Loans and receivables

Loans and receivables are non-derivative financial assets, which are not listed on an active market and for which returns are fixed or can be determined.

They include credit institution and customer loans and receivables. Following their initial recognition, they are recognised at amortised cost using the effective interest rate method and may be subject to impairment, where applicable.

The effective interest rate is the exact rate used for discounting future cash flows at the initial fair value of the loan. It includes transaction costs directly linked to loan issuance, which are viewed as an integral part of returns on lending.

Exceptionally, certain securities may be recognised in this category. They are then subject to loans and receivables accounting, valuation and impairment rules.

In addition to the information required by IAS and IFRS, La Banque Postale has continued to provide the information that was previously required and applied to individual accounts.

Performing and non-performing doubtful loans outstanding are included in impaired receivables, in accordance with international standards.

#### DOWNGRADING METHODS

The downgrading process applies to unauthorised overdrafts and to home and consumer loans. The downgrading of unauthorised overdrafts applies to active and closed accounts. The effect of downgrading unauthorised overdrafts on active accounts is to downgrade performing loans to doubtful loans. Downgrades are performed on a monthly basis and factor in the amount and length of the overdraft for each account. The effect of closing the account is to downgrade the receivable to a doubtful non-performing loan. Receivables for very small amounts are immediately expensed as losses.

Home loans which are at least six months in arrears are downgraded to performing doubtful loans; where consumer loans are concerned, the downgrades involve cases that present a confirmed risk and three or more months in arrears as at month-end, or cases where a request for an insolvency schedule has been made to the Bank of France, even if these cases show no payment issues, and even cases where there have been no payment issues but are classified as being in default because they are "contaminated" by another case involving the same customer that is in default. The effect of early termination is to downgrade the receivable to a doubtful non-performing loan. In addition, loans are automatically downgraded to non-performing doubtful status one year after being classified as doubtful.

By applying the contagion principle, all loans outstanding to the same beneficiary are downgraded as soon as one loan to that beneficiary is downgraded.

#### Impairment of loans on an individual basis

The Group begins by identifying whether there is objective evidence of an event occurring after a loan – or a group of loans – was granted that is likely to lead to a loss in value. These may be loans that are at least three months in arrears, outstanding debts that are already the subject of a disputed recovery process or loans where the financial situation of the counterparty has deteriorated and is reflected in a risk of non-recovery.

An impairment is then recorded on the difference between the book value and the net present value of the expected cash flows, discounted at the original effective interest rate and determined taking account of the financial situation of the creditor and the current value of guarantees received. In the case of terminated non-performing loans backed by a guarantee, where the amount outstanding is greater than a given minimum amount, an expert appraisal is performed in order to determine the amount of the provision. For amounts below that threshold and performing credits, a prudent estimate is made, which factors in the acquisition cost of the asset.

Loans guaranteed by a private individual or loans with no guarantee are impaired in full.

The amount of that impairment is recognised in “Cost of risk” in the profit and loss statement and the value of the financial asset is reduced through recording an impairment charge.

#### **Impairment on a portfolio basis**

In addition, loans that are not impaired on an individual basis are analysed and impaired on a portfolio basis, where required. These are a group of “sensitive cases” that form a sub-category in performing loans: they show preliminary signs of default (with one or more payments less than six months in arrears) but their status has not yet been downgraded to doubtful.

These credits are impaired according to their likelihood of being downgraded, which is calculated based on observations made between 2005 and 2009. The risk of loss takes account of the nature of the guarantee and is calculated in the same way as for doubtful credits and impaired on the basis of the net present value of recoverable cash flows.

The amount of that impairment is recognised in “Cost of risk” in the profit and loss statement and the value of the financial asset is reduced through an impairment charge.

#### **Impairment of overdrafts**

Impairment recorded for overdrafts on active post office bank accounts factor in the loan recovery performance for the previous year according to the level of risk.

#### **Financing commitments**

Financing commitments that are not viewed as derivative instruments are not shown on the balance sheet.

### **1.5.2.2 Financial assets and liabilities at fair value through profit and loss**

Securities classified in this category represent financial assets and liabilities held for transaction purposes, i.e. securities originally acquired with the intention of reselling them or buying them back in the short term, together with assets and liabilities that the Group intended to classify as valued at fair value through profit and loss from the outset, pursuant to the option provided by IAS 39, subject to adhering to the conditions set out in that standard:

- eliminating or significantly reducing accounting mismatch; The Group therefore values some structured issues at fair value through profit and loss;
- a group of financial assets or liabilities where the management and performance assessment are conducted at fair value;
- compound financial instruments containing one or several embedded derivatives. The Group has specifically chosen to register some portions of compound financial instruments as financial assets at fair value through profit and loss, without separating out the embedded derivatives that should be recognised separately.

Movements in fair value are recorded in profit and loss for the period in “Net gains or losses on financial instruments through profit and loss”. The same applies to dividends from variable-rate securities and realised gains or losses on disposals. Income received on fixed-rate securities is recorded in “Interest and similar income”.

### **1.5.2.3 Financial assets held to maturity**

Financial assets held to maturity are listed financial assets with a fixed or determinable income and maturity that the Group intends and is able to hold until maturity and that it has not chosen to classify as financial instruments at fair value through profit and loss or as financial instruments available for sale.

With a few limited exceptions, IAS 39 prohibits the sale or transfer of these securities before they mature. Infringing this rule may result in the Group being prohibited from classifying securities in this category for two financial years.

Interest-rate risk hedging transactions on this category of securities are not eligible for hedge accounting as defined by IAS 39.

At year-end, the securities are valued at amortised cost according to the effective interest rate method, which includes amortisation of the premiums and discounts that correspond to the difference between their acquisition and repayment values. Income received in respect of these securities is shown in “Interest and similar income” in the profit and loss statement.

Where there is objective evidence of impairment, a provision is recorded to represent the difference between book value and estimated recovery value, discounted at the original effective interest rate. In the event of a subsequent improvement, the excess provision is reversed.

### 1.5.2.4 Financial assets available for sale

Financial assets available for sale form a category by default and include financial assets that are not classified as loans and receivables, or as financial assets held to maturity or at fair value through profit and loss.

These assets are recognised on the balance sheet at their market value at the time of their acquisition and at subsequent yearends until they are sold. Movements in fair value are recorded in a specific line in equity capital: "Unrealised or deferred gains and losses". These unrealised gains and losses recognised in equity capital are not recognised in the profit and loss statement unless they are sold or impaired. Income accrued or received from fixed-income securities is recognised in profit and loss according to the effective net interest method in "Interest and similar income". Dividends received on variable-income securities are recognised in "Net gains or losses on financial assets available for sale" in the profit and loss statement.

When the securities are sold, unrealised gains and losses that were previously recorded in equity capital are recycled through the profit and loss statement in "Net gains or losses on financial assets available for sale".

#### IMPAIRMENT

In the event of a prolonged or material reduction in the fair value of equity instruments, an impairment charge is recorded on financial assets available for sale. The same applies to debt securities in the event of a significant deterioration in the credit risk. The fall in the fair value of a security is deemed to be significant when a equity instrument has lost at least 40% of its value between the acquisition date and year-end. When such objective evidence of impairment is observed, the unrealised loss that had hitherto been directly recognised in equity capital is automatically recognised through profit and loss. The fall in the fair value of a security is assumed to be long-term when the ongoing fall extends over a period of more than 24 months. In this case, the Group examines whether there are grounds to recognise the impairment through profit and loss, depending on the level of significance of the unrealised losses.

This approach does not rule out the line-by-line examination of objective evidence of impairment.

For debt instruments like bonds, an impairment charge is recorded when there is a proven counterparty risk.

Losses on the impairment of variable income securities recognised in profit and loss cannot be reversed while the instrument concerned is shown on the balance sheet. They are recognised in "Net gains or losses on financial assets available for sale". Losses on the impairment of fixed-income securities are reversible and are recognised in cost of risk when they involve credit risk.

### 1.5.2.5 Date of entry

Securities are recorded on the balance sheet at their settlement and delivery date, while derivative instruments are entered at their negotiation date. Movements in fair value between the negotiation date and the settlement and delivery date are entered in profit and loss or in equity capital, depending on their accounting classification. Loans and receivables are recorded on the balance sheet at their payment date.

### 1.5.2.6 Reclassification of financial assets

A financial asset with a fixed or determinable yield, which was initially recognised in the "Financial Assets Available-for-Sale" category, but which is no longer tradable on an active market and which the Group intends and is able to hold for a foreseeable period or until maturity may be reclassified in the "Loans and receivables" category.

Reclassifications are carried out at market value on the date of reclassification and financial assets transferred in this way are then valued according to the rules applicable to their new category.

The transfer price at the date of reclassification represents the initial cost of the asset when determining potential impairment charges.

A new EIR is then calculated in order to enable the new depreciated cost to converge towards the repayment value of the instrument.

At the same time, profits and losses that were previously recorded in equity capital are amortised in the profit and loss statement over the residual life of the instrument using the effective interest rate method.

### 1.5.2.7 Debt

Debt that is not classified in financial liabilities at fair value is initially recorded at cost, which corresponds to the fair value of the amounts borrowed net of transaction costs. At year-end, the debt is valued at amortised cost according to the effective interest rate and recorded in the balance sheet in "Debt payable to credit institutions", "Debt payable to customers", "Debt represented by a security" or "Subordinated debt", except in cases where it has been hedged at fair value.

#### DEBT PAYABLE TO CREDIT INSTITUTIONS AND CUSTOMERS

Debt payable to credit institutions and customers is broken down according to the initial maturity or nature of the debt, i.e. overnight debt (overnight deposits, ordinary accounts) or longer-term debt (special scheme savings accounts). The debt includes securities and shares assigned under buyback agreements.



## DEBT REPRESENTED BY A SECURITY

Financial instruments are classified as debt instruments if the issuer is required to remit cash or other financial assets or to exchange instruments under potentially unfavourable conditions. Debt represented by a security consists of negotiable debt securities issued by La Banque Postale.

The debt is initially recognised at face value and is then valued at amortised cost using the effective interest rate method at subsequent year-ends.

## SUBORDINATED DEBT

Subordinated debt includes debt where repayment is only possible once other senior or secured creditors have been repaid in the event that the debtor's assets are liquidated. This debt is valued according to the amortised cost method, except where it has been hedged at fair value.

### 1.5.2.8 Distinction between debt and equity capital: perpetual super-subordinated notes

A debt instrument or a financial liability amounts to a contractual obligation to remit cash or other financial assets or to exchange instruments under potentially unfavourable conditions. An equity capital instrument is a contract that highlights a residual interest in the net assets of an entity.

In light of the conditions specified by IAS 32 for the analysis of the contractual substance of these instruments, and given their contractual characteristics, the perpetual super-subordinated notes issued by the CNP Group are classified as "debt instruments".

### 1.5.2.9 Financial derivatives and hedge accounting

According to IAS 39, a derivative is a financial instrument or other contract that has the following three characteristics:

- its value fluctuates according to an interest rate, the price of a financial instrument, the price of a commodity, an exchange rate, an interest rate or credit index, or another variable known as the underlying asset;
- it requires a low or nil initial net investment, or a net investment that is lower than the investment required by a non-derivative financial instrument in order to achieve the same sensitivity to the underlying asset;
- it is unwound at a future date.

Financial derivatives are broken down into two categories:

## TRADING DERIVATIVES

Derivatives belong to the category of financial instruments held for trading, except for derivatives that are used for hedging purposes. Their fair value is recognised in the balance sheet in "Financial instruments at fair value through profit and loss". Movements in fair value and interest accrued or received are recognised in "Net gains and losses on financial instruments at fair value through profit and loss".

## HEDGING DERIVATIVES

Hedging derivatives that qualify as hedging instruments according to IAS 39 criteria are classified in the "Fair value hedges" or "Cash flow hedges" category, depending on the circumstances.

Other derivative instruments are classified in "Assets or liabilities at fair value through profit and loss" by default, even if they have been entered into in order to hedge one or several transactions from an economic perspective.

In order to classify a financial instrument as a hedging derivative, the Group must establish the hedge relationship from the outset (hedging strategy, description of the risk hedged, the item hedged, the hedging instrument and the method used to assess its effectiveness). Effectiveness is assessed at inception and at each year-end while it remains in place.

Depending on the nature of the risk hedged, the derivative financial instrument is designated as a fair value hedge, a cash flow hedge or an exchange rate hedge linked to a net foreign investment.

### Fair value hedge

Fair value hedges enable exposure to fluctuations in the fair value of financial assets or liabilities to be hedged; they are primarily used to hedge interest rate risk on fixed-interest assets and liabilities and on instant-access deposits, according to the options approved by the European Union.

Any revaluation of the derivative is recognised in profit and loss in a way that mirrors the revaluation of the item hedged. Gains or losses attributable to the hedged risk are recognised in "Net gains or losses on financial instruments at fair value through profit and loss" in the profit and loss statement. As soon as the hedge relationship becomes effective, movements in the fair value of the hedged item are mirrored by the movements in the fair value of the hedging instrument. Any potential failure in the hedge is directly recognised in profit and loss. The portion relating to the accrued income or expenses of the derivative instrument is recognised in Income and interest expense in the profit and loss statement at the same time as the interest income and expense relating to the hedged item.

As soon as the derivative instrument no longer meets the effectiveness criteria specified by the standard, and especially if it is sold, hedge accounting is prospectively discontinued: the derivative is transferred to "Financial assets at fair value through profit and loss" or "Financial liabilities at fair value through profit and loss" while the remeasurement adjustment of the hedged item is amortised over the remaining period based on the initial life of the hedge.

In the event that the hedged item is sold or redeemed, the hedging instrument, which no longer qualifies as a hedging instrument but still exists, remains on the balance sheet and is accounted for at fair value through profit and loss. A gain or loss on the sale of the hedged item is eventually recognised in profit and loss.

## Macro-hedging

The Group applies the provisions of IAS 39, as adopted by the European Union, to macro-hedging transactions that are performed as part of the asset-liability management of fixed-rate positions.

Macro-hedging instruments are primarily interest rate swaps designed as fair value hedges for the Group's fixed-rate resources.

Macro-hedging derivatives are accounted for according to the same principles as those described above. The revaluation of the hedge component is recognised in "Revaluation differences on portfolios hedged against interest rate risk".

## Cash flow hedges

Cash flow hedge is used to hedge exposure to movements in cash flows from financial assets or liabilities, firm commitments or future transactions. More specifically, it is used to cover interest-rate risk on revisable-rate assets and liabilities.

The effective portion of movements in the fair value of a derivative instrument is entered on a specific line in equity capital, while the ineffective portion is recognised in profit and loss in "Net gains or losses on financial instruments at fair value through profit and loss."

The portion relating to the accrued income or expenses of the derivative instrument is recognised in "Income and interest expense on hedging transactions" in the profit and loss statement at the same time as the interest income and expense relating to the hedged item.

Hedged instruments continue to be recognised according to the rules that apply to their accounting category.

In the event of a break in the hedging relationship, or as soon as the derivative instrument no longer meets the effectiveness criteria specified by the standard, or especially if it is sold, the hedge accounting ceases. The aggregate amounts entered in equity in respect of the revaluation of the hedging derivative are gradually transferred to profit and loss as interest income or expense, or immediately recognised in profit and loss. In the event that the hedged item is sold or redeemed, the derivative is reclassified in "Financial assets at fair value through profit and loss", while the revaluation of the hedged item entered in equity capital is immediately recognised in profit and loss.

## Hedging of a net investment in a foreign currency

The Group does not use this type of hedging.

## Embedded derivatives

An embedded derivative is a component of a hybrid instrument. It is separated out of the host contract and recognised separately when its economic characteristics and the related risks are not closely linked to those of the host contract, except where the hybrid instrument is valued at fair value through profit and loss.

## DAY ONE PROFIT

The Group does not generate any profit when negotiating structured instruments.

## 1.5.2.10 Guarantees commitments

### FINANCIAL GUARANTEES

A contract meets the definition of a financial guarantee if it includes an indemnity clause, according to which the issuer shall compensate the beneficiary for losses that the latter has suffered due to the default of a debtor who was specifically designated to make a payment on a debt instrument.

The financial guarantees provided are valued at their initial fair value at the date they were entered into. They are subsequently valued at the higher of the amount of the commitment and the amount initially recorded, less the commission guarantee, where applicable.

### 1.5.2.11 Determining fair value or market value

Fair value is the amount for which an asset could be exchanged or a liability extinguished between knowledgeable and willing parties in an arm's length transaction. When an instrument is first recognised, its fair value is usually the transaction price.

IAS 39 recommends using a quoted price in an active market in the first instance to determine the fair value of a financial asset or liability. A market is considered to be active if prices are easily and regularly available from a stock exchange, a broker, an intermediary or a regulatory agency and those prices represent real arm's length transaction. In the absence of an active market, fair value must be determined using valuation techniques. These techniques include the use of recent transactions performed in a normal competition environment. They are based on market data, on the fair value of substantially identical instruments, on cash flow or option valuation discount models and involve recognised valuation methods. The aim of a valuation technique is to establish what the price of an instrument would be under normal market conditions. For example, the fair value of bond securities, variable-income securities and futures is determined by using quoted prices. The use of valuation techniques concerns over-the-counter derivatives, discounted securities (treasury notes, certificates of deposit, etc.) and repo deposits.

Three levels of financial instruments are shown in Note 6.2, based on the decreasing level of observability of the prices and parameters used for their valuation:

- Level 1: instruments valued according to the (non-adjusted) prices quoted for identical assets or liabilities on an active market.

This level primarily includes listed shares and derivatives on organised markets (futures, options, etc.).

- Level 2: instruments valued according to data other than the prices listed under Level 1 and that can be observed for the asset and liability in question, either directly (namely prices) or indirectly (namely derivative price data).

This level includes instruments where the valuation process calls upon valuation techniques that use observable parameters and standard models, or upon instruments that are valued based on similar instruments listed on an active market.

This category includes, interest rate swaps, caps, floors, etc.

- Level 3: instruments valued using data that are not based on observable market data (non-observable data). This category mainly includes unlisted investment securities.

The market value of unlisted equity investments classified as securities available for sale is determined on the basis of certain criteria such as net asset value, forecast returns and the net present value of future cash flows. Non-consolidated equity investments whose fair value cannot be assessed on a reliable basis are valued at cost.

The price quoted for an asset held or a liability to be issued is usually the bid price, while the offer price is used for a liability held or an asset to be acquired.

### 1.5.2.12 Derecognition of financial assets or liabilities

Financial assets are derecognised when the contractual rights to the cash flows attached to the financial asset expire or when those rights and virtually all the risks and benefits of ownership have been transferred to a third party.

When certain risks and advantages have been transferred and while control of the financial asset is retained, that asset remains on the balance sheet to reflect the ongoing involvement in the asset concerned.

A gain or loss on disposal is then recorded in the profit and loss statement, at an amount equal to the difference between the book value of the asset and the amount received in exchange.

Financial liabilities are derecognised when the contractual obligation is extinguished, cancelled, or expires.

### REPURCHASE AGREEMENTS

The assignor does not derecognise the securities. The Group records a liability that represents its commitment to refund the cash received. This debt represents a financial liability, which is recorded at amortised cost and not at fair value.

The assignee does not recognise the assets received, but recognises a receivable for the cash loaned by the assignor. At subsequent year-ends, the assignor continues to value the securities according to the rules applicable to their original category. The nominal value of the receivable is shown in loans and receivables.

### SECURITIES LENDING

The lending and borrowing of securities do not qualify as a financial asset transfer according to IFRS. Therefore, these transactions cannot result in the derecognition of the loaned securities.

They remain recognised in their original accounting category and valued according to the rules of that category. Borrowed securities are not recognised.

## 1.5.3 Tangible and intangible fixed assets

Fixed assets shown on the balance sheet include tangible and intangible operating assets, i.e. assets used for administrative purposes. The Group has no investment property.

Fixed assets are recognised at their acquisition cost plus acquisition expenses that are directly related and required to put the assets in working order so that they can be used. Borrowing costs incurred during the construction or conversion of property assets are charged as incurred.

Following their initial recognition, fixed assets are valued at cost less accumulated depreciation and any potential loss in value.

The portion of a fixed asset that can be depreciated is determined after deducting its residual value net of disposal costs, if that value can be assessed and is significant.

Fixed assets are depreciated in accordance with the estimated consumption rate of their expected economic benefits, which usually corresponds to the life of the asset.

When a fixed asset includes several components that may be replaced at regular intervals, have different uses or provide economic benefits at different rates, each component is recognised separately from the outset and is depreciated according to a specific depreciation schedule.

Depending on their components, fixed assets are depreciated over periods ranging between 10 and 80 years:

- structural works: 80 years;
- roofs: 60 years;
- joinery and external works: 40 years;
- major equipment items: 20 years;
- small equipment, fixtures and fittings: 10 years.

When they meet the criteria for fixed assets, proprietary software packages are recognised at their development cost, including third-party expenses and the cost of the staff directly assigned to the project. They are usually amortised over three years.

Fixed assets that are depreciated are subject to impairment tests in cases where evidence of a loss in value is identified at year-end. Impairment tests are performed once a year on fixed assets that are not depreciated in cases where potential evidence of a loss in value is identified at year-end.

If evidence of a loss of value is recorded, the recoverable value of the asset is compared with its net book value. In the event of a loss in value, an impairment charge is recorded in the profit and loss statement. That impairment changes the depreciation schedule of the asset going forwards.

The impairment is reversed in the event of a change in the estimated recoverable value or if the evidence of impairment disappears.

Depreciation, amortisation and impairment are recognised in “Depreciation, amortisation and provisions for impairment of tangible and intangible fixed assets” in the profit and loss statement.

Gains and losses on the disposal of operating fixed assets are recorded in the profit and loss statement on the “Net gains on other fixed assets” line.

### 1.5.4 Regulated savings products

Regulated home savings accounts (CEL) and regulated home savings plans (PEL) offered to retail customers under the provisions of the Law of July 10<sup>th</sup> 1965 include two stages: gathering funds in the form of remunerated savings and granting home loans.

They generate two kinds of commitments for the lending institution:

- an obligation to remunerate future savings at a rate fixed at the opening of the account for an indefinite period;
- an obligation to grant customers who make the request a home loan where the rate is fixed at the signing of the agreement.

These commitments have potentially unfavourable consequences for the Group and are the subject of provisions shown in the “Provisions” line in balance sheet liabilities. Movements in those provisions are recorded in the net banking income interest margin.

The provisions are estimated on the basis of customer behaviour statistics and market data for each generation of plan, in order to cover any future expenses arising from the potentially unfavourable interest rate conditions attached to these products relative to rates offered to retail customers on similar products where remuneration is unregulated. The provisions only relate to the commitments for home loan savings accounts and plans that exist at the date the provision is calculated.

Provisions are calculated for each generation of home loan savings plans, without offsetting commitments for different generations of plans, and for all the home loan savings accounts representing one generation.

At the savings stage, the commitments to be provisioned are evaluated according to the difference between average forecast savings deposits and minimum forecast savings deposits, both of which are determined on a statistical basis by factoring in historical observations of actual customer behaviour.

At the lending stage, the commitments to be provisioned include loans that have already been granted but not yet released at the year-end date, as well as future loans that are viewed as statistically likely based on balance sheet deposits as at the calculation date and on historical observations of actual customer behaviour.

A provision is recorded when the net present value of future income is negative for a given generation of loans. That income is assessed relative to the rates offered to retail customers on equivalent savings and lending products, which have the same term as the deposits and were agreed on the same day.

## 1.5.5 Provisions

Provisions recorded in balance sheet liabilities, other than those relating to credit risk or employees benefit obligation, are liabilities whose length or amount is uncertain. A provision is recorded when the Group has an obligation towards a third party and that obligation is likely or certain to cause an outflow of funds for the benefit of the third party with no expectation of a counter-payment that is at least equivalent.

The net present value of the expected outflow is calculated as soon as the impact of that net present value becomes material.

Provisions and provision reversals are recorded in profit and loss on the lines that correspond to the nature of the future expenditure involved.

## 1.5.6 Interest income and expense

Interest income and expense are recognised in the profit and loss statement for all financial instruments valued at amortised cost using the effective interest rate method. The effective interest rate is the rate that discounts future cash outflows or inflows exactly over the expected life of the financial instrument so as to arrive at the net book value of the financial asset or liability.

The calculation of this rate factors in commissions received or paid, which are by nature an integral part of the effective contract rate.

## 1.5.7 Commission income and expense

The Group recognises commissions in profit and loss depending on the services supplied and the way in which the financial instruments to which that service relates are recognised:

- commissions paid for ongoing services are recognised in profit and loss over the length of the service (commissions on debit cards);
- commissions paid for one-off services or for a major transaction are recognised in profit and loss in full when the service is provided or the transaction performed (account management commissions, commissions on payment issues);
- commissions considered as additional interest form an integral part of the effective interest rate.

## 1.5.8 Income tax

### 1.5.8.1 Tax payable

La Poste Group's scope of consolidation includes La Banque Postale and six of its French subsidiary companies in which it holds a over 95% of the equity, either directly or indirectly: SF2, La Banque Postale Conseil en Assurances, the CRSF DOM and CRSF Métropole limited property investment partnerships, La Banque Postale Asset Management and La Banque Postale Structured Asset Management.

### 1.5.8.2 Deferred tax

A deferred tax charge is recognised on all temporary differences between the book value of an asset or liability and its tax basis, except in exceptional cases.

The tax rates used for valuation purposes are the rates that are expected to be applied when the asset is realised or when the liability is extinguished, to the extent that those rates have been adopted or virtually adopted at year-end.

Net deferred tax assets are only taken into account if it is likely that the entity involved has a chance of recovering them within a determined time frame.

La Banque Postale does not currently use the tax loss-carry forwards of subsidiaries that are launching their business activities.

Deferred tax is recognised as tax income or expense in the profit and loss statement, except for tax relating to unrealised gains and losses on assets available for sale and for movements in the value of derivatives classified as cash flow hedges, for which deferred tax is charged directly to equity capital.

The corporate income tax rate retained as at December 31<sup>st</sup> 2010 was 34.43%.

## 1.5.9 Employee benefits

The La Banque Postale Group provides different types of benefits to its employees, civil servants and contract staff. Those benefits fall into four categories.

### 1.5.9.1 Short-term benefits

Short-term benefits primarily include salaries, annual paid leave, incentives, profit-sharing and bonuses that are paid within 12 months of the financial year-end and relate to that year.

They are recognised as expenses for the financial year in which they are incurred, including amounts still owing at year-end.

### 1.5.9.2 Long-term benefits

Long-term benefits are benefits that usually relate to length of service and are paid to working employees more than 12 months after the financial year end, like Working Hours Savings Accounts, for example.

A provision equivalent to the value of these commitments is recorded at year-end.

### 1.5.9.3 Termination benefits

These are benefits paid to employees when their work contract is terminated before retirement, whether as a result of termination or as part of a voluntary redundancy plan. A provision is recorded for termination benefits. The commitment is valued on the basis of the entitlements earned by all working employees, mainly according to employee turnover, the estimated future salary of beneficiaries at the time they leave the company, including social security contributions where applicable, and mortality tables (INSEE TH/TF00-02). A net present value is calculated for benefits payable more than 12 months after year-end.

### 1.5.9.4 Post-employment benefits

Post-employment benefits for employees include retirement benefits, pensions and benefits for pensioners.

The pension scheme for contracted staff is a scheme known as a "defined contribution scheme". Such schemes are based on payments to independent bodies that are responsible for paying the amounts due to employees, thus releasing the employer from any subsequent obligation. Therefore, once the contributions have been paid, no liability or commitment is shown in the Group financial statements. Contributions paid to independent bodies are expensed in the period in which they occur.

A provision is recorded in balance sheet liabilities for Group employee commitments not covered by contributions that are expensed and paid to retirement or insurance funds, primarily for retirement benefits.

These commitments are valued according to the projected unit credit method, in accordance with IAS 19. Actuarial appraisals are performed every year.

The appraisal calculations involve taking external actuarial economic assumptions into account (discount rates, inflation rates, the rate of increase in pensions, etc.), together with assumptions that are specific to the Group (employee turnover rate, the rate of increase in benefits and salaries, etc.)

The provision recorded on the balance sheet for defined benefit post-employment schemes corresponds to the present value of the commitment at year-end, adjusted for actuarial differences and the cost of past services that have not been recognised. The present value of the commitment is calculated on an annual basis using the projected credit unit method. That value is determined by calculating the net present value of expected future outflows based on the market rate for top-tier corporate bonds, denominated in the currency in which the benefit will be paid. In addition, the term of the bonds selected is close to the average estimated length of the underlying commitment.

The actuarial assumptions used to value employment commitments to employees are reviewed and updated once a year at year-end.

The calculations factor in the following assumptions:

- the likelihood of working employees staying within the Group, life expectancy trends and estimated salary trends;
- retirement assumptions;
- discount rates that enable the present value of commitments to be determined. The discount rates used for the 2010 and 2009 actuarial valuations, based on private top-tier bonds, are as follows:

Commitment length	5 years	10 years	15 years	20 years
2010 discount rates (euro zone)	3.2%	4.0%	4.3%	4.7%
2009 discount rates (euro zone)	3.2%	4.1%	4.5%	4.8%

## 1.5.10 Share-based payments

Share-based payments involve transactions where payment takes the form of shares issued by the Group, regardless of whether they are settled by the allocation of shares or paid in cash. The amount paid depends on changes in the value of the shares.

The share-based payment plans introduced by these subsidiaries are the kind of plans that unwind through cash payments. An expense equivalent to the fair value of the liability is recognised in "Personnel costs" in the Group financial statements from the date the employee share plans are granted. The amount is spread over the length of the entitlement period and offset by a debt, which is revalued at fair value at each year-end.

## 1.5.11 Use of estimates in the preparation of the financial statements

The preparation of the financial statements involves making assumptions and estimates which include uncertainties in the future. These estimates, which are based on the information available at year-end, call upon the judgment of managers and the parties involved in preparing the financial statements, particularly where assessing the fair value of financial instruments is concerned.

Whether these assumptions and estimates turn out to be accurate depends on a number of factors: fluctuations in interest and foreign exchange rates, the economic environment, changes in regulations or legislation, etc., which means that the final outcome of the transactions concerned may differ from these estimates and have an impact on the financial statements.

The main valuations processes that require the use of assumptions and estimates are as follows:

- the valuation of financial instruments that are not quoted on organised markets involves the use of models based on observable market data for most over-the-counter instruments;
- determining the value of certain complex instruments that are not traded on active market is based on valuation techniques which, in certain cases, rely on parameters that are deemed to be non-observable;
- determining the market value of unlisted investment securities that are classified as "Assets available for sale";
- valuing financial assets and liabilities recognised at cost and for which fair value information must be provided in the notes to the financial statements;
- credit risk valuations: provisions calculated on a portfolio basis make specific use of estimates on the likelihood of default and general use of expert judgements;
- calculations relating to expenses linked to future employee benefits are based on discount rate assumptions, and employee turnover and salary trend assumptions;
- the valuation of provisions other than those linked to credit risk is also, by its nature, subject to estimates, as it involves liabilities where the maturity or amount is not accurately determined, and where it is likely or certain that there will be an outflow of funds for the benefit of a third party, with no counter-payment of an at least equivalent value expected from that beneficiary. Specifically, the valuation of the Home Loan savings provision uses customer behaviour assumptions based on historical observations that are not necessarily indicative of future outcomes;
- the initial value of the goodwill recorded when business combinations occur;
- performing goodwill impairment tests involves a certain number of assumptions;
- assessing the effectiveness of hedges in place requires the use of assumptions and estimates;
- valuing commitments to buy out minority shareholders.



# Note 2

## Risk exposure and regulatory ratios

### 2.1 Risk management policy

The Risk Management Department (RMD) is the dedicated entity to ongoing risk management and control at La Banque Postale. The Executive Board, to which it reports, has authorised it to define and implement the Bank's policy for managing and monitoring financial and operating risk.

The risk management and monitoring guidelines are described in the Risk Management Policy. This document, drafted by the Risk Department, is reviewed at least once a year as part of a process that involves the approval of the Executive Board and the Risk Committee, and involves the Audit Committee and Supervisory Board for information purposes.

The main guidelines are then applied according to operational limits, which are reviewed periodically, primarily according to the business trend, the level of equity capital or the economic

environment. These limits are approved by the Bank's Risk Committee, which is chaired by a member of the Executive Board.

Operating risk limits are set in a way that guarantees compliance with the global guidelines and principles featured in the Risk Management Policy, as well as with those specified by the regulations (primarily major risks).

The Risk Department ensures that these operational limits are complied with and reports to the Executive Board, mainly through the Risk Committee, and to the Audit Committee, in accordance with Article 39 of CRBF Regulation 97.02 (amended) regarding internal control procedures for credit institutions and investment firms.

### 2.2 General organization of the Risk Department

The Risk Department, where the target headcount at the end of 2010 was 63 employees, consists of three units:

- the Market and Counterparty Risk Department (MCRD) covers all risk relating to trading on the financial markets and balance sheet management;
- the Credit Risk Department, which is dedicated to managing and monitoring the default risk on loans and overdraft facilities that the Bank grants its retail customers;
- the Operational Risk Department, which is responsible for the management and monitoring of operational risk. The department also includes the functions specified by banking and financial regulations, which are dedicated to business continuity, information systems security and card payment security.

The risk Department's monitoring procedures covers the risks faced by La Banque Postale. The department may, however, be called upon to centralise and analyse specific risk indicators on behalf of the subsidiary companies.

## 2.3 Structural risk factors

The financial risks (excluding operational risks) included within the scope of the Risk Department's monitoring responsibilities include credit, counterparty, market, global interest rate, and liquidity risk.

### 2.3.1 Credit risk

For market trading activities, credit risk arises as a result of inter-bank cash transactions (deposits, loans, and buybacks) and of issuer risk on debt securities traded in the trading room.

Before any investment, third parties are systematically rated and assigned an individual limit aimed at limiting the overall commitment amount. Where applicable, these individual limits are supplemented by so-called group limits, which govern exposure to a group of third parties that are considered as a single beneficiary within the meaning of Article 3 of CRBF Regulation 93-05 (amended).

There were 216 rated and authorised third parties as at December 31<sup>st</sup> 2010. Given the limits in force, all parties had an internal rating of at least BBB+ at the time of the investment. However, one issuer's rating was downgraded to BBB, seven other issuers' ratings were downgraded to BBB- and the rating of the last issuer was downgraded to BB+ respectively during 2009. The issuers concerned were all from the car manufacturing sector and were mostly French.

Individual limits are supplemented by a series of limits intended to limit concentration risk for groups of counterparties classified according to their country of origin, their business area or their internal rating. These diversification limits are reviewable on a monthly basis at the Risk Committee meeting.

For retail banking activities, credit risk stems mainly from home loans and, to a lesser degree, from overdrafts and credit facilities granted on accounts opened by customers.

### 2.3.2 Counterparty risk

According to the terminology adopted by La Banque Postale, counterparty risk stems primarily from forward financial instruments.

These transactions, which are only performed with bank counterparties, are systematically performed as part of agreements that provide for the netting of exposure and the putting up of collateral with regular margin calls.

To date, the collateral accepted by La Banque Postale consists mainly of cash. The residual risk, which is subject to limits and is periodically monitored by the Market and Counterparty Risk Department, is not material.

### 2.3.3 Market risk

Even though La Banque Postale does not, strictly speaking, conduct any trading activities, it is exposed to market risk

through its cash and balance sheet management activities (available-for-sale asset portfolio and hedging operations).

The market portfolio, which includes all transactions that are subject to market risk, not only includes the transaction portfolio, as defined in Articles 298 and 299 of the French Ministerial Decree of February 20<sup>th</sup> 2007 regarding equity requirements for credit institutions and investment firms, but also includes bank portfolio transactions, including securities available for sale and certain lending and borrowing transactions. The risk of fluctuations in this market portfolio, as defined in La Banque Postale's risk management policy, is assessed through sensitivity indicators, Value at Risk (99%, 1 day) and stress scenario simulations.

The market portfolio is primarily exposed to the risk of fluctuations in interest rates and credit spreads, and, to a lesser degree, to fluctuations in equity markets and exchange rates.

The VaR calculation methods and the risk factors that it covers are adjusted on an ongoing basis, in order to take account of business or traded product trends.

The relevance and the reliability of the VaR model are estimated using an ex-post analysis designed to compare daily fluctuations in the value of the portfolio with VaR.

This analysis is based on counting the number of overruns and on a series of three tests designed to check that certain underlying assumptions in the model have been adhered to.

The crisis simulation portfolio, which included 43 scenarios as at the end of December 2010, factors in historical events (the September 11<sup>th</sup> attack, the failure of LTCM, etc.) and hypothetical assumptions based on a statistical analysis of risk factor fluctuations, the aim of which is to simulate a worst-case scenario on a ten-year basis.

The simulations are run on a monthly basis, and the results are presented to the Risk Committee every month and to the Audit Committee every quarter.

### 2.3.4 Liquidity risk

As a result of the limits on the initial approval issued by the CECEI (no corporate funding is allowed, and lending to consumers is restricted to home loans), La Banque Postale's retail banking balance sheet showed a large surplus as at December 31<sup>st</sup> 2010, unless loans outstanding only amounted to 26% of customer deposits (48% excluding the funds transferred to the Caisse des Dépôts et Consignations).

La Banque Postale is therefore not intrinsically dependent on the market to meet its commitments. It is nonetheless exposed to liquidity risk arising from putting its sources of funding, which consist mainly of current deposits, to longer-term use, either in the form of home loans, or in the form of debt securities.

The amounts allocated to the held-to-maturity securities portfolio are calculated by applying a benchmark scenario, which models the outflow of liabilities under various stress scenarios. Those scenarios specifically factor in significant current deposits withdrawals.

The securities available for sale portfolio consists of the portion of funding resources that is not allocated to securities held to maturity or to home loans. Those securities are immediately negotiable and can be sold rapidly if the need arises.

La Banque Postale's risk management policy identifies two types of liquidity risk, for which it adopts two different monitoring approaches:

#### • Tactical liquidity risk

relating to the institution's cash flow management.

There is an operational limit that enables the funding requirements of the cash management unit to be capped.

The amount and length of time the cap applies are set by the ALM Committee;

#### • Structural liquidity risk

relating to the Bank's balance sheet structure.

The outflow agreements validated by the ALM Committee are taken into account.

Management of this risk is assigned to the ALM Committee in accordance with the guidelines and limits defined by the Risk Committee.

The risk is currently measured through the medium-to-long-term liquidity gap, which corresponds to a static outflow of liabilities (through outflow agreements) and assets. The Bank has a long-term guarantee that the liquidity represented by the gap will be available to it, based on an almost certain confidence interval.

Both these risks are governed by two limits that are periodically reviewed by the ALM Committee.

The outflow agreements selected to measure structural liquidity risk are based on modelling the outflow of liabilities with no fixed maturity and the outflow of off-balance sheet loans granted and on taking the potential realisation of the sovereign debt portfolio into account.

Standard outflow agreements for liabilities with no fixed maturity are reviewed at least once a year in order to reset them at the minimum levels required by changes in the deposit volatility trend (behavioural changes, etc.)

Off balance-sheet loans are tested through outflow assumptions based on a behavioural model that takes account of the rate of product changes, payment periods and the life-span of new loans.

Although the programme implemented by the ALM Committee and the Risk Committee provide for cautious liquidity risk management, La Banque Postale has diversified its sources of funding via:

- a €20 billion certificates of deposit programme, where the amounts issued range between 15% and 40% of the programme, and which is designed to keep the La Banque Postale name alive on the short-term market;
- a €10 billion EMTN programme set up in late 2006, which was not used during 2010;
- a €750 million subordinated debt issue, which took place in mid-November 2010;
- access to the interbank market;
- the use of buybacks for securities held in the held-to-maturity financial assets portfolio. This portfolio consists mainly of high quality, rapidly-realizable government securities.

## 2.3.5 Global interest rate risk

Interest rate risk represents the likelihood of seeing the Bank's future margins or economic value affected by fluctuations in interest rates.

Global interest rate risk is governed by a limit aimed at reducing the impact of a 200 bp rate shock on the economic value of the balance sheet to 15% of prudential equity capital, in accordance with the Basel Committee recommendations on global interest rate risk.

This indicator is systematically presented to the Risk and ALM Committees, and presented to the Audit Committee once a quarter.

Interest rate risk is mainly hedged through the purchase of fixed-rate bonds and, to a lesser degree, through the use of interest rate swaps hedged through fair value or cash flow hedges in accordance with IFRS.

## 2.4 The La Banque Postale Group's risk exposure

(€ '000s)	12.31.10	12.31.09
- Financial assets at fair value through profit and loss (excluding variable-rate securities)	4,202,990	6,526,691
- Derivative hedging instruments	334,742	363,254
- Financial assets available for sale (excluding variable-rate securities)	8,693,436	9,970,487
- Loans and receivables — credit institutions	73,493,943	73,966,537
- Loans and receivables — customers	39,213,820	33,074,805
- Financial assets held to maturity	37,413,191	34,626,622
<b>Balance sheet exposure net of impairment charges</b>	<b>163,352,122</b>	<b>158,528,396</b>
- Financing undertakings given	11,896,437	8,074,883
- Guarantee undertakings given	2,606,606	265,230
<b>Off-balance sheet exposure net of impairment charges</b>	<b>14,503,043</b>	<b>8,340,113</b>
<b>Total net exposure</b>	<b>177,855,165</b>	<b>166,868,509</b>

### 2.4.1 Credit risk on market transactions

As at December 31<sup>st</sup> 2010

(€ million)	12.31.10				
Category	Sovereign	Bank	Corporate	Securitisation	Total
- Financial assets at fair value through profit and loss	192	3,550	412	-	4,153
- Financial assets available for sale	4,895	4,304	601	4	9,805
- Loans and receivables — credit institutions	254	73,040	-	200	73,494
- Financial assets held to maturity	36,373	848	193	-	37,413
<b>Balance sheet exposure net of impairment charges</b>	<b>41,714</b>	<b>81,741</b>	<b>1,206</b>	<b>204</b>	<b>124,865</b>

(€ million)	12.31.10				
Rating	AAA	AA	A	Other	Total
- Financial assets at fair value through profit and loss	675	1,261	2,138	78	4,153
- Financial assets available for sale	3,721	3,006	1,035	2,043	9,805
- Loans and receivables — credit institutions	68,950	3,286	1,121	137	73,494
- Financial assets held to maturity	24,042	11,770	1,426	175	37,413
<b>Balance sheet exposure net of impairment charges</b>	<b>97,387</b>	<b>19,324</b>	<b>5,720</b>	<b>2,433</b>	<b>124,865</b>

(€ million)	12.31.10			
Geographical area	France	Euro zone	Non-euro zone	Total
- Financial assets at fair value through profit and loss	3,206	948	-	4,153
- Financial assets available for sale	6,433	2,981	391	9,805
- Loans and receivables — credit institutions	72,787	140	567	73,494
- Financial assets held to maturity	22,017	14,325	1,072	37,413
<b>Balance sheet exposure net of impairment charges</b>	<b>104,442</b>	<b>18,394</b>	<b>2,030</b>	<b>124,865</b>

## As at December 31<sup>st</sup> 2009

(€ million)

12.31.09

Category	Sovereign	Bank	Corporate	Securitisation	Total
- Financial assets at fair value through profit and loss	105	6,064	44	-	6,213
- Financial assets available for sale	6,122	4,313	640	8	11,082
- Loans and receivables — credit institutions	154	73,751	14	48	73,967
- Financial assets held to maturity	33,742	693	162	30	34,627
<b>Balance sheet exposure net of impairment charges</b>	<b>40,123</b>	<b>84,820</b>	<b>860</b>	<b>85</b>	<b>125,888</b>

(€ million)

12.31.09

Rating	AAA	AA	A	Other	Total
- Financial assets at fair value through profit and loss	26	1,558	4,469	160	6,213
- Financial assets available for sale	4,214	3,620	1,179	2,070	11,082
- Loans and receivables — credit institutions	70,167	1,990	1,656	154	73,967
- Financial assets held to maturity	20,738	11,809	1,644	436	34,627
<b>Balance sheet exposure net of impairment charges</b>	<b>95,145</b>	<b>18,976</b>	<b>8,947</b>	<b>2,820</b>	<b>125,888</b>

(€ million)

12.31.09

Geographical area	France	Euro zone	Non-euro zone	Total
- Financial assets at fair value through profit and loss	5,368	829	16	6,213
- Financial assets available for sale	5,764	4,867	451	11,082
- Loans and receivables — credit institutions	72,976	482	508	73,967
- Financial assets held to maturity	18,763	14,974	890	34,627
<b>Balance sheet exposure net of impairment charges</b>	<b>102,871</b>	<b>21,153</b>	<b>1,865</b>	<b>125,888</b>

### FINANCIAL ASSETS HELD TO MATURITY

These are very high-quality assets that consist mainly of credits issued or guaranteed by euro zone Member States, as shown in the tables above (the amounts are shown in millions of euros).

### FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

Financial assets at fair value through profit and loss include both securities and derivatives. The breakdown above refers to securities, which represent the bulk of financial assets at fair value through profit and loss.

As shown in the three tables above, these are very high quality assets (the amounts are shown in millions of euros).

### LOANS AND RECEIVABLES – CREDIT INSTITUTIONS

La Banque Postale performs inter-bank transactions, including depositing and lending or borrowing securities, as part of its day-to-day business.

The counterparty risk attached to inter-bank deposits is managed in the same way as issuer risk (the transactions are included in individual, group and diversification limits).

As at the end of December 2010, La Banque Postale's inter-bank deposits amounted to €72.8 million.

These deposits are mainly deposits made to the Caisse des Dépôts et Consignation as a backing for the funds gathered on Sustainable Development, Livret A and LEP accounts. The remaining inter-bank deposits involve French banks with a rating higher than or equal to A+.

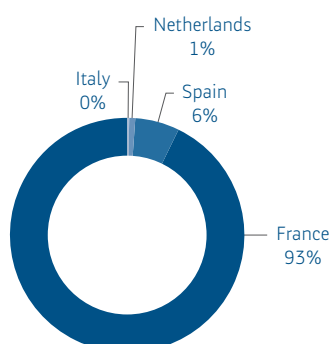
Counterparty risk on securities lending and buybacks is limited by the fact that La Banque Postale only handles such instruments after signing a framework agreement, which includes netting and collateral measures. As a result, the credit risk on repo transactions was virtually nil as at December 31<sup>st</sup> 2010.

## SPECIFIC DETAILS ON SECURITISATION

La Banque Postale's net securitisation exposure is €213.6 million. An investment was made with Oséo Financement in 2010, in order to back Livret A and LDD accounts. The other investments in this asset class were transferred to La Banque Postale when it was founded in 2006 and have since been phased out. The quality of the securitisation portfolio is therefore high: all the tranches in which La Banque Postale has invested are AAA rated and over 90% of positions are held in France.

The geographical breakdown of La Banque Postale's securitised assets is as follows:

Breakdown of amounts outstanding as at 12.31.10

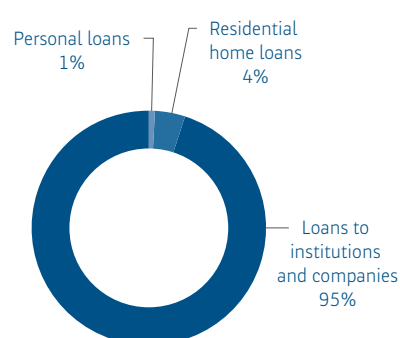


As at December 31<sup>st</sup> 2010, La Banque Postale was not aware of any potential material deterioration in the credit quality of the underlying assets of its securitisation portfolio. These underlying assets mainly consist of receivables due from French institutions and companies.

The bulk of the securitisation portfolio amounts outstanding consist of receivables due from institutions and companies linked to the Oséo Financement securitisation process.

The breakdown of La Banque Postale's securitisation portfolio by type of underlying asset is as follows:

Breakdown of amounts outstanding as at 12.31.10



## SOVEREIGN EXPOSURE TO GIIPS (GREECE, IRELAND, ITALY, PORTUGAL AND SPAIN)<sup>(1)</sup>

(€ million)

Sovereign exposure to GIIPS as at 2010.12.31

	Greece	Ireland	Italy	Portugal	Spain	Total
Financial assets at fair value through profit and loss	0	0	0	0	0	0
Financial assets at fair value <sup>(2)</sup>	850	2	807	587	13	2,259
Assets held to maturity <sup>(3)</sup>	154	0	2,860	1,549	1,800	6,363
	<b>1,004</b>	<b>2</b>	<b>3,667</b>	<b>2,136</b>	<b>1,812</b>	<b>8,622</b>

(1) The exposure includes receivables due from Governments, and the provinces and public sector authorities guaranteed by those Governments.

(2) Financial assets at fair value are expressed at fair cost value, net of credit risk reduction items.

(3) Assets held to maturity are expressed at ex-coupon book value, net of credit risk reduction items.

## 2.4.2 Credit risk on customer transactions

### 2.4.2.1 Overview of risk

The business activities conducted by La Banque Postale that give rise to a credit risk include:

- home loans to individuals and Limited Property Investment Partnerships;
- overdrafts and means of payment granted to individuals;
- cash facilities and means of payment granted to companies classified in the retail banking and commercial banking categories;

- consumer credit granted by the Bank's specialist subsidiary, La Banque Postale Financement, as well as those granted to La Poste's group staff by La Banque Postale;
- personal micro-loans.

Mortgage loans outstanding, which represent the bulk of La Banque Postale's retail banking lending activity, increased by 17% during the past year and amounted to €37.46 billion as at December 31<sup>st</sup> 2010.

The Bank's comprehensive coverage of mainland France enables a very broad spread of risk, both by geographical region and transaction amount.



### 2.4.2.2 Procedures implemented at La Banque Postale

La Banque Postale's Risk Management Department is responsible for the La Banque Postale Group's risk division and ensures that risk management procedures at Group level are consistent.

#### MANAGEMENT OF LA BANQUE POSTALE'S DIRECT BUSINESS ACTIVITIES

The Risk Department coordinates the work necessary for determining the Bank's risk policy, ensures the conditions for its implementation and the means of controlling its application.

The Risk Department manages the preparatory work undertaken for setting the rules for granting and committing to loans with a threefold aim:

- supporting the development of the Bank's product range and businesses involved in granting loans to retail customers and Limited Property Investment Partnerships;
- making a contribution towards controlling the cost of generating and managing the Bank's outstanding loans, while complying with the quality targets that are part of the service provided to customers;
- guaranteeing compliance with the targets set by the Bank for managing the cost of risk on its loan generation and loans outstanding, and more generally complying with the regulations in force in the retail lending and borrower insurance areas.

The Department carries out its work with an active contribution from the other Bank Departments, primarily the Marketing Department, the Commercial Banking Department, the Operations Department and the Compliance Department.

La Banque Postale's Risk Department draws up guidelines governing the assumption of risk at a national level and modifies those guidelines, especially the guidelines for taking on new customers and for granting loans.

Where management of inherent risk is concerned, the Risk Department is responsible for the rules on recovery, working together with the Legal Department and the Operations Department, and with the Accounting Department for the rules governing provisions for accounts receivable.

Beyond the scope of its own remit, which is assigned by the Executive Board, the Risk Department has the credit risk "game plan" validated by the Risk Committee or the Executive Board, if requested by the Chairman of the Risk Committee.

Once the rules have been validated, the Risk Department ensures that they are implemented and monitors their proper application throughout the credit process.

The Risk Department defines and implements tools (scorecards and expert systems) for granting and managing loans and overdrafts; it makes sure that they work properly and assumes responsibility for any adjustments necessary and carries out regular back-testing.

The Department defines and implements credit risk assessment indicators, together with action plans in the event of a deterioration in these indicators.

Its procedures rely on a network of Risk Officers in the Financial Centres.

#### MANAGEMENT OF LA BANQUE POSTALE FINANCEMENT'S BUSINESS ACTIVITIES

La Banque Postale Financement, a La Banque Postale subsidiary that specialises in consumer credit, has been marketing these types of loans since December 2009.

LBPF is responsible for drawing up the rules for granting and managing loans, recovering receivables and monitoring risks.

La Banque Postale Financement keeps La Banque Postale's Risk Department informed of its risk policy and procedures and of material changes in this area, prior to implementing them, through a cross-functional La Banque Postale - La Banque Postale Financement Risk Committee, which has been set up for this purpose. In addition, this cross-functional Committee is kept informed of the status of risks within La Banque Postale Financement through an appropriate reporting process.

## 2.4.2.3 Risk exposure for the 2010 and 2009 financial years

2010 financial year (€ million)	12.31.10					
	Balance sheet amounts (gross)		Off-balance sheet amounts (gross)		Total exposure	
	Amounts Outstanding	%	Amounts Outstanding	%	Amounts Outstanding	%
- Home loans	37,465	92%	3,166	8%	40,631	80%
- Consumer loans	816	99.86%	1	0.14%	817	2%
- Overdrafts	342	4%	8,693	96%	9,035	18%
- Other credit facilities	585	100%			585	1%
- Other	30	100%			30	0%
<b>Total</b>	<b>39,238</b>	<b>77%</b>	<b>11,860</b>	<b>23%</b>	<b>51,098</b>	<b>100%</b>

2009 financial year (€ million)	12.31.09					
	Balance sheet amounts (gross)		Off-balance sheet amounts (gross)		Total exposure	
	Amounts Outstanding	%	Amounts Outstanding	%	Amounts Outstanding	%
- Home loans	31,961	93%	2,309	7%	34,270	83%
- Consumer loans	78	100%			78	0,19%
- Overdrafts	279	5%	5,754	95%	6,033	15%
- Other credit facilities	564	100%			564	1%
- Other	113	100%			113	0,27%
<b>Total</b>	<b>32,995</b>	<b>80%</b>	<b>8,063</b>	<b>20%</b>	<b>41,058</b>	<b>100%</b>

“Home loan” exposure increased by over 18% in 2010. Home loans represent over 80% of total exposure. This percentage fell slightly compared with the previous financial year, due to a significant increase in authorised overdrafts, following an update in December 2010 and the national roll-out of La Banque Postale Financement’s consumer credit activities in 2010.

## 2.4.2.4 Guarantees received

2010 financial year (€ million)	12.31.10									
	Security right		Guaranteed by a legal entity		Guaranteed by a private individual		No guarantee		Balance sheet (gross)	
	Amounts Outstanding	%	Amounts Outstanding	%	Amounts Outstanding	%	Amounts Outstanding	%	Amounts Outstanding	%
Home loans										
- performing loans	8,131	22%	27,344	73%	232	1%	1,647	4%	37,354	99.70%
- doubtful loans	64	58%	35	32%	3	3%	9	8%	111	0.30%
Prêts consommation										
- performing loans							810	100%	810	99.26%
- doubtful loans							6	100%	6	0.74%

2009 financial year (€ million)	12.31.09									
	Security right		Guaranteed by a legal entity		Guaranteed by a private individual		No guarantee		Balance sheet (gross)	
	Amounts Outstanding	%	Amounts Outstanding	%	Amounts Outstanding	%	Amounts Outstanding	%	Amounts Outstanding	%
Home loans										
- performing loans	7,887	25%	22,261	70%	212	1%	1,519	5%	31,879	99.75%
- doubtful loans	50	62%	23	29%	2	2%	6	8%	81	0.25%
Prêts consommation										
- performing loans							77	100%	77	99.52%
- doubtful loans							0.4	100%	0.4	0.48%

The percentage of home loans guaranteed by a legal entity continued to increase (73% in December 2010 compared with 70% in December 2009).

All consumer loans outstanding are unguaranteed.

## 2.4.2.5 Credit quality of assets that are neither in arrears nor impaired on an individual basis

2010 financial year (€ million)	12.31.10	
	Amounts Outstanding	%
Performing home loans	37,354	100.0%
- not in arrears	37,197	99.58%
- in arrears	157	0.42%
Performing consumer loans	809	100.0%
- not in arrears	796	98.42%
- in arrears	13	1.66%

The percentage of performing home loans with no arrears remained extremely stable (99.6%).

2009 financial year (€ million)	12.31.09	
	Amounts Outstanding	%
Performing home loans	31,878	100.0%
- not in arrears	31,732	99.54%
- in arrears	146	0.46%
Performing consumer loans	77	100.0%
- not in arrears	77	99.45%
- in arrears	0.4	0.55%

The percentage of consumer loans in arrears rose to 1.66% of performing loans outstanding

## 2.4.2.6 Doubtful financial assets

2010 financial year	12.31.2010								
(€ million)	Non-impaired loans outstanding in arrears				Doubtful loans	Guarantees			
	30 days	>30 days <60 days	>60 days <180 days (1)	Total		Security Rights	Guaranteed by a legal entity	Guaranteed by a private individual	No guarantee
Home loans	80	35	42	157	110	113	136	6	13
Consumer loans	11	2	0	13	6				19
<b>Total</b>	<b>91</b>	<b>37</b>	<b>42</b>	<b>170</b>	<b>116</b>	<b>113</b>	<b>136</b>	<b>6</b>	<b>32</b>

(1) This figure involves consumer loans granted for a maximum 90-day period.

2009 financial year	12.31.2009								
(€ million)	Non-impaired loans outstanding in arrears				Doubtful loans	Guarantees			
	30 days	>30 days <60 days	>60 days <180 days (1)	Total		Security Rights	Guaranteed by a legal entity	Guaranteed by a private individual	No guarantee
Home loans	81	31	34	146	82	109	103	5	11
Consumer loans	0.2	0.2	0.1	0.5	0.3				0.8
<b>Total</b>	<b>81</b>	<b>31</b>	<b>34</b>	<b>146</b>	<b>82</b>	<b>109</b>	<b>103</b>	<b>5</b>	<b>12</b>

(1) This figure involves consumer loans granted for a maximum 90-day period.

The balance of home loans in arrears was up 7.4% as at December 31<sup>st</sup> 2010 compared with the previous year. 4.7%

of home loans in arrears or doubtful home loans are not guaranteed (4.9% as at December 31<sup>st</sup> 2009).

## 2.4.2.7 Breakdown of individually impaired financial assets

2010 financial year	12.31.2010				
(€ million)	Type of guarantee	Receivables	Guarantee amount retained	Updated provisions	Updated provision rate
Doubtful home loans					
	Security rights	52	47	16	30%
	Guaranteed by a legal entity	19	17	1	6%
	Guaranteed by a private individual	2		2	91%
	No guarantee	7		7	100%
	Loans classified as doubtful according to the contagion principle, but not in arrears	30	27	7	22%
<b>Total doubtful home loans</b>		<b>110</b>	<b>91</b>	<b>33</b>	<b>30%</b>
Consumer loans		6		1	19%
<b>Total consumer loans</b>		<b>6</b>		<b>1</b>	<b>19%</b>
Doubtful overdrafts		73		57	77%
<b>Total overdrafts</b>		<b>73</b>		<b>57</b>	<b>77%</b>

2009 financial year	12.31.2009				
(€ million)	Type of guarantee	Receivables	Guarantee amount retained	Updated provisions	Updated provision rate
Doubtful home loans					
	Security rights	43	38	10	24%
	Guaranteed by a legal entity	13	13	1	5%
	Guaranteed by a private individual	1		1	100%
	No guarantee	5		5	100%
	Loans classified as doubtful according to the contagion principle, but not in arrears	20	17	5	25%
<b>Total doubtful home loans</b>		<b>82</b>	<b>68</b>	<b>22</b>	<b>27%</b>
Consumer loans		0.4		0.3	93%
<b>Total consumer loans</b>		<b>0.4</b>		<b>0.3</b>	<b>93%</b>
Doubtful overdrafts		52		35	68%
<b>Total overdrafts</b>		<b>52</b>		<b>35</b>	<b>68%</b>

The home loan provision rate increased slightly compared with the previous year: 29.5% compared with 27%.  
The provision rate on current accounts increased from 68% to 77%.

## 2.4.3 Exposure to counterparty risk

La Banque Postale is primarily exposed to counterparty risk through its operations in the derivatives market.

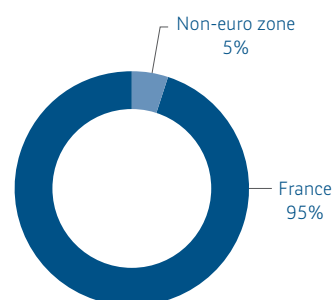
The risk is limited by the fact that La Banque Postale only deals with top-tier institutions with whom it has signed netting and collateral agreements.

Furthermore, most of the instruments involved are “plain vanilla”.

As at the end of 2010, net exposure to those counterparties, after taking any collateral in place into account, was €22.5 million. All counterparties are at least A-rated.

Geographical area	12.31.2010	12.31.2009
Euro zone	21.3	25.8
Non-euro zone	1.2	0.1
<b>Total</b>	<b>22.5</b>	<b>25.9</b>

Distribution at 2010.12.31



## 2.4.4 Exposure to liquidity risk

Structural liquidity risk is measured through the medium-to-long-term liquidity gap, which corresponds to a static outflow of liabilities (through outflow agreements) and assets.

The assumptions included in the medium to long-term liquidity gap are as follows:

Equity capital net of fixed assets	Final
Debt	Contractual date or call date
Demand deposits/savings accounts/ CEL accounts and long-term savings accounts	Outflow agreement
Home regulated savings plans	Certain outflow ( <i>see provision for home regulated savings plan</i> )
Term deposits	Outflow agreement
Home loans	Contractual payment schedule + structural anticipated repayments
Home loan savings options	Likely production over average recorded maturity
Bonds and deposits	Contractual payment schedule net of the buyback limit set by the cash management unit
Off-balance sheet commitments	Outflow agreement

The calculation is based on the following intervals: 1 month, 3 months, 6 months, 1 year, 2 years, 3 years, 4 years, 5 years, 7 years, 10 years, and 15 years.

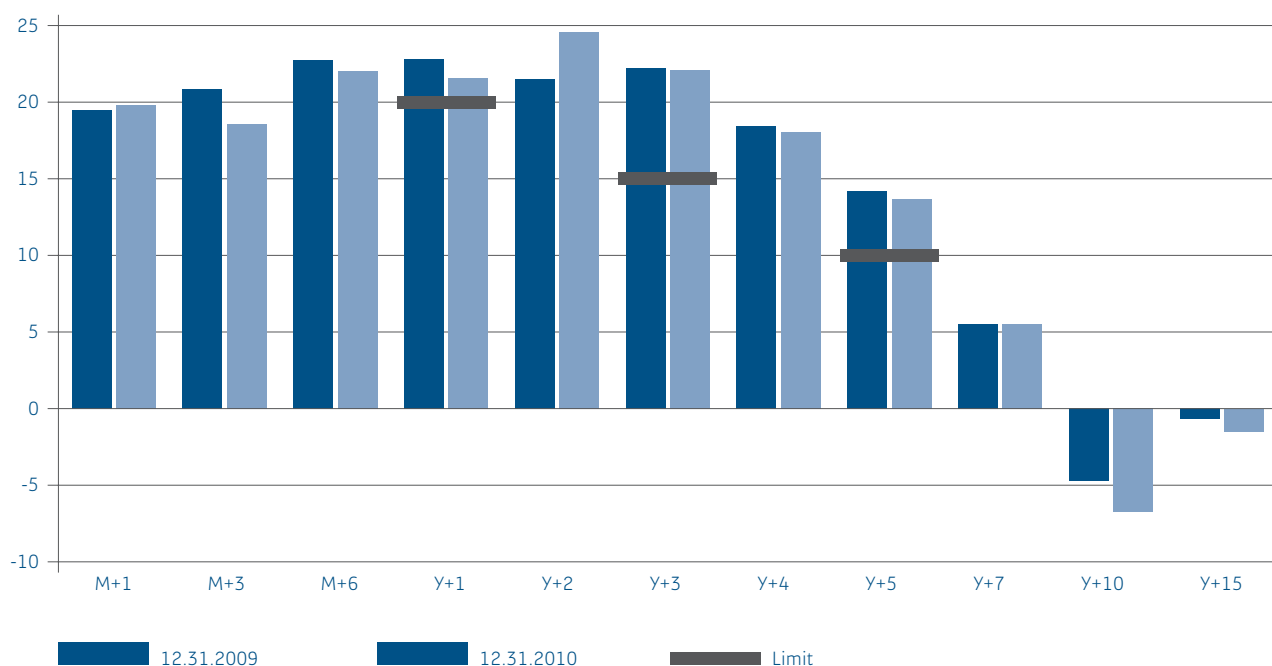
The liquidity gap is measured every month and presented to the Risk and ALM Committees

### LIQUIDITY GAP, AS MEASURED AT DECEMBER 31<sup>ST</sup> 2010 AND DECEMBER 31<sup>ST</sup> 2009

(€ million)	1 month	3 months	6 months	1 year	2 years	3 years	4 years	5 years	7 years	10 years	15 years
12.31.2010	19,817	18,578	22,026	21,548	24,541	22,100	18,026	13,651	5,545	-6,726	-1,490
12.31.2009	19,472	20,882	22,735	22,783	21,497	22,220	18,427	14,186	5,495	-4,713	-683



## OVERALL BALANCE SHEET LIQUIDITY GAP (€ BILLIONS)



A positive gap for a given interval means that the Bank has more inflows than outflows with a maturity date longer than the interval.

The positive liquidity gap for intervals under 7 years reflects La Banque Postale's excess liquidity. This high level of liquidity is further reinforced by the quality of the financial assets held by the Bank and their accounting classification, which is taken into account for managing its structural liquidity.

The increase in the long-term liquidity gap is explained by the strong increase in home loan volumes in 2010. Outstanding loans to individuals exceeded the amount of the held-to-maturity securities portfolio for the first time.

The liquidity limit system is supplemented through stress scenarios that include a drying up of the securities buyback market.

The breakdown of uses and sources maturities according to their remaining term is shown in Note 3.23.

## 2.4.5 Market risk

The Bank has decided to apply a Value at Risk indicator (99%, 1 day) to all its marked-to-market positions. The limit of the indicator is reviewed by the Risk Committee on a monthly basis.

La Banque Postale's VaR indicator not only covers the transaction portfolio (impact on fair value profit and loss), but also covers positions recognised as assets available for sale (impact on equity capital).

The VaR indicator used by La Banque Postale is a parametric VaR, calculated using a variance-covariance matrix that includes 2,775 risk factors, including interest rate, spread and

exchange rate risk, volatility and the risk of movements in the stock market indices to which the Bank is exposed.

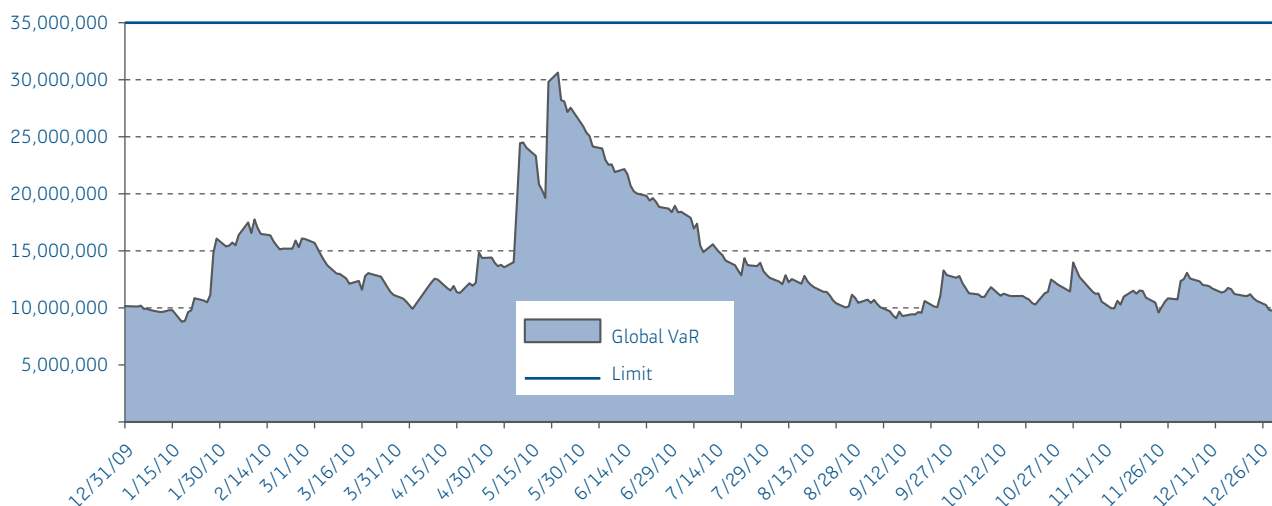
This matrix is calculated using a scaling factor designed to give a higher weighting to recent movements than to more distant ones.

The resulting VaR partly covers option-related risk, although Level 2 risks are not taken into account. Although they are not currently material, the building of option positions could lead the Risk Department to adopt a more appropriate methodology.

The Risk Department back tests the results of the model used to calculate the VaR indicator, in order to assess its quality. This testing consists in measuring compliance with certain assumptions (including normality and Markovian distribution), in addition to counting the number of overruns.

VaR assessments are supplemented by stress scenarios, which are run on a monthly basis in order to assess the Bank's exposure to market situations that exceed the confidence interval selected for calculating VaR.

## VAR (99%; 1D) TREND



(data in € millions)

	12.31.2008	12.31.2009	12.31.2010
Global VaR	15.8	10.2	9.3
VaR of trading portfolio transactions	1.8	4.5	9.6

## Risk factor contribution to global VaR

	12.31.2008	12.31.2009	12.31.2010
Interest rates	8.8	7.3	6.0
Credit spreads	3.3	0.3	2.2
Exchange rate	0.3	-0.1	-0.2
Equity markets	3.3	2.7	1.4
Volatility	0.1	0.0	0.0
Total	15.8	10.2	9.3

## Statistics for the 2010 financial year

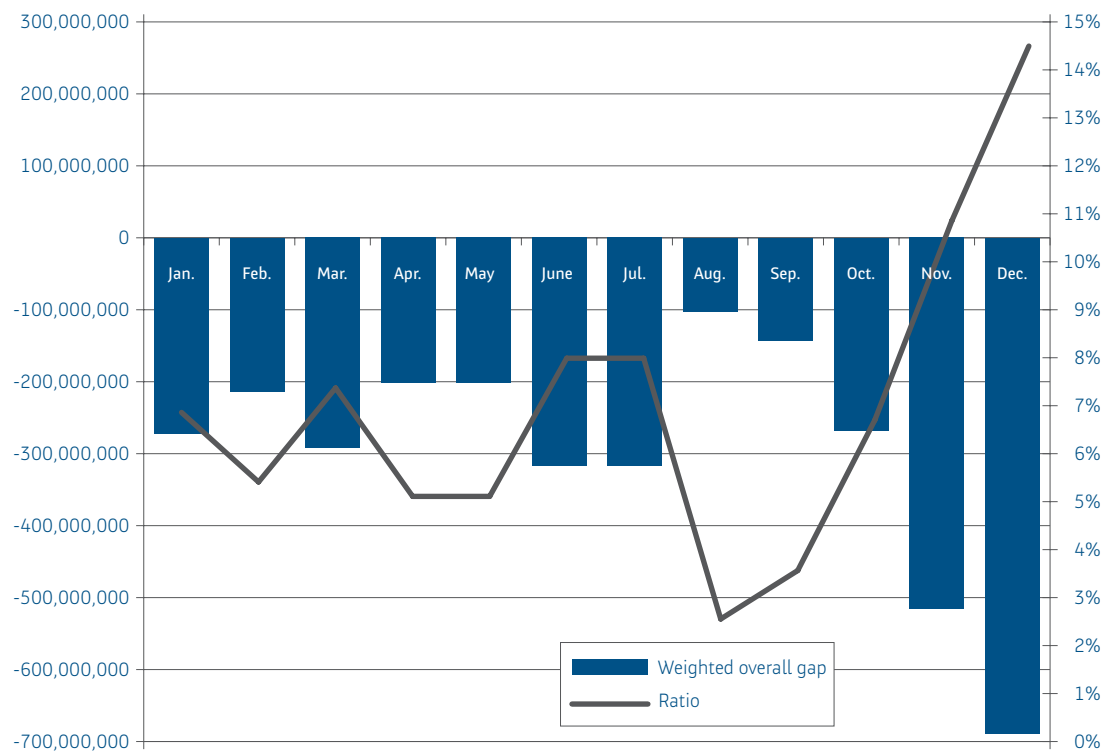
	Average	Minimum	Maximum
Global VaR	13.7	8.8	30.6

In 2010, the market portfolio VaR followed fixed-income market volatility, particularly the volatility of European sovereign debt markets. La Banque Postale therefore exceeded its VaR in May 2010, at the height of the Greek crisis. The overrun was due to a rise in volatility, and not to an increase in the Bank's positions. A warning was issued by the

Market Risk Department. La Banque Postale decided not to cover its positions.

Use of the transaction portfolio as a hedge for other Bank portfolios increased further, leading to a rise in the VaR indicator for this area compared with the previous financial year.

### 2.4.6 Global interest rate risk



In accordance with the Basel Committee’s recommendations, the impact applied for calculating the sensitivity of economic balance sheet value is 200bp. This indicator is calculated on the basis of a static balance sheet, without factoring in any new income. Assets and liabilities with no contractual maturity date are liquidated in accordance with the scenarios approved by the Bank’s ALM Committee. Sensitivity to global interest

rate risk peaked on December 31<sup>st</sup> 2010, when the interest rate liquidity gap reached 14.5% compared with an internal limit of 15%.

The level of volatility displayed by this indicator was primarily due to the size of the Group’s equity capital and secondly to the very high level of home loans generated at the end of the year.

# Note 3

## Notes to the balance sheet

### 3.1 Cash and due from central banks

(€ '000s)	12.31.10	12.31.09
Cash	242,595	261,227
Due from Central banks	1,907,403	3,438,433
<b>Cash and due from central banks</b>	<b>2,149,998</b>	<b>3,699,660</b>

### 3.2 Financial assets and liabilities at fair value through profit and loss

#### 3.2.1 Financial assets and liabilities at fair value through profit and loss

(€ '000s)	12.31.10			12.31.09		
	Transaction	Fair value option	Total	Transaction	Fair value option	Total
Treasury notes and similar securities	51,537		51,537	104,903		104,903
Bonds and other fixed-income securities	4,034,181		4,034,181	6,054,191		6,054,191
Equities and other variable-rate securities	67,658		67,658	38,044	15,852	53,896
<b>Financial assets at fair value through profit and loss</b>	<b>4,153,376</b>	<b>0</b>	<b>4,153,376</b>	<b>6,197,138</b>	<b>15,852</b>	<b>6,212,990</b>
Debt securities		5,718	5,718		5,489	5,489
<b>Financial liabilities at fair value through profit and loss</b>		<b>5,718</b>	<b>5,718</b>		<b>5,489</b>	<b>5,489</b>

#### 3.2.2 Trading derivatives

(€ '000s)	12.31.10		12.31.09	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	95,544	83,559	337,753	346,590
Exchange rate derivatives	11,004	9,591	5,886	346
Other derivative instruments	10,723	13,978	23,958	35,803
<b>Trading derivatives</b>	<b>117,271</b>	<b>107,128</b>	<b>367,597</b>	<b>382,739</b>

(€ '000s)	12.31.10		12.31.09	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
<b>Conditional transactions</b>	<b>10,723</b>	<b>13,978</b>	<b>23,958</b>	<b>35,803</b>
Interest rate options	10,723	13,978	23,958	35,803
<b>Other derivatives</b>	<b>106,548</b>	<b>93,150</b>	<b>343,639</b>	<b>346,936</b>
Exchange rate contracts	11,004	9,591	5,886	346
Interest rate swaps	95,544	83,559	337,753	346,590

## 3.3 Hedging derivatives

### 3.3.1 Fair value hedge derivatives

(€ '000s)	12.31.10		12.31.09	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	236,358	181,679	268,345	218,095
<b>Fair value hedge derivatives</b>	<b>236,358</b>	<b>181,679</b>	<b>268,345</b>	<b>218,095</b>

(€ '000s)	Notional amount	Positive fair value	Negative fair value
Interest rate swaps 12.31.10	8,571,986	236,358	181,679
Interest rate swaps 12.31.09	7,976,899	268,345	218,095

### 3.3.2 Cash flow hedge derivatives

(€ '000s)	12.31.10		12.31.09	
	Assets	Liabilities	Assets	Liabilities
Interest rate derivatives	98,384		94,909	
<b>Cash flow hedge derivatives</b>	<b>98,384</b>		<b>94,909</b>	

(€ '000s)	Notional amount	Positive fair value	Negative fair value
Interest rate swaps 12.31.10	1,200,000	98,384	
Interest rate swaps 12.31.09	1,200,000	94,909	

## 3.4 Financial assets available for sale

(€ '000s)	12.31.10	12.31.09
Treasury notes and similar securities	2,598,917	3,632,587
Bonds and other fixed-income securities	6,094,519	6,337,900
Equities and other variable-rate securities	1,127,921	1,118,865
Non-consolidated equity investments	145,384	151,616
<b>Financial assets available for sale</b>	<b>9,966,741</b>	<b>11,240,968</b>
Including net unrealised gains and losses on fixed-income securities	(17,831)	28,672
Including net unrealised gains and losses on variable-rate securities	269,031	243,174

## DETAILS OF NON-CONSOLIDATED EQUITY INVESTMENTS

(€ '000s)	12.31.10					12.31.09
	Book value of securities	Related advances and receivables	Impairment	Net value	% Interest held	Net value of securities
Crédit Logement	110,250			110,250	6.00%	95,555
Easybourse	16,160		(6,608)	9,552	100.00%	12,960
AM Lab	4,387	300		4,687	100.00%	3,196
Thiriet Gestion	4,259			4,259	33.40%	4,259
Ciloger	3,054			3,054	45.00%	3,054
Transactis	2,474			2,474	50.00%	2,474
Titres Cadeaux	2,200			2,200	50.00%	2,200
Europay	1,339			1,339	6.00%	1,339
X Ange Private Equity	1,237			1,237	90.00%	1,237
Europost Management Cie	1,164			1,164	100.00%	1,164
Visa Inc	-			0		17,853
Other	7,191		(2,023)	5,168	-	6,325
<b>Total equity investments and advances</b>	<b>153,715</b>	<b>300</b>	<b>(8,631)</b>	<b>145,384</b>		<b>151,616</b>

Non-consolidated equity investments that are not listed on an active market and for which fair value cannot be assessed on a

reliable basis are valued at cost. These investments amounted to €20,895 million as at December 31<sup>st</sup> 2010.

## 3.5 Loans and receivables – credit institutions

(€ '000s)	12.31.10	12.31.09
Overdrafts	253,087	173,056
Deposits and loans	71,077,682	71,690,729
Securities received under resale agreements	1,198,964	337,416
Subordinated and participating loans	160,290	205,743
Doubtful receivables	42	40
<b>Deposits and loans - credit institutions</b>	<b>72,690,065</b>	<b>72,406,984</b>
Securities equivalent to loans and receivables	803,878	1,559,553
<b>Securities equivalent to loans and receivables</b>	<b>803,878</b>	<b>1,559,553</b>
<b>Loans and receivables - credit institutions</b>	<b>73,493,943</b>	<b>73,966,537</b>

Securities equivalent to loans and receivables are fixed or determinable-rate non-derivative financial assets that are not traded on an active market. Following the reclassifications carried out on July 1<sup>st</sup> 2008 under the October 2008 amendment to IAS 39, these securities are mainly held in “Assets available for sale”.

The Livret A and Sustainable Development savings accounts transferred to the Caisse des Dépôts et Consignations and shown on the “Deposits and Loans” line amounted to €58,899 million as at December 31<sup>st</sup> 2010 compared with €59,707 million as at December 31<sup>st</sup> 2009.



## 3.6 Loans and receivables – customers

(€ '000s)	12.31.10	12.31.09
Overdrafts	262,468	210,480
Short-term loans	1,392,461	641,285
Home loans	37,355,526	31,999,480
Other customer loans	31,679	50,634
Securities received under resale agreements	3,052	
Doubtful receivables	219,434	164,537
Impairment	(127,183)	(99,396)
<b>Loans and receivables – customers</b>	<b>39,137,437</b>	<b>32,967,020</b>
Securities equivalent to loans and receivables	76,383	107,785
<b>Securities equivalent to loans and receivables</b>	<b>76,383</b>	<b>107,785</b>
<b>Loans and receivables – customers</b>	<b>39,213,820</b>	<b>33,074,805</b>

Securities equivalent to loans and receivables are fixed or determinable-rate non-derivative financial assets that are not traded on an active market. Following the reclassifications

carried out on July 1<sup>st</sup> 2008 under the October 2008 amendment to IAS 39, these securities are held in "Assets available for sale".

## 3.7 Impairment of assets

(€ '000s)	12.31.09	Provisions	Reversals	Other	12.31.10
Loans and receivables – customers	(99,396)	(68,582)	40,795		(127,183)
Of which portfolio basis provisions	(12,363)	(3,784)	4,802		(11,345)
Assets available for sale	(95,698)	(7,210)	63,469		(39,439)
Including equity investments	(12,411)	(6,608)	10,388		(8,631)
Other impairments	(4,210)	(605)	875		(3,940)
<b>Impairment of assets</b>	<b>(199,304)</b>	<b>(76,397)</b>	<b>105,139</b>		<b>(170,562)</b>

## 3.8 Revaluation differences on interest rate risk hedged portfolios

(€ '000s)	12.31.10	12.31.09
Revaluation differences on interest rate risk hedged portfolios	129,602	94,944
<b>Revaluation differences on interest rate risk hedged portfolios</b>	<b>129,602</b>	<b>94,944</b>

### 3.9 Financial assets held to maturity

(€ '000s)	12.31.10	12.31.09
Treasury notes and similar securities	34,798,116	32,160,553
Bonds and other fixed-income securities	2,615,075	2,466,069
<b>Financial assets held to maturity</b>	<b>37,413,191</b>	<b>34,626,622</b>

### 3.10 Current and deferred tax assets and liabilities

(€ '000s)	12.31.10	12.31.09
Deferred tax assets	55,781	51,082
Other tax receivables	67,614	5,281
<b>Tax assets</b>	<b>123,395</b>	<b>56,363</b>
Deferred tax liabilities	4,937	4,195
Other tax payables	10,153	151,794
<b>Tax liabilities</b>	<b>15,090</b>	<b>155,989</b>

Deferred tax assets are mainly related to the regulated savings accounts provisions.

#### BREAKDOWN OF DEFERRED TAXES BY TYPE

(€ '000s)	12.31.10	12.31.09
Home loans savings provision	72,647	76,090
Pension provisions	2,442	2,034
Other non-deductible provisions	18,359	15,493
Other sources of timing differences	7,816	10,534
<b>Deferred taxes arising from timing differences</b>	<b>101,264</b>	<b>104,151</b>
Fair value of financial instruments	(50,420)	(57,264)
<b>Deferred taxes arising from IFRS guidelines valuation methods</b>	<b>(50,420)</b>	<b>(57,264)</b>
<b>Net deferred taxes</b>	<b>50,844</b>	<b>46,887</b>

### 3.11 Accruals and other assets

(€ '000s)	12.31.10	12.31.09
Prepaid expenses and accrued income	546,655	563,300
Receipts accounts	85,558	200,836
Other accruals	1,844,990	2,595,233
<b>Accruals</b>	<b>2,477,203</b>	<b>3,359,369</b>
Sundry receivables	616,339	1,534,985
Securities transaction settlement accounts	10,158	10,903
Impairment	(3,940)	(4,210)
<b>Other assets</b>	<b>622,557</b>	<b>1,541,678</b>
Other insurance assets	55,823	52,060
<b>Other insurance assets and reinsurers' share in technical reserves</b>	<b>55,823</b>	<b>52,060</b>
<b>Accruals and other assets</b>	<b>3,155,583</b>	<b>4,953,107</b>

## 3.12 Investments in associates

(€ '000s)	12.31.10		12.31.09	
	Equity value	Including profit of	Equity value	Including profit of
CNP Assurances Group	1,961,425	194,949	1,864,045	185,792
<b>Interests in associates</b>	<b>1,961,425</b>	<b>194,949</b>	<b>1,864,045</b>	<b>185,792</b>

The data published by the CNP Assurances Group show a balance sheet total of €319,609 million, revenues of €32,315 million and a net profit of €1,050 million as at December 31<sup>st</sup> 2010.

The market value of CNP Assurances was €8,024 million as at December 31<sup>st</sup> 2010.

## 3.13 Tangible and intangible fixed assets

(€ '000s)	12.31.10			12.31.09		
	Gross amount	Depreciation, amortisation and impairments	Net amount	Gross amount	Depreciation, amortisation and impairments	Net amount
Software and development costs	548,165	(353,834)	194,331	421,205	(285,330)	135,875
Intangible fixed assets in progress	65,571		65,571	82,094		82,094
Other intangible fixed assets	42,150	(1,708)	40,442	40,072	(121)	39,951
<b>Intangible fixed assets</b>	<b>655,886</b>	<b>(355,542)</b>	<b>300,344</b>	<b>543,371</b>	<b>(285,451)</b>	<b>257,920</b>
Land	72,020		72,020	73,369		73,369
Buildings	261,813	(54,306)	207,507	240,518	(42,720)	197,798
Plant, and equipment	71,321	(34,346)	36,975	61,944	(34,874)	27,070
IT hardware	3,057	(2,014)	1,043	2,345	(1,332)	1,013
Tangible fixed assets in progress	10,326		10,326	35,821		35,821
Other tangible fixed assets	427,809	(306,803)	121,006	365,452	(279,283)	86,169
<b>Tangible fixed assets</b>	<b>846,346</b>	<b>(397,469)</b>	<b>448,877</b>	<b>779,449</b>	<b>(358,209)</b>	<b>421,240</b>
<b>Total intangible and tangible fixed assets</b>	<b>1,502,232</b>	<b>(753,011)</b>	<b>749,221</b>	<b>1,322,820</b>	<b>(643,660)</b>	<b>679,160</b>

## 3.14 Goodwill

### MOVEMENTS DURING THE PERIOD

(€ '000s)	12.31.10	12.31.09
<b>Net value as at January 1<sup>st</sup></b>	<b>50,978</b>	<b>26,157</b>
Goodwill arising on investments		24,821
Disposals		
Impairments during the period		
Other movements	2,461	
<b>Net value as at December 31<sup>st</sup></b>	<b>53,439</b>	<b>50,978</b>

### BREAKDOWN OF GOODWILL

(€ '000s)	12.31.10	12.31.09
Tocqueville Finance Group	27,282	24,821
La Banque Postale Asset Management	24,810	24,810
La Banque Postale Prévoyance	1,347	1,347
<b>Total net goodwill</b>	<b>53,439</b>	<b>50,978</b>

## 3.15 Payables – credit institutions

(€ '000s)	12.31.10	12.31.09
Current accounts in credit	247,114	264,421
Accounts and loans	541,792	1,390,152
Securities received under resale agreements	5,376,522	3,962,917
Other amounts payable	4,332	1,338
<b>Payables – credit institutions</b>	<b>6,169,760</b>	<b>5,618,828</b>

## 3.16 Payables – customers

(€ '000s)	12.31.10	12.31.09
Regulated Livret A accounts	54,691,730	55,583,480
Home loan savings plans and accounts	25,720,430	24,800,456
Other special savings accounts	21,450,086	22,198,179
<b>Special savings accounts</b>	<b>101,862,246</b>	<b>102,582,115</b>
Current accounts in credit	45,933,944	43,301,103
Securities and shares loaned under resale agreements	2,310,681	2,521,950
Term deposits	549,438	961,991
Other amounts payable	412,162	463,787
<b>Payables – customers</b>	<b>49,206,225</b>	<b>47,248,831</b>
<b>Customer transactions</b>	<b>151,068,471</b>	<b>149,830,946</b>

## 3.17 Debt securities

(€ '000s)	12.31.10	12.31.09
Certificates of deposits and Treasury notes	4,523,400	3,806,899
<b>Debt securities</b>	<b>4,523,400</b>	<b>3,806,899</b>

## 3.18 Accruals and other liabilities

(€ '000s)	12.31.10	12.31.09
Expenses payable and deferred income	100,166	244,565
Other accruals	2,001,913	3,815,462
<b>Accruals</b>	<b>2,102,079</b>	<b>4,060,027</b>
Securities-related payables	586,153	458,361
Guarantees received	315,349	473,238
Sundry payables	1,140,383	554,403
Securities transaction settlement accounts	15,511	12,051
<b>Other liabilities</b>	<b>2,057,396</b>	<b>1,498,053</b>
Other insurance liabilities	10,052	16,483
<b>Other insurance liabilities</b>	<b>10,052</b>	<b>16,483</b>
<b>Accruals and sundry liabilities</b>	<b>4,169,527</b>	<b>5,574,563</b>

## 3.19 Underwriting reserves of insurance companies

(€ '000s)	12.31.09	Provisions	Reversals	Other	12.31.10
Life insurance technical reserves	197,684	234,604	(197,684)		234,604
Non-life insurance technical reserves	60,164	79,647	(59,960)	143	79,994
Equalisation reserves	7,687	8,894	(7,686)		8,895
Other reserves	109,337	100,306	(88,519)		121,124
<b>Technical reserves</b>	<b>374,872</b>	<b>423,451</b>	<b>(353,849)</b>	<b>143</b>	<b>444,617</b>

(€ '000s)	12.31.10	12.31.09
"Shadow accounting" insurance accounts	6,346	8,471
<b>Shadow</b>	<b>6,346</b>	<b>8,471</b>

These are reserves built up by La Banque Postale Prévoyance.

## 3.20 Provisions

(€ '000s)	12.31.09	Provisions	Write-backs	Unused write-backs	Other	12.31.10
Provisions for employee benefits	5,912	1,251	(52)			7,111
Provisions for risk on regulated savings accounts	221,000	11,000		(21,000)		211,000
Provisions for employee litigation and expenses	4,140	3,545	(3,997)			3,688
Other provisions	94,741	13,565	(26,240)		(60)	82,006
<b>Provisions</b>	<b>325,793</b>	<b>29,361</b>	<b>(30,289)</b>	<b>(21,000)</b>	<b>(60)</b>	<b>303,805</b>

### REGULATED SAVINGS ACCOUNTS INFORMATION

Years in place	Deposits collected	Loans granted in respect of regulated savings accounts and plans	2010 Provision	2009 Provision	Net movements
Over 10 years	6,208,000		70,000	56,000	14,000
Between 4 and 10 years	8,125,000		5,000	10,000	(5,000)
Less than 4 years	4,921,000		12,000	10,000	2,000
<b>Total regulated savings plans</b>	<b>19,254,000</b>	<b>336,000</b>	<b>87,000</b>	<b>76,000</b>	<b>11,000</b>
<b>Total regulated savings accounts</b>	<b>6,466,000</b>	<b>1,254,000</b>	<b>124,000</b>	<b>145,000</b>	<b>(21,000)</b>
<b>Total</b>	<b>25,720,000</b>	<b>1,590,000</b>	<b>211,000</b>	<b>221,000</b>	<b>(10,000)</b>



## 3.21 Subordinated debt

(€ '000s)	12.31.10	12.31.09
Subordinated debt	1,236,279	502,232
<b>Subordinated debt</b>	<b>1,236,279</b>	<b>502,232</b>

(€ '000s)	Date of issue	Maturity date	Rate	Currency of origin	12.31.10
Long-term subordinated debt	12.12.2006	12.12.2016 <sup>(1)</sup>	<sup>(2)</sup>	Euro	500,000
	11.16.2009	11.18.2011	1,40%	Euro	2,000
	11.30.2010	11.30.2020	4,375% <sup>(3)</sup>	Euro	750,000
<b>Total</b>					<b>1,252,000</b>

(1) Total anticipated repayment is possible from December 12<sup>th</sup> 2011 at the request of La Banque Postale.

(2) Benchmarked on 3-month Euribor.

(3) The issue includes a mechanism for conversion to senior debt with a 30 basis point reduction in the coupon in the event that the instrument is disqualified by the regulatory authorities.

## 3.22 Detailed information on gains and losses recognised directly in equity

### INFORMATION ON THE RECYCLING OF GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY

(€ '000s)	Movements for the 2010 financial year	Movements for the 2009 financial year
<b>Translation differences</b>		
Reclassification in net profit		
Other movements		
<b>Reassessment of financial assets available for sale</b>	<b>71</b>	<b>230,740</b>
Reclassification in net profit	(34,735)	71,597
Other movements	34,806	159,143
<b>Revaluation of derivative hedging instruments</b>	<b>3,982</b>	<b>20,921</b>
Reclassification in net profit		
Other movements	3,982	20,921
<b>Share in gains and losses recognised directly in equity for associates</b>	<b>(36,625)</b>	<b>297,997</b>
<b>Income tax</b>	<b>34,640</b>	<b>(184,035)</b>
<b>Total</b>	<b>2,068</b>	<b>365,623</b>

## INFORMATION ON TAX RELATING TO THE BREAKDOWN OF GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY

(€ '000s)	12.31.2010			12.31.2009		
	Gross	Tax	Net	Gross	Tax	Net
Translation differences						
Revaluation of financial assets available for sale	71	5,547	5,618	230,740	(79,440)	151,300
Revaluation of derivative hedging instruments	3,982	(1,371)	2,611	20,921	(7,202)	13,719
Share in gains and losses recognised directly in equity for associates	(36,625)	30,464	(6,161)	297,997	(97,393)	200,604
<b>Total</b>	<b>(32,572)</b>	<b>34,640</b>	<b>2,068</b>	<b>549,658</b>	<b>(184,035)</b>	<b>365,623</b>

## 3.23 Breakdown of balance sheet items by residual maturity

The tables below show the maturity of the Group's financial assets and liabilities according to their contractual maturity date.

Fixed-income securities, loans and debt are broken down according to their contractual maturity date.

Investment securities and UCITS have been entered in the "Undetermined" column.

Overnight receivables and debt are shown in the "Less than one month" column.

BREAKDOWN OF BALANCE SHEET ITEMS BY RESIDUAL MATURITY AS AT DECEMBER 31<sup>ST</sup> 2010

(€ '000s)	Less than 3 months	Between 3 months and 1 year	1 to 5 years	Over 5 years	Undetermined	Total
<b>ASSETS</b>						
Cash and central banks	2,149,998					<b>2,149,998</b>
Financial assets at fair value through profit and loss	1,898,871	2,326,761	36,517	2,093	6,405	<b>4,270,647</b>
Hedging derivatives	4,518	43,193	196,773	90,258		<b>334,742</b>
Financial assets available for sale	575,857	2,200,137	5,085,851	869,829	1,235,067	<b>9,966,741</b>
Loans and receivables — credit institutions	69,173,971	1,322,675	2,116,935	880,290	72	<b>73,493,943</b>
Loans and receivables — customers	1,705,315	2,181,491	10,243,337	25,083,677	1	<b>39,213,821</b>
Revaluation differences on interest rate risk hedged portfolios					129,602	<b>129,602</b>
Financial assets held to maturity	1,116,345	5,180,451	17,223,852	13,892,543		<b>37,413,191</b>
	<b>76,624,875</b>	<b>13,254,708</b>	<b>34,903,265</b>	<b>40,818,690</b>	<b>1,371,147</b>	
<b>LIABILITIES</b>						
Financial liabilities at fair value through profit and loss	47,610	59,227	5,846		163	<b>112,846</b>
Hedging derivatives	11,302	68,867	80,409	21,101		<b>181,679</b>
Payables — credit institutions	5,401,659	508,219	100,000	159,882		<b>6,169,760</b>
Payables — customers	145,148,748	1,337,142	4,399,111	183,470		<b>151,068,471</b>
Debt securities	3,982,317	541,083				<b>4,523,400</b>
Subordinated debt			2,003	1,234,276		<b>1,236,279</b>
	<b>154,591,636</b>	<b>2,514,538</b>	<b>4,587,369</b>	<b>1,598,729</b>	<b>163</b>	

## BREAKDOWN OF BALANCE SHEET ITEMS BY RESIDUAL MATURITY AS AT DECEMBER 31<sup>ST</sup> 2009

(€ '000s)	Less than 3 months	Between 3 months and 1 year	1 to 5 years	Over 5 years	Undetermined	Total
<b>ASSETS</b>						
Cash and central banks	3,699,660					<b>3,699,660</b>
Financial assets at fair value through profit and loss	3,370,491	2,841,265	212,794	127,978	28,059	<b>6,580,587</b>
Hedging derivatives			255,482	107,772		<b>363,254</b>
Financial assets available for sale	145,566	1,020,118	8,026,534	822,008	1,226,742	<b>11,240,968</b>
Loans and receivables – credit institutions	69,852,313	643,325	2,522,324	742,832	205,743	<b>73,966,537</b>
Loans and receivables – customers	1,556,620	1,826,373	8,506,990	21,184,822		<b>33,074,805</b>
Revaluation differences on interest rate risk hedged portfolios					94,944	<b>94,944</b>
Financial assets held to maturity	766,652	3,761,169	16,573,306	13,525,495		<b>34,626,622</b>
	<b>79,391,302</b>	<b>10,092,250</b>	<b>36,097,430</b>	<b>36,510,907</b>	<b>1,555,488</b>	
<b>LIABILITIES</b>						
Financial liabilities at fair value through profit and loss	4,178	27,035	227,395	129,620		<b>388,228</b>
Hedging derivatives			218,095			<b>218,095</b>
Payables – credit institutions	3,903,424	1,409,974	100,037		205,393	<b>5,618,828</b>
Payables – customers	145,314,990	1,025,263	3,164,590	326,103		<b>149,830,946</b>
Debt securities	3,590,055	216,844				<b>3,806,899</b>
Subordinated debt	229	3	2,000	500,000		<b>502,232</b>
	<b>152,812,876</b>	<b>2,679,119</b>	<b>3,712,117</b>	<b>955,723</b>	<b>205,393</b>	

# Note 4

## Notes to the profit and loss statement

### 4.1 Interest income and expense and similar items

(€ '000s)	12.31.10		12.31.09	
	Income	Expense	Income	Expense
Interest income/(expense) and similar on cash and inter-bank transactions	1,910,876	(45,500)	2,346,828	(85,719)
Interest interest/(expense) and similar on customer transactions	1,493,589	(1,920,051)	1,348,384	(2,327,106)
Interest income/(expense) on hedging transactions	72,201	(205,540)	123,625	(138,988)
Interest income/(expense) on assets available for sale and held to maturity	1,633,326		1,699,781	
Interest expense on securitised debt		(26,604)		(55,561)
<b>Interest income and expense</b>	<b>5,109,992</b>	<b>(2,197,695)</b>	<b>5,518,618</b>	<b>(2,607,374)</b>
<b>Net interest income and expense</b>	<b>2,912,297</b>		<b>2,911,244</b>	

Interest income received in respect of the transfer of the Livret A and Sustainable Development savings accounts amounted to 1,555 million as at December 31<sup>st</sup> 2010.

### 4.2 Commissions

(€ '000s)	12.31.10		12.31.09	
	Income	Expense	Income	Expense
Commissions on cash and inter-bank transactions	396	(1,009)	306	(63)
Commissions on customer transactions	1,249,555	(65,027)	1,113,976	(63,075)
Commissions on financial services	544,486	(164,893)	546,193	(145,320)
Commissions on securities transactions	261,746	(2,315)	229,802	(3,736)
Commissions on insurance services	32,917	(3,358)	31,051	(2,379)
Commissions on financial instruments	204	(489)	50	(476)
Other commissions	12,197		10,818	
<b>Commission income and expense</b>	<b>2,101,501</b>	<b>(237,091)</b>	<b>1,932,196</b>	<b>(215,049)</b>
<b>Net commissions</b>	<b>1,864,410</b>		<b>1,717,147</b>	

## 4.3 Net gains and losses on financial instruments at fair value through profit and loss

(€ '000s)	12.31.10	12.31.09
Net income from financial instrument held for trading (excluding derivatives)	72,571	115,420
Net income from trading derivatives	197,736	51,762
Net income from the revaluation of hedged items and hedge derivatives	2,782	(12,306)
Net income from financial assets designated at fair value through profit and loss	4,673	5,468
Net income on financial liabilities designated at fair value through profit and loss	(8,295)	(489)
<b>Net gains and losses on financial instruments at fair value through profit and loss</b>	<b>269,467</b>	<b>159,855</b>

## 4.4 Net gains and losses on assets available for sale

(€ '000s)	12.31.10	12.31.09
Gains on disposals of fixed-income securities	161,351	203,142
Losses on disposals of fixed-income securities	(21,527)	(110,217)
Dividends and similar income	23,289	30,716
Gains on disposals of variable-rate securities	20,035	45,839
Losses on disposals of variable-rate securities and loss of value	(8,738)	(4,588)
Net gains and losses on break clauses for loans and receivables	(14,315)	(2,843)
<b>Net gains and losses on assets available for sale</b>	<b>160,095</b>	<b>162,049</b>

## 4.5 Income and expense from other activities

(€ '000s)	12.31.10		12.31.09	
	Income	Expense	Income	Expense
Income paid-out, re-invoiced expenses and transfers of expenses	24,702		31,694	
Other sundry operating income and expenses	456,376	(541,691)	260,477	(283,753)
Insurance income and expense	192,086	(129,202)	171,754	(117,986)
Provisions and other operating expenses	12,108	(5,357)	16,062	(9,629)
<b>Income and expense from other activities</b>	<b>685,272</b>	<b>(676,250)</b>	<b>479,987</b>	<b>(411,368)</b>
<b>Net income and expense from other activities</b>	<b>9,022</b>		<b>68,619</b>	

Other sundry operating income and expenses include €9.164 million in income from foreign exchange. The figure also includes the following items:



## PROCEEDINGS BEFORE THE FRENCH COMPETITION AUTHORITY CONCERNING THE CHEQUE IMAGE EXCHANGE COMMISSION

Like other banks, La Banque Postale automatically appealed to the French Competition Authority concerning the competition rules for the rates charged by banking institutions for the handling of cheques presented to them and their transfer through cheque imaging systems.

The Authority returned an unfavourable verdict and set out a penalty amount payable by all banks, depending on the amount of commission generated by this business. The fine paid by La Banque Postale amounted to €33 million. This verdict is the subject of an appeal before the Paris Court of Appeal.

## EXCEPTIONAL CONTRIBUTION TO THE DEPOSIT GUARANTEE FUND

An exceptional contribution to the Deposit Guarantee Fund was introduced by the decree of September 29<sup>th</sup> 2010, in order to fund the increase in the guarantee ceiling for the funds deposited by account-holders. This contribution is payable in three instalments, in 2010, 2011 and 2012. The amount requested in 2010, together with the next two requests, was recorded as a total expense of €25 million on December 31<sup>st</sup> 2010.

## 4.6 General operating expenses

(€ '000s)	12.31.10	12.31.09
<b>Personnel expense</b>	<b>(273,980)</b>	<b>(224,906)</b>
Taxes and levies	(40,857)	(101,661)
External services	(3,820,988)	(3,762,356)
Other expenses	(163,021)	(135,715)
<b>Other general operating expenses</b>	<b>(4,024,866)</b>	<b>(3,999,732)</b>
<b>General operating expenses</b>	<b>(4,298,846)</b>	<b>(4,224,638)</b>

General sub-contracting expenses mainly include expenses of €3,188 million relating to the service agreements between La Poste and La Banque Postale as at December 31<sup>st</sup> 2010.

These expenses amounted to €3,197 million as at December 31<sup>st</sup> 2009.

## 4.7 Cost of risk

(€ '000s)	12.31.10	12.31.09
Impairments on customer accounts	(68,582)	(48,386)
Reversal of impairments on customer accounts	40,795	27,924
Losses on unrecoverable impaired receivables	(60,720)	(24,048)
Losses on unrecoverable unimpaired receivables	(21,586)	(15,888)
Recovery of amortised receivables	4,455	4,248
Impairments on assets available for sale and other assets		(808)
Reversal of impairments on assets available for sale and other assets	46,035	9,889
Other impairments and reversals	(281)	(4,501)
<b>Cost of risk</b>	<b>(59,884)</b>	<b>(51,570)</b>

## 4.8 Gains and losses on other assets

(€ '000s)	12.31.10	12.31.09
Gains and losses on disposals of intangible and tangible fixed assets	2,221	(3,190)
Gains and losses on disposals of consolidated investments	105	1,395
<b>Gains and losses on other assets</b>	<b>2,326</b>	<b>(1,795)</b>

## 4.9 Income tax and deferred taxes

(€ '000s)	12.31.10	12.31.09
Current taxes	(265,108)	(227,687)
Deferred taxes	(10,732)	6,779
<b>Income taxes</b>	<b>(275,840)</b>	<b>(220,908)</b>

### BREAKDOWN OF THE TAX CHARGE

(€ '000s)	12.31.10		12.31.09	
<b>Net profit, Group share</b>	<b>651,317</b>		<b>587,593</b>	
Minority interests.	(10,431)		105	
Income from equity associates	(194,949)		(185,792)	
Tax charge	275,840		220,908	
<b>Accounting income before tax</b>	<b>721,777</b>		<b>622,814</b>	
<b>Theoretical tax charge</b>	<b>(248,508)</b>	<b>-34.43%</b>	<b>(214,435)</b>	<b>-34.43%</b>
Impact of permanent timing differences	(14,351)	-1.99%	(5,782)	-0.93%
Impact of tax rates (reduced tax rate transactions)	(869)	-0.12%	453	0.07%
Impact of dividend taxation	(2,702)	-0.37%	746	0.12%
Other impacts	(9,410)	-1.30%	(1,890)	-0.30%
<b>Recognised tax charge</b>	<b>(275,840)</b>	<b>-38.22%</b>	<b>(220,908)</b>	<b>-35.47%</b>

The other effects consist mainly of unused tax losses carried forward for the period.

# Note 5

## Commitments granted and received

### CONTRACTUAL VALUE OF COMMITMENTS GRANTED AND RECEIVED

(€ '000s)	12.31.10	12.31.09
<b>FINANCING COMMITMENTS, GUARANTEES AND COMMITMENTS GRANTED ON SECURITIES</b>		
<b>Financing commitments</b>		
to credit institutions	36,365	9,805
to customers	11,860,072	8,065,078
<b>Guarantees</b>		
to credit institutions	297,571	265,230
to customers	2,309,035	
<b>Commitments on securities</b>		
Securities to deliver	4,466	4,573
<b>FINANCING COMMITMENTS, GUARANTEES AND COMMITMENTS RECEIVED ON SECURITIES</b>		
<b>Financing commitments</b>		
from credit institutions	3,162,287	4,138,304
from customers		
<b>Guarantees</b>		
from credit institutions	18,775,356	16,122,377
<b>Commitments on securities</b>		
Securities to receive	296	64,573
<b>OTHER COMMITMENTS GIVEN AND RECEIVED</b>		
Other commitments given	3,214,051	4,221,118
<b>COMMITMENTS GIVEN AND RECEIVED</b>		

### CRÉDIT LOGEMENT COMMITMENT

La Poste, and following the transfer of assets La Banque Postale, has committed to maintain Crédit Logement's basic equity capital at a level equivalent to their holding in the company, i.e. 6%, so that the company can maintain its solvency ratio. This commitment has led La Banque Postale to underwrite the company's B securities equity commitments through its SF2 subsidiary. Furthermore, La Poste, and henceforth La Banque Postale, has undertaken to replenish Crédit Logement's

mutual guarantee funds, which underwrite borrower defaults on loans secured by the company. This commitment, which is equivalent to the portion of loans granted by La Banque Postale, amounted to €297,571 million as at December 31<sup>st</sup> 2010.

(1) Including the capital and performance guarantees granted to holders of UCITS units issued by Group entities.

# Note 6

## Fair value of balance sheet items

### 6.1 Fair value of balance sheet items recognised at amortised cost

The table below shows the fair value of balance sheet items recognised at amortised cost.

(€ '000s)	12.31.10		12.31.09	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>ASSETS</b>				
Loans and receivables – credit institutions	73,493,943	73,543,988	73,966,537	74,097,664
Loans and receivables – customers	39,213,820	41,263,551	33,074,805	34,631,521
Financial assets held to maturity	37,413,191	38,371,006	34,626,622	35,981,860
<b>LIABILITIES</b>				
Payables – credit institutions	6,169,760	5,911,690	5,618,828	5,635,227
Payables – customers	151,068,471	151,098,439	149,830,946	149,736,002
Debt securities	4,523,400	4,522,809	3,806,899	3,806,530
Subordinated debt	1,236,279	1,201,177	502,232	447,459

#### FAIR VALUE OF LOANS

The scope selected includes all loans drawn on La Banque Postale and shown on its balance sheet. Loans that have been granted but not yet released are not taken into account, as it is assumed that, since their rate has just been fixed, their value will not be different from the amount advanced.

The main underlying assumptions for the calculation of the three types of loan marketed by the Bank are the following:

- the fair value of overdrafts on overnight accounts is assumed to correspond to the accounting value. This seems a conservative assumption given the interest rate charged to customers (12%) and the very short length of the loans (less than a month);
- loans to La Poste employees: the fair value of these loans is calculated by determining their net present value without making any early repayment assumptions (no established track record);
- for home loans to individuals, fair value is calculated by determining the net present value of the loans, taking structural early repayments into account.

#### FAIR VALUE OF DEPOSITS

The main underlying assumptions for the calculation are as follows:

- for deposits where the remuneration rate is regulated, Livret B accounts, savings accounts for young people, national savings accounts and term deposits, fair value is assumed to correspond to the net book value of the amount outstanding;
- the fair value of overnight deposits is assumed to correspond to the net book value of the amount outstanding, net of the fair cost value of the swaps used to hedge overnight deposits (via the carve-out option).

#### HELD OR ISSUED DEBT INSTRUMENTS

The fair value of listed financial instruments corresponds to the closing price. The fair value of unlisted financial instruments is determined using valuation techniques based on market rates.

## 6.2 Ranking of the financial assets and liabilities recognised on the balance sheet by fair value

### FINANCIAL ASSETS

	12.31.2010			12.31.2009		
	Value determined using listed prices on an active market (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Value determined using listed prices on an active market (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)
(€ '000s)						
Treasury notes and similar securities	51,537			104,903		
Bonds and other fixed-income securities	1,231,005	2,803,176		155,650	5,898,541	
Equities and other variable-rate securities	67,658			11,699	26,345	
<b>Financial assets at fair value through profit and loss</b>	<b>1,350,200</b>	<b>2,803,176</b>		<b>272,252</b>	<b>5,924,886</b>	
Equities and other variable-rate securities				15,852		
<b>Financial assets at fair value option through profit and loss</b>				<b>15,852</b>		
Interest rate derivatives		95,544			337,753	
Exchange rate derivatives		11,004			5,886	
Equity and equity-index derivatives		10,723			23,958	
<b>Transaction derivatives</b>		<b>117,271</b>			<b>367,597</b>	
Interest rate derivatives		236,358			268,345	
<b>Fair value hedge derivatives</b>		<b>236,358</b>			<b>268,345</b>	
Interest rate derivatives		98,384			94,909	
<b>Cash flow hedge derivatives</b>		<b>98,384</b>			<b>94,909</b>	
Treasury notes and similar securities	2,592,800	6,117		3,602,696	29,891	
Bonds and other fixed-income securities	5,691,330	403,189		5,396,767	941,133	
Equities and other variable-rate securities	1,120,901	7,020		1,069,833	49,032	
Non-consolidated equity investments		114,937	30,447	17,853	95,555	38,208
<b>Financial assets available for sale</b>	<b>9,405,031</b>	<b>531,263</b>	<b>30,447</b>	<b>10,087,149</b>	<b>1,115,611</b>	<b>38,208</b>

Transfers from Level 1 to Level 2: €150,889 million.

Transfers from Level 2 to Level 1: €262,620 million.

## FINANCIAL LIABILITIES

	12.31.2010			12.31.2009		
	Value determined using listed prices on an active market (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Value determined using listed prices on an active market (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)
(€ '000s)						
Debt securities		5,718			5,489	
<b>Financial liabilities at fair value option through profit and loss</b>		<b>5,718</b>			<b>5,489</b>	
Interest rate derivatives		83,559			346,590	
Exchange rate derivatives		9,591			346	
Other derivative instruments		12,933			13,375	
Equity and equity-index derivatives		1,045			22,428	
<b>Derivative hedge instruments</b>		<b>107,128</b>			<b>382,739</b>	
Interest rate derivatives		181,679			218,095	
<b>Fair value hedge derivatives</b>		<b>181,679</b>			<b>218,095</b>	

Transfers from Level 1 to Level 2: nil.

Transfers from Level 2 to Level 1: nil.



### LEVEL 3 FAIR VALUE VALUATIONS: RECONCILIATION OF OPENING AND CLOSING BALANCES

	12.31.10					
(€ '000s)	Financial assets at fair value through profit and loss	Financial assets at fair value option through profit and loss	Transaction derivatives	Hedging derivatives	Financial assets available for sale	Total
Opening					38,208	38,208
Total gains and losses recognised in profit and loss						0
Total gains and losses recognised in equity capital						0
Purchases					861	861
Sales					(2,018)	(2,018)
Issuance						0
Repayments						0
Other movements					0	0
Transfers from the Level 3 category					(16,156)	(16,156)
Closing balance					20,895	20,895
Total gains and losses recognised in profit and loss for assets held as at 12.31.2010						

### LEVEL 3 FAIR VALUE VALUATIONS: GAINS AND LOSSES FOR THE PERIOD RECOGNISED IN PROFIT AND LOSS

Nil.

## Note 7 Reclassification of financial assets

The Group has made use of the option provided by the October 13<sup>th</sup> 2008 amendment to IAS 39 and IFRS 7 to reclassify certain financial assets available for sale in Loans and receivables. The transfer of a portion of the securities held in the assets available for sale portfolio that no longer displayed the expected liquidity to the loans and receivables portfolio enables the perception of the way the Bank allocates its resources in the financial statements to be improved.

These reclassifications were carried out at fair value on July 1<sup>st</sup> 2008.

There were no reclassifications during 2009 and 2010 financial years.

## AMOUNTS RECLASSIFIED

	12.31.2010		12.31.2009		Fair value as at 07.01.2008
	Balance sheet amount	Fair value	Balance sheet amount	Fair value	
(€ '000s)					
Assets available for sale reclassified in "Loans and receivables"	425,971	425,354	1,513,683	1,628,155	2,485,327

## AMOUNTS RECOGNISED IN PROFIT AND LOSS AND EQUITY CAPITAL IN RESPECT OF RECLASSIFIED ASSETS (BEFORE TAX)

	12.31.10		12.31.09	
	Net profit	Equity capital	Net profit	Equity capital
(€ '000s)				
<b>Assets available for sale reclassified in "Loans and receivables"</b>				
Interest expense and similar on cash and inter-bank transactions	7,893		42,243	
Impairment				
Unrealised gains and losses on assets available for sale				

## AMOUNTS THAT WOULD HAVE BEEN RECOGNISED IN PROFIT AND LOSS AND EQUITY CAPITAL IF THE ASSETS HAD NOT BEEN RECLASSIFIED (BEFORE TAX)

	12.31.10		12.31.09	
	Net profit	Equity capital	Net profit	Equity capital
(€ '000s)				
<b>Assets available for sale reclassified in "Loans and receivables"</b>				
Impairment				
Unrealised gains and losses on assets available for sale		(5,789)		(25,902)

# Note 8

## Segment information

The La Banque Postale Group is structured around the following divisions:

- **Retail Banking**, which includes La Banque Postale's business activities, SCI CRSF Métropole and CRSF Dom, the limited property investment partnerships that own the Bank's business premises, La Banque Postale Financement and the SF2 holding company;
- **The insurance division** consists of the CNP Assurances Group, La Banque Postale Prévoyance, EF Primo, La Banque Postale Assurances IARD, La Banque Postale Conseil en Assurances and Sopassure.

- **Asset management**, which includes the La Banque Postale Asset Management Group, La Banque Postale Structured Asset Management, OFC Finance, Tocqueville Finance Holding, Tocqueville Finance SA and La Banque Postale Gestion Privée.

Except for CNP Assurances' foreign subsidiaries, the Group conducts its business activities in France.

Inter-segment and intra-segment transactions are performed under commercial market conditions.

## 8.1 Breakdown of results by business segment

### 8.1.1 Net banking income by business segment as at December 31<sup>st</sup> 2010

(€ '000s)	Retail banking		Insurance		Asset management	
	External activities	Inter-segment activities	External activities	Inter-segment activities	External activities	Inter-segment activities
Interest and similar income	5,107,124	300	2,868			121
Interest and similar expense	(2,197,685)	(113)	(9)	(17)	(1)	(291)
Commissions (income)	1,810,403	154,925	32,917	5,938	258,181	12,966
Commissions (expense)	(205,423)	(16,208)	(3,864)	(38,621)	(27,804)	(119,000)
Net gains and losses on financial instruments at fair value through profit and loss	267,522		1,944		1	
Gains and losses on assets available for sale	143,854		13,286		2,955	
Income and expense from other activities	(55,851)	355	64,063	(51)	810	(304)
<b>Internal &amp; external net banking income</b>	<b>4,869,944</b>	<b>139,259</b>	<b>111,205</b>	<b>(32,751)</b>	<b>234,142</b>	<b>(106,508)</b>
<b>Net banking income by segment</b>	<b>5,009,203</b>		<b>78,454</b>		<b>127,634</b>	
<b>Net banking income</b>			<b>5,215,291</b>			

### 8.1.2 Net banking income by business segment as at December 31<sup>st</sup> 2009

(€ '000s)	Retail banking		Insurance		Asset management	
	External activities	Inter-segment activities	External activities	Inter-segment activities	External activities	Inter-segment activities
Interest and similar income	5,517,239	(41)	1,379			84
Interest and similar expense	(2,606,685)	(19)	(184)	(1)	(505)	(23)
Commissions (income)	1,679,740	149,674	31,034	5,399	221,422	5,146
Commissions (expense)	(196,649)	(8,430)	(2,816)	(32,602)	(15,584)	(119,187)
Net gains and losses on financial instruments at fair value through profit and loss	158,202		1,651		2	
Gains and losses on assets available for sale	145,734		14,677		1,638	
Income and expense from other activities	14,456	368	53,777	170	386	(538)
<b>Internal &amp; external net banking income</b>	<b>4,712,037</b>	<b>141,552</b>	<b>99,518</b>	<b>(27,034)</b>	<b>207,359</b>	<b>(114,518)</b>
<b>Net banking income by segment</b>	<b>4,853,589</b>		<b>72,484</b>		<b>92,841</b>	
<b>Net banking income</b>			<b>5,018,914</b>			

### 8.1.3 Net profit by business segment as at December 31<sup>st</sup> 2010 (excluding the remuneration cost of equity capital for each segment)

(€ '000s)	Retail banking	Insurance	Asset management	Consolidated net profit
<b>Net banking income</b>	<b>5,009,203</b>	<b>78,454</b>	<b>127,634</b>	<b>5,215,291</b>
General operating expenses	(4,194,772)	(30,104)	(73,970)	(4,298,846)
Net depreciation, amortisation and impairments to tangible and intangible fixed assets	(134,678)	(1,117)	(1,315)	(137,110)
<b>Gross operating profit</b>	<b>679,753</b>	<b>47,233</b>	<b>52,349</b>	<b>779,335</b>
Cost of risk	(59,884)			(59,884)
<b>Operating profit</b>	<b>619,869</b>	<b>47,233</b>	<b>52,349</b>	<b>719,451</b>
Share profits in associates		194,949		194,949
Gains and losses on other assets	2,466	(80)	(60)	2,326
<b>Pre-tax current profit</b>	<b>622,335</b>	<b>242,102</b>	<b>52,289</b>	<b>916,726</b>
Income tax	(236,473)	(22,359)	(17,008)	(275,840)
<b>Group net profit</b>	<b>385,862</b>	<b>219,743</b>	<b>35,281</b>	<b>640,886</b>
Minority interests	(10,092)	(4,040)	3,701	(10,431)
<b>Net profit, attributable to equity holders of parent</b>	<b>395,954</b>	<b>223,783</b>	<b>31,580</b>	<b>651,317</b>

### 8.1.4 Net profit by business segment as at December 31<sup>st</sup> 2009 (excluding the remuneration cost of equity capital for each segment)

(€ '000s)	Retail banking	Insurance	Asset management	Consolidated net profit
<b>Net banking income</b>	<b>4,853,589</b>	<b>72,484</b>	<b>92,841</b>	<b>5,018,914</b>
General operating expenses	(4,148,026)	(20,631)	(55,981)	(4,224,638)
Net depreciation, amortisation and impairments to tangible and intangible fixed assets	(119,271)	(83)	1,257	(118,097)
<b>Gross operating profit</b>	<b>586,292</b>	<b>51,770</b>	<b>38,117</b>	<b>676,179</b>
Cost of risk	(51,059)	(701)	190	(51,570)
<b>Operating profit</b>	<b>535,233</b>	<b>51,069</b>	<b>38,307</b>	<b>624,609</b>
Share profits in associates		185,792		185,792
Gains and losses on other assets	642	(2)	(2,435)	(1,795)
<b>Pre-tax current profit</b>	<b>535,875</b>	<b>236,859</b>	<b>35,872</b>	<b>808,606</b>
Income tax	(191,187)	(17,471)	(12,250)	(220,908)
<b>Group net profit</b>	<b>344,688</b>	<b>219,388</b>	<b>23,622</b>	<b>587,698</b>
Minority interests	(174)	(8)	287	105
<b>Net profit, attributable to equity holders of parent</b>	<b>344,862</b>	<b>219,396</b>	<b>23,335</b>	<b>587,593</b>

## 8.2 Balance sheet items by business segment

### 8.2.1 Balance sheet items by business segment as at December 31<sup>st</sup> 2010

(€ '000s)	Retail banking	Insurance	Asset management	Intra-Group and Intra- segment	TOTAL
Cash and central banks	2,149,998				2,149,998
Financial assets at fair value through profit and loss	4,208,537	62,110			4,270,647
Hedging derivative	334,742				334,742
Financial assets available for sale <sup>(1)</sup>	10,727,756	494,345	92,267	(1,347,627)	9,966,741
Loans and receivables	112,726,052	4,573	13,356	(36,218)	112,707,763
Investments in associates		1,961,425			1,961,425
<b>Segment assets</b>					
Financial liabilities at fair value through profit and loss	112,846				112,846
Hedging derivative	181,679				181,679
Inter-bank transactions and similar: Payables – credit institutions	6,163,347	6,007	134	272	6,169,760
Customer transactions	151,084,994		19,967	(36,490)	151,068,471
Debt securities	4,523,400				4,523,400
<b>Segment liabilities</b>					

### 8.2.2 Balance sheet items by business segment as at December 31<sup>st</sup> 2009

(€ '000s)	Retail banking	Insurance	Asset management	Intra-Group and Intra- segment	TOTAL
Cash and central banks	3,699,660				3,699,660
Financial assets at fair value through profit and loss	6,550,710	29,370	507		6,580,587
Hedging derivative	363,254				363,254
Financial assets available for sale <sup>(1)</sup>	12,063,796	434,247	83,025	(1,340,100)	11,240,968
Loans and receivables	107,056,738	7,157	7,420	(29,973)	107,041,342
Investments in associates		1,864,045			1,864,045
<b>Segment assets</b>					
Financial liabilities at fair value through profit and loss	388,228				388,228
Hedging derivative	218,095				218,095
Inter-bank transactions and similar: Payables – credit institutions	5,618,830	112,021	1	(112,024)	5,618,828
Customer transactions	149,836,194	1,751	19,720	(26,719)	149,830,946
Debt securities	3,806,899				3,806,899
<b>Segment liabilities</b>					

(1) The amount has been restated compared with the presentation in the 2009 annual report.

# Note 9

## Related parties disclosures

The parties related to La Banque Postale include the main directors of the La Poste Group and the companies consolidated by that Group, wholly or jointly controlled subsidiaries and companies on which the Group has a significant influence.

La Banque Postale is an entity controlled by the La Poste Group.

### 9.1 Relationships between consolidated entities

As transactions between La Banque Postale's fully consolidated entities are eliminated on consolidation, the data provided below refers only to reciprocal transactions with companies

over which the Group exercises joint control in respect of those activities not eliminated on consolidation and to those companies over which it exercises a material influence.

(€ '000s)	12.31.10			12.31.09		
	With La Poste Group entities <sup>(1)</sup>	With La Banque Postale Group entities		With La Poste Group entities <sup>(1)</sup>	With La Banque Postale Group entities	
		Proportional consolidation	Equity method		Proportional consolidation	Equity method
Interest income and expense	58			131		
Commissions	11,266	38,621	515,010	10,267	32,585	445,683
Net income from other activities	9,102	6		14,225	6	
<b>NBI items shared with related entities</b>	<b>20,426</b>	<b>38,627</b>	<b>515,010</b>	<b>24,623</b>	<b>32,591</b>	<b>445,683</b>
Loans	19,708			23,637		
Other financial assets						
Other assets	139,760	14,226	356,206	93,328	11,850	319,744
<b>Total assets with related entities</b>	<b>159,468</b>	<b>14,226</b>	<b>356,206</b>	<b>116,965</b>	<b>11,850</b>	<b>319,744</b>
Debt	25,047	17	20,516	22,594	5	25,984
Other financial liabilities						
Other liabilities	50,060			216,568		
<b>Total liabilities outstanding with related entities</b>	<b>75,107</b>	<b>17</b>	<b>20,516</b>	<b>239,162</b>	<b>5</b>	<b>25,984</b>
Commitments granted	500,000			500,000		
Commitments received						
<b>Total commitments with related entities</b>	<b>500,000</b>	<b>-</b>	<b>-</b>	<b>500,000</b>	<b>-</b>	<b>-</b>

(1) These are almost entirely transactions with La Poste.

## 9.2 Directors' compensation

The Group treats members of the Executive Board and the members of the Executive Committee as related parties according to the meaning of IAS 24.

Executive Board members receive a fixed annual compensation amount. This fixed annual compensation may be supplemented by a capped annual variable element, for which calculation methods were not changed in 2010. In addition, Executive Board members may receive a three-year long-term variable element.

Executive Board members also benefit from membership of a scheme to cover their health and welfare expenses.

Executive Board members are eligible for a severance payment in the event that their appointment is terminated. The terms and conditions for determining that severance payment are set out in Part I of the financial report ("Corporate governance and internal control").

The total gross compensation paid to members of the Executive Board amounted to €1,125,000 as at December 31<sup>st</sup> 2010

and to €899,000 for the 2009 financial year. A breakdown of the compensation paid is shown in paragraph 1.3.2.2 of the financial report.

Compensation paid to members of the Executive Committee other than members of the Executive Board, is detailed below:

(€ '000s)	2010	2009
Compensation and benefits in kind	3,578	3,488
Post-employment benefits	553	450
<b>Total</b>	<b>4,131</b>	<b>3,938</b>

These items may be supplemented by severance payments in the event that their appointments at La Banque Postale are terminated.

## Note 10 Statutory Auditors' fees

(€ '000s)	PricewaterhouseCoopers Audit		Mazars		KPMG	
	Amount	%	Amount	%	Amount	%
<b>Statutory audit duties, review of the individual and consolidated financial statements</b>	<b>528</b>	<b>100%</b>	<b>745</b>	<b>88%</b>	<b>191</b>	<b>96%</b>
Parent company	397	75%	546	65%	191	96%
Fully consolidated subsidiaries	131	25%	199	24%		0%
<b>Other services relating directly to the Statutory Auditors' remit</b>			<b>7</b>	<b>1%</b>	<b>0</b>	
Parent company						
Fully consolidated subsidiaries			7	1%		
<b>Other services</b>			<b>91</b>	<b>11%</b>	<b>8</b>	<b>4%</b>
<b>Total</b>	<b>528</b>	<b>100%</b>	<b>843</b>	<b>100%</b>	<b>199</b>	<b>100%</b>

## Note 11 Post-balance sheet events

There were no major post-balance sheet events to report.



# Note 12

## Scope of consolidation

COMPANY	Nationality	Method <sup>(1)</sup>	Mouvements	% Control 2010	% held in 2010	% Control 2009	% held in 2009
<b>Retail banking</b>							
LA BANQUE POSTALE	French	PARENT		100.00	100.00	100.00	100.00
SCI CRSF DOM <sup>(2)</sup>	French	FULL		99.94	99.94	99.94	99.94
SCI CRSF MÉTROPOLE <sup>(2)</sup>	French	FULL		100.00	100.00	100.00	100.00
SF2	French	FULL		100.00	100.00	100.00	100.00
LA BANQUE POSTALE FINANCEMENT	French	FULL		65.00	65.00	65.00	65.00
<b>Insurance</b>							
CNP ASSURANCES GROUP	French	EQ. METH.		35.48	19.71	35.48	19.71
LA BANQUE POSTALE PRÉVOYANCE	French	PROP.		50.00	50.00	50.00	50.00
LA BANQUE POSTALE CONSEIL EN ASSURANCES (formerly Sogerco)	French	FULL		100.00	100.00	100.00	100.00
SOPASSURE	French	PROP.		50.02	50.02	50.02	50.02
LA BANQUE POSTALE ASSURANCES IARD	French	FULL	Dilution	65.00	65.00	68.68	68.68
EF PRIMO	French	FULL	Dilution	76.29	76.29	100.00	100.00
<b>Asset management</b>							
LA BANQUE POSTALE GESTION PRIVÉE	French	FULL		51.00	51.00	51.00	51.00
LA BANQUE POSTALE ASSET MANAGEMENT	French	FULL		100.00	100.00	100.00	100.00
LA BANQUE POSTALE STRUCTURED ASSET MANAGEMENT	French	FULL		100.00	100.00	100.00	100.00
OFC FINANCE	French	FULL		100.00	100.00	100.00	100.00
TOCQUEVILLE FINANCE HOLDING	French	FULL	Full acquisition	75.17	75.17	70.00	70.00
TOCQUEVILLE FINANCE SA	French	FULL	Full acquisition	99.81	75.03	99.78	69.85

(1) Consolidation methods:  
 FULL: full consolidation.  
 PROP.: proportional consolidation.  
 EQ. METH.: equity method.

(2) Limited property investment partnerships that own the Bank's business premises.

## 4.1.6 Statutory Auditors' report on the consolidated financial statements

### STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

**For the year ended 31 December 2010**

*This is a free translation into English of the statutory auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English speaking users.*

*The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.*

*This report also includes information relating to the specific verification of information given in the Group's management report and the documents dressed to shareholders.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

#### LA BANQUE POSTALE

Registered offices: 115, rue de Sèvres - 75275 Paris Cedex 06

Share capital: €2,342,454,090

To the Shareholders

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended 31 December 2010, on:

- the audit of the accompanying consolidated financial statements of La Banque Postale,
- the justification of our assessments,
- the specific verification required by law.

These consolidated financial statements have been approved by the Boards of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

#### 1. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2010 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### 2. Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (*code de commerce*) relating to the justification of our assessments, we bring to your attention the following items:

##### *Impairments related to available-for-sales assets*

Your firm recognizes impairments on available-for-sale financial assets:

- for equity instruments, whenever there is objective evidence of significant or prolonged impairment in the value of these assets (notes 1.5.2.4 and 3.7 to the consolidated financial statements),
- for debt instruments, whenever there is a known counterparty risk.

We have reviewed the control procedures relating to the identification of evidence of impairment, valuation of most significant items, and estimates leading, where applicable, to the recognition of impairment losses.

*Impairments related to credit risks*

Your firm records specific impairments to cover the credit risks inherent to its activities (notes 1.5.2.1, 3.7 and 4.7 to the consolidated financial statements). We examined the system used to impairment procedures, monitoring of credit risks, evaluation of the risk of non-collection and the level of credit risk cover provided by specific and collective provisions.

*Provisions for home savings products*

Your group records specific impairment to cover the risk inherent to its home savings contracts (notes 1.5.4 and 3.20 to the consolidated financial statements). We examined the control procedures used to reviewing the models and the determination of the parameters used.

*Other provisions*

Based on available elements, our appreciation of provisions (notes 1.5.5 and 3.20 to the consolidated financial statements) is established on the analysis of the processes set up by your company to identify and estimate the risk.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### 3. Specific verification

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

*Paris La Défense, Neuilly-sur-Seine and Courbevoie, on 23 March 2011*

**The statutory auditors  
French original signed by**

**KPMG AUDIT**  
**(A DIVISION OF KPMG SA)**  
Isabelle GOALEC

**PRICEWATERHOUSECOOPERS**  
**AUDIT**  
Catherine PARISET

**MAZARS**  
Pierre MASIERI  
Guy ISIMAT-MIRIN

## 4.2 Parent company financial statements

### 4.2.1 Profit and loss statement as at December 31<sup>st</sup> 2010

(€ '000s)	12.31.2010	12.31.2009
<b>Interest and similar income:</b>		
- Cash and inter-bank transactions	1,855,784	2,327,013
- Customer transactions	1,480,607	1,352,891
- Bonds and other fixed-income securities	2,272,541	1,770,023
- Other interest and similar income	43,788	99,990
<b>Interest and similar expense:</b>		
- Cash and inter-bank transactions	(61,154)	(94,971)
- Customer transactions	(1,825,078)	(2,308,036)
- Bonds and other fixed-income securities	(803,869)	(54,025)
- Other interest and similar expense	(50,972)	(153,230)
<b>Income from variable-rate securities</b>	133,287	125,601
<b>Commissions (income)</b>	1,988,652	1,857,624
<b>Commissions (expense)</b>	(233,389)	(227,733)
<b>Gains and losses on trading portfolio transactions</b>	262,500	165,909
<b>Gains and losses on investment portfolio transactions and similar</b>	91,215	351,931
<b>Other bank operating income</b>	56,373	61,350
<b>Other bank operating expense</b>	(127,182)	(63,513)
<b>NET BANKING INCOME</b>	<b>5,083,103</b>	<b>5,210,823</b>
<b>General operating expenses:</b>		
- Personnel expense	(230,687)	(208,395)
- Other general operating expenses	(3,982,097)	(3,983,082)
- Re-invoicing	42,951	15,685
<b>Depreciation, amortisation and impairment of intangible and tangible fixed assets</b>	(121,189)	(109,690)
<b>GROSS OPERATING PROFIT</b>	<b>792,082</b>	<b>925,342</b>
<b>Cost of risk</b>	(58,548)	(49,794)
<b>OPERATING PROFIT</b>	<b>733,534</b>	<b>875,548</b>
<b>Gains and losses on fixed assets</b>	6,665	96
<b>CURRENT PROFIT BEFORE TAX</b>	<b>740,199</b>	<b>875,644</b>
<b>Net exceptional income/(expense)</b>		
<b>Income tax</b>	(226,602)	(277,412)
<b>Allocations to General Banking Risk Funds and regulated provisions</b>	(60)	(24)
<b>NET PARENT COMPANY PROFIT</b>	<b>513,536</b>	<b>598,208</b>
<b>Net parent company earnings per share (in euros)</b>	25.21	29.37

## 4.2.2 Balance sheet as at December 31<sup>st</sup> 2010

(€ '000s)	12.31.2010	12.31.2009
<b>ASSETS</b>		
Cash and central banks	2,149,998	3,699,661
Treasury notes and similar securities	37,285,776	35,735,955
Receivables – credit institutions	73,335,332	72,192,253
Customer transactions	38,378,820	32,929,318
Bonds and other fixed-income securities	13,001,317	15,993,811
Equities and other variable-rate securities	939,138	973,782
Equity investments and other long-term holdings in securities	2,995	13,654
Investments in related companies	1,144,310	1,144,310
Intangible fixed assets	284,651	247,367
Tangible fixed assets	433,764	405,348
Other assets	744,978	831,869
Accruals	2,153,842	4,142,788
<b>TOTAL</b>	<b>169,854,920</b>	<b>168,310,117</b>

(€ '000s)	12.31.2010	12.31.2009
<b>LIABILITIES</b>		
Central banks		
Payables – credit institutions	6,200,470	5,630,623
Customer transactions	150,803,351	149,541,637
Securitised debt	4,528,677	3,812,105
Other liabilities	1,013,511	1,237,348
Accruals	2,138,977	3,929,166
Provisions	320,305	348,187
Subordinated debt	1,255,204	502,232
General Banking Risk Funds (GBRF)	22,000	22,000
Parent company shareholders' equity (excluding GRBF)		
- Share capital	2,342,454	2,342,454
- Share issue and transfer premiums		
- Reserves	376,035	346,065
- Revaluation differences		
- Regulated provisions and investment subsidies	86	85
- Profit/(loss) carried forward	340,314	7
- Net profit/(loss) for the period	513,536	598,208
<b>TOTAL</b>	<b>169,854,920</b>	<b>168,310,117</b>

## 4.2.3 Off-balance sheet items as at December 31<sup>st</sup> 2010

(€'000s)	12.31.2010	12.31.2009
<b>FINANCING COMMITMENTS, GUARANTEES AND COMMITMENTS GIVEN ON SECURITIES</b>		
<b>Financing commitments:</b>		
- to credit institutions	180	195
- to customers	11,859,018	8,065,024
<b>Guarantees:</b>		
- to credit institutions	297,571	265,230
- to customers	2,309,035	1,745,322
<b>Commitments on securities:</b>		
- deliverable securities	5,410	443
<b>Commitments given by insurance companies</b>		
<b>FINANCING COMMITMENTS, GUARANTEES AND COMMITMENTS ON SECURITIES RECEIVED</b>		
<b>Financing commitments:</b>		
- from credit institutions	3,162,287	4,138,304
- from customers		
<b>Guarantees:</b>		
- from credit institutions	18,775,356	16,122,377
- from customers		
<b>Commitments on securities:</b>		
- securities receivable	40,651	65,016

**Crédit Logement commitment:** Following the transfer of assets, La Banque Postale, like La Poste before it, has committed to maintain the Housing Fund's basic equity capital at a level equivalent to its holding in the company, i.e. 6%, so that the Crédit Logement could maintain its solvency ratio. This commitment has led La Banque Postale to subscribe to B share capital commitments through its SF2 subsidiary.

Furthermore, La Banque Postale, like La Poste before it, has undertaken to replenish the Housing Fund's mutual guarantee funds, which underwrite borrower defaults on loans secured by the company. This commitment, which is equivalent to the portion of loans granted by La Banque Postale, amounted to €297,571 million as at December 31<sup>st</sup> 2010.

## 4.2.4 Distribution of profit for 2010

Proposed distribution of profits submitted to the General Meeting.

(in euros)	
Profit for the period	513,536,389,63
Allocation to the legal reserve	(25,676,819,48)
Previous balance carried forward	340,313,791,85
Distributable profit	828,173,362,00

which decided to allocate it as follows:

(in euros)	
to dividends	292,908,607,08
to profits carried forward	535,264,754,92
<b>TOTAL</b>	<b>828,173,362,00</b>

The General Meeting has therefore fixed the dividend at €14.38 per share for each of the 20,369,166 shares that make up the Company's equity capital.

The dividend, which is eligible for the tax rebate scheduled in paragraph 3.2 of article 158-3 of the French General Tax Code, will be paid by June 30<sup>th</sup> 2011 at the latest.

The General Meeting of Shareholders takes note that the following dividends, which are all eligible for the tax rebate scheduled in paragraph 3.2 of article 158-3 of the French General Tax Code, have been paid out in respect of the last three financial years.

Financial year	Number of shares	Amount distributed	Per share
2007	20,369,166	109,382,421	5.37
2008 <sup>(1)</sup>	20,369,166	96,142,463	4.72
2009	20,369,166	264,391,774	12.98

(1) In addition, La Banque Postale made an exceptional distribution from reserves of €163 million in February 2008.

## 4.2.5 Five-year financial summary

(in euros)	2006	2007	2008	2009	2010
<b>FINANCIAL POSITION</b>					
Equity capital	2,342,454,090	2,342,454,090	2,342,454,090	2,342,454,090	2,342,454,090
Number of shares	20,369,166	20,369,166	20,369,166	20,369,166	20,369,166
<b>TOTAL PROFIT</b>					
Revenues <sup>(1)</sup>	7,747,368,226	8,255,396,044	7,519,031,417	8,112,332,556	8,184,746,728
Profit before corporate income tax, depreciation, amortisation and provisions	486,077,343	618,806,196	573,575,958	699,563,397	837,575,850
Income tax	(30,631,279)	(93,195,747)	(11,539,082)	(277,412,282)	(226,602,353)
Profit after income tax, depreciation, amortisation and provisions	324,858,319	364,139,821	81,846,298	598,207,567	513,536,390
Proposed profit for distribution	161,934,870	109,382,421	96,142,464	264,391,775	292,908,607
<b>PROFIT PER SHARE</b>					
Profit after income tax, and before depreciation, amortisation and provisions	22.36	25.80	25.02	20.75	29.99
Profit after income tax, and before depreciation, amortisation and provisions	15.95	17.88	4.02	29.37	25.21
Proposed profit for distribution	7.95	5.37	4.72	12.98	14.38
<b>EMPLOYEES</b>					
Average headcount	1,120	1,249	1,690	1,897	1,980
Payroll expenses	60,817,996	67,160,632	104,503,764	106,643,511	116,788,838
Amounts paid for employee benefits (Social Security, social welfare organizations, etc.)	35,804,599	34,643,556	41,233,187	42,698,513	52,342,513

(1) This figure includes all operating banking income (income from financial transactions are taken at their net amount).



## 4.2.6 Subsidiaries and affiliates as at December 31<sup>st</sup> 2010

	SUBSIDIARIES (INTEREST OF OVER 50%)					
	LA BANQUE POSTALE GESTION PRIVÉE <sup>(1)</sup>	SF2 <sup>(2)</sup>	SCI CRSF MÉTROPOLE <sup>(3)</sup>	SCI CRSF DOM <sup>(4)</sup>	ISSY LBP <sup>(5)</sup>	TRANSACTIS <sup>(6)</sup>
SIREN Number	428 767 941	424 176 238	445 061 369	445 047 442	509 105 979	479 874 257
Equity capital	1,000,000.00	1,053,573,881.10	256,411,996.00	2,333,111.00	40,000.00	4,948,120.00
Reserve and balance carried forward before allocation of profit	4,704,437.81	180,735,123.58	5,649,736	1,479,945	(8,377.40)	(1,988.00)
Interest held (%)	51.00%	100.00%	99.99%	99.94%	99.99%	50.00%
Book value of securities held						
- Gross	388,620.08	1,143,908,525.78	256,391,996.00	2,331,611.00	40,000.00	2,474,062.00
- Net	388,620.08	1,143,908,525.78	256,391,996.00	2,331,611.00	40,000.00	2,474,062.00
Loans and advances granted by the company and not yet repaid	0.00	0.00	0.00	0.00	0.00	
Amount of sureties and guarantees given by the company	-	-	-	-	-	-
Revenues for the previous financial year (excluding tax)	16,234,729.00	83,045.23	ND	ND	ND	NA
Net profit/(loss) for the last financial year	4,367,196.00	130,912,150.00	12,513,401.00	371,205.00	(4,420.82)	NA
Dividends received by the Company in the previous financial year	0.00	123,985,445.20	8,845,523.86	204,984.86	0.00	0.00
Comments	Portfolio management company	Holding company	Property leasing company	Property leasing company	Financial advisory company	Financial services holding company

SUBSIDIARIES (INTEREST OF BETWEEN 10% AND 50%)		
GIE CR CESU <sup>(7)</sup>	SGFGAS <sup>(8)</sup>	EFPRIMO <sup>(9)</sup>
487 708 455	390 818 235	440 165 041
150,000.00	825,015.00	2,492,000.00
		(25,188.40)
16.67%	14.29%	0.50%
25,000.00	140,483.16	12,781.00
25,000.00	140,483.16	12,781.00
0.00	0.00	0.00
-		-
NA	NA	0.00
NA	NA	(16,041.22)
0.00	0.00	0.00
Chèque emploi service universel (General Service Employment Cheque)	Guarantee fund management company	Financial advisors

(1) 115, rue de Sèvres - 75275 Paris Cedex 06

(2) 115, rue de Sèvres - 75275 Paris Cedex 06

(3) 115, rue de Sèvres - 75275 Paris Cedex 06

(4) 115, rue de Sèvres - 75275 Paris Cedex 07

(5) 115, rue de Sèvres - 75275 Paris Cedex 08

(6) 33, places des Corolles - Tour Europe La Défense II - 92400 Courbevoie

(7) 155, avenue Galliéni - 93170 Bagnolet

(8) 13, rue Auber - 75009 Paris

(9) 115, rue de Sèvres - 75275 Paris Cedex 09



# Social and sustainable development policies

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## 5.1 La Banque Postale's extra-financial performance on the four key aspects of its policy

### 5.1.1 The four core aspects of La Banque Postale's extra-financial performance in 2011

As part of its responsible development initiative, La Banque Postale ensures that environmental, social and governance (ESG) criteria are systematically taken into account in its business activities. La Banque Postale has published an appendix known as the New Economic Regulations (NRE) Appendix since 2008, in order to assess its progress in incorporating ESG criteria, and in accordance with Article 116 of the New Economic Regulations (NRE) Act.

In anticipation of the application decree of Article 225 of the Law of July 12<sup>th</sup> 2010 on making a national commitment to the environment, La Banque Postale has gone one step further and is now publishing on a voluntary basis information on four policy aspects that illustrate its extra-financial performance. These aspects, which are at the heart of La Banque Postale's desire to be "a different kind of bank", are as follows:

- access to banking services;
- a responsible product range;
- a responsible customer relationship;
- managing ESG risk.

#### SCOPE OF THE INFORMATION FEEDBACK

The aim of La Banque Postale is to cover the whole area represented by the La Banque Postale Group's business activities, regardless of whether those activities are carried out by the Bank (2,027 employees), within the La Poste Financial Services Division (19,334 employees), the Banking Services Business Line (10,452 employees), or within its subsidiaries.

In 2010, the scope of the social indicators returned by La Banque Postale in response to the NRE Act ranges from "La Banque Postale and the Financial Services Division" (for half the items covered) to "the full range of the Bank's business activities" (for a quarter of the items, compared with one eighth in 2009). Where environmental indicators are concerned, the area covered includes La Banque Postale and the Financial Services Division at the very least (as in 2009). In 2010, some of La Banque Postale's subsidiaries were also included in the report. All of the Bank's subsidiaries will gradually be included in the extra-financial information provided by the La Banque Postale Group in subsequent financial years.

Lastly, the environmental impact of the employees of the Banking Services Business Line in the Post Offices has only been included where vehicle CO<sub>2</sub> emissions are concerned. The remaining environmental impacts are included in the overall impact of the La Poste Network, and are consolidated in the report drawn up by the La Poste Group.

#### METHODOLOGY

In order to measure changes in environmental data, La Banque Postale has re-calculated earlier data, including the data for the benchmark year, if applicable, on the basis of the 2010 scope of consolidation. This methodological approach is recommended by the GHG Protocol.

Moreover, CO<sub>2</sub> emissions are calculated according to the ratios set out in the Bilan Carbone® (Carbon Report) guidelines drafted by the French Environment and Energy Management Agency (ADEME).

Lastly, La Banque Postale has decided only to publish information that has been measured, or estimated, on the basis of verifiable data.

#### Aspect 1: access to banking services

La Banque Postale is the only bank which was granted by the French Economic Modernisation Act of 2008 with a legal duty to provide access to basic financial services: the Bank has an obligation "to open a Livret A savings account for any person who requests one" and to take deposits and allow withdrawals from that account free of charge on amounts over €1.50 (compared with €10.00 for other banks) as well as to allow certain transfers and/or direct debits (social security benefits, EDF bills, etc.).

In addition to this public benefit remit, La Banque Postale has always promoted the access of vulnerable population groups to banking services as a matter of course, including access to:

- a bank account. The Bank offers bank accounts and payment methods that are suited to each customer's situation, including those who cannot use a cheque book, to whom it offers alternative payment methods via the *Initiale* account concept;
- personal micro-loans (*see below*);
- organizations that specialise in helping their customers achieve greater independence in terms of the banking services that they use (*see next page*);

- money transfers. Individuals who do not have a bank account may use postal orders. La Banque Postale acts on behalf of its vulnerable customers by providing them with support, so as to familiarise them with services and means of payment that are better suited to their situation;
- with educational resources that cover savings, managing a budget, etc.

### Personal micro-loans

In order to meet its customers' requirements as closely as possible, especially where personal micro-loans are concerned, La Banque Postale has introduced a system to support its vulnerable customers through local social services referral agencies. This support system has enabled 78 partnerships to be set up.

The number of personal micro-loans granted by La Banque Postale increased by 66% between 2009 and 2010. These micro-loans mostly involve projects focusing on finding employment and job mobility, as well as on housing, education, training and health.

### Combating exclusion from banking services: identifying signs of vulnerability among our customers

La Banque Postale also takes action to prevent its customers becoming vulnerable, by implementing the CAREF (*Coordonnons nos Actions pour Réduire Ensemble la Fragilité*, or *Coordinating our Actions to Reduce Vulnerability Together*) programme. The aim of the project is to co-ordinate the action taken by La Banque Postale and the CCAS (French Central Social Services Activity Fund) social workers. The aim is to identify cases of vulnerability among La Banque Postale customers as early as possible and refer them to a support programme operated by the CCAS.

This process includes two stages, the first of which began in Spring 2009, and is aimed at customers who have recently become financially vulnerable ("vicissitudes of life"). The pilot Financial Centres involved in this first stage are the Orléans, Nantes and Bordeaux Centres.

The process will then be rolled out at a later stage across the whole country during 2011, in order to include customers who have been in vulnerable situations over an extended period.

### The France Terre d'Asile agreement

Following the signing of the first agreement in February 2008, La Poste and France Terre d'Asile, an organization that promotes and protects the right to asylum in France, renewed their partnership in 2010. The aim of this agreement is to improve asylum seekers' and refugees' access to legal aid, through the following undertakings:

- providing asylum seekers with facilities to receive mail or withdraw money, regardless of whether their acknowledgement of a request for asylum is valid or not, as long as the person making the request can be identified;
- providing an exceptional facility for asylum seekers to open a provisional Livret A savings account upon presentation of an acknowledgement of a request for asylum that is currently being processed or of a summons under the Dublin Convention that includes photographs.

This second agreement also complements the first one on the following points:

- increasing the number of documents that individuals can use as proof of identity;
- giving unaccompanied minors and young adults an option to retrieve their mail using a certificate stating that France Terre d'Asile is responsible for them.

### Aspect 2: responsible product range

Every product and service at La Banque Postale includes the Bank characteristic values from the moment they are designed: accessibility, responsibility, performance, diversity and cohesiveness. The aim of this approach is to ensure that La Banque Postale's products and services meet its customers' basic requirements, at rates that are reasonable and in a fully transparent manner. These values form an integral part of the specifications for the Bank's products and services.

### Including the ESG checklist when designing products and services

In June 2009, La Banque Postale's Responsible Development Committee approved the introduction of the *ESG checklist*, a system which ensures environmental, social and governance (ESG) criteria are taken into account. This tool translates the Bank's five founding values (accessibility, responsibility, performance, diversity and cohesiveness) into 19 ESG criteria that are fundamental for La Banque Postale. It also ensures that its products and services comply with these values and include ESG concepts from the moment they are designed, both in the way they are distributed and in the way customers are supported. By December 31<sup>st</sup> 2010, all the Product Managers in the Marketing Department and the Corporate Customers, Local Authorities and Voluntary Organisations Department had received training on the initiative, while the compliance of three quarters of the products and services launched since June 2009 with the ESG checklist had been closely reviewed.

### A range of banking products and services with added environmental or social value

La Banque Postale offers financial products and services as part of its range that specifically add social and/or environmental value.

- loans:
  - *Pactys Environnement* and the zero-interest eco-loan promote environmental conservation and the combat against climate change by funding energy-efficiency projects;
  - personal micro-loans, which provide funding to persons "who do not have access to conventional loans", due to the insecurity of their situation, and involve amounts of between €300 and €3,000. These loans enable vulnerable and low-income customers to re-enter active life (see Aspect 1);
- savings products:
  - the Livret A account, a safe product with good returns, which meets the universal access to banking service criterion perfectly, while helping to fund social housing;
  - the *Initiale* account concept offers access to other means of payment as an alternative to cheques.

## Responsible asset management

For La Banque Postale, socially responsible investment (SRI) means applying sustainable development principles to the asset management business. This approach consists in systematically including environmental, social and governance (ESG) criteria in investment decisions and in the portfolio management process, in addition to financial criteria.

La Banque Postale Asset Management is convinced that SRI is a source of value-added for the asset management business. The formal assessment of extra-financial factors adds a new dimension to the financial analysis of issuers and enables a better understanding of their risk exposure.

For La Banque Postale Asset Management, investors have a determining role to play where extra-financial issues are concerned. They can use financial markets as a catalyst for sustainable development, by encouraging issuers to act in a more responsible manner. As of December 31<sup>st</sup> 2010, La Banque Postale Asset Management had €1.261 billion of SRI assets under management, which amounted to 4% of its UCITS under management (excluding life insurance mandates).

All the funds in the *Investir Autrement* range, which includes the SRI UCITS managed by LBPAM and offered to La Banque Postale's retail customers, were awarded Novethic SRI certification in 2010. In addition, the La Banque Postale Responsible Euro Equity (*Responsible Actions Euro*) and LBPAM Responsible Global Equity (*Responsible Actions Monde*) funds also received a special ESG Indicators award. This award recognises the extent of a fund's extra-financial value-added based on specific and tangible environmental and social indicators. Finally, the LBPAM Responsible Social Solidarity Equity (Responsible Actions Solidaire) Fund was awarded the Finansol label, which highlights funds that play a role in financing the solidarity/community-based economy.

In addition, as a signatory to the Principles for Responsible Investment (PRI), La Banque Postale Asset Management has made a commitment to integrate ESG criteria in the analysis and investment decision process across its entire asset management business. According to the Novethic and Eurosif definition, ESG integration is a responsible investment practice that is less systematic, and therefore less restrictive for the asset management business than the SRI approach.

For La Banque Postale Asset Management, ESG integration consists in:

- either taking a few key ESG criteria into account in highly sensitive sectors. At La Banque Postale Asset Management, the policy of banning investments in controversial weapons has been systematically extended to the entire asset management business;
- or in making ESG analysis available to all the asset management teams. Extra-financial information has been made available to "traditional" financial analysts at La Banque Postale Asset Management since 2010. An ESG evaluation tool is therefore available throughout the asset management business;
- or to encourage collaboration between financial and extra-financial analysts. At La Banque Postale Asset Management, traditional fund managers work with the SRI analysis teams.

In fact, La Banque Postale Asset Management values part of its "traditional" assets according to a scale that assesses issuers' ESG risk. The highest-risk issuers are the subject of detailed research, which may subsequently lead to a potential disinvestment. The funds managed following this ESG integration approach amounted to €47.95 billion as of December 31<sup>st</sup> 2010.

Overall, total asset under management integrating ESG criteria in the broadest sense at LBPAM amounted to €49.21 billion (ESG integration + SRI asset management). Given that total asset under management at LBPAM were €125.94 billion as at December 31<sup>st</sup> 2010, the portion that included ESG criteria amounted to 39% of the total.

La Banque Postale Asset Management has also introduced an initiative aimed at banning investments in companies involved in the manufacture and/or sale of controversial weapons (anti-personnel mines and cluster bombs) throughout its asset management business. For La Banque Postale Asset Management, both these weapons are harmful to the affected areas once the conflict has ended, i.e. in peacetime.

Given that La Banque Postale Asset Management views itself as a responsible investor, it has therefore decided to ban companies involved in controversial weapons across all asset portfolios under management and all financial instrument issues (equities, bonds and MMF units).

## The Banking Advisory Business Line training programme

In 2010, Managers in the La Poste Network's marketing arm and Sales Managers received training on the responsible product range offered in Post Offices, including La Banque Postale's product range (the programme was conducted jointly with the La Poste Network).

Moreover, La Banque Postale, which has traditionally backed and promoted SRI, decided to continue to reduce its "core range" of UCITS products, by limiting the range of selected products presented to customers by Non-Specialist Advisors to seven "essential" products, including two SRI vehicles. This measure encourages familiarity with SRI both within the Banking Advisory Business Line and among the customers who may subsequently be eligible for this type of product, once their requirement profile has been established.

In addition, during the first national SRI week, all employees in a position to advise on UCITS received a copy of the Socially Responsible Training Handbook published by the French Banking Federation (FBF).

## Aspect 3: responsible customer relationship

In 2010, La Banque Postale achieved its target of 10 million active customers, while paying particular attention to the quality of its customer relationships. In April 2010, the Bank undertook to "re-invent consumer credit" by applying responsible customer practices. The emphasis on putting the customer's interests first and the Bank's interests second was increased. The entire process was in line with the new management of the Commercial Banking Business Line.



## Building responsible customer relationship in the consumer credit sector

### La Banque Postale's access to banking services policy

La Banque Postale Financement has reinvented consumer credit through resolutely responsible practices. For example, it has broadened access to credit by offering redeemable loans from €1,500 upwards and from €1,000 upwards for young people or from €800 upwards for one-euro-a-day driving licence loans. In doing so, La Banque Postale Financement provides access to consumer credit for individuals on low incomes at competitive rates, with a repayment schedule that is known in advance, as opposed to revolving loans usually offered by institutions whenever small amounts are concerned.

Indeed, as of December 31<sup>st</sup> 2010, 8% of the loans granted were lower than or equal to €1,500, and 23% were lower than or equal to €3,000. The average loan amount was €8,000. Moreover, since the summer of 2010, La Banque Postale Financement has also made specific products available that are intended for customers who are usually unable to get loans, like temporary workers or apprentices.

### Protecting the customer during the loan application stage

When a loan application is being reviewed, La Banque Postale Financement calculates the borrower's ability to repay the loan and ensures that they have adequate financial resources. The loan structure therefore includes a budget simulation based on a statement of income and expenses signed by the borrower, and on supporting documents that are reviewed when the loan is agreed.

### Monitoring during the life of the loan

During the term of the loan, La Banque Postale maintains an ongoing vigilance in order to identify any signs of financial difficulties. A budget review is offered to the borrower on each anniversary of the loan.

Another particular feature of La Banque Postale Financement's responsible relationship with its customers is the way it supports those who have become more vulnerable during the loan period. This support was set up before the Lagarde Law entered into force and consists of two guidelines:

- setting up a Support Unit (that has no commercial aims) within the La Banque Postale Financement Customer Relationship Centre. The unit offers customers first-level analysis, advice and budgetary support. The Unit's employees have received training on how to identify signs of financial vulnerability. 40% of individuals identified as vulnerable as at December 31<sup>st</sup> 2010 have accepted this support. The aim is to identify vulnerable customers as soon as possible, i.e. before the first missed payment;
- La Banque Postale Financement is the first player in the market to have signed an agreement with the CRESUS organization aimed at providing a financial and budgetary support and monitoring service to customers experiencing financial difficulties or who are over-indebted. This support continues for as long as necessary, in order to help customers rebalance their budgets and provides assistance in the event that they need to file an application with the French Insolvency Commission.

Moreover, CRESUS is involved in training and raising the awareness of La Banque Postale Financement's employees regarding all the issues linked to "poor loan choices" or insolvency, and to the risk of financial exclusion.

In addition, starting with the principle that a responsible loan requires proper and transparent information, La Banque Postale has made a commitment in favour of a positive database managed by the Bank of France, which lists all the loans that a customer may have obtained from financial institutions.

## Building responsible customer relationships in the home loan sector

Since 2008, the number of home loans granted by La Banque Postale has risen by 32% (compared with 19% for the rest of the market). This growth has been supported by a network of genuine real estate experts, namely the Specialist Real Estate Advisors, or CSI business line, which includes 730 dedicated advisors spread across France.

At La Banque Postale, drawing up the customer's real estate investment project is of great importance, and is in line with the framework of a global approach that involves several practices guaranteeing the customer's best interests:

- the customer is encouraged to save as part of the preparation of their real estate investment project, in order to build up a personal deposit that will help make balancing their budget more secure over the long term. The average amount of the personal deposit put down by La Banque Postale customers is 22%, compared with an average of 19.7% for other financial institutions as at the end of 2009;
- as part of an approach that is based on all the parameters of the customer's property investment project, the concept of their remaining income is prioritised over an assessment of their indebtedness, which is only an imperfect reflection of their financial equilibrium;
- fixed-rate loans are prioritised (less than 1% of the home loans granted involves variable-rate loans);
- the maximum loan length is capped at 25 years;
- the Advisors also look at the quality of their customers' real estate transactions (new/or resale, rental, renovation works, etc.);
- a support system in the event of natural disaster has also been put in place by La Banque Postale, through identifying the customers involved and giving them priority treatment.

As a result, although the number of loans granted increased by 32% between 2008 and 2010, La Banque Postale's bad credit ratio remained among the lowest in the market: 0.23% as at December 31<sup>st</sup> 2008 (compared with the market average of 0.96%); 0.26% as at December 31<sup>st</sup> 2009 (compared with the market average of 1.15%); and 0.30% as at December 31<sup>st</sup> 2010.

The Bank takes responsibility for its low-income customers, to whom it makes access to consumer credit available, without them incurring an excessive amount of debt, i.e. "access without excess". Indeed, 17% of the Bank's borrowers in 2010 had a monthly income that was below €2,000 a month.

### Responsible customer relationships drive Advisors' Compensation

In 2010, the Bank took an innovative step by changing its Advisors' variable compensation system: their performance is assessed according to collective and individual criteria, and on the basis of the quality of advice required by the Company. The policy puts the customer's interests at the centre of professional interests.

### Aspect 4: Including environmental, social and governance risks in controlling operating risk

La Banque Postale considers operating risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. For the Bank, this definition also includes reputational, legal and non-compliance risk.

Moreover, for La Banque Postale, an ESG risk is an environmental, social or governance risk arising from failure to factor in issues relating to companies' social and environmental respon-

sibilities properly. Beyond the financial and legal consequences, these risks often result in damage to the Bank's image and reputation, which are the strategic foundation for trust in the Bank's business lines.

ESG risks need to be taken into account in La Banque Postale's relationship with all its stakeholders, not only its customers, but also its employees, shareholders, suppliers and civil society, which has become much more challenging under pressure from NGOs.

However, as part of the Basel II Agreement, the concept of reputational risk (or image risk) is defined as the "loss of value by a company following the materialisation of an operational risk, which therefore touches indirectly on the concept of ESG risk". La Banque Postale has therefore been including the concept of ESG risk in the process it uses to identify and manage operational risk since the beginning of 2010. Indeed, ESG risk is not a specific risk category for La Banque Postale, but a concept that needs to be included when analysing operational risk.

## 5.2 Additional information pertaining to the New Economic Regulations (NRE)

### 5.2.1 Social indicators

#### WORKFORCE

	2010	2009
Employees of La Banque Postale and its subsidiaries (in numbers)	32,574	32,289

*This number encompasses the employees of La Banque Postale, of the Financial Services Division, of the Banking Advisory Business Line and of the Bank's majority-owned subsidiaries, whether they are public servant or staff employed on a permanent and temporary basis, including employees hired under cooperative education contracts and training contracts.*

Including La Banque Postale, the Financial Services Division and the employees in the Banking Advisory Services Business Line as a whole, the proportion of employees on permanent contracts was 95% as at December 31<sup>st</sup> 2010.

#### HIRES

940 new employees joined La Banque Postale in 2010, compared with 979 in 2009. 28% of those employees were young people hired following the expiry of their cooperative education contract (the proportion was 25% in 2009).

*This number includes permanent hires, hires made following the expiry of a cooperative education contract or of a temporary contract, and outside hires. The workforce covered includes*

*the employees of La Banque Postale, of the Financial Services Division, and of the Banking Advisory Services Business Line.*

#### LAY-OFFS

In 2010, La Banque Postale laid off or terminated the contracts of 130 employees, i.e. 0.41% of the workforce, (0.44% in 2009). As was the case in previous years, the number of lay-offs at La Banque Postale was very low. *The workforce covered by these lay-offs includes employees of La Banque Postale, of the Financial Services Division, and of the Banking Advisory Services Business Line.*

The level of departures remained very low (1%) across the La Banque Postale Group as a whole. La Banque Postale guarantees its employees the option of building career paths across the Group's various businesses and subsidiaries.

## OVERTIME

	2010	2009
Number of overtime hours per employee	3.03	3.3

*This figure covers declared overtime for employees of La Banque Postale, of the Financial Services Division, and of the Banking Advisory Services Business Line.*

The number of overtime hours worked at La Banque Postale in 2010 remained very low, and below the 2009 level.

## LENGTH OF WORKING HOURS AND PART-TIME WORKING HOURS

	2010	2009
Number of part-time employees in 2010	3,562	3,624
Proportion of women among those employees	87%	88%

*This figure covers only voluntary part-time positions among the employees of La Banque Postale, of the Financial Services Division, and of the Banking Advisory Services Business Line.*  
11.2% of La Banque Postale's employees work on a part-time basis.

## ABSENTEEISM AND REASONS FOR ABSENCE

In 2010, employees were absent from work for 11.98 days on average (the 2009 average was 11.76 days).

Accidents while commuting to and from work at La Banque Postale, the Financial Services Division and the Banking Advisory Business Line represented 0.21 day's absence for each employee in 2010.

*Health insurance statistics show that employees of financial institutions were temporarily absent from work for 0.23 day in 2009 as a result of accidents due to commuting to and from work.*

## HEADCOUNT REDUCTION PLAN (SAFEGUARDING JOBS AND REDEPLOYMENT)

This item is irrelevant for La Banque Postale, which has not carried out any operations of this nature.

## EQUAL JOB OPPORTUNITIES FOR WOMEN AND MEN

As in 2009, the proportion of women on La Banque Postale's Executive Committee in 2010 was 23.5%.

*The proportion of women on the Executive and Supervisory Boards of companies included in the CAC 40 Index was 15.4% in 2010, and 11.3% for companies included in the SBF 120 Index (Source: Annual Report on the AFEP/MEDEF Code).*

The proportion of women among La Banque Postale's managers remained at 44.3%, unchanged compared with 2009. The agreement regarding diversity, equal job opportunities and the employment of senior citizens signed by La Banque Postale on December 23<sup>rd</sup> 2009 has set a target quota of 45% for women in all management positions by the end of 2012.

## SOCIAL SECURITY CONTRIBUTIONS

La Banque Postale is not involved in any dispute regarding social security contributions.

## EMPLOYEE RELATIONS - REVIEW OF COLLECTIVE AGREEMENTS

La Banque Postale is convinced that employee consultation is a force for balancing and governing employee relationships within the company, thereby helping it to expand harmoniously and to succeed. The Bank therefore decided to initiate and pursue a high-quality employee consultation process, based on trust and mutual respect, from the moment it was created.

In strict compliance with French law, and other recommendations, La Banque Postale has therefore taken measures to help set up an employee representation system, through the organization of elections that include all employees, and to set up a Works Council, a Health, Safety and Working Conditions Committee (HSWCC), and staff committees, and has also appointed employee representatives to the Supervisory Board. The participation rate among La Banque Postale employees in the elections for the employee representatives appointed to the Supervisory Board was 74.68% in 2010.

In accordance with legal provisions, the interests of employees are also represented by representative trade union bodies within the company, through their duly appointed union representatives. These representatives are primarily responsible for negotiating, and if applicable, signing collective working agreements.

Each representative trade union organization receives high-level support from La Banque Postale, pursuant to an agreement on the exercise of union rights, in order to support the execution of their day-to-day remit (financial resources, dedicated information areas on the Company intranet, etc.).

In 2010, five new agreements covering all employees of La Banque Postale were unanimously approved. These agreements covered the following areas:

- employee compensation measures and the employer's contribution to employee savings programmes for 2010;
- health and well-being at work at La Banque Postale;
- employee participation in La Banque Postale's profits;
- constraints and exceptional work duties;
- the employment of the disabled.

In the Financial Services Business Line, two local agreements were signed in 2010, as well as a majority national agreement regarding the future of the banking business lines. This agreement covers the period between 2011 and 2015, and follows an initial agreement covering the period between 2007 and 2010. It covers all the staff working at the Financial and National Centres, and primarily guarantees business continuity at all the Financial Centres, the option for employees to continue working at a Financial Centre, and that they will not be requested to transfer to a job in another geographical location outside the Financial Centre.

This agreement is based on four major principles (quality of the customer relationship, supporting change, hiring, and employee consultation) and on shared resources: broader career paths, promotion opportunities, access to training, and health and the workplace environment.

### HEALTH IN THE WORKPLACE, AND HYGIENE AND SAFETY CONDITIONS

Ten dedicated Health, Safety and Working Conditions Committees (HSWCCs) gathered at La Banque Postale, in order to work on projects like the accident prevention plan and the planned transfer of La Banque Postale's Registered Offices to rue de Sèvres, in Paris.

In 2010, La Banque Postale's commitment to its employees' health, safety and working conditions resulted in the signing of an agreement on health and well-being at the workplace.

La Banque Postale's accident prevention plan is drawn up on an annual basis, and submitted to the HSWCC at the meeting held during the first quarter. Where safety is concerned, the main work-related risk identified at La Banque Postale remains the risk of traffic accidents (0.21 day's absence per employee in 2010). In order to control this risk, La Banque Postale implemented a road safety and eco-friendly driving tuition programme in 2009 and 2010. 1,476 employees of La Banque Postale and the Financial Services Division took part in the training programme, including employees from the Banking Services Marketing Departments, from the Audit Department, and from the Regional Banking and General Audit offices, who are the employees mainly concerned by work-related road travel.

La Banque Postale also introduced prevention programmes: health & nutrition programmes, workplace ergonomics, anti-smoking programmes, and diabetes and cholesterol and triglyceride screening programmes.

Lastly, the improvement in working conditions at La Banque Postale gave rise, among other things, to the creation of a range of services known as the "Living Well at La Banque Postale" initiative, which was implemented in 2008, and includes a company concierge service, an employee shuttle-bus and a booking facility for places at inter-company crèche, among other facilities. The range of services will continue to be expanded and broadened as the premises at the rue de Sèvres in Paris are redeveloped.

An assessment tool aimed at preventing work-related risks at the Financial Services Division was rolled out in 2010. This tool provides an exhaustive list of all types of risk. Psycho-social risk, which is a priority for health and safety at work, is dealt with in a dedicated category. As part of the anti-stress action plan

presented at the HSWCC meeting of December 4<sup>th</sup> 2008, the Financial Services Division has had a system for assessing and monitoring work-related stress in place since the second half of 2009.

The aim of the work-related stress prevention initiative launched by the Financial Services Division is to identify stress factors, in order to determine the appropriate preventive measures. The initiative is supported by the La Poste management team and its company doctors.

The aim is to reduce the number of work and service-related accidents as part of the work-related risk prevention and working conditions improvement policies. This policy has led to the implementation of a system whereby any accident is systematically reviewed by the victim and their manager, in order to enable the causes of the accident to be identified and to draw up an action plan so that any recurrence is avoided.

### TRAINING

	2010	2009
Number of employees who have taken part in banking training programmes leading to a diploma or other qualifications	237	260
Including those to whom banking training diplomas were awarded	73	41

La Banque Postale is determined to train all its employees through full training programmes, including programmes leading to a diploma or other qualifications, as well as through an individual training system. It also takes part in the initial training offered to young people through its cooperative education policy (*see the hiring item: 28% of 2010 hires were young people hired at the term of a cooperative education contract*).

In 2010, 33 Bank and 40 Financial Service Division employees were awarded banking services diplomas, which represents 96% of those registered, including 50 employees who were awarded a Professional Banking Diploma and 13 who were awarded a diploma from the French Technical Banking Institute, or ITB. The number of training days provided by La Banque Postale, the Financial Services Division and the Banking Services Marketing Business Line was 121,730 (136,173 days in 2009), i.e. 3.8 training days per employee.

At the same time, the implementation of individual training entitlements includes a range of programmes aimed at La Banque Postale employees, and a range aimed at the employees of the Financial Services Division. The entitlement to individual training covers all employees of La Banque Postale and of the Financial Services Division, and includes temporary workers.

In 2010, La Banque Postale also contributed towards training its employees in areas relating to Corporate Social and environmental Responsibility, through:

- disability training provided to employees in the Financial Services Division (60% of the target group received training in 2010); the programme will continue in 2011;

- CSR awareness training, which was provided by the La Poste Group, and aimed at executives holding strategic positions in its subsidiaries. The programme will continue in 2011.

## EMPLOYMENT AND INCLUSION OF THE DISABLED

*NB: this item covers employees of La Banque Postale and the Financial Services Division. Particular attention was paid in 2010 to the initiatives included in and the results of La Banque Postale's policy to assist people with disabilities. This was a*

*choice made following the expiry of the first agreement signed by La Banque Postale, the success of which has enabled the Company to draw up an innovative policy for the next three years. A more detailed review of the policy implemented by the Financial Services Division will be suggested in 2012.*

On January 29<sup>th</sup> 2008, La Banque Postale signed an agreement aimed at promoting the hiring of disabled people. This agreement was a majority agreement that covered the 2008, 2009 and 2010 financial years. It was signed by the Labour Department and is therefore governed by that body.

Undertakings for the period between 2008 and 2010	Results as at 12.31.2010
Hiring at least 14 disabled people	<b>14 people were hired over a three-year period.</b> La Banque Postale also helped seven employees obtain recognition as disabled workers.
Increasing purchases from the charitable sector by 20% between 2007 and 2010	<b>Procurement from companies favoring the employment of disabled people have increased by 26%.</b> The Bank played a role in boosting the capacities of companies in this sector in 2010. This support will continue in 2011.
Raising the awareness of La Banque Postale employees	<b>An internal information pack including 18 factsheets, five short films and an intranet awareness-raising campaign have been made available to La Banque Postale's employees.</b> This campaign was accompanied by "theme days" (hearing aids, debilitating illnesses, etc.), and awareness-raising initiatives (Christmas market proposing goods from companies favoring the employment of the disabled, introduction to sign language, etc.).
Helping to keep disabled employees in employment	<b>All the work station adaptation measures requested or identified have been carried out.</b> These adaptation measures involved eight employees in 2009 and 2010.
Making access to professional training and redeployment programmes easier	The La Banque Postale Career Management Unit has also received training regarding issues linked to disabilities and discrimination.

This first agreement enabled La Banque Postale to put its whole disability policy on a sound footing.

On November 22<sup>nd</sup> 2010, a unanimous agreement on employing the disabled was signed between La Banque Postale and trade union bodies.

This second agreement, which includes ambitious targets, marks a turning point; it involves 18 hires over three years; and increasing purchases from companies favoring the employment of disabled people by 8%. It also enables La Banque Postale to continue its initiatives in line with the previous agreement, and to go further by implementing innovative measures, such as:

- taking charge of driving licences and moving costs;
- adapting vehicles;
- entitling disabled employees to four half-days for disability-related medical appointments, to one half-day for administrative tasks, and to employees who are responsible for caring for a disabled person (brother, sister, parent or spouse) to three half-days;
- increasing individual training entitlements by 30%, where an employee's disability means that it takes them longer to acquire the knowledge required.

The proportion of disabled people employed by La Banque Postale was 2.32% as at December 31st 2010, compared with 1.74% in 2009. Purchases from companies favoring the

employment of the disabled indirectly contributed to the employment of 23.42 people (19.6 people in 2009).

The Financial Services Division continued to implement its policy of promoting the hiring of disabled people, and of people who are otherwise incapacitated. This policy is supported by the majority agreement of November 24<sup>th</sup> 2008, which has enabled 31 disabled people to be hired over a three-year period.

The proportion of disabled people employed by the Financial Services Division was 5.95% as at December 31<sup>st</sup> 2010, compared with 5.79% in 2009, based on the conditions issued by the French Fund for Including the Disabled in Government Sector Positions (FIPHFP).

## CHARITABLE VOLUNTEERING AND PARTNERSHIPS Volunteer employees

La Banque Postale confirmed its commitment to international solidarity in 2010, by renewing its support for 40 volunteering leave missions during 2011.

As a reminder, these projects involved: 38 employees in 2010, 38 in 2009, 38 in 2008 and 6 in 2007, i.e. a total of 120 employees.

The aim is to encourage the humanitarian commitment made by La Banque Postale employees who want to involve themselves



in social and environmental projects while on leave. La Banque Postale has therefore formed a long-term relationship with two partner NGOs that are involved in international cooperation: *Planète Urgence*, which has been a partner since 2007, and *France Volontaires*, which has been a partner since 2009.

Employees of La Banque Postale and the Financial Services Division who are interested in dedicating their own time to the projects put forward by these NGOs are supported by La Banque Postale (assistance with initiatives, interviews with volunteers, training programmes eligible under the individual entitlement programme, etc.). The NGOs organise these initiatives and manage them in the field, and also provide compulsory initial training for volunteers before they leave. The projects are created and managed by local development organizations.

The *Planète Urgence* NGO also implements "safety measures that include accident prevention, monitoring and responsiveness" (Volunteer Leave Implementation Guidelines, *Planète Urgence*, 2010). La Banque Postale volunteers go on assignments focusing on increasing adults' skills through professional training or mentoring, protecting or restoring bio-diversity, and educational support.

In 2010, La Banque Postale employees were involved in projects in the following countries: Benin, Cameroon, Zimbabwe, Madagascar, French Polynesia and Gabon.

In 2011, La Banque Postale will offer its employees the option of making their skills available to local charitable organizations, under the agreement signed with *Passerelles et Compétences* (a charitable organization) in December 2010. This organization intends to make the professional skills of its members and their networks available to companies and other charitable organizations on a voluntary basis.

### La Banque Postale's partnerships

As the major and exclusive sponsor of the 2010 *La Route du Rhum-La Banque Postale* transatlantic sailing race, La Banque Postale also decided to support the **Handivoile Challenge**, which was organised in Saint-Malo, through its Diversity, Disability and Equal Opportunities programme. This race enabled the best disabled sailors in France to come together around the strong values embodied by accomplished sportsmen, who overcome their disability every day in order to live their passion for the sea and sailing. During the competition, seven competing Miniji (small one-seater dinghies) started out under the colours of La Banque Postale's Diversity, Disability and Equal Opportunities programme.

La Banque Postale also continued its partnership with **Unicef** in 2010. It circulated appeals for donations on behalf of children and their families that were launched following the earthquake in Haiti and flooding in Pakistan. Over €80,000 was raised for Haiti and over €103,000 for Pakistan, demonstrating the support shown by the Bank's employees and customers.

La Banque Postale supported Yann Arthus-Bertrand's **Good-Planet** foundation for the fourth year running, by sponsoring an educational exhibition on sustainable development, which was intended for around 10 million schoolchildren. The aim of the teaching kits, which were based on the topic of water this

year, was to encourage teachers and pupils to discuss and think about this resource, which is essential to our Planet's ecological balance.

La Banque Postale has remained true to its principles of commitment, responsibility and solidarity by supporting **Solidarité Sida** (AIDS) for over ten years. It supports the various events organised by the charity, like the *Solidays* music festival.

In 2010, La Banque Postale continued with the commitment it made to the AFM by taking part in the **Stock Market and Finance Telethon**. The Bank offers its employees the option of making a donation over the intranet portal, which it then matches. €5,025 were collected and the Bank made an additional gift of €10,000.

### LA BANQUE POSTALE'S RESPONSIBLE PURCHASING INITIATIVE

*NB: this item is not one of the focus points suggested by the NRE law. However, the responsible purchasing initiative includes measures that fulfil the criteria of various focus points featured in the law, such as: "employing and including the disabled", "the importance of the Company's sub-contracting procedures and/or third-party workers", "measures taken to limit the harm done to the biological balance", and "measures taken to ensure that a business activity complies with the legal provisions".*

La Banque Postale's Responsible Purchasing initiative is based on three guidelines: the "Responsible Purchasing" Charter, the gradual implementation of a purchasing policy that favours companies promoting the employment of the disabled and the inclusion of environmental, social and governance (ESG) criteria when selecting suppliers.

1) The "Responsible Purchasing" Charter is a document that sets out La Banque Postale's responsible purchasing approach. Since June 2009, the Charter has been included in the list of documents that a service provider must sign before any agreement is entered into. The Charter specifically underlines the attention that the Bank pays to the working conditions of the people employed directly or indirectly by the Bank's service providers. The "Responsible Purchasing" Charter also sets out La Banque Postale's responsible development policy (making responsibly-sourced products available to everyone, promoting diversity, the disabled and equality of opportunities, and controlling the Bank's environmental impact).

	2010	2009
Number of "Responsible Purchasing" charters signed	403	178

The number of "Responsible Purchasing" charters signed by La Banque Postale's service providers increased by over 230% between the end of 2009 and the end of 2010.

2) The implementation of policies that promote the companies favoring the employment of the disabled primarily resulted in:

- whole sections dedicated to these companies for the purchase of products used for the maintenance and development of green spaces, including:
- putting various services out to competitive tender with the mainstream sector (waste management, ready-prepared meal orders, packaging and/or packaging removal, Christmas gifts, etc.);
- identifying new services for upcoming tenders (document sorting, call centres, enveloping service, etc.).

This policy also led to a 26% increase in purchases from companies favoring the employment of the disabled between 2007 and 2010.

Moreover, it played a role in boosting the capacities of companies in this sector.

3) The inclusion of ESG criteria when selecting its suppliers enabled La Banque Postale to:

- offer its employees and customers information printed on “responsibly-sourced” paper (95% of all paper used as at December 31<sup>st</sup> 2010), i.e. recycled paper or paper from sustainably managed forests;
- to continue its efforts to control its energy consumption;
- to include company and staff vehicles that emit less than 135 g of CO<sub>2</sub> per km in the 2010 catalogue (almost 80% of the range on offer).

The gradual inclusion of ESG criteria when selecting suppliers will continue in 2011.

*La Banque Postale’s responsible purchasing initiative covers La Banque Postale and the Financial Services Division.*

## 5.2.2 Environmental indicators

### WATER CONSUMPTION AND WASTE

	2010
Water consumption per employee and per day (in litres per employee per day)	between 37 and 39 litres

*This figure corresponds to the water consumed by each employee in the Financial Services Division, which represents between 85% and 88% of the total surface area occupied by La Banque Postale in 2010 (including the subsidiaries). The water consumption timeframe varies depending on the number of working days taken into account.*

Water consumption per employee in the Financial Services Division remained unchanged compared with the last four years. La Banque Postale has taken measures to reduce its water consumption, like changing taps. As a result of these measures, water consumption fell slightly, by between 1 and 2%, between 2008 and 2009. This trend was not confirmed in 2010, following the identification of a water leak and equipment malfunctions at two major locations (Paris and Ajaccio).

### ENERGY EFFICIENCY AND RENEWABLE ENERGY

	2010
Energy consumption in GWh	85.7

*This figure corresponds to the energy consumed on premises occupied by employees of La Banque Postale, of the Financial Services Division, and of the following subsidiaries: La Banque Postale Asset Management, La Banque Postale Structured Asset Management, Titre Cadeaux and EasyBourse (included for the first time in 2010), expressed in gigawatts per hour.*

*The data covers almost 100% of the total surface area occupied by the Bank. La Banque Postale’s aim is to continue to include its subsidiaries (between 1% and 2% of the total surface area occupied by the La Banque Postale Group).*

In 2010, La Banque Postale’s energy consumption broke down roughly as follows: 52.7% for electricity, 27.7% for gas, 16.8% for district heating and 2.7% for heating oil. Considering the number of La Banque Postale employees, the energy consumed per employee was 3,903 kWh.

The consumption of heating oil, which emits a high level of CO<sub>2</sub>, has fallen since 2007, and represents a small percentage of La Banque Postale’s total energy consumption. District heating represents around 17% of the energy consumed on La Banque Postale’s premises. The CO<sub>2</sub> content of this energy varies from one town to another, but remains high (same order of magnitude as heating oil). In contrast, this energy is generated by the incineration of household waste collected by local authorities, and remains a way or recycling waste. The measures taken by La Banque Postale since 2009 consist mainly in scheduling and carrying out renovation works in order to increase the energy-efficiency of its buildings, like replacing air-conditioning systems, replacing single-glazed window frames by double-glazed ones, or insulating attics.

### ATMOSPHERIC EMISSIONS

La Banque Postale’s carbon footprint amounted to around 21,000 metric tons of CO<sub>2</sub> equivalent in 2010, 64% of which was related to the energy consumed by buildings, 33% to the vehicle fleet, and 4% to employee air and train business travel.

### CO<sub>2</sub> emissions from buildings

*This item covers La Banque Postale and the Financial Services Division. It includes 100% of the surface area occupied by these entities.*



	2010	2009	2008	2007
Change in CO <sub>2</sub> emissions per La Banque Postale employee compared with 2007 The area covered includes La Banque Postale and the Financial Services Division	-4.4%	-14%	-8%	/
Area covered (estimate)	100%	98%	93%	94%
Estimated change in energy requirements between one year and the next (see <i>Climate Report</i> below)	Increase in requirements compared with 2009	Increase in requirements compared with 2008	Unchanged requirements	Benchmark year

*These figures represent the CO<sub>2</sub> emissions from premises occupied by employees of La Banque Postale, of the Financial Services Division, and of the following subsidiaries.*

*As a reminder, the environmental impact of employees working in the Bank Marketing Business Line in Post Offices and working in the name and on behalf of La Banque Postale is not included here.*

Since 2008, measures taken to reduce energy consumption (see *the item on Energy Efficiency*) have enabled CO<sub>2</sub> emissions from buildings to be reduced. However, the climate reports for previous years available on the Météo France website show that the climate in 2009 and 2010 was harsher (particularly in winter), which explains why energy requirements were more substantial than in 2008 and 2007.

La Banque Postale will continue its efforts to reduce its CO<sub>2</sub> emissions in 2011, while measures to renew air conditioning systems, replace window-frames or isolate attics have already been scheduled.

## 2007, 2008, 2009 and 2010 Climate Reports

Source: *Bilan climatique de Météo France*

2007 was the benchmark year in terms of La Banque Postale's undertakings (reducing the level of CO<sub>2</sub> emitted per employee by 9% by 2012, compared with the 2007 level). It was characterised by a relatively mild first half, while the second half, conversely, was relatively cold. 2007 was the ninth warmest year in Metropolitan France since 1900, although, paradoxically, summer temperatures were below normal. **According to this analysis, the benchmark year for La Banque Postale was therefore a year in which theoretical winter heating requirements, as well as summer air-conditioning requirements, can be considered as close to the average.**

2008 was the twentieth warmest year in Metropolitan France since the beginning of the 20<sup>th</sup> century.

The winter of 2008 was relatively mild, and the summer of 2008 was more or less in line with the average.

**In terms of energy requirements, 2008 can be considered as similar to 2007 overall.**

2009 was characterised by a cold winter, although overall temperatures were higher than average between March and November, before a cold end to the year in December.

**We can therefore take the view that energy requirements for 2009 were higher than in the two previous years, both in summer and in winter.**

Finally, 2010 ranked as the coldest year in Metropolitan France for the past two decades, with a winter that was as cold as the previous one.

## CO<sub>2</sub> emissions resulting from employee travel

### La Banque Postale's vehicle fleet

In 2010, the information returned on CO<sub>2</sub> emissions caused by the vehicle fleet included La Banque Postale, the Financial Services Division, the Banking Advisory Line, and La Banque Postale Asset Management (*included for the first time in 2010*).

CO<sub>2</sub> emissions linked to the vehicle fleet amounted to 3.8 metric tons of CO<sub>2</sub> per vehicle (if we take the margin of error applicable to this data into account, which is estimated at 15%; these emissions were not different from those recorded in 2009 and 2008).

La Banque Postale also provides eco-friendly driving tuition programmes, with the aim of limiting vehicle fuel consumption, through learning more energy-efficient driving techniques.

1,476 people have taken part in the eco-friendly driving tuition programme since 2008, while the Bank's vehicle fleet included 1,824 vehicles in 2010.

La Banque Postale has also chosen to consider vehicles' CO<sub>2</sub> emission performance when providing staff vehicles and company vehicles to its employees (for more information, see the "Responsible Purchasing" item).

### Business train and air travel

CO<sub>2</sub> emissions resulting from business air and train trips undertaken by La Banque Postale employees remain very low, i.e. roughly 800 to 900 metric tons of CO<sub>2</sub>, of which 90% was linked to air travel.

The total share of CO<sub>2</sub> emissions generated by business travel was between 6 and 7%.

However, in order to limit CO<sub>2</sub> emissions from air travel, La Banque Postale has introduced a voluntary scheme advising employees to choose train rather than air travel.

## CONSUMPTION OF RAW MATERIALS

	2010	2009	2008
Paper consumption in metric tons	9,405	9,226	10,483
Percentage of responsibly-sourced paper	95%	94%	85%
Paper consumption for internal uses per employee (office paper – expressed in kg per employee)	48	49	50
Paper consumption for external uses per active customer (expressed in kg per customer)	839*	824	986

Paper consumption is measured for La Banque Postale and the Financial Services Division. It includes paper for internal use, including office paper, and paper used for customer transactions, including bank statements and paper used for marketing purposes.

La Banque Postale's subsidiaries' consumption of paper for marketing and commercial purposes is also taken into account in the table below.

\* La Banque Postale launched its consumer credit services in 2010, which increased its consumption of paper for customer transactions. Excluding the paper used for this business activity, the amount of paper consumed for external purposes was 798g per customer.

Since 2008, the amount of paper consumed for internal purposes per employee has fallen by 4%, and the consumption of paper used for external transactions per customer has fallen by 15%.

La Banque Postale aims to use 100% responsibly-sourced paper both internally and for customer transactions. The remaining 5% represent paper that cannot be categorised or certified due to its specific nature (regulatory constraints relating to La Banque Postale's business activity), or paper where it was not possible to check the proof of origin.

## LAND USE CONDITIONS AND SOIL DISCHARGES

This item is irrelevant for La Banque Postale, which has no business activities that are likely to damage the soil.

## WASTE MANAGEMENT

In 2010, 2,008 metric tons of paper waste were collected and recycled in the Financial and National Centres (81% of the area occupied by La Banque Postale, excluding its subsidiaries), out of a total of 3,518 tons, which also included 250 tons of cardboard and 40 tons of WEEE.

La Banque Postale has met all its waste treatment obligations. It has specifically introduced a national agreement for the collection of Waste Electrical and Electronic Equipment (European WEEE Directive), and complies with Decree 2010-945 of August 24<sup>th</sup> 2010 on contributing towards collecting, recycling and eliminating printed waste paper and graphics paper that is intended for printing.

The waste management initiative includes all the premises used by La Banque Postale and the Financial Services Division, including the Headquarters at the rue de Sèvres, which are HEQ certified (the waste management criterion is one of four criteria where a very high score must be achieved in order to obtain HEQ certification).

## NOISE AND ODOUR NUISANCE

This item is irrelevant for La Banque Postale, which has no business activities that are likely to cause a noise or odour nuisance.

## MEASURES TAKEN TO LIMIT ANY IMPACT ON THE NATURAL BIOLOGICAL BALANCE

The measures taken by the Bank to limit its environmental impact consist of the action plans and projects executed by La Banque Postale, specifically as part of controlling its CO<sub>2</sub> emissions, or through including particular criteria in purchasing specifications.

## MEASURES TAKEN TO ENSURE COMPLIANCE WITH LEGAL REQUIREMENTS RELATING TO THE ENVIRONMENT

In view of its business activities and of its culture of a public interest leader, La Banque Postale has implemented particularly thorough procedures to control its business activities, which involve the Risk Department (in a regulatory oversight role) and the Compliance Department.

La Banque Postale meets its obligations in respect of caring for the environment, particularly in terms of collecting and sorting its waste, and of the renovation work performed on its buildings.

## EVALUATION AND ORGANIZATION CERTIFICATION INITIATIVES

La Banque Postale was assessed by the Vigeo and Ethifinance rating agencies for the first time in 2010, at the request of third-party institutions. Both ratings enabled La Banque Postale to benchmark its practices against those of the market and to identify its strengths as well as areas for improvement.

La Banque Postale is distinguished for its human rights and human resources policies, and its commitment to society. Areas for improvement have also been identified: practical assessment of the performance and progress of access-to-banking measures, as well as of responsible customer relationships, are expected.

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Meanwhile, in order to share the feedback of information on the Bank's extra-financial performance, the rating results and the scheduled changes to the Bank's extra-financial communication policy in 2011 with all those who contribute to the process (80 people), La Banque Postale organised a morning of presentations in July 2010, where attendees were addressed by the French Observatory for Corporate Social Responsibility (ORSE) and by Ethifinance.

## **ORGANISATION AND/OR GOVERNANCE**

At La Banque Postale, responsible development is a behavioural standard, which is managed at the highest level by a quarterly governance body, chaired by the Executive Board and including members of the Executive Committee. The Responsible Development Committee met four times in 2010.

## **EXPENDITURE ON PREVENTING THE COMPANY'S ACTIVITIES FROM HAVING A NEGATIVE IMPACT ON THE ENVIRONMENT**

Expenditure on implementing the measures detailed in this document has not been broken down to date.

## **TOTAL INDEMNITIES PAID DURING THE FINANCIAL YEAR**

This item does not apply to La Banque Postale.

## **TOTAL PROVISIONS AND/OR GUARANTEES FOR ENVIRONMENTAL RISK**

The nature of La Banque Postale's business activities does not require provisions and guarantees for environmental risk. *Please refer to Section 4 of the introduction: Including environmental, social and governance risks in controlling operating risk.*

## **FOREIGN SUBSIDIARIES**

This item does not apply to La Banque Postale.



### **La Banque Postale**

Limited Company with Executive Board and Supervisory Board  
capitalised at €2,342,454,090

Registered office: 115 rue de Sèvres – 75 275 Paris Cedex 06  
RCS Paris 421 100 645 – Code APE 6419Z

**[www.labanquepostale.fr](http://www.labanquepostale.fr)**