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FINANCIAL REPORT

Observations of the Supervisory Board on the Executive Board's Management Report and the accounts for the 2006 financial year

GENERAL DUTY OF PERMANENT CONTROL

As part of its general duty of control and its recurrent tasks, the Board has monitored the launch of the bank, the progress of its activities and its results throughout 2006 at regular intervals and on the basis of the quarterly reports and half-year and annual results submitted to it by the Executive Board.

The Board's approval has also been sought in connection with the major economic and strategic development plans of the La Banque Postale group, specifically those relating to CNP Assurances and La Banque Postale Asset Management (LBPAM).

GOVERNANCE OF THE SUPERVISORY BOARD

The Supervisory Board comprises 13 members appointed for a 5-year term. Seven of these members are from the Group La Poste, three are classed as independent per the Viénot/Bouton reports and three are employee representatives elected pursuant to the Law on the Democratisation of the Public Sector.

With the exception of the employee representatives who, by law, exercise their mandate free of charge, attendance fees are paid per the terms and conditions set forth by the Supervisory Board based on the actual attendance of its members at the meetings of the Board and its special committees.

The independent members of the Supervisory Board are proposed by the Appointments-Remuneration Committee and selected on the basis of their competence, the complementarity of their respective experiences and their ability to commit long term.

The organisation and *modus operandi* of the Supervisory Board and its relations with the Executive Board are governed not only by the law and the articles of association but also by rules of procedure. Rules of procedure have also been drawn up for each special committee. By virtue of the various rules of procedure drafted, it has been possible to establish the rules of governance uniting the various entities of La Banque Postale from the very moment of its creation.

On their appointment, the members of the Supervisory Board sign the membership charter for the Members of the Supervisory Board of La Banque Postale.

THE WORK OF THE AUDIT COMMITTEE IN 2006

In accordance with the duties assigned to the Audit Committee, it submitted a report to the Supervisory Board on its involvement in the closure of accounts for the 2005 financial year. These accounts were atypical in that they included the opening balance sheet for La Banque Postale following its acquisition of the Financial Services of La Poste and a profit & loss account recording the operations of Ekiposte. It also reported to the Supervisory Board on the work it had undertaken in connection with the closure of the half-yearly accounts.

The Audit Committee also examined the reports to be submitted to the regulatory authorities – the internal audit report and the risk report – and also the organisation and implementation of the permanent control and the periodic control. It also analysed the selection procedure for the Auditors whose mandate was about to expire.

The Audit Committee also took an interest in how the move to IFRS standards would impact operations.

The Committee evaluated the table of restrictions set by the Executive Board and the major increase in provisions for Home Loan Savings due in part to changes in the interest rates and in part to the significant number of withdrawals triggered by the change in the tax regulations for Home Loan Savings Schemes.

As a result, the Supervisory Board was able to ensure that the company had adequate measures in place to meet legal and statutory requirements, specifically in terms of its Credit Institution status, and that it adhered to the best governance practices.

THE WORK OF THE APPOINTMENTS-REMUNERATION COMMITTEE IN 2006

The Appointments-Remuneration Committee met five times during the year. The main purpose of these meetings was to examine the candidacy of a prospective member of the Supervisory Board and the distribution of attendance fees to members of the Supervisory Board other than the employee representatives. It also drafted a proposal for the remuneration of the two members of the Executive Board following an examination of market practices.

THE WORK OF THE STRATEGIC COMMITTEE IN 2006

The main task of the Strategic Committee is to examine the implementation of the company's multi-year strategic plan and the strategic plans and operations of the company and its subsidiaries. It also examines those operations which, by law or by virtue of the articles of association, require the prior approval of the Supervisory Board. It met once during the year to discuss the issue surrounding the Livret A and the exercise of the purchase option on 35% of the capital of La Banque Postale Asset Management.

THE WORK OF THE SUPERVISORY BOARD IN 2006

The Supervisory Board met seven times during the year with an average attendance rate of 90%. On four occasions during the financial year, it received a report from the Executive Board on the activities of La Banque Postale. Also submitted to it were the business plan, the budget for 2006 and 2007, the inflow development plan, the new relationship with CNP Assurance, the Livret A and the SEPA project.

At each meeting, a report was submitted on the meetings of the Board's committees held since the last Supervisory Board meeting.

THE WORK OF THE SUPERVISORY BOARD IN 2007

At its meeting of 29 March 2007, the Supervisory Board examined the company and consolidated accounts closed on 31 December 2006 and the report from the Executive Board on the management of the company and its group during the previous financial year. A report was read on the work of the Audit Committee and the Auditors in the drafting of these accounts and reports.

It has no observations to make on these documents and approves the Executive Board's proposal to the annual general meeting of shareholders that the dividend be fixed at €7.95 per share.

MANAGEMENT REPORT

I. MANAGEMENT REPORT

I.1 Highlights

A. THE ECONOMIC ENVIRONMENT – THE SAVINGS AND CREDIT MARKETS IN FRANCE

In 2006, the world economy stood up rather well to the slowdown of American growth resulting from a reversal in the residential property market. Growth recovered at a more vigorous pace in the Euro zone which recorded a 2006 figure of 2.7%, its best performance since 2000. The German economy also rose from its slumbers to achieve growth of 2.9%, bolstered mainly by a remarkable performance on the export front and a major increase in productive investment. France's figure was, by comparison, modest (a mere +2%) despite sustained consumption levels. The French economy is suffering as its industry struggles to keep up with domestic demand and to take advantage of world growth, against a backdrop of rife competition on the international front.

Price stability was threatened in 2006 by the hike in the price of oil and other basic commodities in the first six months of the year. Although inflation has rather gone off the rails in the US, it has remained remarkably moderate in the Euro zone and France (annual average of 1.7%). At retail price level, fierce competition in the industry and fast-growing imports from low-income countries meant there was little occasion to pass on the cost of basic commodities.

In response to steady levels of activity and the inflation risks generated by commodity prices, the central banks continued to raise their minimum lending rates in 2006. The ECB rate went from 2% at the end of 2005 to 3.5% in December. The Fed raised the Federal Funds rate to 5.25% at the end of August before suspending its monetary tightening policy in response to the slowdown of the US economy.

The long rates experienced some major fluctuations in 2006 to finish on a high with the average annual 10-year Euro zone rate establishing itself at 3.8%, having hit a historic low of 3.4% in 2005. However, fundamentally, the abundance of worldwide liquid assets invested in bonds and the tempering of inflation predictions are curbing the rise in the long rates despite the increases, both past and current, of the minimum lending rates of the central banks. This has given rise to flat (Euro zone) or completely reversed (US, UK) interest rate curves.

Last year the equities markets continued to benefit from a favourable macroeconomic climate. On a microeconomic level, merger-acquisition activity was rife and companies continued to publish strong financial results. Hence, the performance of European stock markets exceeded all expectations with the EuroStoxx 50 up 15% over the year and the CAC40 up 18%. For their part, the Dow Jones gained 16% and the Standard & Poors 500 14%, despite growth in the US running out of steam. Tokyo did, however, lag behind (Nikkei up 6%) but this came on the heels of a 40% hike in 2005.

France's savings and home lending market again pulled off good performance in 2006. French households placed around €125 billion in financial investments (including capitalised interest), i.e. 11% of their after tax income. Of this amount, a fairly high proportion (one third) was

invested in liquid savings in the widest sense of the word (sight deposits, savings books, time-deposit accounts and mutual funds). Indeed, the increase in short interest rates attracted investors back to liquid investments. The gain in momentum can also be explained by the detrimental tax and regulatory changes introduced in respect of Home Loan Savings Schemes (PELs). Life assurance reaped the most benefit from the fall in popularity of the latter, absorbing two thirds of the total funds redirected and remaining the preferred vehicle of France's savings market. Within the life assurance market, inflow from unit-linked policies jumped 45% last year, sustaining the upward movement which began in 2003 with the recovery of the equities market. Home lending, for its part, also progressed well (up 15% in terms of outstanding deposits and around 12% in terms of new loans). The end of the year did, however, see a slowdown as high property prices discouraged a good many from buying property, despite longer home loan terms.

B. START-UP OF LA BANQUE POSTALE

Transfer of assets

Pursuant to the provisions of Article 16 of Act n° 2005-516 of 20 May 2005 governing the regulation of postal activities and its implementation decree of 30 August 2005, the Caisse Nationale de l'Épargne activities were transferred to La Poste as of 31 December 2005. On this same date, these activities and the Financial Services of La Poste were transferred to Efposte, which had been granted approval to operate as a credit establishment on 2 December 2005.

This transfer also included the equity interests held by La Poste in SF2, a holding company which indirectly holds 17.7% of the securities of CNP Assurances.

The assets previously managed by the Savings Fund Division of the Caisse des Dépôts et Consignations transferred were principally securities for the management of Home Loan savings deposits (Home Loan Savings Schemes and Accounts) and savings facilities for low-taxpayers (Plans d'Épargne Populaire) and liquid assets for the management of the other types of savings deposit.

The latter were rapidly subjected to a more diversified management style through recourse to other types of financial instruments.

The Livret d'Épargne Populaire was managed in line with the statutory requirement that 85% of the funds are centralised. All Codevi funds were invested with the CDC in the form of industrial development securities in 2006.

The terms and conditions governing funds collected through the Livret A did not alter in the course of 2006 (all CNE funds held centrally with the CDC).

Loans

La Banque Postale may now, by law, grant home loans without prior savings. During the year, credit lines opened were in line with expectations, bolstered by the Pactys range, despite a high level of early repayments, particularly in the first half of the year. These fell back at the end of the year due to new redemption options offered to customers.

C. PRINCIPAL TRANSACTIONS RELATING TO THE SUBSIDIARIES AND AFFILIATES

Increased equity investment in subsidiaries

LA BANQUE POSTALE ASSET MANAGEMENT

In the third quarter of the year, SF2 acquired 35% of Sogeposte, the group's mutual fund management company, from the Caisse des Dépôts et Consignations per a memorandum of understanding drafted for this purpose.

In September the company was renamed La Banque Postale Asset Management in confirmation of the group's commitment to its asset management activities and its subsidiary.

CILOGER

To put the Caisses d'Epargne and La Poste stakes in Ciloger on an equal footing, it was proposed at a meeting of the Supervisory Board of Ciloger on 24 July 2003 that SF2 purchase around 15% of the capital from the CDC/Caisses d'Epargne for a price of €1,123,500.

The Government Regulator authorised this operation on 13 January 2006. By way of a private agreement signed on 31 January 2006, the Caisse Nationale des Caisses d'Epargne (CNCE – National Savings Banks Fund) sold to SF2 2,253 shares in Ciloger representing a total of 15.02% of its capital. This acquisition brought SF2's stake in Ciloger in line with that of the Groupe Caisses d'Epargne, both holding 45% with the remaining 10% in the hands of CNP Assurances.

This operation gave SF2 more say in the directions taken by Ciloger, particularly in connection with the development and completion of the range of collectively-managed or paper-based real estate investment products offered by La Banque Postale. These products are an important component of the range of products and services La Banque Postale offers its customers, particularly its Private Banking customers.

Involvement in capital increases: SAS TITRES CADEAUX

SF2, which is 99% owned by La Banque Postale, and Natexis Intertitres, an indirect subsidiary in which Natexis Banques Populaires has a 99.9%

stake, agreed to form a joint venture operating in the special payment facilities sector (specifically gift vouchers/cheques) not governed by the banking monopoly as defined by the Monetary and Financial Code.

To this end, SF2 sold Natexis Banques Populaires 2,000 shares in the company ISSY-SF2, equating to 50% of the latter's capital. On 30 March 2006, the company's activity was changed to the promotion, issue, distribution, processing and reimbursement of gifts cheques/vouchers and, where appropriate, any other special payment facilities not governed by the banking monopoly as defined by the Monetary and Financial Code, giving entitlement to purchase specific goods or services from high street shops and other specified companies (gift-cheques in particular).

In order to provide some of the funding required to get the company up and running, it was decided at a general meeting of shareholders on 18 April 2006 to increase its €40,000 share capital by €500,000 to €540,000 through the creation of 50,000 new shares each with a par value of €10.

D. MOVE TO IAS – IFRS (INTERNATIONAL ACCOUNTING STANDARDS, INTERNATIONAL FINANCIAL REPORTING STANDARDS)

Organisation of the Group's migration to IFRS

On 19 July 2002, the European Parliament adopted EC Regulation n° 1606/2002 requiring companies whose debt securities are listed on a regulated market to draw up their consolidated financial accounts in accordance with the standards laid down by the European Union approved International Accounting Standards by 2007 at the latest.

As of the financial year beginning 1st January 2007, La Banque Postale will prepare its consolidated accounts in accordance with these standards. The 2006 accounts will be restated for comparison purposes.

From the outset, the group set about measuring the impact of the introduction of the IFRS standards. The project is managed by the Accounts Department, within the Financial Division, and is organised around initiatives involving the group's various business lines.

It is a three-stage process:

- a preliminary study of the impact of the IAS/IFRS standards,
- an in-depth analysis of the divergences identified during the first phase,
- the deployment stage, which is currently underway. This sees the progressive implementation of the systems and organisation required to meet the new requirements of the IAS/IFRS model.

MANAGEMENT REPORT

Main divergences between the IAS/IFRS standards and the standard French accounting system

IFRS 1: TERMS AND CONDITIONS GOVERNING FIRST-TIME ADOPTION

The first-time application of IAS/IFRS to the consolidated accounts of the La Banque Postale group as of 1st January 2006 will be in line with IFRS 1, which requires retrospective application and recognition under equity capital in the opening balance sheet as at 1st January 2006 of the impact of the changeover from the standard French accounting practices applied until 31 December 2005.

There are some compulsory and optional exceptions to the principle of retrospective application.

The optional exceptions adopted by the group include the following:

- **business combinations** : business combinations prior to 1st January 2006 will not be restated,
- **recognition of tangible assets at fair value** : the group has availed itself of the option of recognising tangible assets at fair value at the date of transition,
- **accumulated conversion rate adjustments** : the accumulated conversion rate adjustments arising from conversion of the accounts of foreign entities will be transferred to consolidated reserves. This reclassification has no impact on the opening equity capital,
- **share-based payments** : the group has decided to adopt IFRS 2 for share options granted after 7 November 2002 not vesting by 1st January 2006,
- **CNP Assurances** : the CNP Assurances group, consolidated in the accounts of the La Banque Postale group by the equity method, became a first-time adopter of IFRS in the 2005 financial year. As for the CNP Assurances assets and liabilities as at 1st January 2006 in the consolidated accounts of the La Banque Postale group, their book value in the IFRS accounts of CNP Assurances as of 31 December 2005, will be recognised after restatement for consolidation.

SECURITIES PORTFOLIO (IAS 32/39)

Some securities previously recognised as costs will be classified in the new categories “financial instruments measured at fair value through profit and loss” or “available-for-sale assets”. They will be recognised at their fair value as of 1st January 2006 in the opening balance sheet and the difference between this value and their previous book value will be recognised under non-recyclable or recyclable equity capital, as appropriate. At each year-end the “financial instruments measured at fair value through profit and loss” will be measured at fair value with fair value changes recognised in profit and loss and “available-for-sale assets” at fair value with fair value changes recognised directly in equity.

DERIVATIVES (IAS 39)

All derivatives will be recognised in the balance sheet at their fair value through profit and loss. As at 1st January 2006, these adjustments will be recorded under equity capital.

HEDGING INSTRUMENTS (IAS 39)

The group opted to avail itself of the provisions of European Commission

Regulation n°2086/2004 adopting IAS 39 with the exception of some provisions, thus allowing it to class as fair value hedging, as of 1st January 2006 and thereafter, some macro-hedging operations conducted in connection with asset-liability management (including customers' sight deposits). The portion of the elements covered by the fair value micro and macro hedge that is attributable to the hedged risk will be restated at fair value through profit and loss and offsetting entry will be made simultaneously for the hedging derivative. As at 1st January 2006, these restatements will be recognised under equity capital.

FUNDS FOR GENERAL BANKING RISKS (IAS 37)

As the funds for general banking risks do not tie in with the IAS 37 definition of a provision or liability, the corresponding amount has been directly charged to opening equity capital.

GOODWILL

Goodwill will no longer be written off but will be retained in the balance sheet at its historic cost in the currency of the subsidiary acquired and converted at the year-end exchange rate.

Goodwill will be tested for impairment in accordance with IAS 36 as soon as there is any indication of loss of value and on an annual basis at the very least. La Banque Postale already conducts impairment tests to meet the requirements of French accounting standards and so this is not expected to impact the opening balance sheet. The 2006 result will be restated to take account of the depreciation calculated in the accounts drawn up per French accounting standards.

CONSOLIDATION OF CNP ASSURANCES PER THE EQUITY METHOD

As part of the capital restructuring of CNP Assurances, La Poste sold 2% of its shares in CNP Assurances to the Groupe Caisse d'Epargne in 2000. This sale was accompanied by a promise to sell from the Groupe Caisse d'Epargne to allow La Poste to recover the shares sold on expiry of the shareholders' agreement.

In the accounts drawn up under French accounting standards, this sale translated as a reduction in the percentage control of the La Poste group/La Banque Postale in CNP Assurances (from 19.75% to 17.75%).

In the opening IFRS balance sheet, it was considered that the La Poste group/La Banque Postale retained responsibility for the risks and continued to reap the benefits from these shares. CNP Assurances will thus be consolidated per the equity method and the percentage control recorded as 19.75%.

COMMITMENT TO REACQUIRE OWN MINORITY INTERESTS

Under IAS 27, “Consolidated and Separate Financial Statements”, and IAS 32, “Financial Instruments: disclosures and presentation”, as they stand at present, the group has to register a debt as commitment for purchasing minority interest and debt is offset by reduction in minority interest.

I.2. The results

A. NOTE REGARDING THE COMPARABILITY OF THE PROFIT & LOSS ACCOUNT

As the effective date for the activities transferred by La Poste to Efposte, which became La Banque Postale, was 31 December 2005, the 2005 results of the activities transferred were retained by La Poste.

Thus, the 2005 figures appearing in the profit & loss account are those published for the 2005 financial year by Efposte.

In order to facilitate comparison of the accounts, an addendum has been provided indicating, for the main Net Banking Income entries, their value as of 31 December 2005 in the La Poste accounts (for the Financial Services of the latter), in the accounts of the Fonds d'Epargne managed by the Caisse des Dépôts et Consignations (the Caisse Nationale d'Epargne elements) and in the Efposte accounts.

B. SUMMARY OF THE 2006 FINANCIAL RESULTS

The 2006 financial results of La Banque Postale are specific in nature.

- As these are La Banque Postale's first accounts, they cannot be compared to a previous financial year.
- The balance sheet as at 31/12/2006 can, however, be compared to the opening balance sheet as at 31/12/2005.
- Remember also that until 2005 the activity of La Poste Financial Services was recorded in industrial and commercial accounts whereas La Banque Postale naturally operates in line with the banking chart of accounts.

The balance sheet of La Banque Postale shows:

- on the one hand, the origin of its various components: the post office accounts handled by Efposte; the regulated savings managed by the savings fund of the Caisse des Dépôts et Consignations (CDC);
- and on the other, the business restrictions which applied to the Financial Services of La Poste, particularly lending restrictions, resulting in a small customer operation compared to the customer resources of La Banque Postale (€20.8 billion out of €91.2 billion) and very high investment volume.

The profit & loss account of La Banque Postale reflects the post office banking model and the magnitude of the sums of money invoiced by La Poste to La Banque Postale (€3.3 billion out of total operating costs of €4.2 billion).

Within the regulatory framework La Banque Postale must adhere to, it had to record an additional €200 million unexpected costs from the network, in addition to those arising from the simple application of the service agreements. However, the results of La Banque Postale exceed the business development plans lodged with the CECEI (French Committee for credit institutions and investment companies) in support of its approval application with an operating coefficient of 91.8% compared to the anticipated coefficient of over 93%.

La Banque Postale has achieved these results in a highly competitive market which is marked by very low long rates and major pressure on home lending margins.

Excluding items linked to the economic climate (write-back of the provision for home loan savings, changes in commission rates for centralised regulated savings, capital loss on placement securities), the NBI is very slightly higher than forecast.

These good results have been achieved on the back of:

- a strong increase in NBI which reached €4,613 million, including an interest margin of €2,735m and net commission to the tune of €1,612m,
- efficient cost control. Excluding unforeseen network costs, these were very much lower than anticipated.

This gives a Gross Operating Profit of €378.5m and a Net Profit Group Share of €372.4m on the basis of a practically negligible cost of risk (€8.9m).

MANAGEMENT REPORT

C. NET BANKING INCOME

Net Banking Income increased 6.5% against a pro forma NBI for 2005. 2006 consolidated NBI was thus €4,612 million compared to the pro forma 2005 NBI of €4,333 million.

The table below shows the contribution of the various activities of the group to this increase:

NBI by Sector

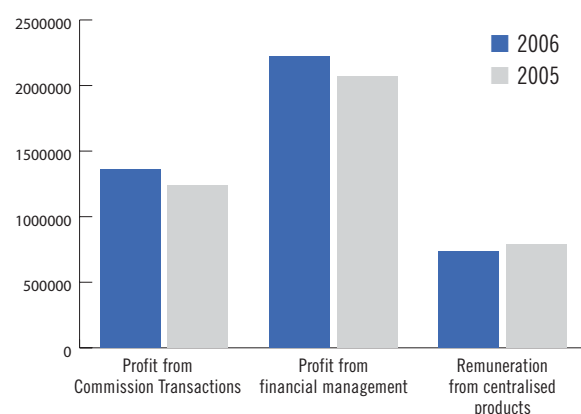
| | 2006 | 2005* | Evolution |
|------------------|------------------|------------------|--------------|
| Retail banking | 4,329,185 | 4 099,530 | 5.60% |
| Asset Management | 213,247 | 180,808 | 17.94% |
| Insurance | 70,290 | 52,397 | 34.15% |
| TOTAL | 4,612,722 | 4,332,735 | 6.46% |

* pro forma figures for 2005

The NBI of the bank's different sectors of activity increased significantly between 2005 and 2006. Retail banking remains the major contributor to the group's NBI and the good performances recorded are testimony of the bank's dynamic sales policies.

Retail Banking

The NBI of retail banking, equating to the contribution made by La Banque Postale, grew by 5.6% between 2005 and 2006. It comprises commission received from customers, the NBI from financial transactions (interest margins and returns from placement and trading portfolios) and remuneration from the products managed centrally by the CDC.



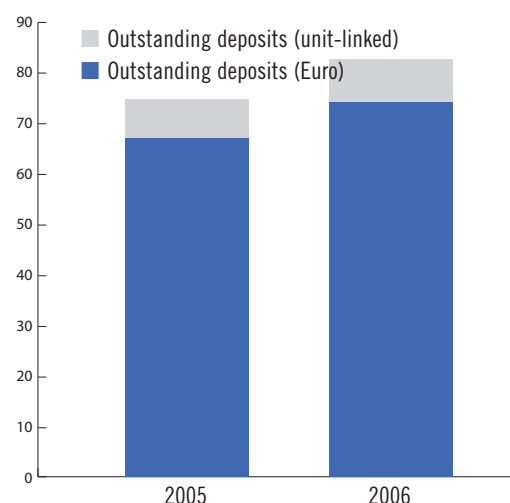
Retail banking NBI

The NBI from **commission-based transactions** was up more than 10% at €1,364 million in 2006, marking the level of commercial activity over the period. The major contributing factors were a significant rise in the distribution of insurance products, an increase in the number of active customers of La Banque Postale and better equipment of customers.

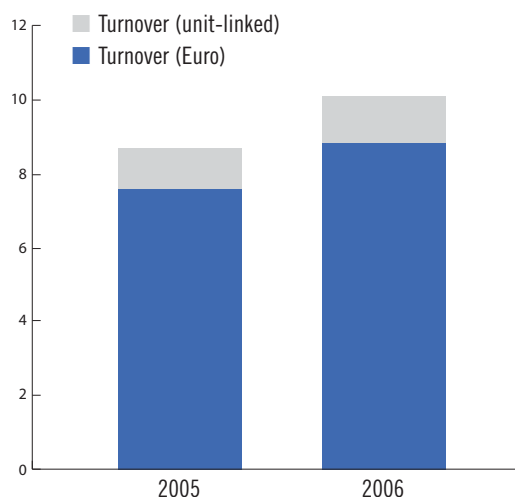
Commission earned on life assurance and provident products reached almost €482 million, up 10.7% on 2005. A major portion of this increase can be attributed to the impact of the new partnership agreement signed in July 2006 with CNP Assurances, providing for improved commission terms for La Banque Postale and extension of the agreement until 2015.

The sector benefited from the success of the Vivaccio range – 400,000 policies taken out generating an inflow of around €3 billion – and transfers made under the “Fourgous amendment”.

Note also that the contribution of unit-linked accounts to 2006 an inflow increased significantly (up 62%) to €1.5 billion.



Life assurance outstanding deposits (in €billion)



Turnover from life assurance policies (excl. Fourgous) (in € billion)

Commission earned from banking services increased considerably in 2006 (up 17.2%) to €918.8 million. This performance is linked essentially to the increase in active customers and a better equipment of customers.

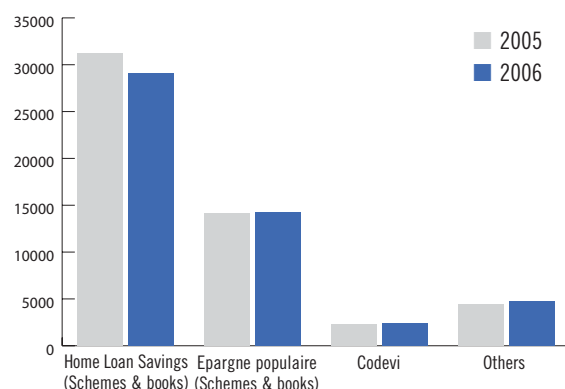
There were 175,527 additional current accounts opened and 674,730 additional packages sold (net of closures and redemptions).

As a result of this dynamic sales policy, the equipment of customers in payment cards reached 48.5% and in packages 28.6%, with the Adispo Privilège range proving to be particularly successful with 473,158 new accounts opened (net of closures).

The financial management results cover La Banque Postale's asset-liability and cash flow management activities.

This sector saw its NBI increase by 7.4% between 2005 and 2006 to reach €2.226 million.

This increase incorporates a write-back of €237 million from Home Loan Savings, linked principally to the impact of higher interest rates and a drop in current home loan savings outstanding deposits, which fell by more than €2 billion between 2005 and 2006.



Current savings outstanding deposits (in € million)

The net interest margin increased by 2.8% over the period.

The **securities result** increased considerably mainly due to good portfolio performance following reinvestment of the cash funds received from the Caisse Nationale d'Epargne (CNE). The higher NBI also incorporates the impact of the rise in interest rates on the value of the portfolio of fixed income securities received as part of the assets transferred from the CNE.

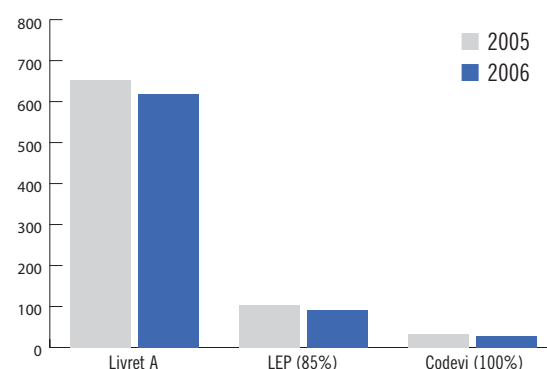
Interest from loans was also slightly up over the period (up 1.87% from €860m to €876m).

The number of credit lines opened is in line with forecasts despite rife competition. However, the bank also recorded a relatively high number of early repayments in the first six months of 2006 due mainly to a lack of repurchase options available for most of the year. The financial year was also marked by particularly low margins.

Despite healthy levels of outstanding deposits, **the global remuneration from products managed centrally by the CDC**, including the Codevi, the centralised LEP and the Livret A, fell by more than 6% over the period, giving a 2006 result of €739 million compared to €789 million for 2005.

This downturn is linked to the fall in the rate of remuneration from Livrets d'Epargne Populaire outstanding deposits, which went from 1% to 0.5% for centralised outstanding deposits (85%) in October 2006, and a lower return from Industrial Development Securities (down 0.5% on average) since the start of the year. The latter represents the return on Codevi products which are all managed centrally by the CDC.

November 2005 saw a reduction in management commission from the Livret A and the impact of this over the year as a whole is estimated to be €39 million.



Results of the centralised products (in € millions)

Asset management and Insurance-Provident activities

The NBI for the **asset management** sector, generated principally by La Banque Postale Asset Management which came under the full control of La Banque Postale in 2006, grew by 18% between 2005 and 2006 to €213 million.

MANAGEMENT REPORT

Assets under management (excluding interds of funds and master funds), benefiting from good market conditions, were up on 2005 at €32.3 billion at the end of 2006. Inflow was particularly high from equity mutual funds and guaranteed capital mutual funds, with additions being made to the range over the period.

The NBI from Insurance-Provident activities, less significant than that of the other sectors, grew by a massive 34% between 2005 and 2006 to end of the year at €70 million.

The main contributing factor was the strong growth in business recorded by the subsidiaries of La Banque Postale handling provident products (Assurposte) and brokerage activities (Sogergo).

Assurposte's results incorporated a major increase in individual provident products, driven by the success of the Résolys and Prémunys packages in particular.

Sogergo's growth was to a large extent attributable to brokerage activities on the Alliatys bank card insurance product, to which new cover, such as cover for theft of mobile phone in 2004 and new social and solidarity-based guarantees in 2005, is added regularly.

The result of CNP Assurance, consolidated per the equity method, is not included in the NBI for the insurance sector.

D. OPERATING COSTS

Due to perimeter changes and the many responsibilities transferred between the headquarters of the group and its subsidiaries when La Banque Postale was created, it has not been possible to draw up a pro forma for 2005.

Operating results (In €m)

| | 2006 |
|--|----------------|
| Staff costs | 125.5 |
| Other operating costs | 3,994.9 |
| Allocations to amortisation and depreciation | 86.0 |
| Duties and taxes | 27.8 |
| Total | 4,234.2 |

The majority of operating costs are incurred by the retail banking activity:

| | |
|----------------------|----------|
| – Retail banking : | 4,013 M€ |
| – Asset management : | 187 M€ |
| – Insurance : | 34 M€ |

Staff costs

Staff numbers at Etiposte (now La Banque Postale) increased significantly in 2006 as a result of the activities transferred over from La Poste on creation of the bank, the expansion of some divisions (risks, conformity, legal services), the gradual increase in importance of the control functions and the introduction of the Bank's Territorial Representatives and functions in charge of the commercial channel.

The year also saw La Banque Postale put in place a social policy with the signature of the incentive remuneration agreements and the creation of a Company Savings Scheme to which 68% of employees subscribed.

The other operating costs are principally, for retail banking, amounts invoiced by La Poste to La Banque Postale for the use of production and distribution tools. At €3,289 million, these account for the major portion of the group's costs and include invoices in connection with:

- “counter transactions” (€1,126 million) which are falling in volume from one year to the next as cash withdrawals tend to move to automated teller machines and remote banking activities increase;
- “the commercial channel” (€1,117 million) which has seen the creation of new functions (sales promotion managers) and the recruitment of financial, asset management and property advisors (almost 900 people);
- “use of La Poste personnel in the Financial Centres and the IT departments” (€963 million). On-going initiatives to optimise procedures within the Financial Centres have progressed in line with business developments and kept staffing levels under control. However, continued adaptation of La Banque Postale's IT systems has required the recruitment of additional specialist teams.

Allocations to amortisation and depreciation stand at €86 million and relate principally to IT equipment.

E. OUTLOOK

In 2007, in line with its strategic plan and business development plan, La Banque Postale will step up efforts to develop its lending activity, improve the equipment of private customers, increase its asset management customer base and expand its range of products and services for both corporate and private customers.

It will bolster the value of the CNP Assurance share by subscribing, via Sopassure, to the capital increase of CNP Assurances, intended in part to fund the acquisition of the Groupe Caisse d'Epargne's equity investment in Ecureuil-Vie.

It will pursue its IAS/IFRS initiative and will adopt these standards for the first time in 2007.

I.3 Governance

PREAMBLE

La Banque Postale, a société anonyme [public limited company] with an Executive Board and a Supervisory Board, is wholly-owned by La Poste. It began operating as a Bank on 1st January 2006 having received CECEI approval to operate as a credit institution on 2 December 2005.

Hence, as a commercial company, it is bound principally by the Commercial Code, as a credit establishment, by the Monetary and Financial Code and the rules of the CCLRF (CRBF) and as a public sector company, by the Law on the Democratisation of the Public Sector of July 1983.

The governance of La Banque Postale is organised on the basis of the recommendations of the Agence des Participations de l'Etat (State Holdings Agency) which are, in turn, inspired principally by the Viénot/Bouton reports.

A. THE SUPERVISORY BOARD

Composition

The Supervisory Board chaired by Jean-Paul Bailly, Chairman of La Poste, comprises 7 members holding management positions within La Poste, 3 independent members and 3 members elected by employees in October 2006 pursuant to the Law on the Democratisation of the Public Sector.

Members of the Supervisory Board are appointed for a 5-year term.

To be considered independent, a member of the Supervisory Board must have no connections whatsoever with the company, its group or its executives which would compromise his or her freedom of judgement.

Members holding management positions within the La Poste group:

- **Jean Paul Bailly**, Chairman of the La Poste group
- **Marc André Feffer**, Deputy Managing Director of the La Poste group responsible for strategy, innovation, international development, regulatory affairs, legal affairs and information systems
- **Didier Brune**, Director of Strategy for the La Poste group
- **Paul-Marie Chavanne**, Director of the Parcels Division, CEO of GEO-POST
- **Nicolas Duhamel**, Deputy Managing Director, Finance Director of the La Poste group
- **La Poste**, represented by **Georges Lefebvre**, Managing Director of the La Poste group
- **Didier Négier**, Director of Purchasing, cost control and information systems of the La Poste group.

Independent members

- **Gérard Barbot**, Company Director
- **Sylvain Lemoyne de Forges**, Director of Financial Operations of Veolia Environnement
- **Didier Ribadeau Dumas**, Managing Director of several companies.

Employee representatives

- **Didier Galopin**, CBanking Controller, sponsored by the CFDT
- **Frédéric Saint Leger**, Head of Derivates Management, sponsored by CFE-CGC
- **Hélène Wolff**, Project Manager with the Information Systems Division, sponsored by CFDT.

The employee representatives were elected in October 2006.

(A detailed list of the mandates held by each of the members of the Supervisory Board is appended to this report).

The following persons are also part of the Supervisory Board but have no voting rights:

- the two members of the Executive Board
 - the Government Commissioner, **Mr Christian Bodin**
 - the Secretary of the Supervisory Board
 - the Secretary of the Works Committee
 - and, where appropriate, the auditors.
- Currently, the average age of the Board members is 54.

I. The role and workings of the Supervisory Board

■ Mandates and powers of the Supervisory Board

The Supervisory Board holds the powers granted to it under the Commercial Code, the Law on the Democratisation of the Public Sector of 26 July 1983 and the articles of association of the company, specifically as set forth in Article 25 thereof.

The Supervisory Board debates issues regarding the major strategic, economic, financial and technological directions of the business, prior to a decision being taken by the Executive Board. It monitors the management activities of the Executive Board on an ongoing basis and approves operations which, pursuant to Article 14 of the articles of association, the Executive Board cannot take without its prior consent. It checks and audits the accounts. It appoints the members of the Executive Board and determines their remuneration.

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■ Rights and obligations of the Members of the Supervisory Board

At a meeting held on January 25 2006, the Supervisory Board adopted the Membership Charter for the La Banque Postale Supervisory Board which sets forth the rights, obligations and principles applicable to a Member of the Supervisory Board. At the same meeting it also adopted the rules of procedure governing the preparation and organisation of its duties.

■ Activity of the Supervisory Board in 2006:

The Supervisory Board met 7 times in the 2006 financial year with an average attendance rate of 90%. It examined:

- the Executive Board's quarterly business reports,
- the annual accounts, the 2005 management report and the 2006 half-year reports,
- the internal audit report (Art. 42 and 43 of Regulation 97-02),
- the 2006 budget, the 2007 budget and the three-year plan,
- the remuneration of company representatives,
- investments in excess of €12 million,
- the governance mechanisms of La Banque Postale,
- the renewal of the mandate of one of the two auditors and the replacement of the other one,
- changes to the Livret A and the impact of these on the company,
- The SEPA issue and its implications,
- Various changes to the articles of association including consolidation of the company's shares,
- an issue of debt securities.

In accordance with the rules of procedure, the Members of the Supervisory Board receive notification of the meeting 15 days before it is held and the corresponding preparatory file 7 days prior to the meeting.

■ Remuneration of the Members of the Supervisory Board

An attendance allowance is granted to all members of the Supervisory Board except for the employee representatives.

The Chairman of the Supervisory Board receives an attendance allowance in the form of a fixed amount paid on an annual basis.

The attendance fees of the members are calculated on the basis of their actual attendance at meetings of the Supervisory Board and its Committees, the Chairman of each committee receiving an additional fixed amount on an annual basis.

For all La Poste members of the Supervisory Board, the La Poste rules governing attendance fees apply.

II. Organisation and workings of the special committees.

The Supervisory Board has set up three committees designed to assist it. It has appointed the members and the Chairman of each of these committees.

The tasks of each of these committees, the selection criteria for their members and their rules of operation are set forth in rules of procedure approved by the Supervisory Board.

■ The Audit Committee

The Audit Committee comprises 5 members:

- three independent members, **Didier Ribadeau Dumas** Chairman, **Gérard Barbot** and **Sylvain de Forges**,
 - a member from La Poste, **Nicolas Duhamel**,
 - and since October 2006, an employee representative, **Hélène Wolff**.
- The Government Commissioner, **Christian Bodin**, also attends Audit Committee meetings.

The principal duties of the committee are:

- to ensure that information provided is clear and to assess the relevance of the adopted accounting methods,
- to conduct the auditor selection procedure,
- to assess the quality of the internal audit.

The audit committee meets at least four times a year and specifically prior to any meeting of the Supervisory Board for which the agenda includes one or more issues falling within its competence.

In 2006, it met 6 times with an average attendance rate of 85%.

The main topics examined in 2006 were:

- its rules of procedure,
- the register of limitations,
- the selection procedure to replace the auditors whose mandate was about to expire,
- the charter, periodic business reports and the programme of the General Inspectorate,
- the internal audit report (Articles 42 and 43 of Regulation n° 97-02),
- the impact of the switchover to IRFS,
- the company and consolidated annual accounts, the 2005 management report,
- the 2006 half-year reports,
- the business continuity plan.

The Audit Committee delivers a report to the Supervisory Board after each of its meetings.

■ The Appointment-Remuneration Committee

The Appointment-Remuneration Committee has 3 members:

- an independent member, **G rard Barbot**, its Chairman
- two members from La Poste, **Jean-Paul Bailly** and **Georges Lefebvre**.

The main tasks of the committee are:

- to examine the profiles of candidates independent from La Poste and put forward to sit on the Supervisory Board or the Executive Board,
- to examine the remuneration of company representatives whether fixed or variable or paid in cash or benefits in kind,
- to examine the retirement and welfare schemes,
- to examine whether or not it is appropriate to create profit-sharing or incentive-based payment schemes for company directors or employees.

The Appointments-Remuneration Committee met five times during the year with a 100% attendance rate.

In the course of the 2006 financial year, it examined a candidacy for member of the Supervisory Board and the method of distribution of the attendance fees to be allocated to members of the Supervisory Board other than the employee representatives. After examination of market practices, it also drafted a proposal for the remuneration of the two Executive Board members.

■ The Strategic Committee

The Strategic Committee has 4 members:

- an independent member, **Sylvain de Forges**,
- two members from La Poste, **Marc-Andr  Feffer** Chairman, and **Paul-Marie Chavanne**,
- and since October 2006, an employee representative, **Fr d ric de Saint-Leger**.

Government Commissioner, **Christian Bodin**, also attends the Strategic Committee meetings.

The Strategic Committee examines and monitors implementation of the company's multi-year strategic plan and the strategic projects and operations of the company and its subsidiaries.

It examines those operations which, by law or by virtue of the articles of association, require the prior approval of the Supervisory Board.

The Strategic Committee met once during the year to discuss the issue surrounding the Livret A and exercise of the purchase option on 35% of the capital of La Banque Postale Asset Management. All its members were present.

Assessing the performance of the Supervisory Board

2006 was the year in which La Banque Postale was created and its committees put in place. By the end of 2007, with the first two years of banking activity behind it, the Supervisory Board will be in a position to examine in depth the *modus operandi* of La Banque Postale and identify any areas for improvement.

III. The Executive Board

La Banque Postale is a company with an Executive Board and a Supervisory Board.

As such, the general management of the company is in the hands of the Executive Board which has the furthest reaching powers to act in all circumstances on behalf of the company within the limits of the company is object and notwithstanding those powers expressly conferred upon the Supervisory Board and the General Meeting of Shareholders by virtue of the law and the articles of association, specifically Article 14 thereof.

The Executive Board comprises two members:

- **Patrick Werner**, Chairman
- **Philippe Bajou**.

The two members of the Executive Board have the status of accountable manager pursuant to Article L 511-13 of the Monetary and Financial Code.

The members of the Executive Board share the management duties in accordance with a division of duties authorised by the Supervisory Board. They have also set limits beyond which certain acts committing the company shall require the prior approval of the Executive Board on penalty of incurring the liability of their perpetrator vis- -vis the company and its shareholders.

IV. The Internal Committees

La Banque Postale has 8 internal committees, each one chaired by a member of the Executive Board.

Each division manager is a member of the internal committee specific to his or her area. The Bank's Territorial Representatives (BTR) also participate in some of these committees.

Following consultation with members of the committee, an agenda is drawn up for the committee meeting and approved by the Committee Chairman. It is sent to all members 24 hours prior to the meeting. Minutes are systematically drafted and submitted to the Chairman for approval.

■ **The Executive Committee** assists of Executive Board in establishing the strategic direction the company is to take and drafting the strategic plans. It also helps to make major collective decisions and implement these at operational level. It meets three times a month.

■ **The Management Committee** is a platform for the reciprocal exchange of information, particularly with regard to the deployment of the bank's major policies, the progress of projects and budget updates, the management charts and the bank's results. It also manages the career paths of senior executives and those displaying high potential. It meets once a month.

■ **The Risk Committee** helps define the lending policy for each sector of activity, reviews appreciable risks, approves major commitments, monitors operational risks and validates the risk control mechanisms. It meets once a month.

■ **The Conformity and Deontology Committee** ensures that effective, coherent measures are in place to combat money laundering and the funding of terrorism, coordinates the internal audit activities, secures conformity with the rules of deontology and investigates major conflicts of interest. It meets once a month.

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■ **The ALM Committee** reviews the mechanisms in place for monitoring the financial risks inherent to balance sheet management and in particular the policy for controlling global interest rate and liquidity risks. It meets every two months.

■ **The Strategic Information Systems Committee** monitors the IT budget and prepares arbitrages on the portfolio of IT projects in line with the strategic plan. It meets every three months.

■ **The Marketing Committee** prepares the marketing policy and monitors decisions concerning the inclusion of products and services in the range. It meets on a monthly basis.

■ **The Customer Quality Committee** puts forward quality policy recommendations and monitors customer satisfaction, the quality of the services offered to them and good practices within the sector. It meets every three months.

V. Rémunération

REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

Attendance fees are paid to all members of the Supervisory Board with the exception of the employee representatives. The total sum to be allocated, as fixed by the General Meeting of Shareholders on 23 May 2006, is €450,000.

On the basis of a proposal from the Appointments-Remuneration Committee, the Supervisory Board has established the method of calculation of the attendance fees of the other members in accordance with their actual attendance at the meetings of the Supervisory Board and its committees, the Chairman of each committee receiving an additional fixed amount on an annual basis. The Chairman of the Supervisory Board receives a fixed annual sum by way of an attendance allowance.

For all La Poste members of the Supervisory Board, the attendance fees are set in accordance with rules of procedure of the La Poste group. As such, the attendance fees allocated to the La Poste members of the Supervisory Board are paid to La Poste.

Members of the Supervisory Board

| Independent members | 2006 attendance fees |
|---------------------------|----------------------|
| Gérard Barbot | €45,500 |
| Sylvain Lemoyne de Forges | €24,000 |
| Didier Ribadeau Dumas | €21,215 |

REMUNERATION OF THE MEMBERS OF THE EXECUTIVE BOARD

The two members of the Executive Board receive a fixed annual remuneration to which may be added an annual bonus based on the achievement of business plan objectives and a 3-year super bonus if performance exceeds the business development plan.

They also receive membership of a health and welfare scheme and severance pay equivalent to 30 months fixed pay and annual bonus calculated on the basis of the last 12 months should their mandate on

the Executive Board come to an end (excluding resignation or discharge from their functions on the grounds tantamount to gross misconduct).

Remuneration and benefits received by company representatives during 2006

| Members of the Executive Board | Fixed remuneration ⁽¹⁾ | 2006 benefits in kind | Bonus | Gross total |
|--------------------------------|-----------------------------------|-----------------------|------------------------|-------------|
| P Werner | €304,000* | | | €304,000.00 |
| P Bajou | €220,000 | €4,555.20 | €91,000 ⁽²⁾ | €315,555.20 |

(1) Company mandate

(2) Bonus earned in 2006 by virtue of his duties as Managing Director of Etiposte in 2005

* portion of the remuneration paid by La Banque Postale

REMUNERATION OF THE EMPLOYEE REPRESENTATIVES ON THE SUPERVISORY BOARD REPRESENTANT LES SALARIES

The total remuneration paid to employee representatives on the Supervisory Board in 2006 was €174,899.35.

B. RELATIONS WITH ITS SHAREHOLDER

Pursuant to Article 16 of Act n° 2005-516 of 20 May 2005 and its implementing decree of 30 August 2005, La Poste transferred to La Banque Postale, effective 31 December 2005, all assets, rights and obligations of all kinds linked to its financial services. This included equity interests but excluded, where appropriate, those required for the activities it operated directly. In return for the activities transferred, it was granted 1,008,333,000 La Banque Postale shares each of a nominal value of €2.16, giving La Poste a 99.99% stake in La Banque Postale capital.

The aforementioned Article 16 explicitly states that La Poste must have a majority shareholding in its subsidiary.

Furthermore, under the terms of the Transfer Agreement, La Poste has promised to hold its shares in the company for a period of three years. To the knowledge of La Banque Postale, there are no agreements in place which could subsequently alter the shareholding of La Poste. La Poste and La Banque Postale enjoy a very close relationship in terms of governance and management bodies and also on a commercial and industrial basis.

The Chairman of the Executive Board of La Banque Postale holds the position of Deputy Managing Director of La Poste, responsible for Financial Activities. He is a member of the Executive Committee of La Poste.

Within the Supervisory Board of La Banque Postale, 7 out of the 10 members elected by shareholders come from the La Poste group. With the Chairman of La Poste presiding over the Supervisory Board, La Poste is also represented within the committees of the Supervisory Board.

La Poste is the main service provider of La Banque Postale, which avails itself of La Poste resources for its operations. Various agreements have been concluded between La Poste and La Banque Postale to this effect and pursuant to Article 16 of Act n° 2005-516 of 20 May 2005. The most important of these have been authorised by the Supervisory Board in accordance with Article L 225.86 of the Commercial Code, with COMEX members of La Poste not taking part in the vote. Finally, La Banque Postale is the main banker of La Poste. Alongside the close relationship it enjoys with its parent company, La Banque Postale also has regular contact with the Agence des Participations de l'Etat which receives information principally on the strategic directions taken by the bank.

Annexe I.3 : List of the mandates and functions exercised by the company representatives in the course of the financial year

■ **Mr Patrick Werner**, Chairman of the Executive Board of La Banque Postale:

- Deputy Managing Director of La Poste with responsibility for Financial Activities,
- CEO of SF2,
- Permanent representative of SF2, Director of Sopassure,
- Chairman of the Board of Directors of Assurposte,
- member of the Supervisory Committee of CNP Assurances,
- Director of Europay France (SAS – Simplified Joint Stock Company),
- Chairman of the Supervisory Board of La Banque Postale Asset Management,
- Chairman of BMS Développement (SAS),
- Chairman of BMB Exploitation (SAS),
- Chairman of the Sicav [fund] “LBPAM Obli Court Terme”,
- Chairman of the Sicav “LBPAM Actions Euro”,
- Chairman of the Sicav “LBPAM Actions Indice France”,
- Chairman of the Sicav “LBPAM Actions Indice Euro”,
- Chairman of the Supervisory Board of XAnge Private Equity (SAS),
- Chairman of SFPMEI (SAS),
- Director of Poste Immo,
- Chairman of the Supervisory Committee of La Société Financière de Paiements (SAS),
- Permanent representative of La Banque Postale, Director of the Afpen Association.

■ **Mr Philippe Bajou**, Member of the Executive Board of La Banque Postale:

- Vice-Chairman of the Supervisory Board of La Banque Postale Asset Management,
- Permanent Representative of La Poste, Director of the SIVAV “LPBAM Obli Long Term 1”,
- Chairman of the SIVAC “LPBAM Obli Revenus”,
- Chairman of the Supervisory Board of Efpiste Gestion SA,
- Vice-Chairman of the Board of Directors of Titres Cadeaux (SAS),
- Chairman of Fédération SF2 (SAS),
- Managing Director of EF Primo.

■ **Mr Jean-Paul Bailly**, Chairman of the Supervisory Board and Member of the Appointments-Remuneration Committee of La Banque Postale:

- Chairman of La Poste,
- Permanent representative of La Poste, Director of GeoPost,
- Permanent representative of La Poste, Director of Sofipost,
- Permanent representative of La Banque Postale, Director of SF2,
- Director of Sopassure,
- Member of the Supervisory Board of La Banque Postale Asset Management,
- Director of Systar,
- Vice-Chairman of the Supervisory Board of CNP Assurances,
- Director of Poste Immo,
- Permanent representative of La Poste, Member of the CCR Grand Var Traders' Group,
- Permanent representative of La Poste, Chairman of SF 12 (SAS).

■ **Mr Nicolas Duhamel**, Member of the Supervisory Board and Member of the Audit Committee of La Banque Postale:

- Deputy Managing Director, Financial Director of the La Poste group,
- Director of Sofipost,
- Director of GeoPost,
- Director of Poste Immo,
- Member of the Supervisory Board of La Banque Postale Asset Management,
- Director of Assurposte,
- Director of SF2,
- Member of the Supervisory Board of Xange Capital.

■ **Mr Didier Brune**, Member of the Supervisory Board of La Banque Postale:

- Director of Strategy with La Poste,
- Director of Aspheria Holding,
- Chairman of the Board of Directors of Doc Station until 28 September 2006,
- Director of Somepost.

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■ **Mr Gérard Barbot**, Member of the Supervisory Board, Member of the Audit Committee and Chairman of the Appointments-Remuneration Committee of La Banque Postale:

- Member of the Supervisory Board of Odéo et Cie,
- Chairman of the Supervisory Board of Vauban Mobilisation Garanties,
- Member of the Supervisory Board of Crédit Foncier de France,
- Member of the Supervisory Board of La Banque Postale Asset Management,
- Director and Chairman of the Audit Committee of Géopost.

■ **Mr Paul-Marie Chavanne**, Member of the Supervisory Board and Member of the Strategic Committee of La Banque Postale:

- Deputy Managing Director – Director of “Colis de La Poste” [the parcel service],
- CEO of Géopost,
- Member of the Supervisory Board of Geopost Imdh GmbH,
- Director of Geopost UK,
- Chairman of the Board of Directors of Europe Airpost,
- Permanent representative of Geopost, Director of Chronopost,
- Director of Poste Immo,
- Director of Sofipost,
- Director of Générali Assurances IARD,
- Director of Générali Assurances –Vie,
- Director of Gaz de France.

■ **Mr Marc-André Feffer**, Vice-Chairman of the Supervisory Board and Chairman of the Strategic Committee of La Banque Postale:

- Deputy Managing Director with responsibility for the Strategic Development of International and Legal Affairs and Regulation of the Groupe La Poste,
- Director of Sopassure,
- Permanent representative of Sopassure, Member of the Supervisory Board of CNP Assurances,
- Director of GeoPost,
- Chairman of the Supervisory Board of Xange Capital.

■ **Mr Philippe Galopin**, employee-elected Member of the Supervisory Board of La Banque Postale.

■ **Mr Georges Lefebvre**, Permanent Representative of La Poste, Member of the Supervisory Board and Member of the Appointments-Remuneration Committee of La Banque Postale:

- Managing Director and Director of Human Resources and Industrial Relations of La Poste,
- Director of Poste Immo,
- Director and Member of the Appointments-Remuneration Committee of GeoPost,
- Director and Member of the Appointments-Remuneration Committee of Sofipost,
- Chairman of the Board of Directors of the SIVAC “LBPAM Profil 100”,
- Chairman of the Board of Directors of the SIVAC “LBPAM Profil 50”,
- Chairman of the Board of Directors of the SIVAC “LBPAM Profil 80”,
- Chairman of the Board of Directors of the SIVAC “LBPAM Profil 80 PEA”,
- Chairman of the Board of Directors of the SIVAC “LBPAM Profil 15”.

■ **Mr Sylvain Lemoyne de Forges**, Member of the Supervisory Board, Member of the Audit Committee and Member of the Strategic Committee of La Banque Postale:

- Director of Financial Operations of Véolia Environnement,
- Director of Véolia Environnement Services,
- Manager of SCI Fondvert.

■ **Mr Didier Négier**, Member of the Supervisory Board of La Banque Postale:

- Director of Purchasing, Cost Optimisation and Information Systems of La Poste.

■ **Mr Didier Ribadeau Dumas**, Member of the Supervisory Board and Chairman of the Audit Committee of La Banque Postale:

- Director of Aspheria Holding,
- Manager of DRD Conseil,
- Manager of Sauvigny.

■ **Mr Frédéric de Saint Leger**, employee-elected Member of the Supervisory Board of La Banque Postale.

■ **Mrs Hélène Wolff**, employee-elected Member of the Supervisory Board of La Banque Postale.

I.4 The prudential ratios

A. INTERNATIONAL SOLVENCY RATIO

The international solvency ratio is the measurement of the ability of financial institutions to face up to credit and market risks.

This ratio has been calculate per the standard method.

The international solvency ratio is 12.9%, including additional Tier 2 equity capital.

It should be remembered that La Banque Postale began operations on 1st January 2006 following a transfer of assets by La Poste on 31 December 2005. Comparison with the figures as at 31.12.2005 therefore does not give a meaningful picture of the progress of the business.

Prudential equity, weighted outstanding deposits and solvency ratios (in €m)

| | 31 December 2006 | 31 December 2005 |
|---|------------------|------------------|
| Prudential equity | | |
| Equity capital group share | 2,973 | 2,811 |
| Dividends | | |
| Minority interests after distribution | 0,7 | 12 |
| Prudential deduction ¹ | -544 | -164 |
| Total core equity capital | 2,428 | 2,647 |
| Total supplementary equity capital | 500 | 0 |
| Other deductions ² | -95 | -29 |
| Total prudential equity | 2,834 | 2,618 |
| Weighted risks | 1,753 | 1,574 |
| International solvency ratio (Cooke ratio) in % | 12.9 | 13.3 |
| Tier one ratio (in %) | 11.1 | 13.5 |

1. Principally goodwill, intangible fixed assets

2. Equity interests in financial companies not consolidated or consolidated per the equity method

B. CAPITAL ADEQUACY RATIO

The equity capital requirement for the La Banque Postale group, calculated in accordance with the regulations and instructions brought in to implement European directives into French law, gives the following available equity capital to capital requirement ratios:

- 138% based on Tier 1 equity capital alone
- 162% taking the additional capital into account.

As the La Banque Postale group has been classed as a financial conglomerate by the Banking Commission, the texts implementing the financial conglomerate directive into French law require that the group's equity capital is at all times equal to or higher than the sum of the solvency requirements applicable to its activities in the banking sector and the insurance sector. This requirement was met as of 31 December 2006.

C. OTHER RATIOS

Control of major risks

This ratio is calculated on a quarterly basis in accordance with the requirements of the supervisory authorities. The institutions required to adhere to this ratio must comply with the following constraints:

- for beneficiaries for which the individual risk exposure exceeds 10% of the net consolidated equity capital, total risk exposure must not exceed 8 times the value of this consolidated equity capital,
- the total risks incurred on a single beneficiary must not exceed 25% of the group's net equity capital.

Banque Postale adheres to this ratio at all times as appropriate limits have been set for each counterparty.

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Liquidity ratio

This is a ratio used to monitor short-term liquidity. It is calculated monthly and must be higher than 100%.

La Banque Postale adheres to this ratio at all times. The average value for 2006 was 183%.

Equity capital and permanent resources coefficient

This ratio measures the coverage of usage of over five years by resources with a residual lifespan of over five years. It is calculated on an annual basis and must be over 60%.

La Banque Postale adheres to this ratio at all times. As at 31 December 2006 it was 152%.

D. REFORM OF THE INTERNATIONAL SOLVENCY RATIO (KNOWN AS THE "BASEL II" REFORM)

La Banque Postale was established on 1st January 2006 as a result of La Poste transferring its Financial Services to its subsidiary in charge of post office accounts.

The majority of La Banque Postale's business is with private customers. On the date of its creation, its products and services were extended to include home lending without prior savings. Hence, La Banque Postale does not operate on the corporate credit market or the consumer credit market.

On this basis, the assets of La Banque Postale balance sheet fall into two main categories:

- home loans backed by various guarantees,
- bonds, the majority of which have been issued, or backed, by member states of the OECD.

The impact of the Basel II reform on La Banque Postale thus sets it apart from other financial institutions:

- firstly due to its recent arrival in the banking system,
- secondly, because it is disadvantaged by a lack of balance between the gains incurred by the different methods applicable to credit risks and the additional requirements of its operational risks.

The standard methods for measuring all risks covered by the Basel II reform thus naturally had to come into play from the start of the bank's operations.

– La Banque Postale launched its Basel II project right from the start of 2006 although some earlier work had already been carried out in this respect.

– On this basis, 2006 was principally devoted to bringing the solvency ratio calculation process into line and upgrading the information system in order to be able to publish the statutory COREP reports per the standard methods.

– Furthermore, the institution's Executive Board validated a scenario for a move towards internal methods, classified by risk category and sector of activity, taking account of the risks of the institution, potential equity savings and the deadlines for implementation of the minimum requirements, specifically in terms of historic records.

– Thus La Banque Postale will adopt an internal model in the first instance for measuring market risks, then for measuring the credit risk on loans to retail customers and finally its exposure to credit institutions and companies.

– In terms of operational risk, it is working towards conformity with the qualitative requirements put forward by the methods. As for the quantitative requirements, additional work is still required in terms of analysis of the risks inherent in the processes, bearing in mind that some are still at the development stage.

La Banque Postale's "Basel II" project team embarked on initiatives in 2006 to ensure conformity with this scenario. This work involved mainly:

- developing, enhancing and improving the reliability of the information systems and the collection and recording of data used to calculate the equity capital requirements in terms of credit risk and operational risks;
- the development of ratings in line with the new regulations, based on the probability of default over a one-year horizon;
- the deployment of these ratings in the network for the purposes of loan granting and risk management;
- adapting the processes and procedures to take account of the minimum requirements which must be met if these three risks are to be handled by internal methods.

All this work is steered by the Risks Division and monitored by the Executive Board through its Risk Committee.

I.5 Risk Management

A. INTRODUCTION

The Order of 31 March 2005, decreed to amend Regulation n° 97-02, tightened the requirements in terms of controlling the risk of non-conformity and controls on activities outsourced. This Order came into force on 1st January 2006, the day on which La Banque Postale came into being. In preparation for this, La Banque Postale had ensured that the organisation in place met the requirements of the amended Regulation 97-02.

The general mechanism

La Banque Postale equipped itself with an appropriate risk monitoring system, taking account of the specific nature of its business and the organisation through which it operates. Significant resources were mobilised to create two divisions, each responsible for the permanent control within its own area:

- a division responsible for conformity,
- a division in charge of risks.

■ The Compliance Division

is in charge of managing the risk of non-conformity, i.e. the risks set forth in Article 4 p) of Regulation 97-02, i.e.:

“the risk of non-conformity: the risk of legal, administrative or disciplinary sanctions, major financial loss or violation of reputation, arising from failure to adhere to the specific provisions governing banking and financial activities, whether legislative or regulatory in nature, professional standards or codes of conduct, or instructions from the executive body issued to implement policy guidelines of the deliberating body.”

To this end, the Conformity Division is backed by a unit of more than 200 territorial controllers responsible for monitoring network operations.

Other responsibilities of the **Conformity Division include Deontology**, conformity with the regulations governing the provision of investment services and **combating money laundering and the funding of terrorism**.

■ The Risks Division

is involved with:

- **credit risk**: the risk of financial loss as a result of a customer's inability to honour its contractual obligations, i.e. the risks inherent in the granting of loans and customer payment facilities;
- **market and counterparty risk**: on the one hand, the risk of loss linked to a downward trend in the price of the financial instruments or market parameters, on the other, the risk of loss arising from the default of a banking counterparty or an issuer in respect of financial market transactions;
- **structural liquidity risks**: risks linked to balance sheet management including risks leading to unforeseen disequilibrium between assets and liabilities and the risk of being unable to release the necessary funds to meet the financial obligations of La Banque Postale;
- **operational risk** (excluding non-conformity risk): a risk arising from inappropriate or faulty procedures, employees or internal systems or from external events.

■ Periodic audits are conducted by the General Inspectorate,

backed by two auditing bodies employing a staff of a hundred: the Banking Inspectorate, in charge of auditing the divisions, and the Audit Department, in charge of auditing the procedures.

■ **A series of ad hoc committees** guarantees risk analysis and monitoring of the highest level within La Banque Postale.

– **The Confidence Committee** and the **Risks Committee** take decisions, each in their own area, on issues of methodology and resources and analyse customer and account management initiatives introduced.

– The task of the **Statutory Watchdog Committee**, run by the Conformity Division, is to ensure that changes to statutes and regulations affecting the banking sector are effectively implemented by all departments concerned.

– Prior to the launch of a new product, the **New Products Committee** checks that the associated risks have been duly analysed, approved and then subjected to the appropriate procedures and controls. This committee also monitors the conformity of the information provided to customers on all media.

MANAGEMENT REPORT

B. CUSTOMER RELATIONS

I. Conformity

Regulation 97-02 of 30 March 2005 implemented into French law the “Compliance” function which now becomes the “Conformity” function. This came into force on 1st January 2006, the very day on which La Banque Postale was born.

Consequently, from the very start of its operations La Banque Postale ensured that a “Conformity and Deontology” Committee featured among its Governance Committees and equipped itself with a Conformity Division whose Director sits on its Executive Committee.

■ The “Conformity and Deontology” Committee

This monthly committee is led by the Conformity Director and reports to the Executive Board of La Banque Postale. Its mission is to:

- ensure coherent and effective measures are put in place with regard to the statutes and regulations specific to banking and financial activities, specifically in terms of combating money laundering and the funding of terrorism;
- coordinate the internal audit activities;
- validate and ensure implementation of the deontology policy;
- examine the annual internal audit reports and the reports from the Head of Conformity for Investment Services.

Its members are: the members of the Executive Board, the Risk Directors, the Directors of the Sales and Marketing Division, of Banking Operations, the Inspectorate, Legal Services, the Processes and Procedures division, the HR Department, Conformity and also two of the bank’s Territorial Representatives covering six month periods on a rolling basis.

■ The Conformity Division

This division reports direct to the bank’s Executive Board. It is tasked with:

- monitoring the risk of non-conformity per Article 4) of Regulation 97-02 amended. To this end, it is responsible principally for the functions of deontology and combating money laundering and the funding of terrorism;
- coordinating the internal audit mechanism, in particular the second level audit units.

The Conformity Division has a budget in its own right and is entitled to sight of the budgets of the other “conformity” functions within the system (internal audit of the Financial Centres, Banking Controllers in the network). In the event that the Director of Conformity disagrees with these budgets, it can demand they are submitted to the Executive Board for arbitration.

The Conformity Director has the widest powers of leadership over the Conformity division, comprising principally the assistants of the Bank’s Territorial Representatives responsible for the banking controllers and the internal controllers at the Financial Centres. These powers are devoted specifically to career management in line with provisions appropriate for each of the organisations.

The Conformity Division also steers the global first and second level control system within La Banque Postale. This involves:

- **managing the network’s banking controllers:** in collaboration with the Bank’s Territorial Representatives, it drafts and circulates the control methodology and, together with the Risks Division, decides on the reporting and consolidation content and procedures;
- **coordinating the various second level and first level control units:** bringing methodologies into line, involvement in the definition of management charts and reporting channels and information consolidation. The Risk Division creates its own management charts which are submitted to it direct;
- **drafting or centralising the statutory internal control reports.**

■ Within the Conformity Division there are five different units to assist it with its missions:

– **The Expertise-Conformity Unit** drafts the “written notice” required under new product regulations. It also validates all marketing media such as the internal procedures which accompany the products and services, the training and awareness documentation for employees and the different types of selling media for bringing the products and services to the customer.

This unit also acts as the regulatory watchdog and is responsible for links with the CNIL [French Data Protection Agency].

– **The Deontology unit** is responsible for drafting and circulating the rules of good conduct and in charge of the deontology officers. The statutory Investment Services Conformity Manager also reports to this unit. It draws up the deontology policy for the bank and its subsidiaries and circulates it throughout the network and operating facilities.

– **The Banking Controller Management Unit** is responsible for providing the 200 banking controllers and their 16 managers with the tools they require to do their job: schedules, control questionnaires and tools for consolidating the results collated at manager responsibility level. The scope of this responsibility is gradually extending to include the 28 internal controllers at the Financial Centres and their 80 controllers operating under the auspice of their lady Functional Director: coherence of schedules, pooling of tools, etc.

– **The Permanent Control Coordination Unit** is responsible for analysing the internal control mechanisms in place to manage risk within the various units operating on behalf of La Banque Postale. It is tasked with adopting initiatives to improve these mechanisms, within the framework of regulation 97-02 and in coordination with the Risks Division in its own areas of responsibility. This unit also sets up or steers cross-functional working groups, where the need arises, specifically in response to recommendations from the General Inspectorate. The manager of the unit drafts the statutory internal control reports.

– **The unit in charge of combating money laundering and the funding of terrorism (DIRLABLAT)** manages the mechanism governing the teams of TRACFIN officers reporting to it and also the employees within the Financial Centres and the Post Office Network dedicated to this task. It validates the training and awareness media and procedures circulated to all agents and ensures the effective implementation of the training procedures themselves. It also runs the IT applications devoted to this activity.

These units work together to provide advice and ensure that the good practices, culture and values of the company are put into practice in its day-to-day activities in order to:

- protect customers from the risk of receiving inappropriate advice,
- protect the bank and its employees from the risk of failure to adhere to regulations,
- and protect the whole community by fighting against money laundering and the funding of terrorism.

■ Customer relations and the duty to provide advice and assistance

The duty to provide advice and assistance is a fundamental element of the bank's customer relations.

The initiatives introduced in this respect illustrate the values of trust which are fundamental to La Banque Postale and the La Poste group, an obligation all the more significant given that a significant portion of the bank's customer base is elderly or in the low- income bracket.

Hence, its duty to provide advice and assistance is taken into account in the different aspects of the product creation process and its relations with customers:

- product creation and the care devoted to the sales promotion material;
- ensuring coherence between the composition of the sales team, the method of commission, the products and services offered to the customers and the profile of the customers themselves;
- ensuring the information provided in the customer files is adequate to satisfy the checks carried out in this respect by the banking controllers.

La Banque Postale is particularly anxious to ensure that products offered to customers are easy to understand, , in other words do not contain superfluous sophisticated detail likely to confuse customers who are not particularly well-informed. This is one of the criteria the Conformity Division takes into account when drafting the "written notice" it passes to the Marketing Committee pursuant to Article 11-1 of CRBF Regulation 97-02 amended.

A constant concern for transparent customer information also guides the Conformity Division in its validation of the series of procedural notes sent to the networks to accompany the products and services and also the promotional media in all formats. More than 200 documents were validated in the second half of 2006 alone.

La Banque Postale takes full account of the recommendations of the Delmas-Marsalet report of November 2005 in respect of the marketing of financial products. It takes particular care to ensure coherence between the composition of the sales force, the products and services each category of customer advisor is permitted to offer and the profile of the customers themselves. La Banque Postale also ensures that the method used to calculate the sales force commission does not in any way reflect the risk inherent in the products offered to customers.

Consequently, a significant part of the work of the banking controllers involves:

- systematically checking that the necessary documents are in place and are in due form to ensure that the products and services offered to customers are in line with their requirements,
- checking to ensure compliance with the target clientele recommendations made to the network for the marketing of unit-linked insurance products following the Fourgous amendment, for example.

MANAGEMENT REPORT

II. Deontology

La Banque Postale has opted to retain the title of Deontologist for the Investment Services Conformity Manager.

This decision gives more meaning and visibility to the function and creates a sort of “referent” in terms of “rules of good conduct”, fully in keeping with the “whistleblowing” mechanism of Regulation 97-02 amended.

To this end, the banking deontology function is organised into three levels:

- the deontology unit of La Banque Postale, which reports to the Conformity Division;
- officers within the operational units: the public Post Office centres, the Financial Centres, the Financial Services IT Division and the subsidiaries;
- the local points of contact.

The position of deontology officer within La Banque Postale is held by employees reporting directly to the Director of La Poste Financial Services Operations, the Director of La Poste Public Services and the IT Director of La Poste Financial Services.

- The role of deontology officer can be assumed by an employee with other responsibilities provided his deontology duties are completely separate from his normal duties.
- These employees may refer issues direct to the La Banque Postale deontologist.

The deontology officers are responsible for the local points of contacts who, working close to the ground, can note infringements or malfunctions and pass these on. They also have an educational role, passing on information and raising awareness among the agents. There are around 100 local points of contact in the Public Network, reporting to the Directors of La Poste Public Services. Within each Financial Centre there is a Director of Internal Control and Conformity who also acts as a local point of contact.

As a result, all employees of La Banque Postale and all staff acting on its behalf can contact the deontologist or their contacts at local level to bring to their attention presumed breaches of the rules of good conduct.

The deontologist has incorporated the recommendations in terms of rules of good conduct into the Rules of Procedure of La Banque Postale and of La Poste. He has also appended to this the important deontology report. The content of this document will be used in an educational initiative run throughout 2007 on the basis of an extensive training programme and the distribution of brochures adapted to each of the different functions.

Finally, the Deontologist and the Conformity Director play an important role in the process of granting “authorisation to act on behalf of La Banque Postale” and in the event of a breach of deontology by employees of the Public Network and the Financial Centres. In fact, these employees come under the responsibility of La Poste, their employer, and are “authorised” by the bank to handle banking transactions.

- The Deontologist receives reports from the General Inspectorate on situations likely to bring to light breaches of a deontological nature
- The Deontologist may himself contact the General Inspectorate in connection with information likely to be provided to him as part of the “whistleblowing” requirement.
- The Deontologist assesses the seriousness, from a deontology point of view, of the situations described in these reports. The Conformity Director can ask the Public Networks or Financial Centres to withdraw the approval granted to an employee to operate on behalf of La Banque Postale.
- This withdrawal of approval is requested for a 10-year period and is completely separate from disciplinary action which may be of a shorter duration and which naturally falls within the sole responsibility of the employer. Some such withdrawal requests were made during 2006.

III. Combating money laundering and illicit activities

La Poste, offering financial services in connection with savings book accounts since the late 19th century and in connection with post office cheque accounts since the start of the 20th century, has accompanied the historic development of the regulations to combat money laundering and the funding of terrorism.

Naturally the responsibility now lies with La Banque Postale which is, together with all its employees, required to adhere to these regulations and to put in place procedures, computerised detection tools and appropriate training programmes. This it does in conjunction with the Post Office network and the Financial Centres.

- **Customer identification is the first stage in its vigilance process:**
 - it applies to individual and corporate account holders and also to “occasional” customers who carry out ad hoc transactions but are not as yet account holders;
 - the procedures are strict and the Financial Centres are not permitted to open an account if the proof of identity and proof of address required by law is not provided;
 - the Establishment Directors within the network, and the managers at the Financial Centres, send any suspicious transaction files to the TRACFIN Officers who are employees of La Banque Postale reporting to the Conformity Division.

■ **La Banque Postale continues to deploy top-level IT tools.**

– €4million was devoted to this in 2006 with the deployment of Searchpace, a recognised profiling tool in the field of anti-money laundering and Fircosoft, deployed to combat the funding of terrorism. The DIRLABLAT division is the process owner.

– This division also coordinates the training projects and validates the media employed. This activity is of particular importance given the reach of the network and the number of employees involved.

■ **There are in-depth controls in place to ensure these obligations are met:**

- the first level controls are the responsibility of the Establishment Directors within the Post Office network,
- the recurrent second level controls are the responsibility of the banking controllers,
- the bank's General Inspectorate also devotes some time to this task on one or several occasions each year.

Consequently, 2006 was devoted to laying the foundations of this function which is new to both French banking regulations and naturally La Banque Postale itself. This is a support function which is indispensable for the development of the business and its results.

C. FINANCIAL MANAGEMENT

I. The structural risk factors

The structural risks factors of La Banque Postale are first and foremost linked to its retail banking activity: **liquidity risk** and **interest rate risk** associated with putting the short-term resources of the customer to longer term use and **credit risk** related to home loans and, to a lesser extent, to ordinary debit accounts.

Given that the financial assets account for a significant portion of the bank's assets, **market and counterparty risks** are also structural risk factors the bank monitors closely.

■ **Liquidity risk**

Liquidity risk can be described as the eventuality of the bank not being able to meet its commitments at a given moment. It can arise under the following circumstances:

- a massive withdrawal of customer savings or deposits,
- a crisis of confidence in the bank,
- a general liquidity crisis on the market.

Measuring this risk, using short-term or long-term liquidity gap scenarios, should enable La Banque Postale to assess its ability to meet its liabilities at various maturities which can change over time. It therefore needs to amortise its usage and resources in accordance with their maturity dates.

The major issue for La Banque Postale, in view of the structure of its balance sheet, is to create outflow scenarios for its customer deposits which constitute its short-term resources. To this end, a combined econometric and hypothetical approach is used to model the deposits, where the econometric approach is based on statistical observations going back over an extensive period of time and the hypothetical approach involves measuring the impact of the various economic and/or commercial stress scenarios.

The result shows a distinction between the volatile portion of the deposits, which needs to be invested in the short term to ensure that the daily fluctuations of its outstanding deposits is outbalanced, and a stable portion, which can be invested over the long term in accordance with an outflow profile compatible with the models previously created. Liquidity gaps, which take account of these outflow hypotheses, measure the difference between the value of deposits and usage over a given investment horizon. They must remain positive which means that the natural amortisation of the assets must alone be able to honour all withdrawals made by depositors, even under conditions of stress.

Not only does La Banque Postale have this mechanism in place to pre-empt risk, it also has access to the following sources of funding, if necessary:

- good-quality financial assets, including €44.4 billion in government bonds or similar, representing liquid assets which can generate ready funds either by selling those in the placement portfolio or entering into repurchase agreements on the basis of those in the investment portfolio;
- the La Banque Postale's €10 billion Certificate of Deposit issue programme;
- the La Banque Postale's EMTN programme, also in the amount of €10 billion.

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■ Interest rate risk

Interest rate risk is the risk that the future margins or the economic value of La Banque Postale will be affected by fluctuations in the interest rate.

La Banque Postale employs two types of indicator to monitor interest rate risk:

- those which help it decide what hedging instruments are required,
- those intended to measure the institution's capacity to resist external blows.

The first family of indicators include sensitivity indicators which operate on the basis of future revenue (**sensitivity of future margins**) and the present value of future flows (**sensitivity of the net present value**).

These sensitivity ratios are determined on the basis of both deterministic rate scenarios and the stochastic dispersion method, the latter giving a better picture of the implicit and explicit options available in the balance sheet.

Indeed, it is always necessary to model the behaviour of customers, but on this occasion in the face of changes in the interest rate environment. Of the implicit options available to customers, the most significant in terms of impact on the balance sheet and margins are:

- the risk of early repayment of outstanding loans as a result of a fall in interest rates;
- risks related to home loans: higher amounts than anticipated collected at a high fixed rate following a fall in interest rates, a higher than expected take-up rate of entitlement to home loans at a low fixed rate if the market rates rise. A special provision is set aside to cover these risks, calculated on the basis of the same behavioural model for home loan savings customers as that used to simulate future margins.

In the second family of indicators you have the measurement of economic equity capital linked to the global interest rate risk.

- **An understanding** of economic equity capital shows the institution's capacity to withstand market downturns within a given confidence interval on the basis of its equity capital,
- **Stress scenarios**, based on historic or hypothetical situations, provide a better understanding of the risk profile of the institution and allow it to predict what measures it would need to adopt if the scenario were to materialise.

The principal interest rate risk management tool is the selection of the maturity dates and indexation terms of the coupons in the portfolio of financial assets. Derivatives, fixed and optional, are only used on a secondary basis to manage, for instance, future exposures for which the "cash" coverage in place is not adequate.

■ Monitoring liquidity and interest rate risks is primarily the responsibility of the ALM Committee:

This committee is chaired by a member of the Executive Board and led by the Director of Financial Operations. Other members are the Sales and Marketing Director, the Risks Director and the Financial Director.

- The ALM Committee periodically examines the customer deposit models and formally validates the related outflow hypotheses.
- It monitors the interest rate and liquidity risk indicators and predicts how these will change in the future on the basis of the direction taken by the bank's commercial policy and the observation of customer behaviour.

- Finally, it decides on the financial asset investment policy and the hedging instruments which need to be put in place.

The Risks Committee, also chaired by a member of the Executive Board, validates the ALM risk control mechanism and specifically the limits applicable to the ALM function.

The guidelines put in place by the committees are translated into operational terms by the Financial Management Committee, chaired by the Director of Financial Operations, and implemented by the trading room operators, acting on behalf of La Banque Postale's ALM division.

II. Market and counterparty risks

II-a. CREDIT RISK INHERENT IN MARKET TRANSACTIONS

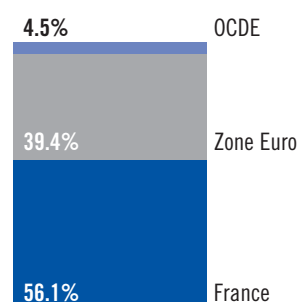
Credit risk arises from deposit and cash lending transactions in connection with cash flow management and issuer risk inherent in the debt securities negotiated by the trading room.

- Prior to any investment, third parties are systematically rated and assigned an individual limit intended to limit the total value of the commitment. Where appropriate, limits known as group limits are applied in addition to the individual limits. Group limits encompass the exposure to a group of third parties considered to be the same beneficiary under the terms of Article 3 of Regulation 93-05.

- Rated and approved third parties numbered 430 as of 31/12/2006. All have an internal rating of at least BBB+.

- The individual limits are supplemented by a range of diversification limits intended to restrict commitments toward groups of counterparties classed in terms of country of origin, sector of activity or their internal rating. The limits can be revised monthly at the Risk Committee meeting.

– The portfolio of market assets is of excellent quality. The geographical distribution shows high exposure to French issuers, with the portion of non- Euro Zone commitment accounting for a mere 4.5% of outstanding deposits. Currently no exposure to third parties located in countries outside the OECD area is authorised.

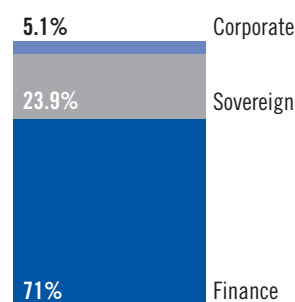


Distribution of outstanding deposits by geographical zone

The investment portfolio, with around €39 billion of assets under management, is composed of 94% government bonds or government-backed bonds.

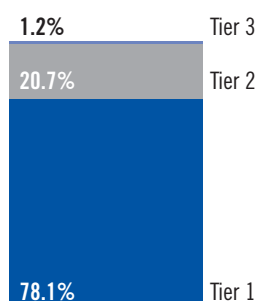
All investments made in 2006 were with issuers in the Euro Zone with a 0% credit risk rating in accordance with Regulation 91-05.

The majority of exposure of the trading portfolio (€23 billion assets under management) is to banking institutions, with corporate exposure accounting for a mere 5.1% of the portfolio.



Breakdown of the trading portfolio by category of exposure

In this same portfolio, 78.1% of the positions have a rating of at least AA- with tier 3 issuers (rating in the BBB range or short-term A3 rating) accounting for a mere 1.2% of the portfolio.



Breakdown of outstanding deposits by credit tier

II-b. COUNTERPARTY RISKS

All off-balance-sheet and repurchase transactions are covered by agreements providing for a netting of exposure and the provision of collateral with regular calls for margin. To date the collateral approved by La Banque Postale is principally cash. The residual risks, which are bound by limits and monitored periodically by the Market and Counterparty Risks Division, are of very little significance.

II-c. MARKET RISKS ON THE TRADING PORTFOLIO

Even although La Banque Postale does not operate a trading activity in the true sense of the word, it is exposed to market risks through its cash flow management activities and the placement portfolio it has built to back customer deposits.

– The market value of the trading portfolio and the risk indicators (VaR, sensitivity) are assessed by the Market and Counterparty Risks Division at least once a day.

– The placement portfolio is made up exclusively of debt securities and bonds. The average term of the portfolio is around 2 years, in accordance with the guidelines set by the ALM Committee. The global sensitivity of the portfolio is managed by means of derivatives (swaps and futures).

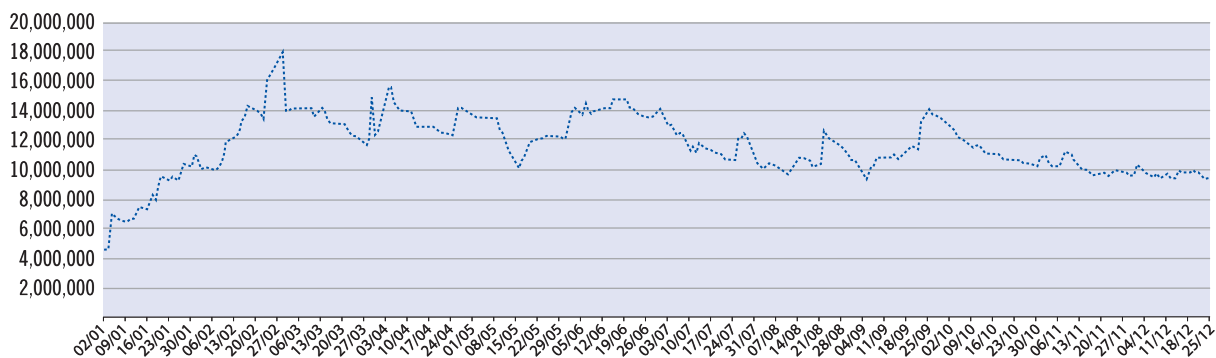
– The transaction portfolio is composed of debt securities with maturities of less than one year.

La Banque Postale's trading portfolio exposes it essentially to general and specific interest rate risks.

– VaR limits are in place for the market risks of these two activities and can be revised each month at the Risks Committee meeting.

– The whole trading portfolio is subject to a VaR limit set at €60 million in the Register of Limits and reduced to €40 million by the Risks Committee early 2006. This VaR, which averaged €11.5 million over the 2006 financial year, has never exceeded 50% of the limit set.

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Value at risk (99%, 1 day) of the trading portfolio

In the first six months of the year La Banque Postale also equipped itself with a new library of 36 crisis scenarios.

- The library is adapted to the institution's risks to include historic scenarios (LTCM, 11 September 2001, etc.) and hypothetical scenarios relating to market sectors, calibrated on the basis of a statistical analysis of variations in the risk factors with the aim of simulating the worst possible scenarios over a ten-year period.

- The library is simulated monthly and the results are submitted to the bank's Audit Committee on a regular basis.

- The scenario creating the largest impact, €134 million as of 31/12/2006, was a simulation of an increase in the short and medium term interest rates.

- The potential loss comes essentially from the placement portfolio put in place to back customer deposits. Discounting an extreme liquidity crisis, and on the basis that the portfolio comprises fixed income bonds with an average maturity of 2 years which can be held to maturity, the losses suffered could potentially be recuperated within a two-year period.

II-d. LIQUIDITY RISKS

In view of the restrictions set in the CECEI approval (no corporate funding, lending to private customers restricted to home loans), the balance sheet of La Banque Postale's retail banking activity as at 31/12/2006 shows excess resources of more than €60 billion, given that less than 25% of total deposits were deployed in home lending.

La Banque Postale is therefore, in theory, not dependant on the market to honour its obligations.

- It is however exposed to a liquidity risk arising from the transformation of its resources, primarily sight deposits, into longer term usage either by way of home loans or debt securities and bonds (placement and investment portfolios).

- The amounts to be allocated to the investment portfolio are determined on the basis of a benchmark scenario modelling the outflow of liabilities under different stress scenarios, which specifically incorporate situations where inflows from sight deposits fall significantly.

- The portion of funds not devoted to investment securities or home loans can be used to build the placement portfolio. These securities are negotiable and can be sold quickly should the need arise.

Liquidity risk is bound by two limits, set forth in the Register of Limits, which can be revised each month at the Risks Committee meeting on a proposal from the ALM Committee.

- The first limit, known as a short-term restriction, controls the risks inherent in the cash flow management activity. The treasurer can only employ cash resources up to the limit of the forecast cash flow balance for each day of the following month.

- The second limit, based on a liquidity gap, controls the risk inherent in the retail banking balance sheet model, the placement portfolio and the investment portfolios, taken as a whole. The aim is to ensure that the assets of these three elements are faster moving than the liabilities, so the bank does not have to seek funding to honour its commitments.

Even although the ALM Committee and the Risks Committee has put in place a framework to ensure cautious liquidity risk management, La Banque Postale has also diversified its sources of funding:

- a €10 billion deposit certificate programme was approved in the first quarter of 2006. The value of securities issued varies between 30% and 40% of the programme, the aim being to promote the name of La Banque Postale on the short-term market;

- a €10 billion EMTN programme was introduced in the last quarter of 2006. A €500 million issue of subordinated securities, eligible for classification as additional capital, was made in November 2006.

- access to the inter-bank market;

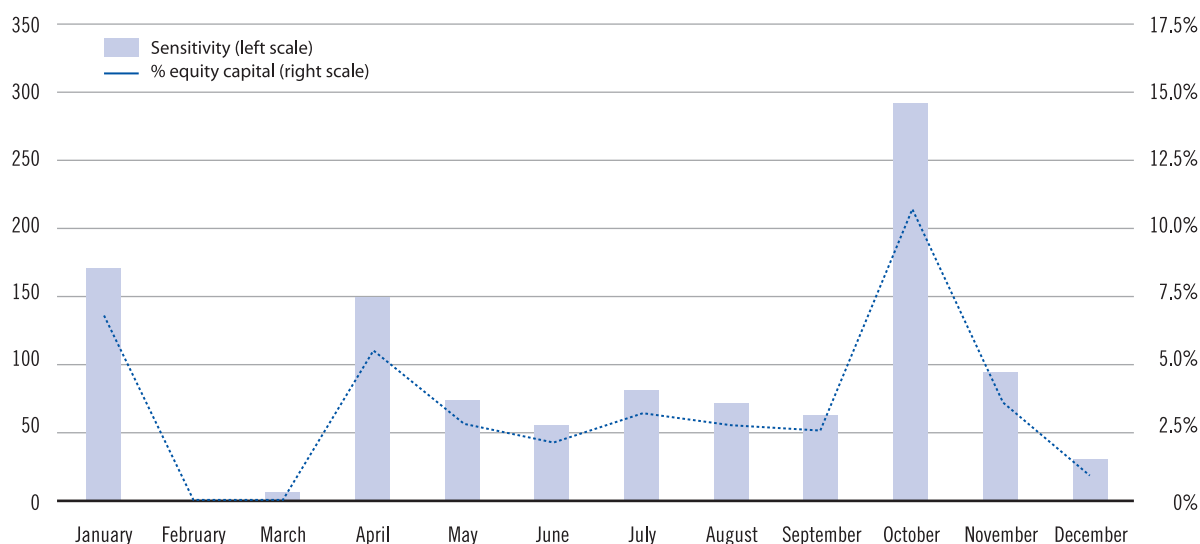
- repurchase agreements on securities in the investment portfolio: the investment portfolio comprises essentially top quality government bonds which can be realised quickly.

II-e. GLOBAL INTEREST RATE RISK

The global interest rate risk is measured on the basis of La Banque Postale's retail banking balance sheet model (credits and deposits), the placement portfolio and the investment portfolio, taken as a whole.

— In accordance with the Basel Committee recommendations for global interest rate risk, a limit has been set intended to limit to 15% of equity capital the impact on the economic value of the balance sheet of a sudden 200 base point movement of interest rates.

— This indicator, systematically presented to the meetings of the Risks Committee and the ALM Committee meeting and presented half-yearly to the Audit Committee meeting, remained at a modest level throughout 2006.



Sensitivity of the economic value of the balance sheet

II-f. SETTLEMENT-DELIVERY RISKS

All security transactions of La Banque Postale's trading room are negotiated under the settlement-delivery system which ensures simultaneous exchanges.

— La Banque Postale has also put in place a banking policy governing its relations with its counterparties.

— This policy, managed by the Trading Room Director, encourages the use of inter-bank transactions within a restricted circle of counterparties offering a satisfactory level of service. With the exception of derivatives traded on organised markets, the bank makes very little use of brokers. Indeed, the policy constitutes an effective tool in the prevention of settlement-delivery risks.

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III. Credit Risk on customer transactions

III-a. SCOPE OF INTERVENTION

Credit risk is defined (Article 4 of CRBF Regulation 97-02 amended) as the risk incurred in the event of default of a counterparty or of several counterparties viewed as a single beneficiary under the terms of banking regulations.

La Banque Postale came into existence at the same time as end of the prior savings requirement, allowing the bank to extend the range of transactions it could fund and the range of home loans it could offer its customers. As is the case for all other banking institutions, La Banque Postale is exposed to the risk of default of its customers, the risk of deterioration in the quality of the loan and the risks inherent in recovery and legal action.

In terms of credit, La Banque Postale is currently authorised to distribute:

- home loans with out without prior savings,
- overdraft and short-term credit facilities and payment cards offering deferred credit terms,
- consumer loans to employees of the La Poste group.

Its main activity is home lending (property loans to private customers): as at 31 December 2006, outstanding loan stood at €19.98 billion with 0.25% of these classed as doubtful.

La Banque Postale offers loans for the purchase of new-build and older property, property for use as the main place of residence, secondary place of residence and rental property, the purchase of mixed property, construction projects with or without renovation, stand-alone renovation projects, debt repurchase and the acquisition of REIT units marketed by its own network. Since 2005 the bank has also been granting bridging loans.

III-b. RISK CONTROL POLICY

The general responsibility of the Credit Risk Division is the deployment and management of the mechanism for controlling retail banking credit risk.

It reports to the Risk Director whom the Executive Board has entrusted with the definition and implementation of the bank's financial and operational risk monitoring and control mechanism.

The broad principles of the risk control mechanism are described in the Register of Limits: rules and regulations governing the granting of credit, the commitments entered into and recovery whether on an amicable basis or through the courts. These various rules are submitted to the Risks Committee for validation and to the Audit Committee for information.

III-c. ORGANISATION OF THE CREDIT RISK UNIT

The credit risk unit brings together the various players involved in the selection, measurement, control and monitoring of credit risk. This unit reports to the Credit Risk Division, whose mandate involves:

- defining and/or validating the methodologies and tools and drafting and implementing the standards, rules and procedures governing risk commitment, management and monitoring which are used by the various players in the credit risk unit,
- monitoring and controlling the compliance of the members of the unit with the regulations governing credit risk methods and organisation,
- a role of referent and “internal advisor” for the credit risk unit,
- analysing the most major or atypical risks with a view to submitting these to the Comité National des Crédits [National Credit Committee].

D. OPERATIONAL RISKS

I. Controlling operational risks

The Risks Division is answerable to the Executive Board for the management and surveillance of the bank's operational risks.

The Operational Risks Division, operating under the responsibility of the Risks Division and reporting to the Risks Committee, is tasked with drafting and implementing a mechanism for managing and controlling operational risks.

In terms of risk monitoring, it calculates the monthly operational risk monitoring indicators validated by the Risks Committee. As such, the Operational Risks Division has a duty of permanent control.

In terms of the monitoring of all types of operations-related risks (Article 6 of Regulation n° 97-02 amended), the main duties of the Operational Risks Division are:

- To ensure that La Banque Postale has properly defined and formalised its objectives in terms of Information Systems Security and identified the principle areas of vulnerability. The Head of Information Systems Security of La Banque Postale has ownership of this process. He decides on the level of security and lays down the rules in line with banking standards and the wishes expressed by the Executive Board. He validates the deployment of the tools and monitors their application.

- To ensure that La Banque Postale has equipped itself with Business Continuity Plans and, where necessary, to manage the tests to be conducted and any improvements to be made.
- To identify the operational risks within a map of risks drawn up for each process and for each unit, analyse them, rate them (in terms of impact and occurrence), place them in order of importance, monitor the implementation of the recommended action plans and furnish reports, principally on the basis of indicators.
- To monitor and handle the risks related to payment facilities and meet the statutory requirements, specifically in terms of reports (Banque de France, the Banking Commission etc.).

La Operational Risks Division is backed by networks of correspondents working exclusively in this area or engaged in operational activities in three areas:

- the security of the Information Systems,
- business continuity,
- risk mapping/monitoring of processing schedules.

II. Rules of operational risk management

■ REFERENCE FRAMEWORK

La Banque Postale and the Risks Committee have adopted the following definition of operation risk:

“the risk of loss arising from the inadequacy or a failing of the procedures, staff members, internal systems or external events, excluding strategic risks and including the risk of injury to reputation.”

This definition includes legal risks and the risks of non-conformity.

La Banque Postale’s operational risk management process fulfils the twofold objective set by the Basel Committee:

- a *quality objective*, to operate in line with healthy operational risk monitoring and management practices,
- a *quantity objective*, requiring the identification and recording of losses.

The very basis of this management process rests on the mapping of operational risks on the basis of information from various sources (General Inspectorate reports, incident databases, process reviews etc.). The causes and consequences of each risk is analysed and it is given an “expert’s rating” in terms of Impact/Occurrence.

The qualitative analysis and risk rating process is supplemented by work to identify the incidents and the losses involved.

■ 2006 ACHIEVEMENTS

The “Operational Risks Mapping and Monitoring “ Department drew up a map of operational risks.

It covers 53 business line processes and 17 support processes.

684 risks were identified, 610 of these risks linked to the business line processes and 74 linked to the support processes. All risks identified were placed in order of importance and action plans were implemen-

ted or engaged to ensure control of “critical” risks (fraudulent withdrawals, regulated savings, etc.).

In order to confirm the existence of these risks and quantify them, an incident recording initiative was launched in September 2006 on the basis of analysis of the incident databases and various reports received by the Operational Risks Division. Examination of these malfunctions also allowed us to put in place indicators for monitoring operational risk which are presented at monthly Risks Committee meeting.

The Operational Risks Division is also involved in projects working towards improvement of the banking processes, identifying the risks inherent in these processes right from the design stage and formulating operational recommendations to ensure better control of these risks.

This preventative action has been supplemented by a specific process whereby draft memorandums and procedures for the Public Post Office Network and the Financial Centres are systematically submitted to the Risks Division for its prior approval.

III. Management rules governing the security levels of the Information Systems

■ REFERENCE FRAMEWORK

The Information Systems Security Policy of La Banque Postale, drafted in 2006, applies to all the information systems and the organisations which support the operations of La Banque Postale.

The Information Systems Security Policy pursues ongoing improvement on the basis of a PDCA (Plan, Do, Check, Act) procedure as defined in ISO 27001.

■ 2006 ACHIEVEMENTS

In terms of Information Systems Security, the main areas for vigilance highlighted in 2006 related to:

- the management and control of approvals and access to the Information Systems,
- taking account of the security aspects when developing and maintaining the Bank’s information systems and applications.

A project to review the management of access authorisation to the Information Systems was embarked on in 2006 and should be completed in 2008.

2006 also saw La Banque Postale define the various security stages in the lifecycle of the Information System projects. This procedure is to be systematically deployed by the various parties involved in the Information System projects (project managers, owners etc.).

MANAGEMENT REPORT

IV. Management rules governing the business continuity plans

■ REFERENCE FRAMEWORK

The rules to be adhered to in terms of La Banque Postale's business continuity are set forth in the "General Business Continuity Plan Policy memorandum".

The aim of this memorandum is to provide a reference framework by recording the organisation, the duties and the responsibilities of the BCP and the rules and regulations to be adhered to within La Banque Postale.

■ 2006 ACHIEVEMENTS

In 2006, the BCP department of the Operational Risks Division launched an initiative aimed at:

- compiling a record of the main activities of La Banque Postale,
- employing a methodology to ensure business continuity plans run smoothly and all the technical aspects are in place.

In the first stage of the process, La Banque Postale identified the services and processes which if stopped, even temporarily, could have damaging consequences.

– On 21 April 2006, on the basis of the map of operational procedures of La Banque Postale (158 processes), the Risks Committee assigned priority status in terms of business continuity to 16 customer processes and the processes linked to market activity.

– The mechanism to ensure continuity of market operations was subjected to two exercises in 2006 (on 16 June and 27 November) which involved processing a representative batch of market transactions from the back-up site.

– The re-start mechanism for La Banque Postale's IT applications was subjected to two tests (on 18 October and 13 December) in 2006. These tests validated the "switchover" of the basic technical infrastructure (sockets, software, data and lines of communication) to the back-up infrastructure.

I.6 EMPLOYEE PROFIT SHARING

In accordance with the provisions of Article L 225-102 of the Commercial Code, it is hereby stated that there was no employee shareholding in the company's capital as of 31 December 2006.

I.7 Social Policy

A. THE BANK PERSONNEL

At the end of 2006 La Banque Postale had 1,123 employees in its own right, 924 of which held management positions. 239 of these employees (of which 186 managers) were recruited in 2006.

In addition, there were 28,918 employees working exclusively “on behalf of La Banque Postale” within the La Poste network in the areas of consultancy, middle office and back office (including the positions held within the Financial Services IT Division).

Finally, banking transactions at post office counters are handled by multi-function counter staff who devote a significant part of their time to this activity.

Recruitment initiatives were undertaken, essentially to strengthen the sales forces, resulting in the employment of 1,670 advisors, mainly financial advisors and specialist consultants.

B. TRAINING

In terms of training, mechanisms have been put in place, specifically a “Mobility and Promotion Agreement” launched in 2006, to improve the professionalism of the bank’s employees. This mechanism encourages career mobility between La Poste and La Banque Postale and helps to promote a shared vision of the bank’s values and ambitions.

The creation of La Banque Postale required exceptionally high investment in training for all employees, both its own employees and the La Poste personnel working on its behalf:

- a vast training programme accompanied the creation of the bank to introduce employees to the banking environment and banking regulations, risks, conformity and deontology;
- specific training brought in to support an ambitious commercial development policy.

162,000 training days were delivered in 2006, a significant increase for certain categories of staff (8.4 days per agent in the sales functions).

2006 was also marked by the creation of the “Bank School” intended to introduce new employees to the post office banking model.

C. DIVERSITY

La Banque Postale intends the diversity of its personnel to reflect the diversity of its customers: sales staff are recruited locally and women account for a large proportion of Financial Centre staff (almost 50% of managers and more than half of the network sales staff).

D. SOCIAL DIALOGUE

Social dialogue was an ongoing concern throughout 2006, a year marked by many milestones:

22 May 2006: Banque Postale Company-level Agreement, first social agreement signed by La Banque Postale.

28 March and 11 April 2006: election of the Works Committee and employee representatives.

22 June 2006: Agreement on Incentive-based pay.

18 July 2006: use of electronic voting for the bank’s professional elections.

5 September 2006: corporate profit sharing agreement and the corporate agreement on the PEP scheme.

25 September 2006: agreement on 2006 salary measures.

22 December 2006: agreement on social dialogue and exercise of the right to unionisation.

CONSOLIDATED FINANCIAL STATEMENTS

II. CONSOLIDATED FINANCIAL STATEMENTS

II.1 Balance Sheet and Profit & Loss Account

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006 (in € thousands)

| | Notes | 31.12.2006 | 31.12.2005 |
|--|-------|--------------------|--------------------|
| Assets | | | |
| INTER-BANK TRANSACTIONS AND SIMILAR | | | |
| ■ Cash, central banks | | 1,371,620 | 153,554 |
| ■ Government papers and similar securities | 3 | 39,933,221 | 40,602,189 |
| ■ Accounts receivable with credit institutions | 1 | 14,174,174 | 18,508,126 |
| CUSTOMER TRANSACTIONS | 2 | | |
| ■ Ordinary debit accounts | | 208,182 | 192,286 |
| ■ Other customer lending, leasing operations and similar | | 20,641,332 | 19,114,716 |
| BONDS, EQUITIES, OTHER FIXED AND VARIABLE INCOME SECURITIES | 3 | | |
| ■ Bonds and other fixed income securities | | 22,454,933 | 16,253,816 |
| ■ Equities and other variable income securities | | 144,466 | 170,333 |
| INVESTMENTS OF INSURANCE COMPANIES | 4 | 243,028 | 196,962 |
| EQUITY INTERESTS, STAKES IN AFFILIATED COMPANIES AND OTHER LONG-TERM SECURITIES | | | |
| ■ Equity interests, stakes in affiliated companies | 5 | 140,916 | 80,401 |
| ■ Equity interests consolidated per the equity method | 6 | 1,142,628 | 1,051,884 |
| TANGIBLE AND INTANGIBLE FIXED ASSETS | 7 | 620,430 | 562,947 |
| GOODWILL | 8 | 69,077 | 32,651 |
| ACCRUALS AND SUNDRY ASSETS | 9 | 9,910,554 | 10,097,420 |
| TOTAL | | 111,054,561 | 107,017,285 |

Liabilities

| | Notes | 31.12.2006 | 31.12.2005 |
|--|-------|--------------------|--------------------|
| INTERBANK TRANSACTIONS AND SIMILAR | | | |
| Central Banks | | | |
| Debts with credit institutions | 10 | 7,361,797 | 3,510,654 |
| CUSTOMER TRANSACTIONS | 11 | | |
| Savings accounts – special regime | | 50,485,182 | 52,086,142 |
| Ordinary customer credit accounts | | 38,634,360 | 37,686,205 |
| Other customer accounts payable | | 2,117,720 | 2,065,483 |
| DEBTS REPRESENTED BY A SECURITY | 12 | | |
| Inter-bank securities and negotiable debt securities | | 690,288 | |
| TECHNICAL PROVISIONS OF INSURANCE COMPANIES | 13 | 180,642 | 147,570 |
| ACCRUALS AND SUNDRY LIABILITIES | 14 | 7,190,304 | 7,885,362 |
| PROVISIONS | 15 | 453,100 | 643,834 |
| SUBORDINATED DEBTS AND OTHER EQUITY CAPITAL | 16 | 624,874 | |
| FUNDS FOR GENERAL BANKING RISKS (FGBR) | | 22,000 | 22,000 |
| MINORITY INTERESTS (EXCL. FGBR) | | 651 | 12,003 |
| EQUITY CAPITAL GROUP SHARE (EXCL. FGBR) | | 3,293,643 | 2,958,032 |
| Subscribed capital | | 2,342,454 | 2,342,454 |
| Consolidated and other reserves | | 578,791 | 575,845 |
| Financial year result | | 372,398 | 39,733 |
| TOTAL | | 111,054,561 | 107,017,285 |

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED OFF BALANCE SHEET COMMITMENTS AS AT 31 DECEMBER 2006 (In € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|------------|------------|
| FUNDING COMMITMENTS, GUARANTEES AND COMMITMENTS GIVEN ON SECURITIES | | |
| Funding commitments | | |
| to credit institutions | 158,678 | 143,807 |
| to customers | 7,444,865 | 1,587,747 |
| Commitments on securities | | |
| securities to be delivered | 26,038 | 3,882 |
| FUNDING COMMITMENTS, GUARANTEES AND COMMITMENTS RECEIVED ON SECURITIES | | |
| Funding commitments | | |
| received from credit institutions | | |
| received from customers | | |
| Commitments on securities | | |
| securities to be received | 6,031 | 3,882 |
| OTHER COMMITMENTS GIVEN AND RECEIVED | | |
| Other commitments given | 1,200 | 2,300 |
| Other commitments received | | |

The off-balance sheet commitments in respect of cash and forward foreign exchange transactions and currency lending/borrowing are described in note 18. The off-balance sheet commitments in respect of operations on financial futures are described in note 19.

Put option on securities:

On 21 December 2000, the Caisse d'Epargne group granted the La Poste group and, following the transfer of assets, the La Banque Postale group, an irrevocable, unreserved promise to sell in respect of the CNP Assurances shares and the Additional Securities representing 2% of the CNP Assurances capital.

Put option on securities:

La Poste and, following the transfer of assets, the La Banque Postale, undertook to maintain the basic Crédit Logement equity capital at 6%, the level of its interest in this company, to enable the latter company to adhere to its solvency ratio. As a result, La Banque Postale was led to subscribe to the category B security capital increases through its subsidiary SF2. Furthermore La Poste, and subsequently La Banque Postale, undertook to re-build, if necessary, the mutual guarantee funds of Crédit Logement by way of a surety against default of borrowers of the loans secured by the latter. The value of this commitment, corresponding to the portion of loan outstanding distributed through the La Poste network, stood at K€158,435 as at 31 December 2006.

Consolidated Profit & Loss Account for the 2006 financial year (in € thousands)

| | Notes | 31.12.2006 | 31.12.2005 |
|--|-------|------------------|----------------|
| INTEREST AND RELATED INCOME | | | |
| Inter-bank and cash transactions | 22 | 1,258,252 | 62,101 |
| Customer transactions | 23 | 1,118,143 | |
| Bonds and other fixed income securities | 24 | 2,165,819 | 2,181,260 |
| Other interest and related income | | 1,129,292 | |
| INTEREST AND RELATED CHARGES | | | |
| Inter-bank and cash transactions | 22 | (244,869) | (1,540,631) |
| Customer transactions | 23 | (1,639,026) | |
| Bonds and other fixed income securities | 24 | (60,909) | (744,450) |
| Other interest and related charges | | (991,518) | |
| INCOME FROM VARIABLE INCOME SECURITIES | 25 | 4,414 | |
| COMMISSION (INCOME) | 26 | 1,815,500 | 2,388 |
| COMMISSION (CHARGES) | 26 | (203,291) | (2,638) |
| GAINS OR LOSSES ON TRADING PORTFOLIO TRANSACTIONS | 27 | 330,092 | 143,396 |
| GAINS OR LOSSES ON PLACEMENT PORTFOLIO TRANSACTIONS AND SIMILAR | 28 | (98,002) | 1,325 |
| OTHER INCOME AND CHARGES FROM NET BANKING OPERATIONS | 29 | (5,427) | 313 |
| GROSS MARGIN FROM INSURANCE ACTIVITIES | 30 | 34,252 | |
| NET BANKING INCOME | | 4,612,722 | 103,064 |
| GENERAL OPERATING COSTS: | | | |
| Staff costs | 31 | (125,548) | (10,608) |
| Other general operating overheads | 32 | (4,022,723) | (30,089) |
| Amounts re-invoiced | | | 795 |
| NET ALLOCATIONS TO AMORTISATION AND DEPRECIATION OF THE TANGIBLE AND INTANGIBLE FIXED ASSETS | 33 | (85,967) | (1,296) |
| GROSS OPERATING RESULT | | 378,484 | 61,866 |
| Cost of risk | 34 | (8,907) | |
| OPERATING RESULT | | 369,577 | 61,866 |
| SHARE IN THE NET RESULT OF COMPANIES CONSOLIDATED BY THE EQUITY METHOD | 6 | 145,550 | |
| GAINS OR LOSSES FROM FIXED ASSETS | 35 | (1,463) | (48) |
| RESULTAT COURANT AVANT IMPOT | | 513,664 | 61,818 |
| EXTRAORDINARY RESULT | | 91 | |
| CORPORATION TAX | 36 | (129,592) | (22,191) |
| NET ALLOCATION TO AMORTISATION OF GOODWILL | | (8,070) | |
| NET ALLOCATIONS TO FGFR, STATUTORY PROVISIONS | | | 106 |
| MINORITY INTERESTS | | (3,695) | |
| NET RESULT GROUP SHARE | | 372,398 | 39,733 |
| NET RESULT GROUP SHARE EXPRESSED IN TERMS OF A SHARE (in Euro) | | 18.28 | 0.04 |

CONSOLIDATED FINANCIAL STATEMENTS

VARIATION OF THE FGBR, THE MINORITY INTERESTS AND THE EQUITY CAPITAL GROUP SHARE

| | Funds for general banking risks | Minority interests in the reserves (excl. FGBR) | Minority Interests in the result |
|--|---------------------------------------|--|--|
| Equity capital as at 31 December 2005 | 22,000 | 12,003 | |
| Allocation of the 2005 result | | | |
| 2006 distribution based on the 2005 result | | (3,613) | |
| Other movements | | (11,434) | |
| 2006 result | | | 3,695 |
| Equity capital as at 31 December 2006 | 22,000 | (3,044) | 3,695 |

(1) La Banque Postale consolidated its shares on the basis of one new share with a face value of €115 for 50 old shares with a face value of €2.3. The capital did not alter, but the number of shares changed from 1,018,458,300 to 20,369,166.

(2) The conversion reserves came from foreign subsidiaries consolidated through the CNP group (IXIS Asset Management Group, Caixa Seguros de Vida Group).

(in € thousands)

| Minority interests in the equity capital (excl. FBRG) | Capital (1) | Consolidation reserves (excl. FGBR) | Conversion reserves (2) | Result group share | Equity Capital group share (excl. FGBR) | Total consolidated equity capital |
|---|-------------|-------------------------------------|-------------------------|--------------------|---|-----------------------------------|
| 12,003 | 2,342,454 | 602,405 | (26,560) | 39,733 | 2,958,032 | 2,992,035 |
| | | 39,733 | | (39,733) | | |
| (3,613) | | (30,555) | | | (30,555) | (34,168) |
| (11,434) | | (4,097) | (2,135) | | (6,232) | (17,666) |
| 3,695 | | | | 372,398 | 372,398 | 376,093 |
| 651 | 2,342,454 | 607,486 | (28,695) | 372,398 | 3,293,643 | 3,316,294 |

CONSOLIDATED FINANCIAL STATEMENTS

II.2 Preliminary Note

CREATION OF LA BANQUE POSTALE

The accounts for the 2006 financial year reflect the new status and perimeter for the first 12 months of actual activity of La Banque Postale.

The end of the 2005 financial year was marked by Efpiste, initially an investment company, becoming La Banque Postale with approval to operate as a bank.

This change took place in accordance with Act n° 2005-516 of 20 May 2005 governing the regulation of post office activities, Article 16 of which provides as follows:

"II.- 1. La Poste transfers to a subsidiary with approval to operate as a credit institution [...] all the assets, rights and obligations of any kind linked to its financial services including its equity interests but excluding any necessary for the activities it exercises direct. La Poste shall hold a majority interest in this credit institution.

Under this arrangement, La Poste is transferring to this institution all accounts and savings books of any kind opened with it and also the associated assets, rights and obligations.

2. Notwithstanding the specific rules governing the Livret A, the credit institution referred to in 1 shall operate on its own behalf all activities previously handled by the Caisse Nationale d'Epargne, in accordance with the terms and conditions set forth in the regulations governing each of these activities. To this end, and notwithstanding the specific rules governing centralisation, the assets, rights and obligations linked to the accounts, savings books and agreements of all types opened or entered into by La Poste in connection with its Caisse Nationale d'Epargne activity, and specifically those in place to ensure it meets the requirements in terms of risk coverage and the prudential obligations of credit institutions, are transferred to this institution on the transfer date set forth in 1. As of this date the Caisse Nationale d'Epargne will no longer receive deposits, with the exception of Livret A deposits [...]"

The La Poste Group decided that Efpiste would be the postal credit institution referred to in Article 16-II.1 of the Act.

Efpiste was granted approval by the CECEI (Credit Institutions and Investment Companies Committee) to operate as a bank on 30 November 2005.

Pursuant to the aforementioned act and the implementation decree of 30 August 2005, the assets, rights and obligations linked to the accounts, savings books and policies of the Caisse Nationale d'Epargne (CNE) were transferred to La Poste as of 31 December 2005. On this same date, these elements, together with the assets, rights and obligations linked to the Financial Services of La Poste, were transferred to Efpiste, which changed its name to La Banque Postale on 31 December 2005, the effective date for legal and accounting purposes.

These assets transferred included the equity interests held by La Poste in SF2 which operates as a holding company (specifically holding indirectly 17.75% of the shares of la Caisse Nationale de Prévoyance [National Provident Fund] and in the capital of SCI CRSF Métropole and CRSF DOM, the two property investment companies which own the bank's business premises.

In accordance with the aforementioned Act and its implementing decree, the provisions governing the funds collected through the Livret A on behalf of La Caisse Nationale d'Epargne remain in place (these funds are centralised with the Caisse des Dépôts et Consignations).

As the effective date of the transfers was 31 December 2005, the 2005 results for the activities transferred remain with La Poste.

The assets and liabilities of the Financial Services previously operated direct by the La Poste Group and the equity interests of SF2 and the property investment companies who own the business premises, were restated within La Banque Postale's accounts as at 31 December 2005 with no change of substance and without impact on the consolidated accounts of the La Poste Group.

The transfer to Efpiste of the assets and liabilities of the Financial Services of La Poste and the non-Livret A activities of the Caisse Nationale d'Epargne, was treated as the transfer of an activity without inclusion of a company in the consolidation perimeter of La Banque Postale. As the transfer occurred between entities controlled by the same group, the elements transferred were valued in accordance with the transfer agreement, i.e. at the net book value in the books of the transferor as of 31 December 2005.

The transfer of the equity interests in SF2 and the property investment companies who own the business premises was handled as an acquisition eligible for the pooling of interests method as defined in paragraph 215 of CRC Regulation n° 99-07 setting forth the rules of consolidation applicable to companies governed by the CRBF. Consequently, the acquisition price of the SF2 securities was substituted for the net book value of its assets and liabilities and likewise, the net book value of the assets and liabilities of the property investment companies CRSF Métropole and DOM was replaced by the acquisition cost of their securities. The difference between the acquisition cost of the securities and the opening value of the assets and liabilities was recognised as consolidated equity capital.

II.3 Principal rules governing the evaluation and presentation of the consolidated accounts

The consolidated accounts have been compiled in accordance with the general rules governing credit institutions in France.

A. CHANGE OF METHODS AND COMPARABILITY

I. Change of methods

No change of method was introduced in the 2006 financial year.

II. Comparability

As the transfer linked to the creation of La Banque Postale took effect as of 31 December 2005, the figures in the balance sheet are directly comparable. This does not however apply to the profit & loss account where the 2005 figures are those published by the Efposte group.

Note 37 gives, for the main components of the Net Banking Income, their value as at 31 December 2005 in the La Poste accounts (for the Financial Services of La Poste), in the Fonds d'Epargne accounts managed by the Caisse des Dépôts et Consignations (for the Caisse Nationale d'Epargne items) and in the accounts of the SF2 group.

B. PRINCIPLES AND METHODS OF CONSOLIDATION

I. Methods of consolidation and consolidation perimeter

The consolidated accounts incorporate the accounts of La Banque Postale, the consolidated accounts of the sub-groups and the accounts of its subsidiaries. Included in the consolidation perimeter are all companies in which La Banque Postale has an equity interest of at least 20% or proven notable influence.

FULL CONSOLIDATION

The entities controlled exclusively by La Banque Postale are fully consolidated.

Exclusive control is defined as being the power to direct the financial and operational policies of a company in order to benefit from its activities.

This entails either holding, directly or indirectly, the majority of the voting rights, appointing the majority of members of its governing bodies over two successive financial years or having the right to exert a dominant influence by virtue of statutory contracts or clauses.

PROPORTIONAL CONSOLIDATION

The companies in which the group shares control are proportionally consolidated. This includes companies with a different accounting structure whose activity constitutes an extension of the group's activities.

Joint control is defined as sharing control of a company run jointly by a limited number of partners or shareholders who agree the financial and operational policies.

EQUITY METHOD

Companies over which the group exerts notable influence are consolidated per the equity method.

Notable influence means having the right to contribute to the financial and operational policies but not controlling them.

SPECIFIC CASE OF AD HOC ENTITIES

The group does not have any ad hoc entities liable for consolidation.

II. Changes in the perimeter

The consolidation perimeter comprises La Banque Postale and 15 direct and indirect subsidiaries and affiliates, a total of 16 entities representative of the group as at 31 December 2006 compared to 15 as of 31 December 2005. The main changes to the perimeter are:

- the creation of the subsidiary SAS Titres Cadeaux, held equally with another bank group and proportionally consolidated,
- the acquisition of 35% of Sogeposte which became La Banque Postale Asset Management. This company is wholly-owned by SF2.
- the acquisition of 15% of Ciloger, bringing La Banque Postale's stake in this company to 45%. Ciloger is now proportionally consolidated.

III. Goodwill

When a company is brought into the consolidation perimeter, the difference between the opening value of a given asset or liability in the consolidated balance sheet and the book value of the same item in the balance sheet of the company acquired constitutes purchase price discrepancies which are amortised, depreciated or written back through profit and loss according to the common rules applicable to the items in question.

The residual discrepancy between the purchase price of the securities and the total of the opening values in the consolidated balance sheet of the assets, liabilities and off-balance sheet items is known as goodwill.

The goodwill, whether positive or negative, is recognised in the result over a period which must reflect the hypotheses used and the targets set at the time of the acquisition but must not exceed 20 years. Should the hypotheses used as a basis for the amortisation schedule change significantly, with detrimental effect, the goodwill is subjected to extraordinary amortisation and/or the schedule is revised.

CONSOLIDATED FINANCIAL STATEMENTS

IV. Corporation tax

DEFERRED LIABILITY

Deferred taxes are recognised from the moment a temporary difference is identified between the restated book values and the tax value of the balance sheet items.

The tax liability method is used, whereby the deferred taxation recognised during previous financial years is changed when the tax rate changes. The impact of this is recognised by increasing or decreasing the deferred taxation charge.

For France, a full deferred taxation rate of 34.43% and a reduced rate of 15.50% were applied.

Deferred taxation is calculated for each tax entity and, in accordance with the prudence rule, deferred tax liabilities are only deducted if there is a high probability that these will be charged against future taxable income.

FISCAL CONSOLIDATION

The fiscal consolidation perimeter of the La Poste Group comprises La Banque Postale and six of its French subsidiaries in which it has a direct or indirect interest of more than 95%.

V. Conversion of foreign currency financial statements

The balance sheets and off-balance sheet commitments of foreign companies are converted to the Euro at the year-end rate (with the exception of the equity capital which is held at historic cost) and the profit & loss account at the average rate for the period. The resulting conversion rate adjustments are recognised in the "Conversion Reserves" item of the consolidated reserves.

VI. Intra-group transactions

The reciprocal accounts, and the income and expenses from intra-group transactions having a major influence on the consolidated financial statements, are eliminated for fully or proportionally integrated companies.

VII. Consolidation method of the insurance companies

The La Banque Postale group consolidates the CNP Assurance group per the equity method and Assurposte is proportionally consolidated.

These companies apply Accounting Regulation Committee regulation n° 2000-05 governing the consolidation rules for companies governed by the Insurance Code.

The accounting principles and evaluation rules specific to insurance activities are upheld in the consolidated accounts of the La Banque Postale group.

The entries of the financial statements of the proportionally consolidated insurance companies are recognised in the corresponding entries of the balance sheet, profit & loss account and off-balance sheet commitments, with the exception of the following specific items:

INVESTMENTS OF INSURANCE COMPANIES

Variable income securities are recognised at their historic cost, excluding accrued revenue, and fixed income securities at the ex-coupon acquisition cost. In the latter case, the difference between the acquisition price and the redemption value of the securities (premium - discount) is amortised using the actuarial method.

A provision for depreciation is created when the estimated recoverable value of the securities depreciates over the long term.

Furthermore, when the net book value of variable income instruments is higher than the total realisable value of the assets, a provision requires to be set aside to cover the risk of immediate enforceability of its technical commitments, equal to the difference between these two values.

TECHNICAL PROVISIONS

A provision for unearned premiums equating to the portion of premiums which requires to be allocated to the next financial year or subsequent financial years, is calculated on a policy by policy basis, taking account of changes in the principal value of the backed securities.

A provision for outstanding claims, equating to the best estimate of the potential cost for the group, is created when an obligation insured constitutes a risk of loss.

A general provision, intended to cover the changes in the number of claims declared and future claims, is also set aside. It is estimated on the basis of the anticipated default rate on the current insured portfolio for which no specific provision has already been made.

GROSS MARGIN FROM INSURANCE ACTIVITIES

The gross margin from insurance activities is calculated on the basis of premiums collected, the cost of insurance services including changes to provisions and the net return on investments.

C. RULES OF PRESENTATION AND EVALUATION

I. Foreign currency transactions

Pursuant to CRBF Regulation n° 89-01 governing the recognition of transactions in foreign currencies, the assets, liabilities and off-balance sheet commitments in foreign currencies are converted at the spot exchange rate in force on the last day of the period.

Exchange rate gains and losses from current foreign currency transactions are recognised in the profit & loss account.

Forward cover operations in foreign currencies are recognised off-balance sheet, originally at the spot rate and then the swap point (difference between the forward rate and the spot rate) is recorded pro rata temporis through profit and loss.

II. Accounts receivable with credit institutions and customers – Commitments by signature

The accounts receivable with credit institutions and customers are broken down according to their initial duration or the nature of the loan: receivables repayable on demand (ordinary accounts and day-to-day transactions) and forward claims for the credit institutions; commercial loans, ordinary accounts and other loans to customers. These receivables incorporate loans granted, ordinary debit accounts and repurchase agreements. CRC Regulation n° 2002-03 amended by CRC n° 2005-03 governing the accounting of credit risk by companies governed by the CRBF has been applied since 1st January 2003.

This regulation covers all transactions incurring a credit risk (accounts receivable with credit institutions and customers, fixed income securities, commitments by signature and financial instruments).

For a given counterparty, credit risk is the potential loss linked to failure of the counterparty to meet its obligations.

LOANS

These are recognised in the assets at their repayment value. The corresponding interest is recognised in the profit & loss account on a pro rata temporis basis. Loans are classed as doubtful when the institution believes there is a likelihood it will not recover all or some of the amounts payable under the commitments subscribed to by the counterparty.

In any event, outstanding loans are classed as doubtful when more three monthly instalments (six in the case of home loans) have not been received, when legal action has been brought or when the counterparty's financial situation has deteriorated and presents a risk of non-recovery. Loans for which the prospect of recovery has decreased significantly are identified as compromised doubtful outstanding loans within the doubtful outstanding loans category.

This is compulsory when payment of an instalment is not forthcoming or when the relationship with the counterparty ends (for loans taken out over an indefinite period).

In other cases, a loan is investigated to see if it is compromised at the latest one year after it has been classed as doubtful and subsequently on a regular basis.

Receivables deemed to be definitively irrecoverable are recognised as losses and the corresponding depreciation written back.

When, for a doubtful outstanding loans, payment of the original instalments begins again on a regular basis, the loan can return to healthy receivables.

Depreciation for known probable losses covers the full provision for anticipated losses, calculated as the difference between the capital still outstanding and the anticipated instalments discounted at current values, taking into account the debtor's financial situation and the current value of collateral pledged.

Interest on doubtful debts are recognised as Net Banking Income and fully depreciated.

REPURCHASE AGREEMENTS

These are recognised as assets in an account representative of the credit thus generated. The corresponding revenue is recognised as financial year income on a pro rata temporis basis. Repurchase agreements delivered and then sold are recognised as debts on securities under the liabilities heading and from that point on are recognised at their market value.

III. Securities

Securities are recognised in the balance sheet by type:

- government issues (treasury bonds and similar),
- bonds and other fixed income securities (negotiable debt securities and Interbank market securities),
- equities and other variable income securities.

Pursuant to the Banking and Financial Regulation Committee (CRBF) Regulation n° 90-01 amended, these securities are classed according to their portfolio of destination: investment, placement, trading depending on the financial purpose for which they are held.

Within each portfolio category, they are subject to the specific rules of evaluation listed below.

In the event of an established credit risk, the fixed income securities in the placement or investment portfolios are identified as doubtful in accordance with the same criteria applicable to doubtful debts and commitments.

TRADING SECURITIES

In addition to marketable securities, trading securities include Treasury Bonds and negotiable debt securities. They are purchased or sold with the intention of reselling them or repurchasing them in the short term. They are traded in the active markets. Trading securities are recognised on their acquisition date at the acquisition price excluding costs and including interest incurred where applicable. At each period end they are assigned the market value of the most recent trading day. The resulting revaluation difference is recognised through profit and loss.

PLACEMENT SECURITIES

Placement securities are those securities which do not meet the criteria for classification in the trading or investment portfolios.

Placement securities are recognised at their acquisition price less costs on the date of acquisition. They are managed on a "first in, first out" basis, are grouped by type and not offset against gains made from securities in other categories. They are valued as follows:

- bonds: unrealised capital losses calculated against market value on the closing rate are recognised as depreciation.

ETATS FINANCIERS CONSOLIDES

– Treasury bonds, negotiable debt securities and inter-bank market securities: a depreciation allowance is allocated in accordance with the solvency of the issuers and in line with market indicators.

Capital gains from micro-hedging transactions are taken into account when calculating depreciation.

For premiums or discounts, an actuarial spread is calculated over the remaining life of the security.

INVESTMENT SECURITIES

These are fixed income securities either purchased or transferred from the “placement securities” category with the manifest intention of holding them until maturity. They are recognised on the date of their acquisition at their acquisition price, less costs.

No depreciation is allocated for eventual unrealised capital losses between the book value of the securities and their market value. Depreciation is however allocated when it is likely the institution will not obtain all or part of their redemption value on maturity. The difference between the acquisition price and the redemption value of the securities (premium less discount) is amortised per the actuarial method.

PORTFOLIO ACTIVITY SECURITIES

The portfolio activity securities are investments made on a regular basis with the aim of generating a medium-term capital gain but without making a long-term investment in the development of the business or actively participating in the operational management of the issuing company. They are recognised at their acquisition price. Depreciation is allocated to cover a long-term fall in value of the securities resulting from an intrinsic deterioration in the company's situation.

NON-CONSOLIDATED EQUITY INTERESTS

Equity interests are valued at acquisition cost.

They are evaluated at their going concern value which is estimated on the basis of different criteria such as net assets, anticipated profitability and discounted future cash flows.

Depreciation is allocated should the going concern value of the company fall over the long term. Allocations net of write-backs and the capital gains or losses on sales of these securities are recognised under the “Gains and losses from fixed assets” heading.

IV. Tangible and intangible fixed assets

Fixed assets are recognised at their acquisition price plus, in the case of buildings, any initial installation and fitting out expenses.

Within the framework of application of the new rules governing assets, six components were retained for the bank's operating premises: structure, roof, woodwork and external work, major equipment, small equipment and fixtures and fittings and land. Depreciation is calculated per the linear method over their probable useful life. As such, depending on their components, buildings are depreciated over a period of between 10 and 80 years:

– structure: 80 years

– roof: 60 years

– woodwork and external work: 40 years

– major equipment: 20 years

– small equipment, fixtures and fittings: 10 years

Installations, fixtures and fittings are generally depreciated over 10 years.

As a general rule, software is depreciated over 3 years.

V. Debts with credit institutions and customer accounts payable

These debts include deposits, loans taken out and repurchase agreements.

LOANS

The repayment value of loans is recognised under liabilities. The related interest is recognised in the profit & loss account on a pro rata temporis basis.

REPURCHASE AGREEMENTS

The debt incurred is recognised under liabilities. The securities are held in the portfolio of origin and continue to be valued in accordance with the rules applicable to this portfolio. The corresponding interest is recognised in the profit & loss account on a pro rata temporis basis.

VI. Debts represented by a security

Debts represented by a security are the negotiable debt securities issued by La Banque Postale. Accrued interest not yet due attached to these securities is recognised in a related debts account through profit and loss.

VII. Provisions

This heading includes:

– the provisions set aside to meet welfare commitments, essentially provision for retirement;

– the provisions set aside pursuant to CRC regulation n° 2000-06 governing the recognition of liabilities. These provisions are intended to cover risks and charges for which the objective is clearly defined but the amount or term cannot be accurately established. For this provision to be set aside, there must be an obligation towards a third party at the year end with no anticipated consideration of at least equivalent value from the third party in question;

– provisions for home loan savings schemes: the mortgage savings schemes and accounts offered to private customers under the Act of 10 July 1965 involve a two-stage process: firstly, the collection of funds in the form of interest-bearing savings and then the use of these funds in the form of home loans. National Accounting Council

notice nº 2006-02 states that provisions must be set aside at each year end for undertakings having a detrimental impact on the credit institution authorised to receive home loan savings deposits and grant home loans. These commitments relate on the one hand to the obligation to pay interest on the savings at a rate fixed on opening of the account over an indefinite period in the future and, on the other, to the granting of a loan at a fixed rate on signature of the contract.

VIII. Subordinated debts

This is debt which, should the debtor go into liquidation, is only repaid after the other creditors have been paid off.

The accrued interest payable will be recognised in a related debts account through profit and loss.

IX. Fund for general banking risks

This fund is intended to meet the operational risks and costs inherent in the banking activities and management of the financial assets which cannot be covered from elsewhere.

X. Transactions on financial futures

The transactions relating to interest rate, currency and equity futures are recognised in accordance with the CRBF regulations 90-15, 92-04 and 95-04. Commitments in respect of these transactions are entered in the off-balance sheet accounts at the face value of the contracts. The results of these instruments are recognised in accordance with the management objective.

MACRO-HEDGE OPERATIONS

The income and charges in respect of macro-hedge operations are recognised pro rata temporis in the profit & loss account. Until the date of payment or collection of the funds, an offsetting entry is recognised in the adjustment account. The adjustments recorded on termination of financial instruments on interest rates are immediately recognised in the profit & loss account.

MICRO-HEDGE OPERATIONS

Income or charges incurred by products allocated from the outset to cover an element or a homogenous group of elements are recognised in the profit & loss account by an offsetting entry symmetrical to the income and charges incurred by the element covered. The upfront payment recorded on the termination of financial instruments on interest rates are immediately recognised in the profit & loss account.

OTHER TRANSACTIONS

These transactions are entered at their market value as at year-end. The results of over-the-counter operations are recognised pro rata temporis or at the end of the contract, depending on the type of operation involved. Unrealised capital gains are not recognised. A provision is allocated to cover any unrealised losses, which are defined as the difference between the estimated market value and the book value. Realised or unrealised gains or losses on the transactions conducted on an organised market are recognised directly in financial year profit and loss.

XI. Staff costs

Some of the group's subsidiaries grant stock options or other equity securities to their employees or members of the Executive Board. As the subsidiaries are not listed companies, the group has undertaken to buy back the securities issued following exercise of the options at a price based on market prices or calculated per a specific formula. At each year-end, the group assesses the impact exercise of the options would have on the group's share of the net consolidated assets of these subsidiaries and, where significant, a provision is set aside to cover the potential dilution.

XII. Welfare commitments

As a general rule, the welfare commitments are covered by contributions recognised as charges.

As for the employees' right to retirement benefit not covered by insurance policies, a provision is set aside on an actuarial basis per the preferred method propounded by the CNC Recommendation nº 03-R-01, which takes account of the age and length of service of the employees, the probable mortality rate, the likelihood of retaining the employees within the group until retirement age and estimated salary increases. The same rules apply to bonuses linked to long-service medals.

CONSOLIDATED FINANCIAL STATEMENTS

II.4 Notes to the accounts

NOTE 1 : INTER-BANK OPERATIONS AND RELATED TRANSACTIONS/RECEIVABLES WITH CREDIT INSTITUTIONS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|-------------------|-------------------|
| Ordinary debit accounts | 37,823 | 632,675 |
| Everyday accounts and loans ⁽¹⁾ | | 5,911,069 |
| Repurchase agreements | 294,867 | 141,109 |
| Amounts not charged | 7,423 | |
| Accrued interest | 5,316 | 22 |
| GROSS TOTAL | 345,429 | 6,684,875 |
| DEPRECIATION | | |
| RECEIVABLES WITH CREDIT INSTITUTIONS PAYABLE ON DEMAND | 345,429 | 6,684,875 |
| Forward accounts and loans ⁽²⁾ | 13,568,281 | 11,604,107 |
| Repurchase agreements | | |
| Subordinated loans ⁽³⁾ | 205,475 | 214,327 |
| Accrued interest | 54,989 | 4,817 |
| GROSS TOTAL | 13,828,745 | 11,823,251 |
| DEPRECIATION | | |
| RECEIVABLES WITH CREDIT INSTITUTIONS PAYABLE IN THE FUTURE | 13,828,745 | 11,823,251 |
| RECEIVABLES WITH CREDIT INSTITUTIONS | 14,174,174 | 18,508,126 |

(1) Of which accounts opened with the Caisse des Dépôts et Consignations: K€5,771,069 as at 31 December 2005.

(2) Of which centralised LEP accounts opened with the Caisse des Dépôts et Consignations: K€11,091,426 as at 31 December 2006 compared to K€11,256,368 as at 31 December 2005.

(3) These are subordinated loans granted to Crédit Logement to enable it to meet its prudential equity capital obligations.

NOTE 2 : CUSTOMER TRANSACTIONS

(in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|-------------------|-------------------|
| Ordinary debit accounts | 191,010 | 138,299 |
| Doubtful debts | 22,813 | 64,439 |
| Depreciation | (11,771) | (14,777) |
| Accrued interest | 6,130 | 4,325 |
| ORDINARY DEBIT ACCOUNTS | 208,182 | 192,286 |
| Cash credit ⁽¹⁾ | 540,001 | 572,662 |
| Housing credit | 19,949,766 | 18,387,106 |
| Amounts not charged ⁽²⁾ | 78,994 | 95,328 |
| Doubtful debts | 78,133 | 73,995 |
| Depreciation ⁽³⁾ | (60,142) | (63,121) |
| Accrued interest | 54,580 | 48,746 |
| OTHER CUSTOMER LENDING, LEASING TRANSACTIONS AND SIMILAR | 20,641,332 | 19,114,716 |
| CUSTOMER TRANSACTIONS | 20,849,514 | 19,307,002 |

(1) This entry relates principally to differed payment terms on bank cards.

(2) This entry includes receivables from transactions conducted under mandate.

(3) Whilst awaiting an amendment of the CRC regulation governing credit risk, depreciation of K€19,033 was allocated on the basis of healthy receivables as at 31 December 2006. Exposure to credit risk is analysed in Note 21.

CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 : OPERATIONS ON TRADING, PLACEMENT, INVESTMENT AND PORTFOLIO ACTIVITY SECURITIES

A) Bonds, equities, other fixed and variable income securities (in € thousands)

31.12.2006

| | Trading securities | Placement securities | Investment securities |
|--|-----------------------|-------------------------|--------------------------|
| Public papers and similar securities⁽¹⁾ | | | |
| Gross value | | 5,145,737 | 33,633,947 |
| Premiums/discounts | | 72,441 | 218,020 |
| Loans to related companies | | 104,578 | 778,884 |
| Depreciation | | (18,666) | (1,720) |
| Net book value | 0 | 5,304,090 | 34,629,131 |
| Bonds and other fixed income securities⁽¹⁾ | | | |
| Gross value | 11,890,705 | 5,526,735 | 4,838,543 |
| Premiums/discounts | | 13,842 | 1,907 |
| Loans to related companies | | 72,643 | 140,415 |
| Depreciation | | (27,379) | (2,478) |
| Net book value | 11,890,705 | 5,585,841 | 4,978,387 |
| Equities and other variable income securities | | | |
| Gross value | | 130,644 | |
| Loans to related companies | | | |
| Depreciation | | (73) | |
| Net book value | 0 | 130,571 | |
| NET TOTAL BY PORTFOLIO TYPE | 11,890,705 | 11,020,502 | 39,607,518 |

(1) The counterparty risk attached to fixed income securities is detailed in Note 21.
The value of listed securities stood at K€10,632,569 as at 31 December 2006.

| 31.12.2005 | | | | | | |
|-------------------------------|-------------------|--------------------|----------------------|-----------------------|-------------------------------|-------------------|
| Portfolio activity securities | Total | Trading securities | Placement securities | Investment securities | Portfolio activity securities | Total |
| | 38,779,684 | 1,318,359 | 4,533,425 | 34,371,617 | | 40,223,401 |
| | 290,461 | | (36,241) | (460,342) | | (496,583) |
| | 883,462 | | 97,770 | 804,233 | | 902,003 |
| | (20,386) | | (26,632) | | | (26,632) |
| | 39,933,221 | 1,318,359 | 4,568,322 | 34,715,508 | | 40,602,189 |
| | 22,255,983 | 8,810,702 | 1,238,866 | 6,036,656 | | 16,086,224 |
| | 15,749 | | (6,420) | 4,094 | | (2,326) |
| | 213,058 | | 11,599 | 164,381 | | 175,980 |
| | (29,857) | | (3,116) | (2,946) | | (6,062) |
| | 22,454,933 | 8,810,702 | 1,240,929 | 6,202,185 | | 16,253,816 |
| 14,026 | 144,670 | | 166,708 | | 4,008 | 170,716 |
| (131) | (204) | | (113) | | (270) | (383) |
| 13,895 | 144,466 | | 166,595 | | 3,738 | 170,333 |
| 13,895 | 62,532,620 | 10,129,061 | 5,975,846 | 40,917,693 | 3,738 | 57,026,338 |

B) Bonds, equities, other fixed and variable income securities – unrealised capital gains or losses (in € thousands)

| | Placement securities | | Investment securities | | Portfolio activity securities (PAS) | |
|---|----------------------|------------|-----------------------|------------|-------------------------------------|------------|
| | 31.12.2006 | 31.12.2005 | 31.12.2006 | 31.12.2005 | 31.12.2006 | 31.12.2005 |
| Govt. papers and similar | | | | | | |
| Net book value | 5,304,090 | 4,568,322 | 34,629,131 | 34,715,508 | | |
| Market value | 5,199,554 | 4,474,874 | 34,164,975 | 36,175,763 | | |
| Unrealised capital gains | 75 | 2,692 | 547,780 | 2,208,083 | | |
| Unrealised losses depreciated ⁽¹⁾ | (18,666) | (26,632) | (1,720) | | | |
| Bonds and other fixed income securities | | | | | | |
| Net book value | 5,585,841 | 1,240,929 | 4,978,387 | 6,202,185 | | |
| Market value | 5,514,921 | 1,245,995 | 4,902,089 | 6,355,693 | | |
| Unrealised capital gains | 2,235 | 16,511 | 79,836 | 305,228 | | |
| Unrealised losses depreciated ⁽¹⁾ | (27,379) | (3,116) | (2,478) | (2,946) | | |
| Equities and other variable income securities | | | | | | |
| Net book value | 130,571 | 166,595 | | | 13,895 | 3,738 |
| Market value and/or value in use for the PAS | 137,478 | 172,328 | | | 13,895 | 3,738 |
| Net unrealised capital gains or losses ⁽¹⁾ | 6,852 | 5,733 | | | (131) | |
| Unrealised losses depreciated | (73) | (113) | | | (131) | (270) |

(1) These amounts do not include the latent gains/losses in respect of the financial instruments allocated, where appropriate, as a hedge for placement securities.

During the year, securities in the amount of €990,283 were transferred from the placement portfolio to the investment portfolio to.

No investment securities were sold before maturity.

CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 : INVESTMENTS OF THE INSURANCE COMPANIES (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|----------------|----------------|
| Property investments | 3 | |
| Bonds and other fixed income securities | 192,612 | 162,684 |
| Equities and other variable income securities | 50,413 | 34,278 |
| INVESTISSEMENTS OF THE INSURANCE COMPANIES | 243,028 | 196,962 |

These are the investments made by Assurposte which is proportionally consolidated in the group's accounts.

NOTE 5 : EQUITY INTERESTS, INTERESTS IN AFFILIATED COMPANIES AND OTHER LONG TERM SECURITIES (in € thousands)

| | 31.12.2006 | | |
|---|------------------------------------|----------|-----------------|
| | Book value of the securities | Advances | Depreciation |
| Crédit Logement | 78,260 | | |
| Euronext | 59,336 | | |
| Europay | 1,339 | | |
| SA Actigestion | 663 | | |
| SCPI Atout Pierre Habitation | 422 | | |
| SCPI Atout Pierre Habitation 2 | 422 | | |
| SAS Carte bleue | 185 | | |
| Eurogiro | 65 | | |
| SCI La maison du Capital Investissement | 50 | | |
| Issy SF2-3 | 40 | | |
| Issy SF2-4 | 40 | | |
| Fédération SF2 | 40 | | |
| GIE CESU | 25 | | |
| Stelphia Asset Management | 12 | | |
| BMS Exploitation | 8,958 | | (8,958) |
| BMS Développement | 2,023 | | (2,023) |
| SFPMEI | 1,001 | | (1,001) |
| Issy SF2-2 | | | |
| Others | 17 | | |
| TOTAL INTERESTS AND ADVANCES | 152,898 | | (11,982) |

| 31.12.2005 | | | | | | |
|-----------------------------|------------------|------------------------------|----------|-----------------|-----------------------------|------------------|
| Net value of the securities | % of the capital | Book value of the securities | Advances | Depreciation | Net value of the securities | % of the capital |
| 78,260 | 6.00% | 78,260 | | | 78,260 | 6.00% |
| 59,336 | 0.72% | | | | | |
| 1,339 | 6.00% | 1,339 | | | 1,339 | 6.00% |
| 663 | 99.93% | | | | | |
| 422 | 1.23% | 420 | | | 420 | 1.23% |
| 422 | 49.35% | | | | | |
| 185 | 7.73% | 185 | | | 185 | 7.73% |
| 65 | 9.52% | 65 | | | 65 | 9.52% |
| 50 | NC | | | | | |
| 40 | 100.00% | 40 | | | 40 | 100.00% |
| 40 | 100.00% | 40 | | | 40 | 100.00% |
| 40 | 100.00% | | | | | |
| 25 | 16.66% | | | | | |
| 12 | 6.10% | 12 | | | 12 | 6.10% |
| 0 | 13.27% | 8,958 | | (8,958) | 0 | 13.27% |
| 0 | 9.60% | 2,023 | | (2,023) | 0 | 9.60% |
| 0 | 9.58% | 1,001 | | (1,001) | 0 | 9.09% |
| 0 | - | 40 | | | 40 | 100.00% |
| 17 | | | | | | |
| 140,916 | | 92,383 | | (11,982) | 80,401 | |

NOTE 6 : EQUITY INTERESTS CONSOLIDATED PER THE EQUITY METHOD (in € thousands)

| | 31.12.2006 | | 31.12.2005 | |
|---|---------------------------------------|---------------------------------------|-------------------------------|---|
| | Value accounted per the equity method | Value accounted per the equity method | Valeur de mise en équivalence | Of which 2005 result carried over to reserves |
| Caisse Nationale de Prévoyance | 1,140,667 | 145,095 | 1,048,838 | 128,646 |
| Ciloger | | | 1,540 | 387 |
| Société Financière de Paiement | 1,961 | 455 | 1,506 | 7 |
| INTERESTS CONSOLIDATED PER THE EQUITY METHOD | 1,142,628 | 145,550 | 1,051,884 | 129,040 |

CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 : TANGIBLE AND INTANGIBLE FIXED ASSETS (in € thousands)

| | 31.12.2006 | | | 31.12.2005 | | |
|---|------------------|---------------------|----------------|----------------|---------------------|----------------|
| | Gross | Amort. & Deprec. | Net | Gross | Amort. & Deprec. | Net |
| Land | 73,618 | | 73,618 | 73,740 | | 73,740 |
| Buildings | 113,982 | (2,723) | 111,259 | 113,787 | (1,034) | 112,753 |
| Other operating fixed assets | 543,438 | (311,716) | 231,722 | 533,898 | (294,750) | 239,148 |
| TANGIBLE FIXED ASSETS | 731,038 | (314,439) | 416,599 | 721,425 | (295,784) | 425,641 |
| Set-up costs | | | | | | |
| Concessions, licences, patents | 109,705 | (82,605) | 27,100 | 94,134 | (70,924) | 23,210 |
| Other intangible fixed assets | 230,125 | (53,394) | 176,731 | 147,794 | (33,698) | 114,096 |
| INTANGIBLE FIXED ASSETS | 339,830 | (135,999) | 203,831 | 241,928 | (104,622) | 137,306 |
| TANGIBLE & INTANGIBLE FIXED ASSETS | 1,070,868 | (450,438) | 620,430 | 963,353 | (400,406) | 562,947 |

The variation of the other intangible fixed assets relates principally to the certificates of association subscribed to by La Banque Postale in connection with the deposit guarantee funds.

NOTE 8 : GOODWILL (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|-----------------|-----------------|
| Gross goodwill as at 1 st January | 55,421 | |
| Differences arising from equity interests taken and changes in the group's structure ⁽¹⁾ | 44,496 | 55,421 |
| GROSS GOODWILL | 99,917 | 55,421 |
| Amortisation as at 1 st January | (22,770) | |
| Net allocations to amortisation | (8,070) | |
| Other movements ⁽¹⁾ | | (22,770) |
| MORTISATION AND DEPRECIATION | (30,840) | (22,770) |
| NET GOODWILL | 69,077 | 32,651 |

(1) As indicated in the preliminary notes on the accounting principles, the transfer of the equity interests in SF2 as of 31 December 2005 took the form of an acquisition eligible for the pooling of interests method as defined in paragraph 215 of CRC Regulation n° 99-07. This method involves substituting the acquisition price of the SF2 securities for the net book value of the assets and liabilities comprising the group's equity capital.

NOTE 9 : ACCRUALS AND SUNDRY ASSETS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|--------------------|-------------------|
| Prepaid expenses | 18,758 | 19,260 |
| Accrued income | 996,128 | 1 049,153 |
| Foreign currency and forward financial instrument adjustment accounts | 1,404 | 9,810 |
| Collection accounts | 359,030 | 761 |
| Other accruals ⁽¹⁾ | 5,279,719 | 4,977,919 |
| Deferred tax credits | note 31 146,674 | 219,190 |
| ACCRUALS | 6,801,713 | 6,276,093 |
| Conditional instruments purchased | 619 | 1,625 |
| Collective management of Codevis | 2,339,360 | 2,264,613 |
| Misc. Debtors | 664,638 | 1,535,584 |
| Settlement accounts for securities operations | 20,545 | 20,437 |
| Accrued interest | 84,190 | 3 |
| Depreciation | (511) | (935) |
| SUNDRY ASSETS | 3,108,841 | 3,821,327 |
| ACCRUALS AND SUNDRY ASSETS | 9,910,554 | 10,097,420 |

(1) This entry is principally the accruals on payment facility transactions at the financial centres.

NOTE 10 : INTER-BANK TRANSACTIONS AND SIMILAR: DEBTS WITH CREDIT INSTITUTIONS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|------------------|------------------|
| Ordinary credit accounts | 79,372 | 73,964 |
| Other amounts due | 56,270 | 23,104 |
| DEBTS WITH CREDIT INSTITUTIONS REPAYABLE ON DEMAND | 135,642 | 97,068 |
| Term loans and time-deposit accounts | 348,947 | 287,798 |
| Repurchase agreements | 6,809,047 | 3,119,658 |
| Accrued interest | 68,161 | 6,130 |
| LONG TERM DEBTS WITH CREDIT INSTITUTIONS | 7,226,155 | 3,413,586 |
| DEBTS WITH CREDIT INSTITUTIONS | 7,361,797 | 3,510,654 |

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NOTE 11 : CUSTOMER TRANSACTIONS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|-------------------|-------------------|
| Home loan savings schemes | 22,841,034 | 24,988,637 |
| Home loan savings accounts | 6,244,553 | 6,288,489 |
| Epargne Populaires schemes | 1,152,549 | 1,310,262 |
| Epargne Populaires savings books | 13,048,730 | 12,835,229 |
| Codevi | 2,405,933 | 2,264,613 |
| Livret jeune | 1,131,895 | 1,122,112 |
| Others | 3,659,211 | 3,267,488 |
| Related debts | 1,277 | 9,312 |
| SAVINGS ACCOUNTS – SPECIAL REGIME | 50,485,182 | 52,086,142 |
| Ordinary accounts payable | 38,634,360 | 37,686,205 |
| ORDINARY CUSTOMER ACCOUNTS PAYABLE | 38,634,360 | 37,686,205 |
| Time deposit accounts payable | 557,859 | 560,554 |
| Other monies owing to customers | 1,548,089 | 1,484,269 |
| Accrued interest | 11,772 | 20,660 |
| OTHER CUSTOMER DEBTS | 2,117,720 | 2,065,483 |
| CUSTOMER TRANSACTIONS | 91,237,262 | 91,837,830 |

The provisions governing collection of Livret A funds on behalf of the Caisse d'Epargne Nationale did not alter after the transfer as the monies collected remained centralised with the Caisse des Dépôts et Consignations and do not figure in the La Banque Postale balance sheet. As at 31 December 2006, the centralised monies stood at K€48,817,649 compared to K€46,905,388 as at 31 December 2005.

NOTE 12 : DEBTS REPRESENTED BY A SECURITY (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|--|----------------|------------|
| Deposit certificates | 688,506 | |
| Related debts | 1,782 | |
| INTER-BANK MARKET SECURITIES AND NEGOTIABLE DEBT SECURITIES | 690,288 | 0 |
| DEBTS REPRESENTED BY A SECURITY | 690,288 | 0 |

NOTE 13 : TECHNICAL PROVISIONS OF THE INSURANCE COMPANIES (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|--|----------------|----------------|
| Technical provisions for life assurance | 130,508 | 103,070 |
| Technical provisions for non-life assurance | 36,975 | 32,866 |
| Equalisation provisions | 6,142 | 5,783 |
| Other provisions | 7,017 | 5,851 |
| TECHNICAL PROVISIONS OF THE INSURANCE COMPANIES | 180,642 | 147,570 |

This entry records the investments of Assurposte which is proportionally consolidated in the group's accounts.

NOTE 14 : ACCRUALS AND SUNDRY LIABILITIES (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|------------------|------------------|
| Unearned income | 34,378 | 42,630 |
| Outstanding expenses | 334,071 | 447,250 |
| Foreign currency and forward financial instrument adjustment accounts | 101 | 15,248 |
| Other accruals ⁽¹⁾ | 5,666,172 | 6,278,452 |
| Deferred tax liabilities note 36 | 477 | 88 |
| ACCRUALS | 6,035,199 | 6,783,668 |
| Conditional instruments sold | 16 | 163 |
| Sundry creditors | 1,132,474 | 1,098,687 |
| Settlement accounts for securities transactions | 22,615 | 2,613 |
| Accrued interest | | 231 |
| SUNDRY LIABILITIES | 1,155,105 | 1,101,694 |
| ACCRUALS AND SUNDRY LIABILITIES | 7,190,304 | 7,885,362 |

(1) This entry is principally the accruals on payment facility transactions at the financial centres.

NOTE 15 : PROVISIONS (in € thousands)

| | 31.12.2005 | Allocations | Write-backs (1) | Other variations | 31.12.2006 |
|---|----------------|---------------|------------------|------------------|----------------|
| Retirement provision and other welfare commitments | 1,176 | 4,542 | (993) | (37) | 4,688 |
| Commitments in respect of home loan savings schemes | 610,617 | | (237,000) | | 373,617 |
| Other provisions | 32,041 | 50,680 | (8,276) | 350 | 74,795 |
| PROVISIONS (EXCL. COUNTERPARTY RISK) | 643,834 | 55,222 | (246,269) | 313 | 453,100 |
| PROVISIONS | 643,834 | 55,222 | (246,269) | 313 | 453,100 |

(1) including K€2,966 unused provisions.

HOME LENDING INFORMATION (in € thousands)

| Years in place | Sums collected | Loans granted under home loan savings schemes (PEL) and accounts (CEL) | Provisions 2006 | Provisions 2005 | Mouvements nets de provisions ⁽²⁾ |
|------------------|----------------|--|-----------------|-----------------|--|
| Over 10 years | 7,587 | 436 | 102 | 247 | (145) |
| 10 to 4 years | 12,524 | 59 | 28 | 146 | (118) |
| Under 4 years | 2,730 | 1 | 63 | 55 | 8 |
| Total PEL | 22,841 | 496 | 193 | 448 | (255) |
| Total CEL | 6,245 | 1,333 | 181 | 163 | 18 |
| Total | 29,086 | 1,829 | 374 | 611 | (237) |

(2) The variation in provisions relates to a net write-back for use.

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NOTE 16 : SUBORDINATED DEBT AND OTHER EQUITY CAPITAL (in € thousands)

| | Date of issue | Maturity date ⁽¹⁾ | Rate | Currency | 31.12.2006 | 31.12.2005 |
|------------------------|------------------|------------------------------|----------------|----------|----------------|------------|
| Term subordinated debt | 12 décembre 2006 | 12 décembre 2016 | ⁽²⁾ | Euro | 500,000 | |
| Related debts | | | | | 1,019 | |
| Other equity capital | | | | | 123,855 | |
| TOTAL | | | | | 624,874 | |

(1) La Banque Postale may request to make an early repayment of the debt in full from 12 December 2011.

(2) Benchmarked against the Euribor 3 months.

NOTE 17 : ELEMENTS OF THE CONSOLIDATED BALANCE SHEET BROKEN DOWN BY TIME TO MATURITY (in € thousands)

| | <= 3 months | 3 months to 1 year | 1 to 5 years | > 5 years | 31.12.2006 |
|---|-------------|--------------------|--------------|------------|------------|
| ASSETS | | | | | |
| Accounts receivable with credit institutions | 13,566,881 | 420,988 | 135,966 | 50,339 | 14,174,174 |
| Customer accounts receivable | 1,265,797 | 1,259,643 | 6,202,571 | 12,121,503 | 20,849,514 |
| Portfolios of investment & placement securities: | | | | | |
| ■ Government papers and similar | 1,492,343 | 2,823,362 | 24,601,656 | 11,015,860 | 39,933,221 |
| ■ Bonds and other fixed income securities | 299,915 | 922,542 | 8,753,629 | 588,142 | 10,564,228 |
| LIABILITIES | | | | | |
| Debts with credit institutions | 4,849,180 | 2,512,617 | | | 7,361,797 |
| Customer accounts payable | 87,954,088 | 1,176,175 | 2,057,507 | 49,492 | 91,237,262 |
| Debts represented by a security: | | | | | |
| ■ Inter-bank market securities and negotiable debt securities | 674,788 | 15,500 | | | 690,288 |

NOTE 20 : FINANCIAL FUTURES BROKEN DOWN BY TERM TO MATURITY (in € thousands)

31.12.2006

| | <= 1 year | 1 to 5 years |
|---------------------------------|------------|--------------|
| FIRM TRANSACTIONS | | |
| Interest rate contracts | 2,173,300 | |
| Interest rate swaps | 28,031,163 | 16,915,064 |
| CONDITIONAL TRANSACTIONS | | |
| Caps, floors | 653 | 121,330 |
| Swaptions | 75,501 | (68,286) |

NOTE 18 : OFF-BALANCE SHEET COMMITMENTS RELATING TO CASH AND FORWARD FOREIGN EXCHANGE TRANSACTIONS AND CURRENCY LENDING/BORROWING (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|--|------------|------------|
| Forward currency transactions: | | |
| ■ Euro receivable against currencies deliverable | | 658,257 |
| ■ Currencies receivable against Euro deliverable | | |
| Premium/discount not accrued | | |
| ■ Receivable | | 2,021 |
| ■ Payable | | |

NOTE 19 : FINANCIAL FUTURES (in € thousands)

| | 31.12.2006 | | | | 31.12.2005 | |
|---------------------------------|----------------------------------|------------|------------|------------|---|------------|
| | Position Management transactions | | Hedges | | Position management transactions Notional | Hedges |
| | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| FIRM TRANSACTIONS | | | | | | |
| Organised markets | | | | | | |
| Interest rate contracts | 2,173 300 | 6,205 | | | | |
| Over-the-counter markets | | | | | | |
| Interest rate swaps | 18,106,747 | (10,165) | 53,356,699 | 220,122 | 7,217,035 | 65,421,277 |
| CONDITIONAL TRANSACTIONS | | | | | | |
| Over-the-counter markets | | | | | | |
| ■ Caps, floors | | | 121,983 | 1,910 | | 123,980 |
| ■ Swaptions | | | 7,215 | 1,036 | | 412,201 |

As at 31 December 2005, the fair value of financial futures stood at K€245,291.

| | 31.12.2005 | | | | |
|------------|------------|-------------------------|------------|----------------|------------------------------|
| | > 5 years | Total | <= 1 year | 1 à 5 years | > 5 years |
| | | | | | Total |
| 26,517,219 | | 2,173,300 71,463,446 | 17,049,364 | 23,143,848 | 32,445,100 72,638,312 |
| | | 121,983 7,215 | 191,422 | 756 209,749 | 123,224 11,030 412,201 |

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NOTE 21 : CREDIT RISKS (in € thousands)

A) Global credit risk exposure

| | Gross healthy debts | Gross non-compromised doubtful debts | Gross compromised doubtful debts | Gross 31.12.2006 | Gross 31.12.2005 |
|---|---------------------|--------------------------------------|----------------------------------|-------------------|-------------------|
| Receivables with credit institutions | 14,174,174 | | | 14,174,174 | 18,508,126 |
| Customer accounts receivable ⁽¹⁾ | 20,815,826 | 69,987 | 35,614 | 20,921,427 | 19,384,900 |
| Placement and investment portfolios (fixed income securities) | 10,594,085 | | | 10,594,085 | 7,449,176 |
| Funding commitments and guarantees given | 7,603,543 | | | 7,603,543 | 1,731,554 |
| TOTAL | 53,187,628 | 69,987 | 35,614 | 53,293,229 | 47,073,756 |

The Group has not restructured any receivables on off-market terms.

(1) The figure for restructured gross healthy debt is not significant.

B) Depreciation for credit risk

| | 31.12.2005 | Allocations | Write-back | Other variations | 31.12.2006 |
|---|---------------|---------------|-----------------|------------------|---------------|
| Customer accounts receivable | 77,898 | 21,201 | (27,186) | | 71,913 |
| DEPRECIATION AS A DEDUCTION FROM ASSETS | 77,898 | 21,201 | (27,186) | 0 | 71,913 |
| TOTAL DEPRECIATION LINKED TO COUNTERPARTY RISK⁽²⁾ | 77,898 | 21,201 | (27,186) | 0 | 71,913 |
| (2) : of which depreciation on: | | | | | |
| Gross non-compromised doubtful debts: | 55,908 | 21,130 | (17,565) | | 59,473 |
| Gross compromised doubtful debts | 21,990 | 71 | (9,621) | | 12,440 |

C) Credit risk – customer accounts receivable

| | Gross healthy debts | Gross non-compromised doubtful debts | Gross compromised doubtful debts | Depreciation on current debt | Net 31.12.2006 |
|----------------------------|---------------------|--------------------------------------|----------------------------------|------------------------------|-------------------|
| Breakdown by sector | | | | | |
| State and public sector | 848 | | | | 848 |
| Corporate | 66,168 | 295 | | | 66,463 |
| Private | 20,748,810 | 69,692 | 35,614 | (71,913) | 20,782,203 |
| TOTAL BY SECTOR | 20,815,826 | 69,987 | 35,614 | (71,913) | 20,849,514 |

NOTE 22 : INTERESTS AND SIMILAR ON INTER-BANK AND CASH TRANSACTIONS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|--|------------------|--------------------|
| Interest on ordinary debit accounts | 47,651 | 3,186 |
| Interest on other accounts and loans | 1,204,057 | 52,665 |
| Interest on securities received via repurchase agreements | 6,544 | 6,249 |
| Other interests and similar | 0 | 1 |
| INTERESTS AND SIMILAR INCOME FROM INTERBANK AND CASH TRANSACTIONS | 1,258,252 | 62,101 |
| Interest on ordinary credit accounts | (9,410) | (130,480) |
| Interest on loans and repurchase agreements | (8,138) | (1,346,601) |
| Interest on securities delivered via repurchase agreements | (227,319) | (63,550) |
| Other interest and similar charges | (2) | |
| INTERESTS AND SIMILAR CHARGES ON INTER-BANK AND CASH TRANSACTIONS | (244,869) | (1,540,631) |

Interest income from accounts and loans includes remuneration of the Livret A (K2618,450) and LEP (K7459,428) funds centralised with the Caisse des Dépôts et Consignations.

This remuneration covers the interest paid to depositors recognised under the "interest and similar customer charges" heading and the additional income received by La Banque Postale.

NOTE 23 : INTEREST AND SIMILAR ON CUSTOMER TRANSACTIONS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|--------------------|------------|
| Interest on ordinary debit accounts | 18,472 | |
| Interest on trade receivables and customer loans | | |
| ■ interest on cash loans | 1,534 | |
| ■ interest on home loans | 857,795 | |
| ■ other interest | 714 | |
| Other interests and similar | 237,249 | |
| Doubtful interest | 2,379 | |
| INTERESTS AND RELATED INCOME FROM CUSTOMER TRANSACTIONS | 1,118,143 | 0 |
| Interest on ordinary credit accounts | (35,574) | |
| Interest on time credit accounts, loans and repurchase agreements | (18,933) | |
| Savings accounts - special regime | (1,583,180) | |
| Other interest and related charges | (1,339) | |
| INTERESTS AND RELATED CHARGES ON CUSTOMER TRANSACTIONS | (1,639,026) | 0 |

The interest and related charges on savings accounts governed by a special regime relate principally to interest in the amount of K€487,397 paid to customers on LEP and Codevi accounts.

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NOTE 24 : INTEREST AND SIMILAR ON BONDS AND OTHER FIXED INCOME SECURITIES (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|--|------------------|------------------|
| Interest and related income from placement securities | 346,099 | 9,135 |
| Interest and similar income from investment securities | 1,734,450 | 1 353,062 |
| Other interest and related income ⁽¹⁾ | 85,270 | 819,063 |
| INTERESTS AND RELATED INCOME FROM BONDS AND OTHER FIXED INCOME SECURITIES | 2,165,819 | 2,181,260 |
| Interest on negotiable deposit certificates and negotiable medium-term notes | (59,589) | (16,101) |
| Other interest charges ⁽¹⁾ | (1,320) | (728,349) |
| INTEREST AND RELATED CHARGES ON BONDS AND FIXED INCOME SECURITIES | (60,909) | (744,450) |

(1) In 2005 this item included interest accrued in respect of globally managed swaps which, in 2006, is included in the "other interest" item.

NOTE 25 : INCOME FROM VARIABLE INCOME SECURITIES (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|--------------|------------|
| Income from equity interests | 4,414 | |
| INCOME FROM VARIABLE INCOME SECURITIES | 4,414 | |

NOTE 26 : PRODUITS ET CHARGES DE COMMISSIONS (in € thousands)

| | 31.12.2006 | | 31.12.2005 | |
|------------------------------------|------------------|------------------|--------------|----------------|
| | Income | Expenses | Income | Expenses |
| Cash and inter-bank transactions | 695 | (101) | 12 | (24) |
| Customer transactions | 874,549 | (69,285) | | |
| Securities transactions | 14,640 | (4,511) | | (2,248) |
| Transactions on financial forwards | | (1,188) | | (364) |
| Financial services rendered | 918,636 | (128,139) | 2,376 | (2) |
| Other commission | 6,980 | (67) | | |
| COMMISSION | 1,815,500 | (203,291) | 2,388 | (2,638) |

NOTE 27 : GAINS OR LOSSES ON TRADING PORTFOLIO TRANSACTIONS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|--|----------------|----------------|
| Profit/loss from transactions on trading securities | 324,599 | 157,862 |
| Profit/loss from transactions on exchange rate instruments | 17,908 | (132) |
| Profit/loss from transactions on financial instruments | (12,415) | (14,334) |
| GAINS OR LOSSES ON TRADING PORTFOLIO TRANSACTIONS | 330,092 | 143,396 |

NOTE 28 : GAINS OR LOSSES ON PLACEMENT PORTFOLIO AND RELATED TRANSACTIONS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|--|-----------------|--------------|
| Profit/loss from the sale of placement securities | (81,871) | 1,236 |
| Allocations to/write-back of depreciation for placement securities | (16,131) | 89 |
| GAINS OR LOSSES ON PLACEMENT PORTFOLIO TRANSACTIONS | (98,002) | 1,325 |
| GAINS OR LOSSES ON PLACEMENT PORTFOLIO AND RELATED TRANSACTIONS | (98,002) | 1,325 |

NOTE 29 : OTHER INCOME AND CHARGES FROM NET BANKING OPERATIONS (in € thousands)

| | 31.12.2006 | | 31.12.2005 | |
|---|----------------|-----------------|------------|-------------|
| | Income | Charges | Income | Charges |
| Charges re-invoiced, income passed on and charge transfers | 39,779 | | 319 | |
| Other miscellaneous operating income and charges | 17,823 | (62,232) | 40 | (46) |
| Allocations written back from provisions for other operating income and charges | 7,593 | (8,390) | | |
| OTHER INCOME AND CHARGES FROM BANKING OPERATIONS | 65,195 | (70,622) | 359 | (46) |
| NET INCOME AND CHARGES FROM BANKING OPERATIONS | (5,427) | | 313 | |

CONSOLIDATED FINANCIAL STATEMENTS

NOTE 30 : GROSS MARGIN FROM INSURANCE ACTIVITIES (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|--|---------------|------------|
| Premiums/contributions collected, paid or for which a provision has been set aside | 101,498 | |
| Cost of service provision, net of sales or retrocessions | (65,687) | |
| Net income from sales/investments allocated | (1,559) | |
| GROSS MARGIN FROM INSURANCE ACTIVITIES | 34,252 | 0 |
| Recognition of the gross margin in the technical result | | |
| Gross margin from insurance activities | 34,252 | |
| Administration costs per destination | (24,811) | |
| Net allocations to operating amortisation | (7) | |
| TECHNICAL RESULT | 9,434 | |

NOTE 31 : STAFF COSTS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|--|------------------|-----------------|
| Wages and salaries | (73,336) | (6,032) |
| Retirement costs net of provisions for pensions and related benefits | (9,444) | (58) |
| Other welfare costs | (28,606) | (3,043) |
| Incentive-related pay | (4,904) | (426) |
| Duties, taxes and related payments in respect of salaries | (11,766) | (980) |
| Allocations to/write-back of provisions | (263) | (69) |
| Transfer of staff costs | 2,771 | |
| STAFF COSTS | (125,548) | (10,608) |

Average staff numbers of the fully consolidated and proportionally consolidated companies stood at 1,234 as at 31 December 2006.
Attendance fees paid to Directors totalled K€282 in 2006 against K€55 as of 31 December 2005.

NOTE 32 : OTHER GENERAL OPERATING COSTS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|--------------------|-----------------|
| Duties and taxes | (27,802) | (4,304) |
| Rent and rental costs | (41,941) | (1,665) |
| Fees | (48,638) | (20,405) |
| Other operating costs | (3,901,633) | (3,715) |
| Net allocations to/write-back of provisions | (2,709) | |
| OTHER GENERAL OPERATING COSTS | (4,022,723) | (30,089) |

The main component of the other operating costs is €3,289 million linked to the service agreements between La Poste and La Banque Postale.

NOTE 33 : NET ALLOCATIONS TO AMORTISATION AND DEPRECIATION OF THE TANGIBLE AND INTANGIBLE FIXED ASSETS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|-----------------|----------------|
| Allocations to amortisation of the operating premises | (85,967) | (1,296) |
| NET ALLOCATIONS TO AMORTISATION | (85,967) | (1,296) |
| NET ALLOCATIONS TO AMORTISATION AND DEPRECIATION OF THE TANGIBLE AND INTANGIBLE FIXED ASSETS | (85,967) | (1,296) |

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NOTE 34 : COST OF RISK (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|-----------------|------------|
| Allocations to provisions for: | | |
| ■ Customers and credit institutions | (21,861) | |
| ALLOCATIONS TO PROVISIONS | (21,861) | |
| Write-back of provisions for: | | |
| ■ Customers and credit institutions | 27,186 | |
| ■ Securities | 188 | |
| WRITE-BACK OF PROVISIONS | 27,374 | |
| Losses and sums recovered: | | |
| ■ Losses on irrecoverable debts covered by provisions | (11,104) | |
| ■ Losses on irrecoverable debts for which no provision was made | (7,167) | |
| ■ Sums recovered in respect of debts written off | 3,851 | |
| LOSSES AND SUMS RECOVER | (14,420) | |
| COST OF RISK | (8,907) | |

The variations in depreciation linked to counterparty risk are detailed in note 21.

NOTE 35 : GAINS AND LOSSES ON FIXED ASSETS (in € thousands)

| | 31.12.2006 | 31.12.2005 |
|---|----------------|-------------|
| GAINS OR LOSSES ON THE SALE OF TANGIBLE AND INTANGIBLE FIXED ASSETS | (1,396) | (39) |
| Gains or losses on the sale of equity interests and gains or losses on advances | (913) | (9) |
| Allocations to/write-back of depreciation | 846 | |
| Balance (profit or loss) from transactions on equity interests and advances | (67) | (9) |
| GAINS OR LOSSES ON TRANSACTIONS ON EQUITY INTERESTS AND OTHER LONG TERM SECURITIES | (67) | (9) |
| GAINS OR LOSSES ON FIXED ASSETS | (1,463) | (48) |

NOTE 36 : CORPORATION TAX (in € thousands)

A) Breakdown of due and deferred tax liabilities and credits

| | 31.12.2006 | 31.12.2005 |
|-----------------|------------|------------|
| Corporation tax | (56,686) | (21,921) |
| Deferred tax | (72,906) | (270) |

| | | |
|--------------------|------------------|-----------------|
| TAX CHARGES | (129,592) | (22,191) |
|--------------------|------------------|-----------------|

B) Analysis of the inventory of deferred tax in the balance sheet

| | | |
|---------------------------------------|---------|---------|
| Differed tax – assets | 146,674 | 219,190 |
| Differed tax – liabilities | 477 | 88 |
| Net differed tax in the balance sheet | 146,197 | 219,102 |

C) Reconciliation between the normal tax rate currently in force in France and the actual tax rate applied to the group

Result before tax, amortisation of goodwill, result of companies consolidated per the equity method and movements of the FGBR (in € thousands)

364,510

Normal tax rate applicable to French companies (including supplementary contributions)

34.43%

Impact of the negative elements of profit/loss

0.38%

Incorporation of tax credits and other sources of tax savings

-0.10%

Difference in tax rates and calculation methods abroad

-0.02%

Permanent and other differences

0.86%

| | |
|---|---------------|
| Actual tax rate applied to the group | 35.55% |
|---|---------------|

NOTE 37 : IMPACT OF STRUCTURAL OPERATIONS (in € thousands)

As indicated in the preliminary notes, the Financial Services of La Poste, including its equity interest in SF2 and the assets, rights and obligations linked to the Caisse Nationale d'Epargne, were transferred on 31 December 2005.

The table below shows comparative data as at 31 December 2005 for the main elements of the Net Banking Income transferred where the data was available or could be reliably calculated.

| | 31.12.2006 | 31.12.2005 |
|---|------------------|------------------|
| Interest margin | 2,735,184 | 2,659,051 |
| Income from variable income securities | 4,414 | 3,180 |
| Net commission | 1,612,209 | 1,421,400 |
| Gains or losses on trading portfolio transactions | 330,092 | 154,186 |
| Gains or losses on placement portfolio and related transactions | (98,002) | 49,972 |
| Other net revenue and costs of banking operations | (5,427) | 15,447 |
| Gross margin on insurance activities | 34,252 | 29,499 |
| NET BANKING INCOME | 4,612,722 | 4,332,735 |

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NOTE 38 : SECTORAL INFORMATION/SUMMARY OF RESULTS BY SECTOR OF ACTIVITY (in € thousands)

| | Retail banking | Asset management | Insurance | Total consolidated 31.12.2006 |
|---|------------------|------------------|----------------|----------------------------------|
| NET BANKING INCOME | 4,329,185 | 213,247 | 70,290 | 4,612,722 |
| Overheads | (4,012,740) | (187,153) | (34,345) | (4,234,238) |
| GROSS OPERATING PROFIT | 316,445 | 26,094 | 35,945 | 378,484 |
| Cost of risk | (9,095) | 188 | | (8,907) |
| OPERATING PROFIT | 307,350 | 26,282 | 35,945 | 369,577 |
| Share in the net profit of companies consolidated per the equity method | 455 | | 145,095 | 145,550 |
| Gains or losses on fixed assets | (1,076) | (386) | (1) | (1,463) |
| PRE-TAX OPERATING RESULT | 306,729 | 25,896 | 181,039 | 513,664 |
| Extraordinary result | 1 | | 90 | 91 |
| Corporation tax | (108,052) | (9,227) | (12,313) | (129,592) |
| Net allocations to goodwill amortisation | | (6,922) | (1,148) | (8,070) |
| Net allocations to the FGBR | | | | 0 |
| Minority interests | | (3,695) | | (3,695) |
| NET RESULT GROUP SHARE | 198,678 | 6,052 | 167,668 | 372,398 |

NOTE 39 : CONSOLIDATION PERIMETER OF THE GROUP (in € thousands)

| Companies | Nationality | METH ⁽¹⁾ | % control 2006 | % interest 2006 | % control 2005 | % interest 2005 |
|------------------------------------|-------------|---------------------|-------------------|--------------------|-------------------|--------------------|
| LA BANQUE POSTALE (ex. EFIGEST) | French | MERE | 100.00 | 100.00 | 100.00 | 100.00 |
| SCI CRSF DOM ⁽²⁾ | French | FULL | 99.94 | 99.94 | 99.94 | 99.94 |
| SCI CRSF METROPOLE ⁽²⁾ | French | FULL | 100.00 | 100.00 | 100.00 | 100.00 |
| SF2 | French | FULL | 100.00 | 100.00 | 100.00 | 100.00 |
| SOCIETE FINANCIERE DE PAIEMENTS | French | EQUI | 49.00 | 49.00 | 49.00 | 49.00 |
| TITRES CADEAUX | French | PROP | 50.00 | 50.00 | - | - |

insurance

Groupe CNP

| | | | | | | |
|--------------------------------------|------------|------|--------|--------|--------|--------|
| CNP ASSURANCES | French | EQUI | 35.48 | 17.75 | 35.48 | 17.75 |
| ASSURBAIL | French | EQUI | | 17.58 | | 17.58 |
| CNP IAM | French | EQUI | | 17.75 | | 17.75 |
| CNP INTERNATIONAL | French | EQUI | | 17.75 | | 17.75 |
| CNP SEGUROS DE VIDA | Brazilian | EQUI | | 13.57 | | 13.57 |
| Groupe CAIXA SEGUROS | Brazilian | EQUI | | 9.19 | | 9.19 |
| ECUREUIL VIE | French | EQUI | | 8.88 | | 8.88 |
| CNP CAPITALIA VITA (Ex. FINECO VITA) | Italienne | EQUI | | 10.21 | | 10.21 |
| GLOBAL | Portuguese | EQUI | | 14.82 | | 14.82 |
| GLOBAL VIDA | Portuguese | EQUI | | 14.83 | | 14.83 |
| Groupe IXIS ASSET MANAGEMENT | French | EQUI | | 2.74 | | 3.55 |
| INVESTISSEMENT TRESOR VIE | French | EQUI | | 17.75 | | 17.75 |
| PREVIPOSTE | French | EQUI | | 17.75 | | 17.75 |
| SCI CNP IMMOBILIER | French | EQUI | | 17.75 | | 17.75 |
| SICAC | French | EQUI | | 17.75 | | 17.75 |
| ASSURPOSTE | French | PROP | 50.00 | 50.00 | 50.00 | 50.00 |
| SOGERCO | French | FULL | 100.00 | 100.00 | 100.00 | 100.00 |
| SOPASSURE | French | PROP | 50.02 | 50.02 | 50.02 | 50.02 |

asset management

| | | | | | | |
|----------------------------------|------------|------|--------|--------|-------|-------|
| CILOGER | French | PROP | 45.00 | 45.00 | 29.97 | 29.97 |
| EF PRIMO | French | FULL | 100.00 | 100.00 | 99.85 | 99.85 |
| EFIGEST GESTION | French | FULL | 100.00 | 100.00 | 99.99 | 99.99 |
| EUROPOSTE MANAGEMENT Cie | Luxembourg | FULL | 99.12 | 99.12 | 99.12 | 64.43 |
| LA BANQUE POSTALE | | | | | | |
| ASSET MANAGEMENT (Ex. SOGEPOSTE) | French | FULL | 100.00 | 100.00 | 65.00 | 65.00 |
| X ANGE PRIVATE EQUITY | French | FULL | 56.40 | 56.40 | 56.40 | 56.40 |

(1) Consolidation method: FULL: Fully consolidated
 PROP: proportionally consolidated
 EQUI: consolidated per the equity method

(2) Property development company which owns the bank's business premises.