ANNUAL REPORT 2016

BGL BNP PARIBAS

The bank for a changing world

ANNUAL REPORT 2016

CONTENTS

The English language version of this report is a free translation from the original, which was prepared in French. All possible care has been taken to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinions, expressed in the original language version of the document in French, take precedence over the translation.

CONSOLIDATED KEY FIGURES

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CONSOLIDATED KEY FIGURES

In millions of euros	2016	2015	2014
Profit and loss account			
Revenues	1,352.2	1,373.5	1,346.8
Operating expenses	(664.7)	(673.1)	(666.6)
Cost of risk	(52.6)	(48.8)	(35.7)
Net profit attributable to equity holders of the parent	403.2	357.9	342.3
Balance Sheet			
Total balance sheet	44,980.2	43,214.8	41,096.8
Loans and receivables due from customers	26,580.9	25,626.9	24,570.8
Due to customers and debt securities	24,960.5	22,572.5	21,347.5

	2016 Basel 3 (phased in)	2015 Basel 3 (phased in)	2014 Basel 3 (phased in)
Regulatory own funds	5,485.5	5,339.5	5,206.8
Amount of risk weighted assets	23,663.2	23,801.5	22,876.1
Solvency ratio	23.2%	22.4%	22.8%

Ratings (March 2017)	Moody's	Standard & Poor's	Fitch
Short term	**P-1**	**A-1**	**F1**
Long term	**A1**	**A**	**A+**

BGL BNP PARIBAS AND ITS SHAREHOLDERS

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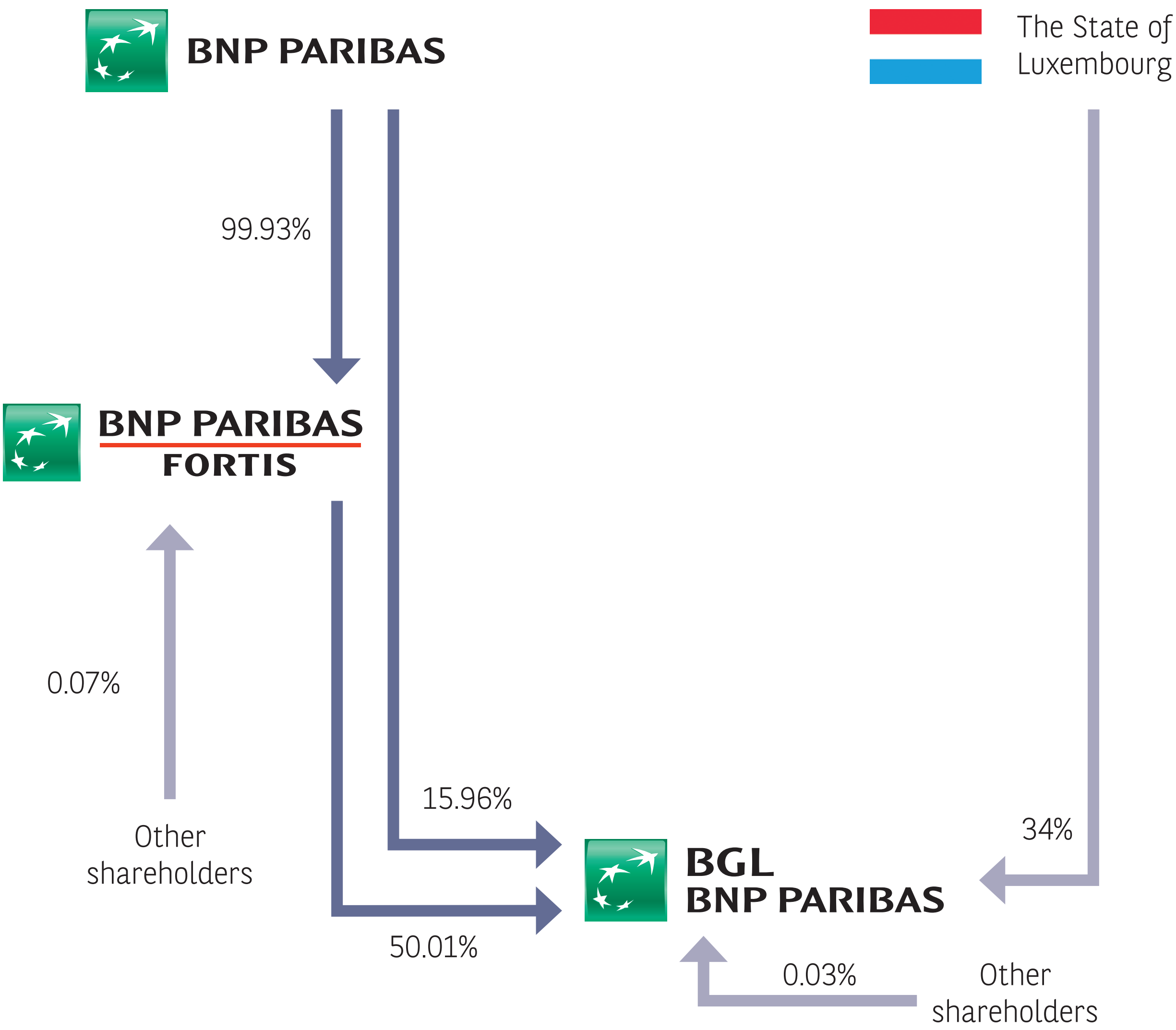
BGL BNP PARIBAS AND ITS SHAREHOLDERS

(as at 31 December 2016)



THE BNP PARIBAS GROUP IN LUXEMBOURG

With nearly 4,000 employees, the divisions and business lines of the BNP Paribas Group in Luxembourg respond to the needs of individuals and businesses, investors and also corporate and institutional customers in three core business areas: Retail Banking & Services and Corporate & Institutional Banking.

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RETAIL BANKING & SERVICES: A PRODUCT RANGE FOR BOTH INDIVIDUAL AND BUSINESS CLIENTS

Business lines

- The **BGL BNP Paribas Retail & Corporate Banking** business provides – variously through Retail Banking, Corporate Banking, Private Banking Luxembourg and BGL BNP Paribas Direct – a broad range of financial products and services, including current accounts, savings or bancassurance products, plus specialised services for professionals and companies (in particular cash management) such as leasing.
  Its commercial network comprimes 41 branches, 5 Private Banking sites for high-net-worth residents in Luxembourg and around 100 ATMs.
  It also has 8 business centers that provide services exclusively to professional clients.
- Leasing:
  BNP Paribas Leasing Solutions is the local market leader for financial leasing, providing attractive solutions for the financing of plant and equipment to its professional customers.
  Arval offers operational leasing services exclusively to a corporate clientele, specialising in providing optimal solutions for managing company car fleets.

INTERNATIONAL FINANCIAL SERVICES: A COMPREHENSIVE OFFER FOR INVESTORS

Business lines

- **BNP Paribas Wealth Management** provides tailored asset management and wealth management solutions, including high-end specialist services such as investment counselling, discretionary wealth management mandates, wealth organisation and succession planning, finance and daily banking services as well as asset diversification advice.
- Asset Management:
  BNP Paribas Investment Partners provides institutional clients and distributors all over the world with a comprehensive range of financial management services.
- Insurance:
  Cardif Lux Vie offers a range of products and services through three complementary business lines: Wealth Management for an international clientele; Retail insurance via the BGL BNP Paribas branch network; and Corporate insurance.
- Real Estate Services:
  BNP Paribas Real Estate draws on the expertise of six real estate business lines – Property Management, Valuation, Consulting, Transactions, Property Development and Investment Management – in order to provide clients with tailored solutions.

CORPORATE AND INSTITUTIONAL BANKING: A HIGH-PERFORMANCE STRUCTURE FOR CORPORATE AND INSTITUTIONAL CLIENTS

- The **Corporate and Institutional Banking Luxembourg (CIB)** business line provides Bank clients, mainly companies and institutions, with products and services relating to the capital and financing markets in Luxembourg.

CIB Luxembourg comprises four main businesses:

- Correspondent Banking, which consists of meeting the daytoday account-related requirements of Institutional clients;
- Credit, i.e. providing finance to Corporate and Institutional clients;
- Financing Solutions, which arranges financing for tangible assets;
- Prime Solutions & Financing, which specialises in providing collateralised investment solutions for Institutional clients.

Along with these four main businesses, the Financial Institutions coverage division assists business lines in their client relationships.

Finally, BNP Paribas Securities Services in Luxembourg has a long-standing reputation for its expertise and a unique know-how in funds management, international bond issues and in engineering both products.

HISTORY OF BGL BNP PARIBAS

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HISTORY OF BGL BNP PARIBAS

- Founded in 1919 under the name of Banque Générale du Luxembourg (BGL).
- Founders: Société Générale de Belgique in conjunction with a group of private investors in Luxembourg and Belgium.
- 1984: The shares of Banque Générale du Luxembourg are listed on the Luxembourg Stock Exchange.
- 1998: Fortis Group becomes the reference shareholder of the Bank (53.2%) following the launch of a public take-over bid for shares of the Générale de Banque.
- 2000: Banque Générale du Luxembourg and Fortis strengthen their strategic partnership.
- 2005: Banque Générale du Luxembourg changes its name and operates under the name of Fortis Bank Luxembourg.
- 2008: The Luxembourg State acquires a 49.9% shareholding of the Bank which operates under the name of BGL.
- 2009: The BNP Paribas Group acquires a majority stake in BGL (65.96%) alongside the Luxembourg State which remains a significant shareholder (34%).
- 2009: BGL adopts the name BGL BNP Paribas.

DIRECTORS AND OFFICERS

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Étienne Reuter
Chairman of the Board of Directors

DIRECTORS AND OFFICERS

ÉTIENNE REUTER
Director of the General Inspection for Finance, Luxembourg
Chairman

THIERRY LABORDE
Member of the Executive Committee of BNP Paribas, Paris
Vice-Chairman

HRH PRINCE GUILLAUME OF LUXEMBOURG
Luxembourg
Director

JEAN-MARIE AZZOLIN
Staff Representative, Bridel
Director

DIDIER BEAUVOIS
Member of the Management Committee of BNP Paribas Fortis, Brussels
Director

FRANCIS CAPITANI
Staff Representative, Dudelange
Director

JEAN CLAMON
Engineer, Corporate Director, Paris
Director

ANNA DARESTA
Staff Representative, Sanem
Director
(since 1st January 2017)

GABRIEL DI LETIZIA
Staff Representative, Bergem
Director

CAMILLE FOHL
Advisor to the Executive Committee of BNP Paribas, Paris
Director

JEAN-CLAUDE GILBERTZ
Staff Representative, Olm
Director
(until 31 December 2016)

MAXIME JADOT
Chairman of the Management Committee of BNP Paribas Fortis, Brussels
Director

JOSIANE KREMER
Staff Representative, Roodt/Septfontaines
Director

VINCENT LECOMTE
Head of BNP Paribas Wealth Management, Paris
Director

CORINNE LUDES
Staff Representative, Dudelange
Director

JEAN MEYER
Doctor of law, Attorney, Oberanven
Director

BAUDOUIN PROT
Corporate Director, Paris
Director

DENISE STEINHÄUSER
Staff Representative, Junglinster
Director

CARLO THELEN
Economist, Luxembourg
Director

TOM THEVES
First Advisor to the Government, Luxembourg
Director

CARLO THILL
Chairman of the Management Board, Leudelange
Director

MICHEL WURTH
Economist, Sandweiler
Director

HONORARY CHAIRMAN

MARCEL MART
Former President of the Court of Auditors of the European Communities, Luxembourg

HONORARY VICE CHAIRMAN

XAVIER MALOU
Honorary Director of Generale Bank Brussels

BUREAU OF THE BOARD OF DIRECTORS

ÉTIENNE REUTER
Chairman of the Board of Directors
Chairman

THIERRY LABORDE
Vice-Chairman of the Board of Directors
Member

CARLO THILL
Chairman of the Management Board
Member

RISK COMMITTEE

JEAN CLAMON
Director
Chairman

DIDIER BEAUVOIS
Director
Member

JEAN MEYER
Director
Member

ÉTIENNE REUTER
Chairman of the Board of Directors
Member

AUDIT COMMITTEE

JEAN CLAMON
Director
Chairman

DIDIER BEAUVOIS
Director
Member

JEAN MEYER
Director
Member

TOM THEVES
Director
Member

MANAGEMENT BOARD *From left to right:*
Patrick Gregorius, Carlo Thill, Luc Henrard, Laure Morsy, Carlo Lessel, Dominique Goulem, Thierry Schuman, Marc Lenert, Hubert Musseau, Fabrice Cucchi, Mathilde Jahan (Corporate Secretary)

MANAGEMENT BOARD

CARLO THILL
Chairman

FABRICE CUCCHI
Compliance
Member

DOMINIQUE GOULEM
Capital Markets
Member

PATRICK GREGORIUS
Human Resources
Member

LUC HENRARD
Risk
Member

MARC LENERT
ITP & Operations
Member

CARLO LESSEL
Finance
Member

LAURE MORSY
Chief Operating Officer,
Corporate and Institutional Banking
Member

HUBERT MUSSEAU
Wealth Management
Member

KIK SCHNEIDER
Retail and Corporate Banking
Member
(until 31 August 2016)

THIERRY SCHUMAN
Retail and Corporate Banking
Member
(since 1 September 2016)

CORPORATE SECRETARIAT

MATHILDE JAHAN
Corporate Secretary

REMUNERATION AND NOMINATION COMMITTEE

THIERRY LABORDE
Vice-Chairman of the Board of Directors
Chairman

CORINNE LUDES
Director
Member
(for remuneration issues)

ÉTIENNE REUTER
Chairman of the Board of Directors
Member

MICHEL WURTH
Director
Member

EXTERNAL AUDITORS

PRICEWATERHOUSECOOPERS SOCIÉTÉ COOPÉRATIVE
Réviseurs d'entreprises

INTERNAL AUDITOR

ERIC DORLENCOURT

MANAGEMENT OF THE SUBSIDIARIES

LUXEMBOURG

BNP PARIBAS LEASING SOLUTIONS SA
CHARLOTTE DENNERY
Chief Executive Officer

BNP PARIBAS LEASE GROUP LUXEMBOURG SA
VINCENT HAINAUT
General Manager

STATEMENT OF THE BOARD OF DIRECTORS

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STATEMENT OF THE BOARD OF DIRECTORS

(in accordance with the Transparency law of 11 January 2008)

The Board of Directors declares that, to the best of its knowledge, the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and the financial statements prepared in accordance with the legal and regulatory requirements of Luxembourg, give a true and fair view of the assets and liabilities, financial position and profit or loss of BGL BNP Paribas SA, and the companies included in the scope of the consolidation as at 31 December 2016, and the management report presents fairly the evolution, the earnings and the position of BGL BNP Paribas SA and the companies included in the scope of the consolidation, as well as a description of the principal risks and uncertainties that they face.

Luxembourg, 16 March 2017

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS

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PREAMBLE

The year 2016 was marked by high volatility in financial markets. Stock markets had a particularly difficult start to the year in the face of fears of deflation and questions about the growth of the Chinese economy. A second period of high volatility followed the British referendum on 23 June 2016. The markets reacted violently because the result had not been forecast by the polls. Although equity markets recovered from the initial shock, the pound sterling ended the year substantially depreciated.

The other major political surprise of the year for the markets was the result of the US elections on 8 November 2016, which had also not been foreseen by the polls. The market quickly focused on the budgetary aspect of the new president's economic programme, as this was an area where his intentions seem fairly clearly defined. More specifically, the initial remarks of the new president suggested a major fiscal stimulus, with tax cuts both for businesses and for individuals, as well as major investment in infrastructure. In any event, the stock markets reacted well and ended the year on a note of optimism.

This sort of fiscal stimulus in the United States could also have implications for inflation. As the US economy is already operating at close to full employment levels, it could well lead to an acceleration of wages and inflation in a broader sense. This is in addition to the fact that inflation is expected to rise globally in 2017, due to recent increases in oil prices. Indeed, the price of oil recovered during 2016 and more particularly towards the end of the year, following the announcement of an agreement in principle, between major oil-producing countries, aiming to limit the overall production of oil. This in itself, however, is not a guide to the trend for 2017.

These developments have led market participants to expect a larger rise in inflation and, consequently, a more sustained series of rate hikes by the Federal Reserve. This partly explains the significant rise in US long-term interest rates towards the end of 2016. In the eurozone, long-term rates, which had reached historically low levels during the summer, also rose in the wake of US rate rises; but to a lesser degree. The spread between US and European rates widened and the dollar strengthened against the euro towards the end of 2016.

In the eurozone, growth for 2016 is expected to come out at around 1.6%. Unemployment continued to decline gradually, and in the last quarter, it finally fell below the 10% threshold for the eurozone as a whole. The unemployment rate has not been lower since 2009. However, significant differences remain between the member countries.

Although there does not seem any longer to be a risk of deflation in the eurozone, inflation has remained below the target of the European Central Bank. At its meeting in December, the European Central Bank announced that it would extend its asset purchase programme until the end of 2017 and that it could extend this deadline if necessary. Even if it does reduce the amount of monthly purchases from 80 to 60 billion euros, it has indicated that it would stay present in the bond market for an extended period.

In Luxembourg, growth remains more sustained than in neighbouring countries. After posting a growth rate of 3.5% in 2015, the Statec expects GDP growth of 3.7% in 2016. Employment increased at an average rate of close to 3% in 2016, and unemployment continued to fall, reaching 6.3% in December 2016. Inflation remained low in 2016, with the inflation rate averaging below 0.5%. The low rate of inflation implied that there was no wage indexation in 2016: this was postponed until January 2017.

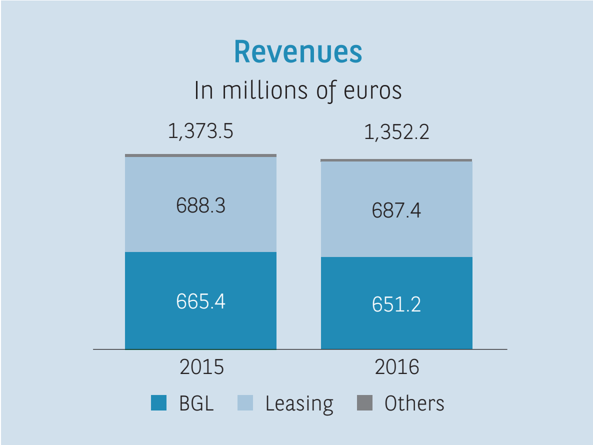
CONSOLIDATED MANAGEMENT REPORT

Consolidated profit and loss account

Profit and loss account	2016	2015	Changes	
In millions of euros			Value	%
Revenues	**1,352.2**	**1,373.5**	**(21.3)**	**-2%**
Operating expenses	(664.7)	(673.1)	8.4	-1%
Gross operating income	**687.5**	**700.4**	**(13.0)**	**-2%**
Cost of risk	(52.6)	(48.8)	(3.9)	8%
Operating income	**634.8**	**651.7**	**(16.8)**	**-3%**
Share of earnings of associates	22.7	9.7	13.0	n/a
of which: Leasing	*7.1*	*(3.6)*	*10.8*	*n/a*
Net gains on other fixed assets	23.6	(5.4)	29.0	n/a
Pre-tax income	**681.1**	**655.9**	**25.1**	**4%**
Corporate income tax	(126.5)	(176.0)	49.5	-28%
Net income	554.6	480.0	74.6	16%
of which: Net income attributable to equity holders of the parent	403.2	357.9	45.2	13%

Analysis of the profit and loss account and balance sheet

Revenues were down 2% compared to the previous year, at **EUR 1,352.2 million** on 31 December 2016.



Net interest margin stood at EUR 1,103.4 million on 31 December 2016 compared to EUR 1,120.6 million on 31 December 2015, falling by EUR 17.2 million, or 2%.

In the banking activities, net interest margin was down EUR 25.1 million or 5%. The areas of market operations and treasury continued to be penalised by a low interest rate environment and increased liquidity constraints, thus leading to a decline in related profits. Net interest income from customer-related activities was down also, as the growth in average loan volumes and the sharp rise in inflowing funds in 2016 did not fully compensate for the reduction in margins.

The net interest margin on the activities of Leasing International rose by EUR 16.4 million or 3% due to growth in outstandings in certain strategic activities and geographic areas and to better financing conditions. This solid growth was, however, offset by the negative impact of EUR 19.5 million due to unfavourable exchange rate movements for certain entities outside the eurozone.

Lastly, the discontinuation of the activity of the Alleray Sàrl. subsidiary and its liquidation in 2016, as well as the sale of SADE SA in 2016, lead to a decrease in net interest income of EUR 7.8 million.

Net commission income fell from EUR 165.1 million in 2015 to EUR 157.5 million in 2016, a decrease of EUR 7.6 million or 5%. This decline is principally related to Banking activities where there was a decrease in transactional commissions and management fees. However, commissions received in connection with the reorganisation of foreign exchange activities and the successful development of credit activity in the Financing Solutions business line, partially offset this decrease.

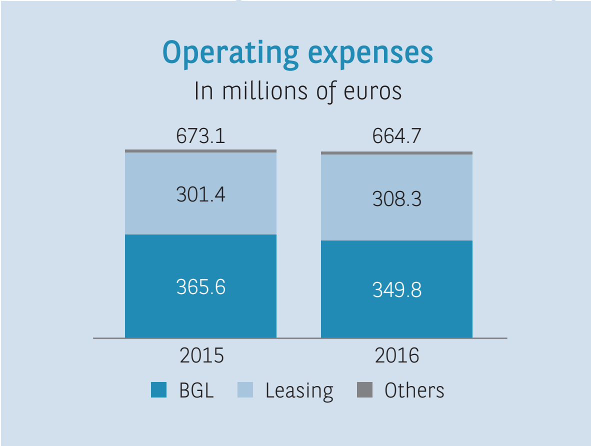
Net gains or losses on financial instruments at fair value through profit or loss were stable in comparison to the previous year: EUR 23.0 million compared to EUR 22.8 million in 2015.

Net gains or losses on available-for-sale financial assets posted a gain of EUR 23.9 million in 2016 compared to EUR 21.1 million in 2015. In 2016, the Bank not only received a dividend of EUR 14.9 million from BIP Investment Partners but also realised capital gains totalling EUR 4.7 million following the sale in the 4th quarter of 2016 of its holdings in BIP Investment Partners and Foyer Finance. In 2015, the results had been buoyed by gains of EUR 3.7 million on disposals of bonds at the Bank level and by a reversal of provisions of EUR 7.5 million on non-consolidated securities within Leasing International.

Net income and expenses from other activities amounted to EUR 44.4 million, compared to EUR 43.8 million in 2015. This accounting post mainly comprises net investment income from investment properties in both the Bank and certain international leasing entities, and the revenues from the management of IT Asset leasing and fleets of industrial vehicles within the specialised entities of Leasing International. The EUR 7.7 million decline in leasing activity was offset by higher rental income at the Bank level, as some of its premises have now been leased out, following the completion of work to enlarge the Luxembourg-Kirchberg site.

At 31 December 2016, **General expenses** amounted to EUR 664.7 million compared to EUR 673.1 million at the end of the previous year, a slight decrease of EUR 8.4 million or 1%.

With regard to banking activities, operating expenses were down EUR 15.7 million or 4%. Staff costs were down EUR 3.7 million due in particular to the decline in staff numbers during 2016, a result of the efficiencies generated through investment in the Simple & Efficient programme in previous years. Other operating expenses also decreased by EUR 15.0 million or 12%, thanks to strict cost control and the phasing out of investments in Simple & Efficient projects. Finally, depreciation and amortisation of tangible and intangible assets increased by EUR 2.9 million or 19% mainly due to the start of depreciation of the newly-completed buildings at the Luxembourg-Kirchberg site.



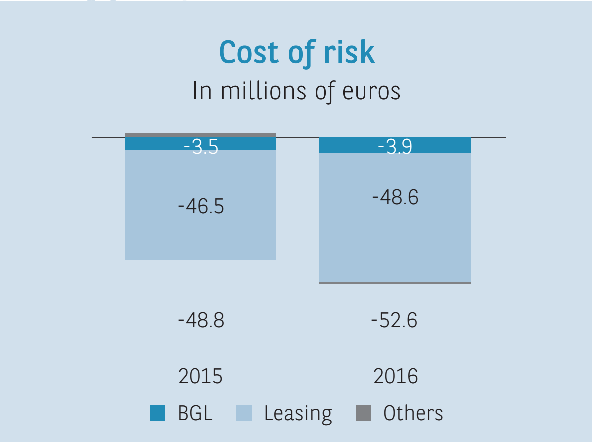
As regards Leasing International's activities, general expenses were up EUR 6.9 million or 2%. This increase can be mainly explained by the investment and recruitment in key geographic regions, the resumption of the activities of BNP Paribas Leasing Solutions Spa (consolidated using the equity method) within BNP Paribas Lease Group Italian Branch (consolidated using the full consolidation method), as well as by contributions to the Single Resolution Fund, up by EUR 1.3 million.

Gross operating income amounted to EUR 687.5 million, a decrease of EUR 13.0 million or 2%, following the decline in revenues.

The **Cost of risk** amounted to EUR -52.6 million compared to EUR -48.8 million in 2015. The cost of risk remains moderate both at the level of the Bank and Leasing International, with additional net charges compared to the previous year of EUR 0.4 million and EUR 2.0 million, respectively.

The **Share of earnings of associates** amounted to EUR 22.7 million compared to EUR 9.7 million in 2015.

The Leasing International contribution improved by EUR 10.8 million, from EUR -3.6 million in 2015 to EUR 7.1 million in 2016. The Indian subsidiary SREI Equipment Finance Ltd, which was sold in June 2016, contributed EUR 0.3 million in 2016, following a strongly negative contribution in 2015 of EUR -7.1 million due to a higher cost of risk.



The other Leasing International entities, using the equity method, reported net income of EUR 6.8 million, an increase of EUR 3.4 million as a result of the improvement in the cost of risk.

The contribution of income from life insurance in Luxembourg (Cardif Lux Vie SA), in which the Bank has a 33% holding, amounted to EUR 15.6 million, up EUR 2.3 million compared to 2015. On the one hand, the entity posted higher volumes in the "Pension" and "Savings" sectors, and on the other hand benefited from an upward revaluation of its securities portfolio following favourable market movements.

Net gains on fixed assets amounted to EUR 23.6 million at 31 December 2016. They can be explained by the following:

- The sale of the Société Immobilière de Monterey SA in September 2016 resulted in a capital gain of EUR 44.2 million.
- The sale of SADE SA to BNP Paribas SA in June 2016 resulted in a capital loss of EUR 12.0 million.
- The sale of the Indian leasing entity SREI Equipment Finance Ltd in June 2016 in accordance with the Share purchase agreement signed at the end of 2015 between BNP Paribas Lease Group and SREI Infrastructure Finance Ltd, resulted in a capital loss EUR 16.5 million. This capital loss corresponds essentially to the recognition in the profit and loss account of the negative translation reserves accumulated since its acquisition by the Group.
- The sale of the US leasing entity Claas Financial Services Inc. in May 2016 generated a capital gain of EUR 5.5 million. This sale follows a reorganisation of US leasing activities in order to comply with the new US regulatory requirements for the establishment of an "Intermediate Holding Company" (IHC) for foreign bank entities whose balance sheet exceeds USD 50 billion.
- The liquidation of the Hungarian leasing entity Fortis Lease Hungaria ZRT, which took place in June 2016, generated a positive impact of EUR 4.3 million.

Income tax charge decreased compared to the previous year, from EUR 176.0 million in 2015 to EUR 126.5 million in 2016. This decline, despite higher pre-tax income, is mainly the result of tax reforms in France and Luxembourg, resulting in a lower tax rate in 2016 and subsequent years, resulting in a decrease in current tax and deferred tax.

Finally, after deduction of net income attributable to minority interests, the **net income attributable to equity holders** for 2016 shows a net profit EUR 403.2 million compared with a net proft of EUR 357.9 million in 2015, an increase of EUR 45.2 million or 13%.

Balance sheet

At 31 December 2016, total assets amounted to EUR 45.0 billion compared to EUR 43.2 billion at 31 December 2015, up 4%.

On the **assets** side, **Cash and amounts due from central banks** amounted to EUR 1.5 billion, compared to EUR 667 million at 31 December 2015. The position consists primarily of short-term deposits with the Central Bank of Luxembourg.

Financial instruments at fair value through profit or loss were up 21%, from EUR 194 million to EUR 234 million, mainly due to the conclusion of new reverse repurchase agreements.

Available-for-sale financial assets amounted to EUR 5.5 billion, compared to EUR 6.4 billion at 31 December 2015. This item consists mainly of the bonds portfolio held by the Bank, sovereign and supranational securities as well bank bonds. In 2016, the decline in the bond portfolio was due to the maturity of bank and para-statal securities for EUR 1.4 billion, partially offset by acquisitions of EUR 470 million. Since June 2016, this item also includes the interest held by Leasing International in the Indian entity SREI Infrastructure Finance Limited which is valued at EUR 26.1 million. This holding was acquired following the sale of the Indian leasing entity SREI Equipment Finance Ltd, which was consolidated using the equity method.

Loans and receivables due from credit institutions rose by EUR 1.0 billion to EUR 8.7 billion at 31 December 2016. This increase can be attributed to the increase in bank deposits both from BGL BNP Paribas and from Leasing International with other entities in the BNP Paribas Group.

Loans and receivables due from customers amounted to EUR 26.6 billion, up EUR 1.0 billion. In terms of banking activities, outstandings increased by EUR 0.6 billion, or 6%, compared with 31 December 2015. This positive trend concerns all the Bank's businesses. Retail Banking loans increased by 2%, in particular for mortgage loans (+ 3%), which were still supported by a buoyant national market. As for the Corporate Bank, it grew by 3%, while Wealth Management saw its assets increase by 39%.

In terms of leasing activities, outstandings grew by EUR 0.7 billion, or 5%, in 2016, following further commercial development in strategic geographic areas. It should be noted that SADE SA, whose credit activity contributed EUR 0.4 billion as of 31 December 2015, was sold in the first half of 2016.

Investment property increased by EUR 81 million, from EUR 97 million at 31 December 2015 to EUR 178 million at 31 December 2016, while **property, plant and equipment** decreased by EUR 35 million, or 5%. Following the completion of the enlargement of the Luxembourg-Kirchberg site at the end of the second half of the year, a portion of the new fixed assets was indeed transferred to investment properties due to the letting of part of the premises.

On the **liabilities** side, **Financial instruments at fair value through profit or loss** stood at EUR 292 million, down 37% from last year. This decrease is related to the absence of repurchase transactions as of 31 December 2016 and to a decrease in the outstanding value of Euro Medium Term Notes (EMTNs) valued at fair value.

Amounts due to credit institutions decreased by EUR 686 million to EUR 10.0 billion at 31 December 2016. The increase in financing of Leasing International to entities outside the BGL BNP Paribas Group partly offsets the Bank's interbank loan decline with BNP Paribas Group entities.

Amounts due to customers rose from EUR 21.2 billion at 31 December 2015 to EUR 23.9 billion at 31 December 2016, an increase of 13%. This positive development spans all the Bank's businesses.

At the Corporate Banking in Luxembourg, year-end deposits grew strongly by EUR 1.9 billion or 27% compared to the situation at 31 December 2015, supported by a good inflow of funds both from corporate clients and from institutional investors, due to the development of cash management. Deposits of the Retail Banking were up by EUR 0.4 billion or 7% over the period. As regards Wealth Management, its deposits increased in 2016 by EUR 0.6 billion or 11%, supported by the contribution of customers in the Ultra High Net Worth Individuals segment.

Debt securities slipped from EUR 1.4 billion at 31 December 2015 to EUR 1.1 billion at 31 December 2016. This decrease of 22% was a result of non-renewal of maturing short-term European Commercial Paper and of Euro Medium Term Notes (EMTN), due to unfavourable market conditions.

Own funds

At 31 December 2016, excluding revenues for the current year and after regulatory deductions, **regulatory capital**, calculated in accordance with Basel III regulations, stood at EUR 5.5 billion with the **solvency ratio** at 23.1%, compared with EUR 5.3 billion and 22.4% at 31 December 2015.

Risk management within the Bank

The Bank's risk management policy is described in more detail in Note 4 of the consolidated financial statements as at 31 December 2016. This policy is designed to ensure proper deployment of all necessary measures to comply fully with the required standards of governance. In addition to the Bank’s central management bodies that coordinate risk monitoring, each of the Bank’s business lines has a permanent Control function dedicated to that particular activity, and which assumes primary responsibility for the risks that are taken as part of the business line's normal activities.

At central management level, the different types of risk are monitored and managed by special committees, which meet on a regular basis. Credit risk is monitored by the Central Credit Committee (which meets once a week); market risk is monitored by the Capital Market Risk Committee (which meets quarterly), interest rate risk on the Banking Book and liquidity risk are monitored by the Asset & Liability Committee (which meets once a month) and operational risk is monitored by the Platform for the Coordination of Internal Control (which meets bi-monthly) and the Permanent Control Committee (which meets every six months). The Risk Committee and the Audit Committee, which are sub-committees of the Board of Directors, receive a summary of all the risks managed by the specific committees mentioned above. The Bank has thus adopted strict risk management procedures consistent with the requirements of the regulatory authorities.

The activities of the Bank

Since 1 January 2015, when the Savings Directive of the European Union came into force in Luxembourg, the automatic exchange of information applies to interest payments that the debtor agents in Luxembourg make in favour of individuals residing in another member State of the European Union.

Specifically, since 1 January 2015, financial institutions, including banks, must retain information on payments of interest to their European customers. Since March 2016, the information relating to 2015, which includes customer details and data on income, have been exchanged by the Luxembourg authorities with the country where the customer is resident for tax purposes.

An additional step towards greater fiscal transparency was taken on 1 January 2016 with the implementation in Luxembourg of the European Directive on administrative cooperation in the field of taxation. This Directive covers not only all resident individuals of the European Union (outside Luxembourg), but also some legal entities. As far as legal persons are concerned, this automatic exchange of information can take two forms according to a number of criteria defined by the Directive. Either the exchange will take place only with the country of the registered office of the company (for companies of an industrial or commercial nature). Or the exchange will take place both with the country of the registered office of the company and with the country of residence of its economic beneficiaries (for companies such as family holding companies).

The automatic exchange of information will be further expanded. From September 2017, the Luxembourg tax authorities will exchange data on all assets, including interest and dividend payments, and on bank account balances as at 31 December (or as at the balance sheet date), as well as on the sale of financial assets.

Retail and Corporate Banking Luxembourg (BDEL)

Retail and Corporate Banking Luxembourg - which encompasses Retail Banking, Corporate Banking, Private Banking Luxembourg and the BGL BNP Paribas Direct Bank - offers a wide range of financial products and services to individual customers, professionals and companies through its network of 41 branches, and its services or departments dedicated to businesses.

By accelerating its digital transformation, the Bank is responding to the needs of its customers, who are increasingly connected. In 2016, *Retail Banking (BDL)* thus continued to develop its multichannel model, notably through the refurbishment of 7 branches. These newly-equipped branches were developed following an innovative concept that the Bank has implemented throughout its network, and the emphasis is now on welcoming the client and combining proximity and remote services, whilst still being at the forefront of the latest technology.

Corporate Banking (BEL) is dedicated to corporate clients, and its activities include *Coverage, Trade, Cash Management, Forex and Real Estate*. In February 2016, the European Investment Bank (EIB) and BGL BNP Paribas signed a new partnership agreement for a EUR 50 million EIB loan for small and medium-sized enterprises and midcaps. After two envelopes of EUR 50 million each that were made available to companies in 2009 and 2014, this new partnership agreement enables the Bank to continue to actively support the financing of the Luxembourg economy and thus promote its development.

The Bank, in 2016, also launched the InnovFin program, a bank guarantee programme provided in collaboration with the European Investment Fund (EIF), to facilitate the granting of loans on favourable terms to innovative small and medium-sized enterprises in Luxembourg

The *Private Banking Luxembourg (BPL)* offers resident clients integrated and tailored financial and asset management solutions, in addition to daily banking services in the 6 private banking sites available through the branch network. During 2016 *Private Banking Luxembourg*, worked with the 8 recently-opened *Pro Business Centres*, which are located throughout the branch network and which are dedicated to professional clients. This success demonstrates the importance of the entrepreneurial approach to the development of *Private Banking Luxembourg* and the importance of cross-selling for the growth of the Bank's activities in general. In addition, *Private Banking Luxembourg* is continuing to offer its *Crystal* personalised consulting and management under mandate services to clients. In the field of consultancy, a new offer has been successfully introduced, namely the A² (Asset Advisory) offering, which provides the client with an opportunity to consult directly with an Investment Manager on matters concerning his investments and the management of his portfolio.

BGL BNP Paribas Direct, which is responsible for all remote service activities, was designed to satisfy customers who prefer to have a remote relationship with the Bank. *BGL BNP Paribas Direct* distributes most of the Bank's products.

Digitalisation: initial contact and consumer credit 100% online

As the bank for a changing world, BGL BNP Paribas responds to the constantly evolving needs and habits of its customers by continuously adapting and developing the various channels of interaction it offers them. In 2016, the Bank continued to expand its digital and mobile offering in line with its multichannel approach, enabling customers, wherever they are, to interact with the Bank via the channel that suits them best.

As part of this approach, the Bank has set up a 100% online initial contact procedure. A potential customer can now open a current account or an investor account 100% online, while being able to do all his banking transactions remotely or in a branch.

This simplified approach, which aims to improve the customer experience, is also available for 100% online consumer credit.

Wealth Management (WM)

Wealth Management, under the name BNP Paribas Wealth Management, offers tailor-made asset and financial management solutions, as well as a range of high-quality services and products for an international clientele.

Testifying to the attractiveness of the commercial offer, the level of assets under management increased throughout 2016. Net capital inflows came in from not only the European markets but also the markets of Eastern Europe, the Middle East and Latin America. It should be noted that the Ultra High Net Worth Individuals segment (customers with assets under management exceeding EUR 25 million) contributed significantly to this asset growth and constitutes two thirds of the Group's total Wealth Management.

In an environment of low interest rates and as a result of our responsive and tailor-made offer of financing solutions, outstanding loans increased significantly. The advisory services offers, reinforced in 2016 by new services, also met the expectations of customers looking for personalised support for the management of their portfolio.

In order to meet the needs of operating in an increasingly complex and demanding environment, in 2016 our private bankers continued the training courses begun in 2014, thereby enabling them to update and upgrade their skills. Now, all private bankers have attended this programme, thus guaranteeing professionalism and expertise.

In a world where digital innovations are transforming the financial industry and providing development opportunities, BNP Paribas Wealth Management has launched an ambitious new programme designed to improve the customer experience by building digital services that meet customer needs. Within the framework of this approach, Wealth Management created the BIG Factory, a space specially equipped to welcome experimental teams using innovative working methods, inspired by those of start-ups. These teams create prototypes for customers: *MySafePlace*, a secure electronic vault, and *MyBioPass*, an authentication key using biometrics, are already available, while others, designed by BNP Paribas Wealth Management in other countries, will soon be rolled-out in Luxembourg.

The online private banking service *MyPortfolio, your online private bank*, available on the Internet or via a tablet and smartphone application, was also revised in 2016 and now offers improved ergonomics and better design. These channels are now commonly used by more than half of the clientele.

Finalisation of the construction project for the new BNP Paribas Group buildings in Luxembourg at the Kirchberg site

The key event in the first half of 2016 was the completion of the new buildings at the Kirchberg. The new site of the Kirchberg Banking Centre now hosts the vast majority of BNP Paribas Group employees in Luxembourg. With a surface area of 99,000 m2, it comprises the head office of BGL BNP Paribas, as well as the two new buildings, which are 6 and 14 storeys high.

The new buildings were officially inaugurated on 4 July 2016.

Corporate and Institutional Banking (CIB)

The Corporate and Institutional Banking business line in Luxembourg offers its customers, who are mostly businesses and institutions, all the products and services related to the capital markets and financing in Luxembourg.

During 2016 Corporate and Institutional Banking Luxembourg refocused on four main activities: *Correspondent Banking, Credit, Financing Solutions* as well as *Prime Solutions and Financing*.

The *Correspondent Banking* activity, which consists of serving institutional clients in connection with their day-to-day banking needs, is one of the strategic development axes of the business. The results in 2016 were in line with expectations, despite a still extremely low interest rate environment.

The *Credit* business line, which is dedicated to corporate and institutional financing, also produced results in 2016 that were in line with expectations (excluding exceptional items). Its objective in the future is to maintain these results while diversifying transactions and the client portfolio.

The *Financing Solutions* business confirmed its status as a privileged and recognised partner in the Luxembourg financial centre in the field of tangible asset financing. The 2016 results were up significantly from 2015, thanks to an expansion of the customer base and the development of new types of transactions.

The *Prime Solutions and Financing* business, which specialises in collateralised investment solutions for institutional clients, made a very positive contribution to 2016 revenues and is now also active in the underlying bond markets.

Alongside these four activities, the *Financial Institutions Coverage* department – which supports the business lines in their dealings with financial institutions clients, made up of banks, some financial sector professionals and insurance or reinsurance companies based in Luxembourg – continued to promote the products and services offered by the BNP Paribas Group.

Finally, in the context of transposing new regulations aimed at reducing systemic risk and strengthening the soundness of banks, Corporate and Institutional Banking continued to adapt its system to better serve its clients.

BGL BNP Paribas named Best Bank 2016 in Luxembourg by Euromoney magazine

BGL BNP Paribas was named Best Bank 2016 in Luxembourg by Euromoney, an internationally renowned financial publication, at the annual Awards for Excellence ceremony held on 6 July 2016.

In its announcement of the awards, Euromoney notably highlighted the strong financial results achieved by BGL BNP Paribas, the solid performance of its commercial businesses and its innovative approach in the field of digital services. The award recognises the continuous efforts of BGL BNP Paribas to be close to its customers and to develop its range of services and products according to their needs.

BNP Paribas Leasing Solutions

The various leasing entities of the BNP Paribas Group, including BNP Paribas Lease Group Luxembourg SA, a 100% subsidiary of the Bank, offer companies and professionals a line of rental solutions ranging from equipment financing to fleet outsourcing by using multiple channels – direct sales, referrals, partnerships and bank networks – grouped under the name BNP Paribas Leasing Solutions.

In order to provide the highest quality of service to its clients, BNP Paribas Leasing Solutions is organised by market specialty: Equipment & Logistics Solutions, Technology Solutions and Bank Leasing Services.

With more than EUR 27 billion in assets under management, BNP Paribas Leasing Solutions is one of Europe's leading leasing companies, offering a wide range of services stretching from simple rental financing to outsourcing of fleets, and long-term rental.

BNP Paribas Leasing Solutions brings value-creating solutions to its customers and partners and wishes to act as a business accelerator. With more than 2,800 employees in 16 countries, everyone is motivated to provide a high level of quality service, based on 5 strong commitments: expertise, simplicity, responsiveness, innovation and responsibility.

BNP Paribas Leasing Solutions actively supports the financing of small and medium-sized enterprises in Europe through a partnership signed with the European Investment Bank for a credit line of EUR 400 million specifically for this category of companies.

In 2016, BNP Paribas Leasing Solutions was chosen for the third time by Leasing Life magazine as *European lessor of the year*. This prize pays tribute not only to the excellent performance of the business line but also to their dynamic transformation.

BNP Paribas Leasing Solutions continues to invest in a wide-ranging digital transformation that affects business relationships, operations and day-to-day work. Its digital approach towards its partners focuses on the user experience. The application for tablets and smartphones, *Quote'ON by BNP Paribas Leasing Solutions* has been launched. It is intended for the commercial teams of major partners to enable them to carry out any financial simulation: from the simplest to the most complex. This new application was made available in six European countries in 2016, focusing on agriculture, construction and public works.

The BNP Paribas Group in Luxembourg certified Top Employer

The BNP Paribas Group in Luxembourg has obtained the prestigious *Top Employer in Luxembourg 2016* certification for the excellent working conditions offered to its employees.

In Luxembourg, four themes in the survey received particularly high scores: workforce planning, talent management, training and skills development, and career management. This distinction confirms the quality of the management policy in terms of human resources and working conditions. It rewards efforts to build a motivating, supportive work environment where everyone is treated with respect and fairness.

Human Resources

BGL BNP Paribas is aware that employee diversity is a wealth and a force for the future, and in 2016 it paid particular attention to collaboration between generations among its employees. The Bank has therefore launched an initiative to include the generation of *digital natives* (employees under the age of 27) in its transformation projects to bring together, on the one hand, the professional experience of the more senior employees and, on the other hand, the digital predisposition of millennials, whose expectations correspond to those of a changing clientele.

This initiative responds to BGL BNP Paribas' desire to involve employees in the implementation of the Bank's strategy. In this same vein, the Bank implemented the *Managers, Agents of Change* programme for team managers, which places managers at the heart of the process.

BGL BNP Paribas also continued to attach great importance to the responsible management of employment in a changing environment, in particular through internal mobility. It has continued its efforts to ensure a good flow of people and skills, while ensuring that it offers motivating career opportunities to its employees. 2016 was also a year of discovery, with actions such as the traditional *Mobility Days*, an event to discover the many businesses, functions and entities of the BNP Paribas Group in Luxembourg, and the organisation of *Vis ma Vie and In-situ collectifs,* initiatives to encourage exchanges between colleagues and the discovery of other BNP Paribas Group businesses, functions and entities in Luxembourg.

Finally, the Bank continued to invest in the development of its employees, increasingly through consistent training courses, some of which were partly certified.

All these actions are motivated by the Bank's wish to continue to reinforce the commitment and the performance of its employees, through a positive employee experience and to the benefit of its customers.

The Board of Directors, more than ever, recognises and appreciates the tremendous importance of the human capital represented by the Bank's workforce in these times of change. The Members of the Board express their appreciation for the continuous effort and the commitment shown throughout the year under review. They also wish to highlight the quality of responsible and constructive collaboration with all social partners and to thank them for their cooperation on a daily basis.

Staffing situation within BGL BNP Paribas

On 31 December 2016, the total number of employees at the Bank in Luxembourg was 2,451, including 1,192 women (48.63%) and 1,259 men (51.37%). In 2016, the Bank hired 90 new employees (43 fixed-term contracts and 47 contracts of indefinite duration). The percentage of employees working part time was 25.38%

28 nationalities are represented within the Bank, with the following breakdown by country:

Luxembourg	35.62%
France	34.19%
Belgium	18.89%
Other EU countries	10.98%
Outside the EU	0.32%

Social responsibility and external relations

BGL BNP Paribas, faithful to its longstanding tradition and conscious of the important role it plays within society, has remained active in various fields of patronage such as:

- cultural sponsorship, including the sponsorship of the Philharmonie, as well as regular support for various local and regional cultural initiatives;
- in the area of sports, where the Bank has long been a major sponsor of the Luxembourg Olympic and Sports Committee, the Luxembourg Football Federation, the Luxembourg Tennis Federation, as well as the main sponsor and title sponsor of BGL BNP Paribas Luxembourg Open.

In the social domain, the Bank has also pursued its traditional projects such as *Operation Coup de pouce*, the support programme for BNP Paribas Group employees in Luxembourg, actively involved in solidarity projects, which paid 90,000 euros to 33 associations in 2016.

In the context of the *Dream Up* project, an international education programme through art, dedicated to children and adolescents in precarious situations or suffering from a disability, the BNP Paribas Foundation supports the *Theatre Traverse* in Luxembourg, which has set up various dance workshops and shows with and for young refugees. The BNP Paribas Foundation also financed the acquisition in Luxembourg of an Arabic-language translator in 2016, which cost 100,000 euros, in order to respond more effectively to the needs of refugees hosted in Caritas homes in Luxembourg.

As an economically responsible player, BGL BNP Paribas, upstream of its traditional banking offering, continued in 2016 to offer services such as *Summer School,* a training programme to develop the entrepreneurial spirit of high school students, and the *Lux Future Lab*, launched in 2012, which supports start-ups to open up to these risk-takers in a changing world the possibilities offered by the BNP Paribas Group's extensive network. At the end of 2016, the *Lux Future Lab* had 26 start-ups that had created more than 300 jobs in Luxembourg. The Bank is also a founding partner in the Luxembourg House of Financial Technology (LHoFT).

2016 was also marked by the launch of *microlux*, the first microfinance institute in Luxembourg, which complements the BNP Paribas Group's presence in microfinance institutions in its domestic markets. By supporting the economic activity of players who do not have access to traditional bank credit, BGL BNP Paribas has become a leader in terms of financial inclusion in Luxembourg. *Microlux* offers entrepreneurs and social enterprises 3 types of credits up to 25,000 euros, as well as coaching and assistance. This project, which makes BGL BNP Paribas the majority shareholder (83% of the capital), alongside ADA (Support for Autonomous Development), ADIE (Association for the Right to Economic Initiative) and the European Investment Fund, has thus expanded the range of sustainable services: from microcredit, to traditional banking services, including support to start-ups via the *Lux Future Lab*.

UNCONSOLIDATED MANAGEMENT REPORT

Unconsolidated Results

Profit and loss account			Difference	
In millions of euros	2016	2015	Value	%
Revenues	**776.0**	**701.4**	**74.5**	**11%**
Other income/operating expenses	61.3	52.1	9.1	18%
Overhead costs	(372.6)	(507.3)	134.7	-27%
including: Administrative overhead costs	*(354.5)*	*(373.4)*	*18.9*	*-5%*
Value corrections on intangible and on tangible assets	*(18.1)*	*(134.0)*	*115.8*	*-86%*
Gross operating income	**464.6**	**246.3**	**218.3**	**89%**
Value corrections on receivables	(22.9)	(39.7)	16.8	-42%
Value corrections on marketable securities described as financial fixed assets and participating interests	(17.0)	(0.2)	(16.8)	n/a
Operating income	**424.6**	**206.3**	**218.4**	**n/a**
Other non operating items	39.4	0.2	39.3	-
Proceeds resulting from the dissolution of amounts listed in the fund for general banking risks	(223.0)	-	(223.0)	n/a
Pre-tax income	**241.1**	**206.4**	**34.6**	**17%**
Tax	(55.7)	(54.0)	(1.6)	3%
Net income	**185.4**	**152.4**	**(33.0)**	**22%**

Changes in the profit and loss account

For 2016, **Revenues**, which consist of the sum of net interest income, income from securities, net commission income and net profit from financial transactions made by the Bank, was EUR 776.0 million, an increase of EUR 74.5 million or 11% compared to the previous year.

Net interest income fell from EUR 504.9 million to EUR 486.3 million, down by EUR 18.6 million or 4% compared to 2015. The market and treasury activities continued to be penalised by an extremely low interest rate environment and increased constraints as regards liquidity, and therefore registered falling revenues. Net interest income related to customer-based activities was also down, the growth of average loan volume and the sharp increase in the inflow of deposits in 2016 did not fully offset the reduction in margins.

Net commission income was down EUR 8.2 million or 6% compared to the previous year, from EUR 129.1 million in 2015 to EUR 120.9 million in 2016. This decline is mainly due to lower transactional commissions and management fees. However, commissions received in connection with the reorganisation of foreign exchange activities partially offset this decrease.

Income from securities increased sharply by EUR 111.2 million, from EUR 47.1 million in 2015 to EUR 158.3 million in 2016. In 2016, the Bank received particularly high dividends from BNP Paribas Leasing Solutions SA of EUR 122.2 million compared to EUR 35.9 million in 2015 and BIP Investment Partners of EUR 14.9 million compared with EUR 1.4 million in 2015.

Net profit from financial transactions declined from EUR 20.3 million to EUR 10.4 million, a decrease of EUR 9.9 million or 49%. In 2016, the Bank benefited from reversals of value adjustments on the bond investment portfolio, reversals due either to the rise in financial markets or to the release of excess value adjustments following repayments of part of the structured credit portfolio. This increase in the reversals of value adjustments in 2016 was partially offset by the decrease in foreign exchange gains resulting from the reorganisation of the foreign exchange activity, which is now remunerated in the form of a retrocession of commissions. In 2015, the Bank had made significant gains on bonds.

Other operating income, which amounted to EUR 69.9 million for 2016 compared to EUR 57.8 million in 2015 includes expenses invoiced to other entities of the BNP Paribas Group in Luxembourg. In 2016, excluding re-invoiced expenses, this item also included capital gains on the sale of the Bank's shareholdings in Foyer Finance SA and Société Immobilière de Monterey SA

At 31 December 2016, **General overhead costs** amounted to EUR 354.5 million compared to EUR 373.4 million at the end of the previous year, a decrease of EUR 18.9 million or 5%.

Staff costs amounted to EUR 230.2 million at 31 December 2016, a decrease of EUR 5.1 million or 2%, mainly due to the continuing decline in the number of employees in 2016, as a consequence of the efficiencies gained from the investments made under the Simple & Efficient programme in previous years. Other operating expenses amounted to EUR 124.3 million, a decrease of EUR 13.8 million or 10% due to a strict cost control and the gradual end of investments made in the *Simple & Efficient* projects.

Value corrections on intangible and tangible assets were primarily impacted by the end of the amortisation of the goodwill activated following the merger of BNP Paribas Luxembourg SA on 1 October 2010. The amortisation period for this goodwill expired on 30 September 2015, so that the 2016 financial year no longer included the allocation of EUR 120 million in 2015. This item is also impacted by the start of depreciation related to the two new buildings on the Luxembourg-Kirchberg site following their completion in mid-2016.

Additions/reversals for value creations on receivables and provisions for possible debts and commitments showed a net allocation to value adjustments of EUR 22.9 million in 2016 compared with a net allocation of EUR 39.7 million in 2015. This change is mainly linked to an allocation of a lump-sum provision for risk assets amounting to EUR 12.0 million in 2016, compared with EUR 35.0 million in 2015. The cost of specific risk remains reasonable with regard to outstandings, with a net allocation of EUR 10.9 million in 2016 compared to a net allocation of EUR 4.7 million in 2015.

In Additions/reversals for value creations on marketable securities described as financial fixed assets, on investments in subsidiaries and shares in subsidiaries

and affiliates there was a net charge of EUR 17.0 million compared to a net charge of EUR 0.2 million in 2015. In 2016, the Bank recorded impairment charges of EUR 11.2 million on its holding of BIP Investment Partners SA and net impairment charges of EUR 5.8 million on dollar-denominated bond positions as a result of the rise in dollar interest rates at the end of the year. In 2015, this item mainly consisted of impairment charges of EUR 11.5 million in its holding of BGL BNP Paribas Factor SA and the Alsatian Development and Expansion Company SA (Société Alsacienne de Développement et d'Expansion SA) (Sade), offset by the gain realised on the sale of bonds and by reversals of excess value adjustments.

In 2016, **Allocations to special items with a quota share of reserves** includes an allocation of EUR 4.1 million to offset the capital gain realised on the sale of the Foyer Finance SA a capital gain which is tax-free under section 54 of the Income Tax Act.

Income from the elimination of special items with a share in reserves amounted to EUR 43.5 million in 2016, mainly due to the reversal of previously acquired capital gains on investments sold by Société Alsacienne de Développement et d'Expansion SA (Sade) and BIP Investment Partners SA

In 2016, the Bank allocated EUR 223.0 million to its **Fund for general banking risks**.

Taxes on ordinary profit totalled EUR 55.0 million, compared to EUR 53.6 million, an increase of EUR 1.4 million or 3%.

Lastly, the Bank posted a **net unconsolidated profit** of EUR 185.4 million (EUR 152.4 million in 2015), an increase of EUR 33.0 million or 22% compared to the previous year.

Balance sheet

At 31 December 2016, total assets amounted to EUR 33.9 billion compared to EUR 33.0 billion at 31 December 2015, an increase of EUR 0.9 billion, or 3%.

On the **assets** side of the balance sheet, **Cash, amounts due from central banks and post office banks** increased by EUR 636 million to EUR 1.3 billion due to a rise in short-term holdings with the Central Bank of Luxembourg at the end of 2016.

Receivables due from credit institutions decreased slightly by 1%: they mainly comprise bank deposits made by the Bank within the BNP Paribas Group.

Receivables due from customers increased by EUR 1.5 billion, rising EUR 17.4 billion at the end of 2016: an increase of 9%. This increase was mainly due to financing granted to certain entities of the BNP Paribas Group (+ EUR 0.9 billion), mainly Leasing International activities held by the Bank. Retail Banking loans increased by 2%, in particular for mortgage loans (+ 3%), which were still supported by a buoyant national market. As for the Corporate Banking, it grew by 3%, while Wealth Management saw its assets increase by 39%.

Bonds and other fixed-income securities decreased by 15% compared to the previous year, falling from EUR 6.3 billion at 31 December 2015 to EUR 5.4 billion at 31 December 2016 mainly due to the maturity of certain bond positions whose proceeds were not fully reinvested.

Participating interests decreased by EUR 34 million to stand at EUR 12 million at the end of 2016 following the sale of BIP Investment Partners SA in the fourth quarter of 2016.

Shares in affiliated undertakings decreased by 10% compared to the end of 2015 due to the sale of the two shareholdings during 2016: Société Alsacienne de Développement et d'Expansion SA (Sade) and Société Immobilière de Monterey SA.

Tangible assets increased from EUR 295 million at the end of 2015 to EUR 358 million at the end of 2016. This increase was mainly due to the completion of the enlargement of the Luxembourg-Kirchberg site in 2016: part of the premises are rented out.

On the **liabilities** side, **Due to credit institutions** decreased from EUR 2.9 billion in 2015 to EUR 1.9 billion in 2016 following a reduction in deposits made by other BNP Paribas Group entities with the Bank. On the other hand, deposits made by entities outside the BNP Paribas Group increased by 4%.

Due to customers evolved very favourably, rising from EUR 21.2 billion at the end of 2015 to EUR 23.5 billion at the end of 2016, an increase of 11%. At the Retail and Corporate Banking level in Luxembourg, deposits at the end of the period were up sharply by EUR 2.3 billion or

16% compared with the situation at 31 December 2015. Deposits with the Corporate Banking in Luxembourg grew sharply by EUR 1.9 billion, or 27%, supported by strong cash inflows from the corporate and institutional clientele in connection with the development of the cash management business. Retail Banking deposits also showed a favourable trend, increasing by EUR 0.4 billion or 7% compared to the end of 2015. Wealth Management deposits also grew by EUR 0.6 billion or 11%, supported by the contribution from the Ultra High Net Worth Individuals segment. On the other hand, deposits made by entities of the BNP Paribas Group decreased by EUR 0.6 billion.

Debt securities fell from EUR 1.7 billion in 2015 to EUR 1.2 billion in 2016, a decrease of EUR 0.5 billion. This decrease is mainly due to redemptions in the EMTN and ECP programmes, which were not renewed due to unfavourable market conditions.

Own funds

On 31 December 2016, the **Fully subscribed** and paid capital amounted to EUR 713.1 million, represented by 27,976,574 shares.

Under the Law of 28 July 2014 concerning the immobilisation of bearer shares and units of Luxembourg commercial companies, as of 19 February 2016 the Bank had cancelled 2,561 shares thus reducing the paid up capital by 65 thousand euros and equity by a total of 535 thousand euros.

The Bank's **Regulatory unconsolidated own funds**, excluding income for the current year, at 31 December 2016 included in the calculation of the solvency ratio, amounted to EUR 5.7 billion compared to EUR 5.6 billion at 31 December 2015.

Risk management

The description of risk management is included in Note 4 to the Bank's consolidated financial statements.

Acquisition and holding of treasury shares

In compliance with Article 49-3 c) of the law on commercial companies, the Bank declares that it did not conduct a share buyback in 2016. At 31 December 2016, the Bank did not hold any of its own treasury shares.

Allocation of profit

Profit available for distribution is as follows:

Net Profit for the period	EUR	185,398,147.00
Profit brought forward	EUR	124,630.54
Profit to appropriate	**EUR**	**185,522,777.54**

The proposed appropriations to be submitted to the General Meeting of shareholders are as follows:

Statutory allocations	EUR	1,026,288.00
Dividend of EUR 6.58 to 27.976.574 shares	EUR	184,085,856.92
Retained earnings	EUR	410,632.62
Total	**EUR**	**185,522,777.54**

If these proposals are accepted, a gross dividend of EUR 6.58 per share will be payable to shareholders for the financial year 2016.

It is proposed to the General Meeting that an amount of EUR 22.7 million be transferred from free reserves to unavailable reserves for wealth tax in order to reduce the wealth tax charge for the year 2017. According to the existing tax legislation, these reserves must be maintained for five tax years following the year of the reduction. Similarly, it is proposed to the General Meeting that an amount of EUR 97.6 million be transferred from unavailable reserves to free reserves, for wealth tax related to the year 2011. Following the publication of tax circulars in 2016, the bank reviewed its interpretation of the law of 25 November 2014. This change in interpretation has the net impact of transferring EUR 80.1 million from the unavailable reserves to the free reserve so that, subject to approval of the above transfers, the stock of the unavailable reserve in respect of wealth tax would amount to EUR 340.4 million.

OUTLOOK FOR 2017

The Bank has built an ambitious strategic plan for 2020. It aims to initiate digital, human, organisational and commercial transformations in the service of customer satisfaction. The Bank's activities should also benefit from a favourable economic environment in Luxembourg compared to the rest of the eurozone, with accelerated growth in 2017 and 2018 and forecasts of an upturn in interest rates.

The businesses continue to adapt to new regulations and they are preparing in particular for the entry into force of the MiFID II directive on 1 January 2018.

The digital theme will further enhance the daily life of the teams in 2017. To help them, the Bank will continue to follow its co-creation initiative, with its customers, through workshops which aim to provide solutions that are as close as possible to their needs. With the BNP Paribas Group's entities present in Luxembourg, the Bank will also pursue its cross-selling approach, convinced that the diversity of this offering represents a real added value for its clients, who can then benefit from wide-ranging expertise, from one primary entry point.

GOVERNING BODIES

Internal Control and Risk Management Committee

In accordance with the notification by the CSSF, dated 15 December 2015, that the Bank is designated as a significantly important institution and CSSF Regulation N°15-02 relating to the supervisory review and evaluation process that applies to CRR institutions, the Board of Directors decided in its meeting of 18 February 2016 to divide the Internal Control and Risks Committee into an Audit Committee and a Risk Committee, respectively holding the responsibilities specified in CSSF circular 12/552, as amended.

Thus the role of the Risk Committee is to assist the Board of Directors in its task of assessing, given the risks incurred, the adequacy and suitability of the institution's ability to manage these risks, and the equity and internal and regulatory liquidity reserves. The Risk Committee met four times during 2016.

The role of the Audit Committee is to assist the Board of Directors in the areas of financial reporting, internal control, including internal audit, as well as control by the independent auditor. The Audit Committee met five times in 2016.

Remuneration and Nomination Committee

The Board of Directors is assisted by a special committee, called the *Remuneration and Nomination Committee*, which acts in accordance with the powers granted to it in the framework of remuneration Policy, as decided by the Board of Directors, in accordance with regulatory requirements in this area.

The Remuneration and Nomination Committee has decision-making authority in respect of the remuneration of the members of the Management Board, particularly regarding the structure of remuneration and individual remuneration. It also proposes to the Board of Directors the appointment of directors and members of the Management Board and the approval of the appointment and dismissal of the heads of internal Control functions.

The Remuneration and Nomination Committee, which was composed of four members of the Board of Directors in 2016, met three times during 2016.

Bureau of the Board of Directors

Established in accordance with Article 16 of the Articles of Incorporation of the Bank, the Bureau of the Board of Directors' mission is to prepare the meetings of the Board of Directors. The Bureau of the Board of Directors, which is composed of the Chairman and Vice-Chairman of the Board of Directors and the Chairman of the Management Board, met nine times during 2016.

The Board of Directors

Mr Jean-Claude Gilbertz resigned as a director representing the staff on the Board of Directors of the Bank with effect from 31 December 2016.

In view of the assessment carried out by the Remuneration and Nomination Committee, the Board of Directors approved - subject to the approval of the European Central Bank - the appointment of Mrs Anna Daresta by the Staff Delegation with effect from 1 January 2017 as a director of BGL BNP Paribas representing the staff.

During 2016, the Board of Directors met eight times.

Luxembourg, 16 March 2017
The Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS TO 31 DECEMBER 2016

prepared according to the IFRS accounting standards adopted by the European Union

The consolidated financial statements of the BGL BNP Paribas Group are presented for the years 2016 and 2015, in compliance with the IFRS standards adopted by the European Union.

08

Audit report

To the Board of Directors of BGL BNP Paribas SA

Report on the consolidated financial statements

Following our appointment by the Board of Directors, we have audited the accompanying consolidated financial statements of BGL BNP Paribas SA, which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated profit and loss account, the statement of consolidated net income and charges in assets and liabilities recognised directly in consolidated equity, the statement of changes in the consolidated shareholders equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of BGL BNP Paribas SA as of 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated management report and the Corporate Governance Statement but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Other matter

The Corporate Governance Statement includes the information required by Article 70bis Paragraph (1) of the Law of 17 June 1992 on the annual accounts and consolidated accounts of credit institutions under Luxembourg Law, as amended.

Report on other legal and regulatory requirements

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.
The information required by Article 70bis Paragraph (1) Letters c) and d) of the Law of 17 June 1992 on the annual accounts and consolidated accounts of credit institutions under Luxembourg Law, as amended, which is included in the Corporate Governance Statement, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

PricewaterhouseCoopers
Société coopérative
Luxembourg, 16 March 2017
Represented by
Rima Adas
Olivier Delbrouck

Only the French version of the present report has been audited. In case of differences between the French version and the translation, the French version should be retained.

CONSOLIDATED PROFIT AND LOSS ACCOUNT 2016

In millions of euros	*Note*	2016	2015
Interest income	*2.b*	1,336.3	1,388.6
Interest expense	*2.b*	(232.9)	(268.0)
Commission (income)	*2.c*	371.6	374.1
Commission (expense)	*2.c*	(214.1)	(208.9)
Net gain/loss on financial instruments at fair value through profit or loss	*2.d*	23.0	22.8
Net gain/loss on financial assets available for sale	*2.e*	23.9	21.1
Income from other activities	*2.f*	338.4	378.5
Expense on other activities	*2.f*	(294.0)	(334.7)
Revenues		**1,352.2**	**1,373.5**
Staff costs	*7.a*	(423.5)	(417.0)
Other operating expense	*2.g*	(210.8)	(228.3)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	*5.n*	(30.4)	(27.8)
Gross operating income		**687.5**	**700.4**
Cost of risk	*2.h*	(52.6)	(48.8)
Operating income		**634.8**	**651.7**
Share of earnings of associates	*2.i*	22.7	9.7
Net gain on other fixed assets	*2.j*	23.6	(5.4)
Pre-tax income		**681.1**	**655.9**
Corporate income tax	*2.k*	(126.5)	(176.0)
Net income		**554.6**	**480.0**
Minority interests		151.4	122.1
Net income attributable to equity holders of the parent		**403.2**	**357.9**

STATEMENT OF CONSOLIDATED NET INCOME AND CHANGES IN ASSETS AND LIABILITIES RECOGNISED DIRECTLY IN CONSOLIDATED EQUITY

In millions of euros	2016	2015
Net income	**554.6**	**480.0**
Changes in assets and liabilities recognised directly in equity	**(18.4)**	**20.0**
Items transferable to profit and loss	**(3.5)**	**3.7**
Items related to exchange rate movements	(59.4)	0.9
Changes in fair value of available-for-sale financial assets and of securities reclassified as loans and receivables	32.3	7.7
Changes in fair value of available-for-sale assets, reported to net income for the period	(0.3)	(1.7)
Changes in fair value of hedging instruments	10.8	(8.0)
Changes in items related to equity associates	13.1	4.9
Items non transferable to profit or loss	**(14.9)**	**16.3**
Actuarial gains or losses related to post-employment benefits	(14.8)	16.1
Changes of value related to equity associates	(0.0)	0.1
Total	536.2	500.0
Attributable to equity shareholders of the parent	416.7	365.3
Attributable to minority interests	119.5	134.7

CONSOLIDATED BALANCE SHEET 2016

In millions of euros	*Note*	31 December 2016	31 December 2015
ASSETS			
Cash and amounts due from central banks		1,454.3	666.7
Financial instruments at fair value through profit or loss			
Trading securities	*5.a*	108.3	98.3
Loans and repurchase agreements	*5.a*	27.7	5.1
Instruments designated at fair value through profit or loss on option	*5.a*	5.5	7.9
Derivatives	*5.a*	92.3	82.4
Derivatives used for hedging purposes	*5.b*	170.3	144.8
Available-for-sale financial assets	*5.c*	5,476.0	6,430.8
Loans and receivables due from credit institutions	*5.f*	8,709.4	7,667.5
Loans and receivables due from customers	*5.g*	26,580.9	25,626.9
Held-to-maturity financial assets	*5.j*	293.8	322.7
Current and deferred tax assets	*5.k*	132.6	163.2
Accrued income and other assets	*5.l*	695.1	716.4
Investments in associates	*5.m*	241.4	294.2
Investment property	*5.n*	178.0	96.8
Property, plant and equipment	*5.n*	653.3	689.6
Intangible assets	*5.n*	27.7	25.0
Goodwill	*5.o*	133.8	136.4
Non-current assets classified as assets held for sale		-	39.9
Total assets		44,980.2	43,214.8
LIABILITIES			
Financial instruments at fair value through profit or loss			
Borrowings and repurchase agreements	*5.a*	-	83.8
Instruments designated at fair value through profit or loss on option	*5.a*	218.0	314.7
Derivatives	*5.a*	73.6	61.5
Derivatives used for hedging purposes	*5.b*	58.1	64.6
Due to credit institutions	*5.f*	9,970.7	10,657.0
Due to customers	*5.g*	23,852.8	21,150.6
Debt securities	*5.i*	1,107.7	1,421.9
Remeasurement adjustment on interest-rate risk hedged portfolios		86.9	73.4
Current and deferred tax liabilities	*5.k*	510.4	595.1
Accrued expenses and other liabilities	*5.l*	1,070.8	1,015.6
Provisions for contingencies and charges	*5.p*	174.1	179.1
Total liabilities		37,123.2	35,617.2
CONSOLIDATED EQUITY			
Share capital and additional paid-in capital	*5.s*	*5,903.6*	*5,707.1*
Net income for the period attributable to shareholders		*403.2*	*357.9*
Total capital, retained earnings and net income for the period attributable to shareholders		**6,306.8**	**6,065.1**
Changes in assets and liabilities recognised directly in equity		235.2	212.4
Total consolidated equity		**6,542.1**	**6,277.5**
Retained earnings and net income for the period attributable to minority interests		1,378.0	1,356.9
Changes in assets and liabilities recognised directly in equity		(63.1)	(36.8)
Total minority interests		**1,314.9**	**1,320.1**
Total consolidated equity		7,857.0	7,597.6
Total liabilities and equity		44,980.2	43,214.8

STATEMENT OF CHANGES IN THE CONSOLIDATED SHAREHOLDERS' EQUITY

Attributable to shareholders

In millions of euros	Capital and retained earnings			Change in assets and liabilities recognised directly in equity*			Total equity attributable to equity holders of the parent
	Share capital and additional paid-in capital	Non distributed reserves	Total capital and retained earnings	Exchange rates	Available-for-sale financial assets	Derivatives used for hedging purposes	
As at 31 December 2014	**3,474.9**	**2,392.8**	**5,867.8**	**(40.9)**	**213.1**	**44.0**	**6,084.1**
Dividends	-	(174.9)	**(174.9)**	-	-	-	**(174.9)**
Acquisitions of additional interests	-	0.7	**0.7**	-	-	-	**-**
Commitment to repurchase minority shareholders' interests	-	2.0	**2.0**	-	-	-	**2.0**
Other movements	-	0.3	**0.3**	-	-	-	**0.3**
Change in assets and liabilities recognised directly in equity	-	11.2	**11.2**	3.8	0.4	(8.1)	**7.4**
Net income for 2015	-	357.9	**357.9**	-	-	-	**357.9**
As at 31 December 2015	**3,474.9**	**2,590.1**	**6,065.1**	**(37.1)**	**213.6**	**35.9**	**6,277.5**
Reduction of sharecapital	(0.3)	(0.2)	**(0.5)**				**(0.5)**
Dividends	-	(151.4)	**(151.4)**	-	-	-	**(151.4)**
Commitment to repurchase minority shareholders' interests	-	(2.2)	**(2.2)**	-	-	-	**(2.2)**
Other movements	-	2.0	**2.0**	-	-	-	**2.0**
Change in assets and liabilities recognised directly in equity	-	(9.3)	**(9.3)**	(24.4)	36.2	11.0	**13.5**
Net income for 2016	-	403.2	**403.2**	-	-	-	**403.2**
As at 31 December 2016	**3,474.6**	**2,832.2**	**6,306.8**	**(61.4)**	**249.8**	**46.9**	**6,542.1**

** Including items related to equity associates.*

At 31 December 2016, non distributed reserves included reserves not available for distribution according to Luxembourg regulation for a net amount of EUR 167.8 million (compared with EUR 161,4 million at 31 December 2015 and EUR 137,6 million at 31 December 2014).

Minority interests

In millions of euros	Retained earnings	Change in assets and liabilities recognised directly in equity*	Total minority interests
As at 31 December 2014	**1,271.8**	**(44.4)**	**1,227.4**
Capital increase and issues	2.9	-	2.9
Dividends	(50.9)	-	(50.9)
Acquisitions of additional interests	0.4	-	0.4
Commitment to repurchase minority shareholders' interests	5.4	-	5.4
Other movements	0.2	-	0.2
Change in assets and liabilities recognised directly in equity	5.0	7.6	12.6
Net income for 2015	122.1	-	122.1
As at 31 December 2015	**1,356.9**	**(36.8)**	**1,320.1**
Capital increase and issues	0.0	-	0.0
Dividends	(106.1)	-	(106.1)
Interim dividend payments	(25.1)	-	(25.1)
Commitment to repurchase minority shareholders' interests	4.5	-	4.5
Other movements	2.0	-	2.0
Change in assets and liabilities recognised directly in equity	(5.6)	(26.3)	(31.9)
Net income for 2015	151.4	-	151.4
As at 31 December 2016	**1,378.0**	**(63.1)**	**1,314.9**

** Including items related to equity associates.*

CONSOLIDATED CASH FLOW STATEMENT 2016

In millions of euros	2016	2015
Pre-tax income	**681.1**	**655.9**
Non-monetary items included in pre-tax net income and other adjustments	**(3.3)**	**203.2**
Net depreciation/amortisation expense on property, plant and equipment and intangible assets	98.8	93.5
Impairment of goodwill and other fixed assets	(9.0)	(8.2)
Net addition to provisions	(9.0)	35.1
Share of earnings of associates	(22.7)	(9.7)
Net income/expenses from investing activities	(24.0)	4.3
Other movements	(37.4)	88.2
Net increase/decrease in cash related to assets and liabilities generated by operating activities	**29.8**	**(155.9)**
Net decrease (increase) in cash related to transactions with credit institutions	(1,150.2)	148.2
Net increase (decrease) in cash related to transactions with customers	450.0	(59.1)
Net increase (decrease) in cash related to transactions involving other financial assets and liabilities	965.8	(85.2)
Net increase (decrease) in cash related to transactions involving non-financial assets and liabilities	(49.1)	(23.0)
Taxes paid	(186.7)	(136.9)
Net increase (decrease) in cash and cash equivalents generated by operating activities	707.5	703.2
Net increase related to financial assets and participating interests	254.2	19.1
Net decrease related to property, plant and equipment and intangible assets	(85.9)	(129.7)
Net increase (decrease) in cash and cash equivalents related to investing activities	168.3	(110.6)
Decrease in cash and cash equivalents related to transactions with shareholders	(202.1)	(234.1)
Decrease in cash and cash equivalents generated by other financing activities	-	(84.8)
Net decrease in cash and cash equivalents related to financing activities	(202.1)	(318.9)
Effect of movement in exchange rates	(2.1)	0.5
Net changes in cash and cash equivalents	671.6	274.2
Balance of cash and cash equivalent accounts at the start of the period	**1,282.2**	**1,008.0**
Balance of cash and cash equivalent accounts at the end of the period	**1,953.8**	**1,282.2**

ADDITIONAL INFORMATION

In millions of euros	*Note*	2016	2015
Composition of cash and cash equivalents		**1,953.8**	**1,282.2**
Cash and amounts due from central banks		1,454.3	666.7
Demand deposits with credit institutions	*5.f*	1,053.9	1,040.9
Demand loans from credit institutions	*5.f*	(554.0)	(424.9)
Deduction of receivables and accrued interest on cash and cash equivalents		(0.4)	(0.5)

In millions of euros	2016	2015
Additional Information		
Interests paid	(263.3)	(270.0)
Interests received	1,358.8	1,405.5
Dividends paid	(257.5)	(225.8)
Dividends received	73.8	47.7

NOTES
TO THE FINANCIAL STATEMENTS

Prepared in accordance with the International Financial Reporting Standards as adopted by the European Union

GENERALITIES

BGL BNP Paribas, parent company of the BGL BNP Paribas Group, was founded on 29 September 1919 under the name Banque Générale du Luxembourg. It took the legal form of a limited liability company, operating under Luxembourg law, on 21 June 1935. The Bank's statutory name was changed to "BGL BNP Paribas" following the decision taken by the Extraordinary General Meeting of 11 June 2009, with effect from 21 September 2009.

The corporate purpose of the BGL BNP Paribas Group, hereinafter the "Group", is to engage in all banking and financial operations and services, all acquisition of participating interests, as well as to conduct all commercial, industrial or other operations, whether involving securities or real estate, on its own account or on behalf of third parties, relating directly or indirectly to its corporate purpose or being of a nature that will promote its achievement. It may perform its activities in the Grand Duchy of Luxembourg and abroad.

The BNP Paribas Group is the majority shareholder of BGL BNP Paribas. It controls 65.96% of the capital of BGL BNP Paribas, both directly and indirectly through BNP Paribas Fortis SA.

The State of Luxembourg is a significant shareholder in the Group, with 34% of the capital.

The Group is included in the consolidated financial statements of BNP Paribas Fortis SA its main shareholder (50% + 1 share). The consolidated financial statements of BNP Paribas Fortis SA are available at its head office at 3 Montagne du Parc, B-1000 Brussels.

The BNP Paribas Group is the largest grouping of entities in which BGL BNP Paribas is integrated as a consolidated subsidiary. The consolidated financial statements of the BNP Paribas Group are available at its head office at 16 boulevard des Italiens, F-75009 Paris.

1. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES APPLIED BY THE GROUP

1.a ACCOUNTING STANDARDS

1.a.1 Applicable accounting standards

The consolidated financial statements have been prepared in accordance with international accounting standards (International Financial Reporting Standards – IFRS) as adopted by the European Union. Accordingly, certain provisions of IAS 39 on hedge accounting have been excluded, and certain recent texts have not yet undergone the approval process.

The consolidated financial statements were submitted to the Annual General Meeting on 6 April 2017.

The introduction of the modified standards which are mandatory as of 1 January has no effect on the consolidated accounts as at 31 December 2016.

The Group did not choose to early-adopt the application of the new standards, amendments and interpretations adopted by the European Union, when such application in 2016 is given as an option.

1.a.2 New accounting standards, published but not yet applicable

IFRS 9 "Financial Instruments"

On 1 January 2018, IFRS 9 "Financial Instruments", which was published in July 2014, will replace IAS 39 "Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments". It sets out the new principles for the classification and measurement of financial instruments, for impairment for credit risk on financial assets and for micro hedging accounting.

Classification and measurement

According to IFRS 9, the classification and measurement of financial assets, which are a type of debt instrument (loans, receivables or securities) will depend on the business model and the contractual characteristics of the instruments. Upon initial recognition under IFRS 9, financial assets will be classified:

- at amortised cost if the business model objective is to hold the instrument in order to collect the contractual cash flows and if the cash flows consist solely of payments relating to principal and interest on the principal;
- at fair value through shareholders' equity if the business model is to both hold the instrument in order to collect the contractual cash flows and to sell the assets and if the cash flows consist solely of payments relating to principal and interest on the principal. Upon disposal of the securities, unrealised gains or losses previously recognised in equity will be transferred to profit or loss;
- at fair value through profit or loss if they are not eligible for classification in other categories.

Debt instruments may only be designated at fair value through profit or loss if the use of this option reduces an accounting mismatch in profit or loss.

Investments in equity instruments will be classified at fair value through profit or loss or, as an option, as instruments at market value through equity.

The application of this standard will lead to the following classification and evaluation changes:

- loans and securities that do not meet the contractual characteristics criterion will change from "Loans and receivables" under IAS 39 to "Mark-to-market instruments through profit or loss" under IFRS 9;
- fixed-income securities classified as "Available-for-sale financial assets" under IAS 39, if the business model is to hold the instrument in order to collect the contractual cash flows, will pass to amortised cost;
- investments in equity instruments are likely to be classified as instruments at fair value through profit or loss, as the fair value option through other comprehensive income has not been accepted at this stage. This could result in greater volatility in income than under IAS 39 for these instruments.

Impairment

IFRS 9 introduces a new credit risk impairment model based on expected losses, applicable to loans and debt instruments measured at amortised cost or at fair value through shareholders' equity (on a separate line), to loan commitments and financial guarantees not recognised at fair value, as well as to lease receivables.

This new impairment model in three "stages" will require the recognition of expected credit losses:

- 12 months (resulting from the risk of default in the next 12 months) on financial instruments issued or acquired, at the date of initial recognition on the balance sheet and as long as their credit risk does not increase ("stage 1");
- at maturity (resulting from the risk of default over the residual life of the instrument) when the credit risk has increased significantly since initial recognition ("stage 2");
- at maturity, with interest income measured according to the effective interest rate method applied to the net book value (after depreciation) for depreciated financial assets, i.e. for which there is an objective indication of loss of value related to an event occurring after the loan was put in place or the asset acquired ("Stage 3"). The criteria for identifying impaired assets will be similar to those prevailing under IAS 39.

Assessment of deterioration will be measured by comparing probability of default/ratings on the date of initial recognition of financial instruments with those on the reporting date.

In addition, under the standard there is also a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

The standard suggests that it may be assumed that the credit risk of a financial instrument has not increased significantly since initial recognition if this risk is considered to be low on the reporting date (for example, a financial instrument which has an 'investment grade' rating). This provision could be applied to debt securities.

The amount of expected credit loss will be measured on the basis of probability-weighted scenarios, in view of past events, current conditions and reasonable and supportable economic forecasts.

The new impairment model is likely to result in an increase in impairment for credit risk since all financial assets will be subject to a 12-month expected credit loss calculation Furthermore, the impairment model of IFRS 9 is based on more forward-looking information than that of IAS 39, inducing a more volatile amount of expected credit losses.

Expected credit losses will be calculated based on the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") (in light of amortisation profiles).

Hedge accounting

The objective of the hedge accounting model under IFRS 9 is to better reflect risk management, especially by expanding the eligible hedging instruments and eliminating some overly prescriptive rules. On initial application of IFRS 9, the Group may choose either to apply the new hedge accounting provisions or to maintain the hedge accounting principles under IAS 39 until the new macro hedging standard comes into force. Irrespective of the chosen hedge accounting option, additional information will be required in the notes to the financial statements concerning risk management and the impacts of the hedge accounting on the financial statements.

Moreover, IFRS 9 does not explicitly address the fair value hedge of the interest rate risk on a portfolio of financial assets or liabilities. The provisions of IAS 39 for these portfolio hedges, as adopted by the European Union, will continue to apply.

Based on the analyses made to date, the Group is considering maintaining all the provisions of IAS 39 for hedge accounting.

Transition

The IFRS 9 classification and measurement provisions, as well as its new impairment model, are applicable retrospectively by adjusting the opening balance sheet on the date of first application, without any obligation to restate the comparative figures for prior periods.

IFRS 9 allows early application of the requirements for the presentation of revaluation reserve (rather than in the profit and loss account) attributable to changes in the credit risk of the financial liabilities designated as at fair value through profit or loss (fair value option). However, the Group does not envisage an early application of these requirements.

Implementation of IFRS 9 within the Group

Since mid-2015, the Group has been working on the implementation of IFRS 9, based on the methodology and practical guidelines developed by BNP Paribas SA.

In this context, the implementation relies on a set of projects corresponding to each of the different phases of the standard. Steering committees bringing together the heads of the Risk and Finance functions have been set up, as well as operational committees dedicated to the various issues associated with the implementation of the new standard.

The project on classification and measurement is managed by the Finance Department, through dedicated governance.

The work relating to the analysis of business models and the contractual cash flows characteristics of the Group's assets is being finalised. Meanwhile, the required IT developments and adaptations have proceeded through 2016 and will be finalised in 2017.

The project on the impairment model is conducted under the responsibility of the Risk Department.

The work conducted to this day has led to the definition of the Group methodology for the new impairment model (see above). The model is currently being adapted to operational requirements and refined.

Operational implementation is based on the convergence of Finance, Risk and Liquidity reporting streams with the aim of guaranteeing high quality data.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from Contracts with Customers, issued in May 2014, will supersede a number of standards and interpretations on revenue recognition (in particular IAS 18 Revenue and IAS 11 Construction Contracts). Revenues from lease contracts, insurance contracts or financial instruments are excluded from the scope of this standard. Adopted by the European Union on 22 September 2016, IFRS 15 will become mandatory for years beginning on, or after, 1 January 2018.

IFRS 15 defines a single model for the determination of the date and amount of the revenue based on five-step principles. These five steps determine performance obligations (contractual goods and services) that are considered to be distinct and the transaction price to be allocated to them. Revenue is recognised when the performance obligations are satisfied, namely when the control of the goods or services has been transferred.

The Group is in the process of analysing the standard and its potential impacts. Revenues from net banking income falling within the scope of application concern in particular the commissions received for banking and similar services provided (except those arising from the effective interest rate), revenues from property development and revenues from services provided in connection with lease contracts.

The implementation of IFRS 15 within the Group is based on a project structure managed by the Finance Department and follows the methodology and practical guidance developed by BNP Paribas SA. The analysis of the standard and the documentation and identification of its potential impacts will be finalised in 2017. Impacts are not expected to be material.

IFRS 16 Leases

On 1 January 2019, IFRS 16 Leases, issued in January 2016, will supersede IAS 17 Leases and the interpretations relating to the accounting of such contracts. The new definition of leases relies on both the identification of an asset and the right to control the identified asset by the lessee.

For the lessee, IFRS 16 will require recognition in the balance sheet of all leases, in the form of a right-of-use on the leased asset presented under fixed assets, along with the recognition of a financial liability for the rent and other payments to be made over the leasing period. The right-of-use assets will be amortised on a straight-line basis and the financial liabilities will be amortised on an actuarial basis over the lease period. Under IAS 17, operating leases require no recognition in the balance sheet.

The Group will start to analyse the standard and define its potential impacts.

1.b CONSOLIDATION

1.b.1 Scope of consolidation

The consolidated financial statements of BGL BNP Paribas include entities under the exclusive or joint control of the Group, or over which the Group exercises significant influence, with the exception of those whose consolidation is regarded as immaterial in drawing up the financial statements of the Group. The consolidation of an entity is regarded as immaterial if its contribution to the consolidated financial statements is below the following three thresholds: 15 million euros of net revenue; 1 million euros of net pre-tax income and 500 million euros of total assets. Companies that hold shares in consolidated companies, or those required to be so treated by the regulator, are also consolidated in the BNP Paribas Group. Finally, entities consolidated exclusively or jointly whose net pre-tax profit is between 1 million euros and 10 million euros, are consolidated by the equity method, when they do not exceed the thresholds of net revenues and total assets, listed above.

A subsidiary is consolidated from the date on which the Group obtains effective control of it. Entities under temporary control are included in the consolidated financial statements until the date of disposal.

1.b.2 Consolidation methods

Enterprises controlled by the Group are fully consolidated. The Group controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

For entities governed by voting rights, the Group generally controls the entity if it, directly or indirectly, holds the majority of the voting rights and there are no other agreements altering the power of these voting rights.

Structured entities are defined by IFRS 12 as entities that are not governed by the voting rights, such as when those voting rights relate to administrative decisions, whereas the management of relevant activities is governed by contractual agreements. For these entities, the analysis of control shall consider the purpose and design of the entity, the risks to which the entity is designed to be exposed and to what extent the Group absorbs the related variability. The assessment of control, shall consider all the facts and circumstances able to determine the practical ability of the Group to make decisions that could significantly affect its returns even if such decisions are contingent on uncertain future events or circumstance.

In assessing whether it has power, the Group considers only substantive rights which it holds or which are held by third parties. For a right to be substantive, the holder must have the practical ability to exercise that right when decisions about the relevant activities of the entity need to be made.

Control shall be reassessed if facts and circumstances indicate that there are changes to one or more of the elements of control.

Where the Group contractually holds the decision-making power, for instance where the Group acts as fund manager, it shall determine whether it is acting as agent or principal. Indeed, when associated with a certain level of exposure to the variability of returns, this decision making power may indicate that the Group is acting on its own account and that it thus has control over those entities.

Where the Group carries out an activity with one or more partners, sharing control by virtue of a contractual agreement which requires unanimous consent on relevant activities (those that significantly affect the entity's returns), the Group exercises joint control over the activity. Where the jointly controlled activity is structured through a separate vehicle in which the partners have rights to the net assets, this joint venture is accounted for using the equity method. Where the jointly controlled activity is not structured through a separate vehicle or where the partners have rights to the assets and obligations for the liabilities of the jointly controlled activity, the Group accounts for its share of the assets, liabilities, revenues and expenses in accordance with the applicable IFRSs.

Enterprises over which the Group exercises significant influence, so called associates, are accounted for by the equity method. Significant influence is the power to participate in an entity's financial and operating policy decisions, without exercising control. Significant influence is presumed to exist if the Group directly or indirectly holds 20% or more of an entity's voting rights.

Changes in the net assets of associates are recognised on the assets side of the balance sheet under the heading "Investments in associates" and in liabilities under the relevant component of shareholders' equity. Goodwill on associates is also shown under "Investments in associates".

As soon as there is an indication of impairment, the carrying value of investments in associates (including goodwill) is subjected to an impairment test by comparing its recoverable value (equal to the higher of its value in-use and market value) with its carrying amount. Where appropriate, an impairment loss is recognised under "Share of earnings of associates" in the consolidated profit and loss account and can be reversed at a later date.

If the Group's share of losses in an associate equals or exceeds the carrying amount of its investment in the associate, the Group discontinues including its share of further losses. The investment is then reported at nil value. Additional losses in the associate are provided for only when the Group has a legal or constructive obligation to do so, or when it has made payments on behalf of the associate.

This treatment of losses does not apply to associates considered to be minor, on the basis of the predefined criteria of the Group. In this case, the Group accounts for the whole of its share in the losses of these entities.

Minority interests are presented separately in the consolidated profit and loss account and consolidated balance sheet, within consolidated equity. The calculation of minority interests takes into account, if relevant, any outstanding cumulative preferred shares classified as equity instruments issued by the subsidiaries, when such shares are held by companies outside of the Group.

For transactions resulting in a loss of control, any equity interest retained by the Group is remeasured at its fair value through profit or loss.

Realised gains and losses on investments in consolidated undertakings are recognised in the profit and loss statement under the heading "Net gain on other fixed assets", except for the realised gains and losses on assets held for sale, and discontinued operations.

1.b.3 Consolidation procedures

The consolidated financial statements are prepared using uniform accounting policies for reporting like transactions and other events in similar circumstances.

Elimination of intragroup balances and transactions

Intragroup balances arising from transactions between consolidated companies in the Group and the transactions themselves (including income, expenses and dividends) are eliminated. Profits and losses arising from intragroup sales of assets are eliminated, except where there is an indication that the asset sold is impaired. Unrealised gains and losses included in the value of available-for-sale assets are maintained in the consolidated financial statements at Group level

Translation of financial statements expressed in foreign currencies

The consolidated financial statements of BGL BNP Paribas are prepared in euros, which is the functional and presentation currency of the Group.

The financial statements of companies whose functional currency is not the euro are translated using the closing rate method. Under this method, all assets and liabilities, both monetary and non-monetary, are translated using the spot exchange rate at the balance sheet date. Income and expense items are translated at the average rate over the period.

Differences arising from the translation of balance sheet items and profit and loss items are recorded in shareholders' equity under "Exchange rates", for the portion attributable to the Group, and in "Minority interests" for the portion attributable to outside investors.

On liquidation or disposal of some, or all, of an interest held in a foreign company, the portion of the cumulative translation adjustment recorded in shareholders' equity, in respect of the interest liquidated or disposed of, is recognised in the profit and loss account.

Should the percentage interest held change without any modification of the nature of the investment, the cumulative translation adjustment is recorded in the profit and loss account for the share of the amount relating to the interest sold.

1.b.4 Business combinations and measurement of goodwill

Business Combinations

Business combinations are accounted for using the purchase method. Under this method, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the IFRS recognition criteria are measured at fair value or its equivalent on the acquisition date, except for non-current assets classified as assets held for sales, which are accounted for at the lower of the book value and the fair value less costs to sell.

The contingent liabilities of the acquired entity are only recognised in the consolidated balance sheet to the extent that they represent a current obligation at the date of the acquisition, and where their fair value can be reliably estimated.

The acquisition cost is the fair value or its equivalent, on the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued to obtain control of the acquiree. The costs directly attributable to the business combination are treated as a separate transaction and recognised through profit and loss.

Any additional costs are included in the acquisition cost, as soon as control is obtained, at fair value on the acquisition date. Subsequent changes in value of any additional costs, qualifying as a financial liability, are recognised in the profit and loss account.

The Group has a period of twelve months from the date of acquisition to finalise the accounting for the business combinations under consideration.

Goodwill represents the difference between the acquisition cost and the acquirer's interest in the net fair value, or its equivalent, of the identifiable assets, liabilities and contingent liabilities on the acquisition date. On this date, positive goodwill is recognised in the acquirer's balance sheet, while negative goodwill is recognised immediately in profit or loss.

Goodwill is recognised in the functional currency of the acquiree and translated at the closing exchange rate.

At the time of taking control of an entity, any interest previously held in the latter is remeasured at fair value through profit or loss. When a business combination has been achieved through several exchange transactions (step acquisition), goodwill is determined by reference to fair value at the date of acquisition.

Since the revised IFRS 3 is only prospective, business combinations completed prior to 1 January 2010 were not restated to reflect the changes to IFRS 3.

As permitted under IFRS 1, business combinations that took place before 1 January 2004, and were recorded in accordance with the previously applicable Luxembourg accounting standards, have not been restated in accordance with the principles set out above.

When acquiring companies already previously held by another company in the BNP Paribas Group, the Group applies the common control method of accounting for business combination. Therefore, the excess of the acquisition cost, over the historical carrying values of the assets and liabilities acquired, is deducted directly from equity.

Measurement of goodwill

The Group tests goodwill for impairment on a regular basis.

Cash-generating units

The Group has split all its activities into cash-generating units, representing similar business lines. This split is consistent with the Group's organisational structure and management methods, and reflects the independence of each unit in terms of results generated and management approach. This distribution is reviewed on a regular basis, to take account of events likely to affect the composition of cash-generating units, such as acquisitions, disposals and major reorganisations etc.

Testing cash-generating units for impairment

Impairment tests, to ensure that the goodwill allocated to homogenous cash-generating units has not been significantly affected, are carried out whenever there is an indication that a unit may be impaired, and in any event once a year. The carrying amount of the cash-generating unit is compared to its recoverable amount. If the recoverable amount is less than the carrying amount, an irreversible impairment loss is recognised, and the goodwill is written down by the excess of the carrying amount of the unit over its recoverable amount.

Recoverable amount of a cash-generating unit

The recoverable amount of a cash-generating unit is defined as the higher of its fair value of the unit less its costs to sell and its value in use.

Fair value is the price that would be obtained from selling the unit in the market conditions prevailing at the date of measurement. This is determined mainly by reference to the actual prices of recent transactions involving similar entities or on the basis of stock market multiples for comparable listed companies.

Value in use is based on an estimate of future cash flows to be generated by the cash-generating unit, derived from annual forecasts prepared by the unit's management and approved by the Group executive Management, and from analyses of long-term changes in the relative positioning of the unit's activities in their market. These cash flows are discounted at a rate that reflects the level of return expected by an investor from an investment in the business sector and the geographical region involved.

1.c FINANCIAL ASSETS AND FINANCIAL LIABILITIES

1.c.1 Loans and receivables

"Loans and receivables" include loans granted by the Group, the Group's share in syndicated loans, and purchased loans that are not quoted in an active market, unless they are held for trading purposes.

Loans and receivables are initially measured at fair value or equivalent, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commissions collected (syndication commission, commitment fees and handling charges), that are regarded as an adjustment to the effective interest rate on the loan.

Loans and receivables are subsequently measured at their amortised cost, while the income from the loan, representing interest plus transaction costs and fees/commissions included in the initial value of the loan, is calculated using the effective interest method.

Commissions earned on financing commitments prior to the inception of a loan are deferred.

Loans which include a derivative are recognised at fair value through the profit and loss account, as per the option in IAS 39 (paragraph 1.c.9).

1.c.2 Securities

Categories of securities

Securities held by the Group are classified into one of four categories.

Financial assets at fair value through profit or loss

Apart from derivative instruments, "Financial assets at fair value through profit or loss" comprise:

- financial assets held for trading purposes
- financial assets that the Group has opted, on initial recognition, to recognise at fair value through profit or loss using the fair value option available under IAS 39. The conditions for applying the fair value option are set out in Section 1.c.9.

Securities in this category are initially measured at their fair value, with transaction costs being directly posted to the profit and loss account. At the balance sheet date, they are assessed at their fair value and any changes in fair value (excluding accrued interest on fixed-income securities) are presented in the profit and loss account under "Net gain/loss on financial instruments at fair value through profit or loss", along with dividends from variable-income securities and realised gains and losses on disposal.

Income earned on fixed-income securities classified in this category is shown under "Interest income" in the profit and loss account.

Fair value incorporates an assessment of the counterparty risk on these securities.

Loans and receivables

Securities with fixed or determinable payments that are not traded on an active market, apart from securities for which the owner may not recover almost all of its initial investment due to reasons other than credit deterioration, are classified as "Loans and receivables" if they do not meet the criteria to be classified as financial assets at fair value through profit or loss. These securities are assessed and accounted for at their amortised cost.

Held-to-maturity financial assets

"Held-to-maturity financial assets" are investments with fixed or determinable payments and fixed maturity, which the Group has the intention and ability to hold until maturity. Hedges contracted to cover assets in this category against interest rate risk do not qualify for hedge accounting as defined in IAS 39.

Assets in this category are recognised at their amortised cost using the effective interest rate method, which includes the amortisation of premiums and discounts corresponding with the difference between the acquisition value and the redemption value of the assets, as well as the acquisition cost of the assets, if significant. Income earned on these assets is included in "Interest income" in the profit and loss statement.

Securities classified as "Held-to-maturity financial assets" should not be sold before their maturity date or reclassified to another category.

If such a situation should arise, the entire portfolio "Held-to-maturity financial assets" of the Group should be reclassified as "Available-for-sale financial assets." It would then not be possible for the Group to use the category "Held-to-maturity financial assets" during the two annual periods following the declassification.

A very small number of exceptions to this rule are nevertheless tolerated:

- sale concluded at a date sufficiently close to the due date;
- sale occurring after receipt of practically the full principal amount;
- sales due to an isolated, unpredictable event, and one which is unlikely to recur, (e.g. a sudden and significant downgrading of the credit risk of the issuer of a bond, a regulatory change ...);
- when the impact of the sale is determined by the Group to be immaterial compared to the whole portfolio of "Held-to-maturity financial assets".

Available-for-sale financial assets

"Available-for-sale financial assets" are fixed or variable- income securities other than those included in the previous three categories.

Assets included in this category are initially recognised at fair value plus transaction costs, when the latter are significant. On the balance sheet date, they are assessed at fair value and any variations to this value, excluding accrued income, are shown on a separate line in the shareholders equity ("Unrealised or deferred gains or losses"). Upon disposal of these assets, these unrealised gains or losses are transferred from shareholders equity to the profit or loss statement, where they are shown on the line "Net gain/loss on available-for-sale financial assets". The same applies in the case of impairment.

Income recognised using the effective interest rate method for fixed-income securities within this category is recorded under "Interest income" in the profit and loss statement. Dividend income from variable-income securities is recognised under "Gain/loss on available-for-sale financial assets", when the Group's right to receive payments is established.

Repurchase agreements and securities lending/borrowing

Securities temporarily sold as part of a repurchase agreement continue to be recorded in the Group's balance sheet, in their original portfolio. The corresponding liability is recognised under the appropriate "Debts" heading, with the exception of repurchase agreements contracted for the Group's trading purposes, where the corresponding liability is classified under "Financial liabilities at fair value through profit or loss".

Securities temporarily acquired as part of a reverse repurchase agreement are not recognised in the Group's balance sheet. The corresponding receivable is recognised under "Loans and Receivables", with the exception of reverse repurchase agreements contracted for the Group's trading purposes, where the corresponding receivable is recognised under "Financial assets at fair value through profit or loss".

Securities lending transactions do not result in derecognition of the lent securities, and securities borrowing transactions do not result in recognition of the borrowed securities in the balance sheet, except in cases where the borrowed securities are subsequently sold by the Group. In such cases, the obligation to deliver the borrowed securities on maturity takes the shape of a financial liability that is recognised in the balance sheet under "Financial liabilities at fair value through profit or loss".

Date of recognition for securities transactions

Securities classified at fair value through profit or loss or that are classified as financial assets held-to-maturity or as financial assets available-for-sale are recognised on their trade date.

Regardless of their classification (whether recognised as fair value through profit or loss, loans and receivables or debt) temporary sales of securities as well as sales of borrowed securities are initially recognised on their settlement date. For reverse repurchase agreements and repurchase agreements, a financing commitment, respectively given and received, is recognised between the trade date and the settlement date when the transactions are recognised, respectively, as "Loans and receivables" and "Liabilities". When reverse repurchase agreements and repurchase agreements are recognised, respectively, as "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss", the repurchase commitment is recognised as a derivative financial instrument.

Securities transactions are carried on the balance sheet until the expiry of the Group's right to receive the related cash flows, or until the Group has potentially transferred all of the risks and rewards related to ownership of the securities.

1.c.3 Foreign currency transactions

The method used to account for and to assess the foreign exchange risk inherent to the assets and liabilities relating to foreign currency transactions entered into by the Group depends on whether these assets and liabilities are considered to be monetary or non-monetary.

Monetary assets and liabilities[1] expressed in foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into the functional currency of the relevant Group entity at the closing rate. Translation differences are recognised through profit or loss, except for any that result from financial instruments designated as a cash flow hedge or net foreign currency investment hedge that, in this case, are recognised in the shareholders equity.

Non-monetary assets expressed in foreign currencies

Non-monetary assets may be measured either at historical cost or at fair value. Non-monetary assets expressed in foreign currencies are, in the first case, translated using the exchange rate on the transaction date and, in the second case, at the exchange rate prevailing on the balance sheet date.

Translation differences on non-monetary assets expressed in foreign currencies and measured at fair value (variable-income securities) are recognised in the profit or loss account if the asset is classified under "Financial assets at fair value through profit or loss", and in the shareholders' equity if the asset is classified under "Available-for-sale financial assets". However, if the financial asset in question is designated as an item that is hedged against foreign exchange risk as part of a foreign currency hedging relationship, then the translation differences are recognised in the profit and loss account.

1.c.4 Impairment and restructuring of financial assets

Doubtful assets

Doubtful assets are defined as assets where the Group considers that there is a risk that the debtors will be unable to honour all or part of their commitments.

Impairment of loans and receivables and held-to-maturity financial assets, provisions for financing and guarantee commitments

An impairment loss is recognised against loans and held-to-maturity financial assets when there is an objective indication of a decrease in value as a result of an event occurring after inception of the loan or acquisition of the asset, whether this event affects the amount or timing of the future cash flows, and if its consequences can be reliably measured. The analysis of the possible existence of impairment is initially performed on an individual basis, and subsequently on a portfolio basis. The provisions relative to the financing and guarantee commitments given by the Group follow similar principles, with the probability of drawdown being taken into account with regard to financing commitment.

On an individual level, an objective indication of an impairment loss includes observable data regarding the following events:

- the existence of accounts more than three months past due;
- knowledge or indications of the counterparty's significant financial difficulties, such that a risk can be considered to have arisen whether or not any arrearage has occurred;
- concessions with regard to the credit terms that would not have been granted in the absence of the borrower's financial difficulties.

[1] Monetary assets and liabilities are assets and liabilities to be received or paid for in fixed or determinable amounts of cash.

The impairment is measured as the difference between the carrying amount before impairment and the present value, discounted at the original effective interest rate of the asset, and of those components (principal, interest, collateral, etc.) considered to be recoverable. Changes to the value of impaired assets are recognised in the profit and loss account, under "Cost of risk". Any subsequent reappraisal that can be objectively related to an event occurring after the impairment loss was recognised, is credited to the profit and loss account, also under "Cost of risk". From the date of the first entry, contractual interest ceases to be recognised. The theoretical income earned on the carrying amount of the asset calculated at the original effective interest rate used to discount the estimated recoverable cash flows is recognised under "Interest income" in the profit and loss account.

Impairment losses on loans or receivables are recorded in a separate provision account, which reduces the amount at which the loan or receivable was originally recorded. Provisions relating to off-balance sheet financial instruments, financing and guarantee commitments or disputes, are recognised in liabilities. Impaired receivables are written off in whole or in part, and the corresponding provision is reversed for the amount of the loss when all other means available to the Bank for recovering the receivables or guarantees have failed, or when all or part of the receivables have been waived.

Counterparties that are not individually impaired are risk-assessed on a portfolio basis with similar characteristics, with this assessment drawing on the Group's internal rating system based on historical data, adjusted if necessary in order to account for circumstances prevailing on the balance sheet date. This analysis enables the group to identify counterparties that, as a result of events occurring since the inception of the loans, have collectively attained a probability of default at maturity that provides an objective indication of impairment of the entire portfolio, but without it being possible at that point to allocate the impairment individually to the individual counterparties making up the portfolio. This analysis also provides an estimate of the losses on the portfolios in question, while considering the evolution of the economic cycle over the period of the analysis. Changes to the value of portfolio impairments are recognised in the profit and loss statement, under "Cost of risk".

Based on the experienced judgment of the business lines or of the Risk department the Group may recognise additional collective provisions relative to a given economic sector or geographical area affected by exceptional economic events. This may be the case when the consequences of these events could not be measured with sufficient accuracy to adjust the parameters used to determine the collective provision applicable to affected portfolios of loans with similar characteristics.

Impairment of available-for-sale financial assets

Impairment of "Available-for-sale financial assets", primarily consisting of securities, is recognised on an individual basis when there is an objective indication of impairment resulting from one or more events that have occurred since acquisition.

In case of variable-income securities listed on an active market, the control system identifies securities that may be impaired on a long term basis, using the two following criteria: a significant decline in quoted price below the acquisition cost or the duration over which an unrealised capital loss is noted, in order to carry out an additional individual qualitative analysis. This may lead to the recognition of an impairment loss calculated on the basis of the quoted price.

Apart from the identification criteria, the Group has determined three indications of impairment, one being a significant decline in price, defined as a fall of more than 50% of the acquisition price; another being an observation of unrealised capital gains during the 24 months preceding the statement of account, and the final one being when there is an unrealised loss of at least 30% over an average period of one year. A period of two years is considered by the Group as the period that is necessary for a moderate price decline below the purchase cost to be considered as something more than just the effect of random on volatility inherent in the stock markets or a cyclical change over a period of several years, that affect these markets, but that represents a lasting phenomenon justifying an impairment.

A similar method is applied for unlisted variable-income securities. Any impairment loss is calculated on the basis of the model value.

In the case of fixed-income securities, the impairment criteria are the same as the ones that apply to the individually impaired loans and receivables. For securities quoted in an active market, impairment is calculated on the basis of the quoted price; for others, impairment loss is calculated on the basis of the model value.

Impairment losses taken against variable-income securities are recognised as a component of Revenues on the line "Net gain/ loss on available-for-sale financial assets" and may not be reversed through the profit and loss account, if relevant, until such time as these securities are sold. Moreover, any subsequent decline of the fair value constitutes an additional impairment loss that is recognised through profit or loss.

Impairment losses taken against a fixed-income security are recognised under "Cost of risk" and may be reversed through the profit and loss account in the event of an increase in fair value that relates objectively to an event occurring after the last impairment was recognised.

Restructuring of assets classified in "loans and receivables"

The restructuring of an asset classified in "loans and receivables" is considered to be troubled debt restructuring, when the Group, for economic or legal reasons related to the financial difficulties of the borrower, agrees to a modification in the terms and conditions of the original transaction, that it would not otherwise consider, with the result that the borrower's contractual obligation to the Group, measured at present value, is reduced compared to the original terms.

At the time of restructuring, a discount may be applied to the loan to reduce its carrying amount to the present value of the new expected future cash flows discounted at the original effective interest rate.

The decrease in the value of the asset is recognised in profit and loss under "Cost of risk".

When the restructuring consists of a partial or full settlement with other substantially different assets, the original debt (see note 1.c.12) and the assets received in settlement are recognised at their fair value on the settlement date. The difference in value is recognised in profit and loss under "Cost of risk".

1.c.5 Reclassification of financial assets

The authorised reclassifications of financial assets are the following:

- for a non-derivative financial asset which is no longer held for the purposes of selling it in the near-term, out of "Financial assets at fair value through profit or loss" and into:
  - "Loans and receivables" if the asset meets the definition for this category and the Group has the intention and ability to hold the asset for the foreseeable future or until maturity, or
  - other categories only under rare circumstances when justified and provided that the reclassified assets meet the conditions applicable to the host portfolio;
- out of "Available-for-sale financial assets" and into:
  - "Loans and receivables" with the same conditions as set out above for "Financial assets at fair value through profit or loss,
  - "Held-to-maturity financial assets," for assets that have a maturity, or "Financial assets at cost," for unlisted variable-income assets.

Financial assets are reclassified at fair value on the reclassification date. Any derivatives embedded in the reclassified financial assets are, when relevant, recognised separately and any changes in fair value are recognised through profit or loss.

After reclassification, assets are recognised according to the provisions applied to the host portfolio; the transfer price on the reclassification date is deemed to be the initial cost of the assets for the purpose of determining any impairment.

In the event of reclassification from "available-for-sale financial assets" to another category, gains or losses previously recognised through equity are amortised to profit or loss over the residual life of the instrument, using the effective interest rate method.

Any upward revisions to the estimated recoverable amounts are recognised as an adjustment to the effective interest rate as at the date of the estimate revision. Downward revisions are recognised through an adjustment to the financial asset's carrying amount.

1.c.6 Issues of debt securities

Financial instruments issued by the Group are qualified as debt instruments if there is a contractual obligation for the issuer of these assets to deliver cash or another financial asset to the holder of the instruments. The same applies if the Group is required to exchange financial assets or liabilities with another entity under potentially unfavourable conditions, or to deliver a variable number of its own equity instruments.

Issues of debt securities are initially recognised at the issue value including transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

All structured issues containing significant embedded derivatives are recognised at fair value through profit or loss under the option in IAS 39 (paragraph 1.c.9).

1.c.7 Derivative instruments and hedge accounting

All derivative instruments are recognised in the balance sheet on the trade date at the transaction price, and are remeasured at fair value on the balance sheet date.

Derivatives held for trading purposes

Derivatives held for trading purposes are recognised in the balance sheet in "Financial assets and liabilities at fair value through profit or loss". They are recognised as financial assets when their fair value is positive, and as financial liabilities when negative. Realised and unrealised gains or losses are recorded in the profit and loss statement under "Net gain/loss on financial instruments at fair value through profit or loss".

Derivatives and hedge accounting

Derivatives contracted as part of a hedging relationship are designated according to the purpose of the hedge.

Fair value hedges are particularly used to hedge interest rate risk on fixed rate assets and liabilities, both for identified financial instruments (securities, debt issues, loans, borrowings) and for portfolios of financial instruments (in particular, demand deposits and fixed rate loans).

Cash flow hedges are particularly used to hedge interest rate risk on floating-rate assets and liabilities, including rollovers, and foreign exchange risks on highly probable forecast foreign currency revenues.

At the inception of the hedge, the Group prepares formal documentation which details the hedging relationship, identifying the instrument or portion of the instrument, or portion of risk that is being hedged, the hedging strategy and type of risk hedged, the hedging instrument and the methods used to assess

The effectiveness of the hedge is assessed using ratios. On an annual basis, the Group uses a retrospective effectiveness test to demonstrate that any sources of inefficiency are reasonably limited and that a hedge can be considered effective provided that certain criteria are met during its implementation.

The Group ensures strict compliance with these criteria in the recognition of a hedging relationship. Moreover, the consistency of coverage is monitored monthly, at the accounting level, to ensure there is only a narrow range of variation.

The accounting treatment of derivatives and hedged instruments depends on the hedging strategy.

In a fair value hedging relationship, derivatives are remeasured at fair value in the balance sheet, with changes in fair value recognised in the profit and loss statement under "Net gain/loss on financial instruments at fair value through profit or loss", symmetrically with the remeasurement of the hedged items to reflect the hedged risk. In the balance sheet, the fair value remeasurement of the hedged component is recognised either in accordance with the classification of the hedged item in the case of a hedge of identified assets or liabilities, or under "Reassessment adjustment on interest rate risk hedged portfolios" in the case of a portfolio hedging relationship.

If a hedging relationship ceases or no longer fulfils the effectiveness criteria, the hedging instrument is transferred to the trading book and accounted for using the treatment applied to this category. In the case of identified fixed income instruments, the remeasurement adjustment recognised in the balance sheet is amortised at the effective interest rate over their remaining life of the instrument. In the case of interest rate risk hedged fixed income portfolios, the adjustment is amortised on a straight-line basis over the remainder of the original term of the hedge. If the hedged items no longer appear in the balance sheets, in particular due to prepayments, the adjustment is taken to the profit and loss account immediately.

In a cash flow hedging relationship, derivatives are remeasured at fair value in the balance sheet, with changes in fair value taken to shareholders' equity on a separate line, "Changes in assets and liabilities recognised directly in equity". The amounts posted to shareholders' equity, for accrued interest, over the life of the hedge, are transferred to the profit and loss account under "Net interest income" as and when the cash flows from the hedged item impact profit or loss. The hedged items continue to be accounted for the treatment specific to the category to which they belong.

If the hedging relationship ceases or no longer fulfils the effectiveness criteria, the cumulative amounts recognised in shareholders' equity as a result of the remeasurement of the hedging instrument remain in equity until the hedged transaction itself impacts profit or loss, or until it becomes clear that the transaction will not occur. These amounts are then transferred to the profit and loss account.

If the hedged item ceases to exist, the cumulative amounts recognised in the shareholders' equity are immediately posted to the profit and loss account.

Whatever hedging strategy is used, any ineffective portion of the hedges posted to the profit and loss account on the line "Net/gain loss on financial instruments at fair value through profit or loss".

Hedges of net foreign currency investments in subsidiaries are accounted for in the same way as future cash flow hedges. Hedging instruments may be currency derivatives or any other non-derivative financial instrument.

Embedded derivatives

Derivatives embedded in host contracts are separated from the value of the host contract and recognised separately as a derivative instrument when the hybrid instrument is not recognised under "Financial assets and liabilities at fair value through profit or loss" and if the economic characteristics and risks of the embedded derivative instrument are not closely related to those of the host contract.

1.c.8 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market or most advantageous market, at the measurement date.

The Group determines the fair value of financial instruments either by using prices obtained directly from external data or by using valuation techniques. These valuation techniques are primarily market and income approaches encompassing generally accepted models (e.g. discounted cash flows, Black-Scholes model, and interpolation techniques).They maximise the use of observable inputs and minimise the use of unobservable inputs. They are calibrated to reflect current market conditions and valuation adjustments are applied as appropriate, when some factors such as model, liquidity and credit risks are not captured by the models or their underlying inputs but are nevertheless considered by market participants when setting the exit price.

The unit of measurement is generally the individual financial asset or financial liability but a portfolio-based measurement can be elected subject to certain conditions. Accordingly, the Group retains this portfolio based measurement exception to determine the fair value when some group of financial assets and financial liabilities with substantially similar and offsetting market risks or credit risks are managed on the basis of a net exposure, in accordance with the documented risk management strategy.

Assets and liabilities measured or disclosed at fair value are categorised into the three following levels of the fair value hierarchy:

- Level 1: fair values are determined using directly quoted prices in active markets for identical assets and liabilities. Characteristics of an active market include the existence of a sufficient frequency and volume of activity and of readily available prices.

- Level 2: fair values are determined based on valuation techniques for which significant inputs are observable market data, either directly or indirectly. These techniques are regularly calibrated and the inputs are corroborated with information from active markets.

- Level 3: fair values are determined using valuation techniques for which significant inputs are unobservable or cannot be corroborated by market-based observations, due for instance to illiquidity of the instrument and significant model risk. An unobservable input is a parameter for which there are no market data available and that is therefore derived from proprietary assumptions about what other market participants would consider when assessing fair value. The assessment of whether a product is illiquid or subject to significant model risks is a matter of judgment.

The level in the fair value hierarchy within which the asset or liability is categorised in its entirety is based upon the lowest level input that is significant to the entire fair value.

For financial instruments disclosed in Level 3 of the fair value hierarchy, a difference between the transaction price and the fair value may arise at initial recognition. This "Day One Profit" is deferred and released to the profit and loss account over the period during which the valuation parameters are expected to remain non-observable. When originally non-observable parameters become observable, or when the valuation can be substantiated in comparison with recent similar transactions in an active market, the unrecognised portion of the margin is then posted through profit and loss.

1.c.9 Financial assets and liabilities designated at fair value through profit or loss in application of the IAS 39 option

Financial assets and liabilities can be designated at fair value through profit or loss in the following cases:

- when they are hybrid financial instruments containing one or more embedded derivatives that would otherwise have been separated and recognised separately;
- when using this option enables the entity to eliminate or significantly reduce an inconsistency in the valuation and recognition of assets and liabilities that would result from their classification in separate accounting categories;
- when a group of financial assets and/or liabilities is managed and assessed on the basis of its fair value, in compliance with a duly documented management and investment strategy.

The Group applies the option primarily to structured issues that include significant embedded derivatives, and to loans for which the performance includes a derivative.

1.c.10 Income and expenses arising from financial assets and financial liabilities

The income and expenses arising from financial instruments assessed at amortised cost and from fixed-income assets included in the "Available-for-sale financial assets" are recognised in the profit and loss statement using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the asset or liability in the balance sheet. The effective interest rate calculation takes into account all fees received or paid that are an integral part of the effective interest rate of the contract, transaction costs, and premiums and discounts.

In the profit or loss statement, the Group recognises service-related commission income and expenses on the basis of the nature of the services to which they relate. Commissions considered as an additional component of interest are included in the effective interest rate and are recognised in the profit and loss statement in the "Net interest income". Commissions payable or received on execution of a significant transaction are recognised in full in the profit and loss statement on execution of the transaction, under "Commission income and expense", as are commissions payable or received for recurring services over the term of the service.

Commissions received in respect of financial guarantee commitments are considered to represent the commitment's initial fair value. The resulting liability is subsequently amortised over the term of the commitment, under commission income in Net Revenue.

1.c.11 Cost of risk

Cost of risk includes movements in provisions for impairment of fixed-income securities and loans and receivables due from customers and credit institutions, movements in financing and guarantee commitments given, losses on irrecoverable loans and amounts recovered on loans written off. The cost of risk also includes impairment losses recorded with respect to default risk incurred on counterparties for over-the-counter financial instruments, as well as expenses relating to fraud and to disputes inherent to the financing business.

1.c.12 Derecognition of financial assets and financial liabilities

The Group derecognises all or part of a financial asset when the contractual rights to the asset's cash flows expire or when the Group transfers the contractual rights to the cash flows from the financial asset and substantially all of the risks and rewards related to ownership of the asset in question. Unless these conditions are met, the Group retains the asset in its balance sheet and recognises a liability for the obligations created at the time of the asset's transfer.

The Group derecognises all or part of a financial liability when the liability is extinguished in whole or in part.

1.c.13 Offsetting financial assets and financial liabilities

A financial asset and a financial liability are offset and the net amount presented in the balance sheet if, and only if, the Group has a legally enforceable right to offset the recognised amounts, and intends either to settle on a net basis or to realise the asset and simultaneously settle the liability.

Repurchase agreements and derivatives traded through clearing houses, whose principles of operation meet both criteria required by the standard, are offset in the balance sheet.

1.d PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment and intangible assets shown in the consolidated balance sheet include both tangible and intangible fixed assets for operations as well as investment property.

Assets used in operations are those used in the provision of services or for administrative purposes. They include non-property assets leased by the Group as lessor under operating leases.

Investment property includes property assets held to generate rental income and capital gains.

Property, plant and equipment and intangible assets are initially recognised at purchase price plus directly attributable costs, together with borrowing costs when a long period of construction or adaptation is required before the asset can be brought into service.

Software developed internally, when it fulfils the capitalisation criteria, is capitalised at direct development cost, which includes external costs and staff costs directly attributable to the project.

Subsequent to initial recognition, property, plant and equipment and intangible assets are assessed at cost, less accumulated depreciation or amortisation and any impairment losses; any changes in fair value are posted to the profit and loss statement.

The depreciable amount of property, plant and equipment and intangible assets is determined after deducting the residual value of the asset. Only assets leased by the Group as lessor under operating leases are presumed to have a residual value, as the useful life of property, plant and equipment and intangible assets used in operations is generally the same as their economic life.

Property, plant and equipment and intangible assets are depreciated or amortised using the straight-line method over the useful life of the asset. Depreciation and amortisation expenses are recognised in the profit and loss statement, under "Depreciation, amortisation and impairment of property, plant and equipment and intangible assets".

When an asset consists of a number of components that may require replacement at regular intervals, or that have different uses for different patterns for producing economic benefits, each component is recognised separately and appreciated using a method appropriate to that component. The component-based approach has been adopted for property used in operations and for investment property.

The depreciation periods used for buildings are 50 years, 15 years for general and technical installations, 10 years for fixtures and fittings, 5 to 8 years for equipment, 3 to 5 years for IT hardware and 5 to 10 years for furnishings.

Software is amortised, depending on its type, over 3 years or 5 years for developments intended primarily for providing services to customers.

Software maintenance costs are recognised as expenses in the profit and loss statement as they are incurred. On the other hand, expenses contributing to the upgrading of software functionalities or to extending its useful life are added to the initial acquisition or construction costs.

Depreciable property, plant and equipment and intangible assets are tested for impairment if there is an indication of potential impairment on the balance sheet date. Non-depreciable assets are tested for impairment at least annually.

If there is an indication of impairment, the asset's new recoverable value is compared with the asset's carrying amount. If the asset is found to be impaired, an impairment loss is recognised in the profit and loss statement. This loss is reversed in case of a change to the estimated recoverable amount or if there is no longer an indication of impairment. Impairment losses are recognised in the profit and loss statement, under "Depreciation, amortisation and impairment of property, plant and equipment and intangible assets".

Gains and losses on disposals of property, plant and equipment and intangible expenses used in operations are recognised in the profit and loss statement, under "Net gain on non-current assets".

Gains and losses on disposals of investment property are recognised in the profit and loss statement under "Income from other activities" or "Expenses on other activities".

1.e LEASES

Group companies may either be the lessee or the lessor in a lease agreement.

1.e.1 Group company is the lessor in the leasing contract

Leases contracted by the Group as lessor are categorised as either finance leases or operating leases.

Finance leases

In a finance lease, the lessor transfers substantially all of the risks and rewards of ownership of an asset to the lessee. It is treated as a loan made to the lessee in order to finance the asset's purchase.

The present value of the lease payments, plus any residual value, is recognised as a receivable. The net income earned from the lease by the lessor is equal to the amount of the interest on the loan, and is recorded in the profit and loss statement under "Interest income". The lease payments are spread over the lease term, and are allocated to the reduction of the principal and to interest such that the net income reflects a constant rate of return on the net investment outstanding in the lease. The rate of interest used is the rate implicit in the contract.

The provisions established for these receivables, whether individual or portfolio provisions, follow the same rules as described for other loans and receivables.

Operating leases

An operating lease is a lease under which substantially all of the risks and rewards of ownership of an asset are not transferred to the lessee.

The asset is recognised under property, plant and equipment in the lessor's balance sheet and appreciated on a straight-line basis over the lease term. The depreciable amount excludes the residual value of the asset, while the lease payments are recognised in the profit and loss statement in their entirety on a straight-line basis over the lease term. Lease payments and depreciation expenses are listed in the profit and loss statement under "Income from other activities" and "Expenses on other activities".

1.e.2 The Group company is the lessee in the leasing contract

Leases contracted by the Group as lessee are categorised as either finance leases or operating leases.

Finance leases

A finance lease is treated as a acquisition of an asset by the lessee, financed by a loan. The leased asset is recognised in the lessee's balance sheet at the lower of its fair value for the present value of the minimum lease payments calculated at the interest rate implicit in the lease. A matching liability, equal to the leased asset's fair value or the present value of the minimum lease payments, is also recognised in the lessee's balance sheet. The asset is depreciated using the same method as the one that applies to owned assets, after deducting the residual value from the amount initially recognised, over the useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. The lease obligation is recognised at amortised cost.

Operating lease contracts

The asset is not recognised in the lessee's balance sheet. Lease payments made under operating leases are recorded in the lessee's profit and loss statement on a straight-line basis over the lease term.

1.f NON-CURRENT ASSETS HELD FOR SALE, LIABILITIES LINKED TO NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

When the Group decides to sell non-current assets and it is highly probable that the sale will occur within 12 months, these assets are shown separately in the balance sheet, on the line "Non-current assets held for sale". Any liabilities associated with these assets are also shown separately in the balance sheet, on the line "Liabilities linked to non-current assets held for sale".

Once classified in this category, non-current assets and groups of assets and liabilities are assessed at the lower of their book value or fair value less selling costs.

Such assets are no longer depreciated. If an asset or group of assets and liabilities becomes impaired, an impairment loss is recognised in the profit and loss statement. Impairment losses recognised for this purpose may be reversed.

Moreover, when a group of assets and liabilities held for sale represents a uniform set of business lines, it is categorised as a "discontinued operation". Discontinued operations include operations that are held for sale, operations that have been sold or shut down, and subsidiaries acquired exclusively with a view to resale.

All gains and losses related to discontinued operations are shown separately in the profit and loss account, on the line "Net income on discontinued operations"; this line includes the post-tax profits or losses from discontinued operations, the post-tax gain or loss arising from the reassessment of fair value less selling costs, and the post-tax gain or loss on the disposal of the operation.

To allow for a comparison between periods, the reference year is also subject to a reclassification of the results from discontinued operations, on the line "Net income on discontinued operations".

1.g EMPLOYEE BENEFITS

Short-term benefits

Short-term employee benefits (other than termination benefits and equity compensation benefits) are those which fall wholly due within the 12 months following the end of the year in which the staff members rendered the corresponding services.

The company recognises an expense when it has used services rendered by employees in exchange for employee benefits.

Long-term benefits

These are benefits, other than short-term benefits, post-employment benefits and termination benefits. This relates, in particular, to compensation deferred for more than twelve months, paid in cash and not linked to the BNP Paribas share price, which is accrued in the financial statements for the period in which it is earned.

The actuarial assessment method is similar to the one used for defined-benefit type post-employment benefits, except that the revaluation items are recognised in the profit and loss account and not in equity.

Termination benefits

Severance benefits are employee benefits payable as a result of a termination of an employment contract under an early-retirement plan based on voluntary departures, when the employee concerned meets the relevant criteria.

Post-employment benefits

In keeping with generally accepted principles, the Group makes a distinction between the defined contribution plans and defined benefit plans.

Defined contribution plans do not give rise to an obligation for the company and therefore do not require a provision. The amount of the employer's contributions payable during the period is recognised as an expense.

Only defined-benefit plans give rise to an obligation for the company, which must then be assessed and provisioned.

The classification of plans into either of the two categories is based on the plan's economic substance, which is reviewed to determine whether or not the Group has a constructive obligation to pay the agreed benefits to employees.

Post-employment benefits under defined benefit plans are assessed using actuarial techniques that take demographic and financial assumptions into account.

The net liability recognised with respect to post-employment benefit plans is the difference between the present value of the defined-benefit obligation and the fair value of any plan assets, if there is a difference.

The present value of the defined-benefit obligation is measured on the basis of the actuarial assumptions applied by the company, while using the projected unit credit method. This assessment method takes into account various parameters, specific to each country or Group division, such as demographic assumptions, early retirement, wage increases, a discounting rate and the inflation rate.

When the value of the plan assets exceeds the amount of the obligation, an asset is recognised if it represents a future economic benefit for the Group in the form of a reduction of future contributions or an expected partial refund of amounts paid into the plan.

The annual expense recognised in the profit and loss account under "staff costs", with respect to defined-benefit plans includes the current service cost (the rights vested by each employee during the period in return for service rendered), the net interest linked to the effect of discounting the net defined-benefit liability (asset), the past service cost arising from plan amendments or curtailments, and the effect of any plan settlements.

Remeasurements of the net defined-benefit liability (asset) are recognised in other comprehensive income and are never reclassified to profit or loss. They include actuarial gains and losses, the return on plan assets and any change in the effect of the asset ceiling (excluding amounts included in net interest on the defined-benefit liability or asset).

1.h SHARE-BASED PAYMENTS

Share-based payments transactions are payments based on shares issued by BNP Paribas, settled in the form of equity.

IFRS 2 requires share-based payments granted after 7 November 2002 to be recognised as an expense. The amount recognised is the value of the share-based payment granted to the employee.

The Group grants employees deferred compensation paid in shares issued by BNP Paribas.

Share award plans

The expense related to the stock option plan is recognised over the vesting period, if the benefit is conditional upon the grantee's continued employment.

This charge, recorded under staff costs, is calculated on the basis of the overall plan value, determined at the date of grant by the Board of Directors of BNP Paribas.

The total cost of the plan is determined by multiplying the unit value of free shares awarded by the estimated number of bonus shares acquired at the end of the vesting period taking into account the conditions regarding the grantee's continued employment.

The only assumptions revised during the vesting period, and hence resulting in a remeasurement of the expense, are those relating to the probability that employees will leave the Group and those relating to performance conditions that are not linked to the price value of BNP Paribas shares.

1.i PROVISIONS

Provisions recorded under liabilities in the consolidated balance sheet, other than those relating to financial instruments and employee benefits, mainly relate to restructuring, claims and litigation, fines and penalties, and tax risks.

A provision is recognised when it is probable that an outflow of resources representing economic benefits will be required to settle an obligation arising from a past event, and a reliable estimate can be made of the obligation's amount. The amount of such obligations is discounted in order to determine the provision amount, when the impact of this discounting is material.

1.j CURRENT AND DEFERRED TAXES

The current income tax charge is determined on the basis of the tax laws and tax rates in force in each country in which the Group operates during the period in which the income is generated.

Deferred taxes are recognised when temporary differences arise between the carrying amount of assets and liabilities in the balance sheet and their tax bases.

Deferred tax liabilities are recognised for all taxable temporary differences other than:

- taxable temporary differences on the initial recognition of goodwill;
- taxable temporary differences on investments in companies under exclusive or joint control, insofar as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and unused carryforwards of tax losses only to the extent that it is probable that the entity in question will generate future taxable profits against which these temporary differences and tax losses can be offset.

Deferred tax assets and liabilities are measured using the liability method, using the tax rate which is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been or will have been enacted by the balance sheet date of that period. They are not discounted.

Deferred tax assets and liabilities are offset when they arise within a group tax election under the jurisdiction of a single tax authority, and when there is a legal right to offset.

Current and deferred taxes are recognised as tax income or expenses in the profit and loss account, except for those relating to a transaction or an event directly recognised in shareholders' equity, which are also recognised in shareholders' equity.

When tax credits on revenues from receivables and securities are used to settle corporate income tax payable for the period, the tax credits are recognised on the same line as the income to which they relate. The corresponding tax expense continues to be carried in the profit and loss account under "Corporate income tax.

1.k CASH FLOW STATEMENT

The cash and cash equivalents balance is composed of the net balance of cash accounts and accounts with central banks and post office banks, and the net balance of interbank demand loans and deposits.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations, including cash flows related to investment property, financial assets held to maturity and negotiable debt instruments.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, associates or joint ventures included in the consolidated group, as well as acquisitions and disposals of property, plant and equipment excluding investment property and property held under operating leases.

Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders, cash flows related to bonds and subordinated debt, and debt securities (excluding negotiable debt instruments).

1.l USE OF ESTIMATES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

Preparation of the Group Consolidated Financial Statements requires managers of business lines and functions to make assumptions and estimates that are reflected in the measurement of income and expense in the profit and loss statement and of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. This requires those responsible to exercise their judgement and to make use of information available at the date of the preparation of the Consolidated Financial Statements when making their estimates. The actual future results from operations where managers have made use of estimates may in reality differ significantly from those estimates, mainly according to market conditions, which may have a material effect on the Consolidated Financial Statements.

This applies in particular to the following:

- impairment losses recognised to cover credit risks inherent in making intermediation activities;
- the use of internally-developed models to measure positions in financial instruments that are not quoted on organised markets;
- calculations of the fair value of unquoted financial instruments classified in "Available-for-sale financial assets", "Financial assets at fair value through profit or loss" or "Financial liabilities at fair value through profit or loss", and more generally calculations of the fair value of financial instruments subject to a fair value disclosure requirement within the Consolidated Financial Statements;
- whether a market is active or inactive for the purposes of using a valuation technique;
- impairment losses on variable income financial assets classified as "available for sale";
- impairment tests performed on intangible assets;
- the appropriateness of the designation of certain derivative instruments and the measurement of hedge effectiveness;
- estimates of the residual value of assets leased under finance leases or operating leases, and more generally of assets on which depreciation is charged net of their estimated residual value;
- assumptions and parameters used in the valuation of defined service pension plans;
- the measurement of provisions for contingencies and charges;
- the recognition of development costs in accordance with the definition of fixed assets;
- the recognition of deferred tax assets.

This is also the case for assumptions applied to assess the sensitivity of each type of market risk and the sensitivity of valuations to non-observable parameters.

2. NOTES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016

2.a GENERALITIES

Return on assets is the ratio of net income to total balance sheet assets. It stood at 121 basis points in 2016 compared to 111 basis points in 2015 (pursuant to Article 38-4 of the law of 5 April 1993 as amended by the law of 23 July 2015).

2.b NET INTEREST INCOME

The Group includes in "Interest income" and "Interest expense" all income and expense from financial instruments measured at amortised cost (interest, fees/commissions, transaction costs), and from financial instruments measured at fair value that do not meet the definition of a derivative instrument. These amounts are calculated using the effective interest method. The change in fair value on financial instruments at fair value through profit or loss (excluding accrued interest) is recognised under "Net gains or losses on financial instruments at fair value through profit or loss".

Interest income and expense on derivatives accounted for as fair value hedges are included with the revenues generated by the hedged item. Similarly, interest income and expense arising from derivatives used to hedge transactions designated as at fair value through profit or loss is allocated to the same accounts as the interest from these transactions.

In millions of euros			2016			2015
	Income	Expense	Net	Income	Expense	Net
Customer items	**1,075.5**	**(76.0)**	**999.5**	**1,108.2**	**(72.1)**	**1,036.2**
Deposits, loans and borrowings	365.1	(40.7)	324.4	472.2	(47.1)	425.1
Finance leases	710.4	(35.3)	675.1	636.0	(25.0)	611.1
Interbank items	**127.4**	**(138.1)**	**(10.7)**	**139.9**	**(174.8)**	**(34.9)**
Deposits, loans and borrowings	127.0	(138.0)	(11.0)	139.7	(174.8)	(35.1)
Repurchase agreements	0.5	(0.1)	0.3	0.2	-	0.2
Debt securities issued	**-**	**(4.6)**	**(4.6)**	**-**	**(9.6)**	**(9.6)**
Cash flow hedge instruments	**21.0**	**(11.2)**	**9.9**	**16.0**	**(8.1)**	**7.9**
Interest rate portfolio hedge instruments	**29.5**	**(1.1)**	**28.4**	**25.2**	**-**	**25.2**
Trading book	**0.6**	**(1.9)**	**(1.3)**	**4.1**	**(3.4)**	**0.7**
Fixed-income securities	0.5	-	0.5	3.7	-	3.7
Repurchase agreements	0.1	(0.4)	(0.3)	0.3	(1.4)	(1.1)
Loans/borrowings	0.0	(0.6)	(0.6)	0.1	-	0.1
Debt securities	-	(0.9)	(0.9)	-	(2.0)	(2.0)
Available-for-sale financial assets	**70.6**	**-**	**70.6**	**82.0**	**-**	**82.0**
Held-to-maturity financial assets	**11.5**	**-**	**11.5**	**13.2**	**-**	**13.2**
Total interest income/ (expense)	1,336.3	(232.9)	1,103.4	1,388.6	(268.0)	1,120.6

2.c COMMISSIONS

In millions of euros	2016	2015
Credit operations for customers	16.1	15.4
Means of payment and account keeping	27.4	28.6
Securities, investment funds and UCITS	53.2	60.7
Securities transactions for customers account	34.2	36.9
Insurance activities	22.4	22.5
Other commissions	4.3	1.0
Total commissions for the period	157.5	165.2

2.d NET GAIN/LOSS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain/loss on financial instruments at fair value through profit or loss includes all profit and loss items relating to financial instruments managed in the trading book and financial instruments (including dividends) that the Group has designated as at fair value through profit or loss under the fair value option, other than interest income and expense that are recognised in "Net interest income" (see note 2.b).

In millions of euros	2016	2015
Trading portfolio	**(2.8)**	**(2.6)**
Interest rate instruments	(2.5)	(7.5)
Equity financial instruments	(0.3)	4.9
Repurchase agreements	-	0.0
Instruments assessed at fair value on option	**(1.6)**	**0.9**
Impact of hedge accounting	**0.3**	**0.0**
Fair value hedges	17.4	(19.5)
Hedged items in fair value hedge	(17.1)	19.5
Exchange rate result	**27.1**	**24.5**
Total	23.0	22.8

The line Instruments at fair value on option includes the revaluation of own credit risk for an amount of – EUR -1.9 million (EUR -0.7 million in 2015).

Net gains or losses on the trading book in 2016 and 2015 include a non-material amount related to the ineffective portion of cash flow hedges.

2.e NET GAIN/LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

Net gain/loss on financial assets available for sale includes non-derivative financial assets that are not categorised as loans and receivables, nor as investments held to maturity, nor as financial assets measured at fair value through profit or loss.

In millions of euros	2016	2015
Loans and receivables, fixed-income securities [1]	**(1.4)**	**3.8**
Gains and losses on disposal	(1.4)	3.8
Equities and other variable-income securities	**25.3**	**17.4**
Dividend income	17.4	7.0
Additions and reversals on impairments	(11.6)	10.4
Gains and losses on disposal	19.5	(0.0)
Total	23.9	21.1

[1] *Interest income from fixed-income financial instruments is included in the "net interest income" (see note 2.b) and impairment losses linked to potential issuer default are included in "Cost of risk" (see note 2.h).*

2.f NET INCOME FROM OTHER ACTIVITIES

In millions of euros			2016			2015
	Income	Expense	Net	Income	Expense	Net
Income and expense from investment property	26.9	(13.6)	13.3	24.1	(13.9)	10.2
Income and expense from assets held under operating leases	123.9	(90.7)	33.2	130.0	(93.8)	36.1
Other income and expense	187.6	(189.7)	(2.1)	224.4	(226.9)	(2.6)
Total	338.4	(294.0)	44.4	378.5	(334.7)	43.8

Other income and expenses primarily include purchases and sales of goods and services related to finance-lease transactions.

2.g OTHER OPERATING EXPENSES

In millions of euros	2016	2015
Taxes [1]	(27.7)	(30.4)
External services and other operating expenses	(183.1)	(197.9)
Total other operating expenses	(210.8)	(228.3)

[1] *Taxes notably include the contribution to the Deposit Guarantee Fund and to the Single Resolution Fund which amounts to EUR -11.5 million in 2016 compared with EUR -9.5 million in 2015.*

2.h COST OF RISK

The Cost of risk represents the net amount of impairment losses recognised with respect to credit risks inherent in the Group's operations, plus any impairment losses in the cases of known risks of counterparty default on over-the-counter financial instruments.

Cost of risk for the period

Cost of risk for the period

In millions of euros	2016	2015
Net additions to impairments	(46.0)	(41.2)
Recoveries on loans and receivables previously written off	7.6	7.9
Irrecoverable loans and receivables not covered by impairments	(14.3)	(15.5)
Total cost of risk for the period	(52.6)	(48.8)

Cost of risk for the period by asset-type

In millions of euros	2016	2015
Loans and receivables due from credit institutions	0.1	(0.0)
Loans and receivables due from customers	(56.0)	(47.9)
Financial instruments on trading activities	0.0	0.9
Other assets	1.8	0.1
Off-balance sheet commitments and other items	1.5	(1.8)
Total cost of risk for the period	(52.6)	(48.8)

Credit risk impairment

Impairment variation during the period

In millions of euros	2016	2015
Total impairments at start of period	574.2	632.9
Net additions to impairments	46.0	41.2
Use of impairments	(79.4)	(101.5)
Removal from the scope of consolidation	(6.7)	-
Movements in exchange rates and other items	(7.1)	1.6
Total impairments at end of period	527.0	574.2

Impairment by asset type

In millions of euros	31 December 2016	31 December 2015
Impairment of assets		
Loans and receivables due from credit institutions (note 5.f)	0.3	0.4
Loans and receivables due from customers (note 5.g)	510.9	561.5
Financial instruments on trading activities	-	0.0
Other assets	1.8	0.9
Total impairments against financial assets	513.0	562.8
of which: Specific impairments	*430.6*	*468.5*
Collective impairments	*82.4*	*94.3*
Provisions recognised as liabilities		
Provisions on commitments		
to credit institutions	0.2	0.2
to customers	13.8	11.2
Total provisions recognised as liabilities	14.0	11.4
of which: Specific impairments	*11.9*	*9.5*
Collective impairments	*2.0*	*1.8*
Total impairments and provisions	527.0	574.2

2.i SHARE OF EARNINGS OF ASSOCIATES

This net income includes the contribution of leasing activities of EUR -7.1 million euros (-EUR 3.6 million in 2015) and of Cardif Lux Vie for EUR 15.6 million (EUR 13.3 million in 2015).

2.j NET GAIN ON OTHER FIXED ASSETS

In millions of euros	2016	2015
Net gain or loss on investment disposals	23.4	(5.7)
of which: gain from disposal of S.I. Royal Building SA	*-*	*20.1*
gain from disposal of S.I. Monterey SA	*44.2*	*-*
loss from disposal of SREI Equipment Finance Ltd	*(16.5)*	*(24.2)*
loss from disposal of SADE SA	*(12.0)*	*-*
gain from disposal of Claas Financial Services Inc.	*5.5*	*-*
gain from disposal of Fortis Lease Operativ Lizing Zartkoruen Mukodo Reszvenytarsasag	*4.3*	*-*
Net gain from disposals of property, plant and equipment	0.2	0.3
Total	23.6	(5.4)

2.k CORPORATE INCOME TAX

Reconciliation of the effective tax expense to the theoretical tax expense at standard tax rate in Luxembourg	2016		2015	
	In millions of euros	Tax rate	In millions of euros	Tax rate
Theoretical income tax expense on pre-tax income [1]	**(194.5)**	**29.5%**	**(191.3)**	**29.6%**
Tax exempt interest and dividends	21.9	-3.3%	17.4	-2.7%
Income from tax exempt investments	(1.8)	0.3%	3.5	-0.5%
Impact of using tax losses for which no deferred tax asset was previously recognised	3.9	-0.6%	5.1	-0.8%
Impact of tax rate adjustment on temporary differences [2]	37.6	-5.7%	0.5	-0.1%
Differential effect in tax rates applicable to foreign entities	1.2	-0.2%	(0.6)	0.1%
Other items	5.2	-0.8%	(10.5)	1.6%
Corporate income tax expense	**(126.5)**	**19.2%**	**(176.0)**	**27.2%**
of which: Current tax expense for the year to 31 December	*(164.7)*		*(195.7)*	
Deferred tax income (expense) for the year to 31 December (note 5.k)	*38.2*		*19.8*	

[1] *Adjusted for share of earnings of associates.*

[2] *The tax revenue recorded follows the application of the tax laws published in 2016 in Luxembourg and France, which provide for a reduction in tax rates starting from 2017 and 2020 respectively.*

3. SEGMENT INFORMATION

The Group is an international provider of financial services. It offers products and services and carries out its activities primarily in the Grand Duchy of Luxembourg and within the Greater Region.

BGL BNP Paribas also holds a majority stake in the leasing activities of the BNP Paribas.

The Group's segment information reveals the overall economic contribution from each of the core businesses, with the objective being to attribute all of the items in the balance sheet and profit and loss statement, to each core business for which its Management is wholly responsible.

The Group is composed of four core operational businesses:

- **Retail and Corporate Banking Luxembourg (BDEL)**: this core business covers the network of retail branches, the Direct Bank and the activities of the private banking in Luxembourg, as well as the activities of companies in Luxembourg and in the Greater Region. BDEL offers its financial services to individuals and professionals. The related financing activities are also included in this scope (BNP Paribas Lease Group Luxembourg SA, BGL BNP Paribas Factor SA) the latter was merged with BGL BNP Paribas on 16 December 2016.

- **Leasing International**: this core business includes the leasing activities of the BNP Paribas Group held by the Luxembourg holding company BNP Paribas Leasing Solutions SA. These activities mainly consist of international financial leasing services. BNP Paribas Leasing Solutions uses multiple channels (direct sales, sales via referrals, sales via partnerships and bank networks) to offer businesses and professionals a range of leasing solutions ranging from equipment financing to outsourcing of fleets of vehicles.

- **Corporate and Institutional Banking (CIB)**: this core business offers the Bank's customers, mostly business and institutional customers, products and services related to capital markets and financing in Luxembourg.

- **International Financial Services (IFS)** : this core business includes Wealth Management, which provides wealth management services for international private clients, as well as Cardif Lux Vie SA, which primarily offers protection products, group insurance, pension savings and life insurance in Luxembourg and abroad.

Other activities include the results of the investment of equity, as well as elements related to the support functions that cannot be allocated to a specific business segment. They also include non-recurring items arising from the application of the rules for business combinations. In order to provide consistent and relevant economic information for each of the business lines, the transformation costs related to the cross-business Simple and Efficient programme and the major regulatory programmes, are in this sector. On the other hand, contributions to the Single Resolution Fund are allocated to the Other activities while contributions to the Luxembourg Deposit Guarantee Fund are recorded at the level of the Bank's business lines. Finally, the results of the Société Alsacienne de Développement et d'Expansion (SADE) SA, sold to BNP Paribas SA in the second quarter of 2016, as well as the results related to the sale of SPV Société Immobilière de Monterey are also allocated to the Other activities.

Segment information is prepared in accordance with the accounting principles used for the consolidated financial statements of the BNP Paribas Group and the application of appropriate allocation rules.

Inter-sector transactions are carried out at arm's length.

Allocation rules

Segment reporting applies balance sheet allocation rules, balance sheet squaring mechanisms, a fund transfer pricing system, rebilling of support and operations expenses and overhead allocation.

The balance sheet allocation and squaring methodology aim at reporting information on segments to reflect the business model.

Under the business model, the core businesses do not act as their own treasurer in bearing the interest rate risk and the foreign exchange risk by funding their own assets with their own liabilities, or by having direct access to the financial markets. The interest and currency risks are removed by transferring them from the segments to the central bankers. This is reflected in the fund transfer pricing system, which transfers the interest rate risk and the foreign exchange risk of the different segments to the departments assuming the role of central bankers within the bank, by monitoring the assets and liabilities.

Support departments (support functions, control functions, operations and IT) provide services to the business lines and activities. These services include mainly human resources, information technology, payment services, settlement of security transactions and control (Compliance, General Inspection, Risk), and financial follow-up. The costs and revenues of these departments are charged to the core businesses on the basis of Rebilling Agreements reflecting the economic consumption of the products and services provided. They ensure that the costs and revenues are fully charged based on actual use and at a fixed rate.

The breakdown by business segment of the Group's entities is based on the core business to which they report, with the exception of BGL BNP Paribas SA, which is subject to a specific break-down.

Income by business segment

In millions of euros						2016
	BDEL	Leasing International	Corporate & Institutional Banking	International Financial Services	Others	Total
Revenues	371.5	687.4	37.8	125.3	130.2	1.352.2
Operating expense	(232.5)	(308.3)	(13.8)	(101.3)	(8.9)	(664.7)
Cost of risk	(8.6)	(48.6)	(0.1)	0.9	3.7	(52.6)
Operating income	130.4	330.5	24.0	24.9	125.0	634.8
Non-operating items	0.2	(0.6)	(0.0)	15.6	31.1	46.2
Pre-tax income	130.6	329.9	24.0	40.5	156.1	681.1

In millions of euros						2015
	BDEL	Leasing International	Corporate & Institutional Banking	International Financial Services	Others	Total
Revenues	360.6	688.3	38.0	133.4	153.2	1.373.5
Operating expense	(233.7)	(301.4)	(20.3)	(101.6)	(16.1)	(673.1)
Cost of risk	(7.4)	(46.5)	-	2.2	2.9	(48.8)
Operating income	119.6	340.3	17.7	34.0	140.0	651.7
Non-operating items	0.1	(28.9)	(0.4)	13.3	20.1	4.3
Pre-tax income	119.7	311.4	17.3	47.3	160.1	655.9

Assets and Liabilities by business segment

In millions of euros	31 December 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
BDEL	8,708.5	18,182.7	8,624.1	15,637.7
Leasing International	19,468.3	17,081.3	18,387.7	15,961.8
Corporate & Institutional Banking	401.5	496.7	940.9	1,314.6
International Financial Services	1,493.5	6,044.6	1,105.9	5,447.8
Others	14,908.4	3,175.0	14,156.2	4,852.8
Total Group	44,980.2	44,980.2	43,214.8	43,214.8

In order to allow the comparison of results by business segment between 2016 and 2015, the figures published on 31 December 2015 have been adjusted to take account of the allocation of certain liquidity spreads relating to intra-group transactions from the Other activities to the BDEL and IFS divisions. On the other hand, in line with the evolution of the organization, BG2S (BGL Securities Services) was transferred from IFS to CIB.

4. RISK MANAGEMENT AND CAPITAL ADEQUACY

Continuing the implementation of the Basel Accord, and of its Pillar 3, which prescribes new requirements regarding risk transparency, and in order to remain clear and consistent, the Group has decided to unify as much as possible the information required by IFRS 7 and Basel Pillar 3.

Measures of risk produced by the Group related to its banking activities comply with the methods approved by the CSSF under Pillar 1. The scope of application (called the prudential scope) is detailed in Note 4.i "Capital management and capital adequacy."

The information presented in this note reflects all the risks borne by the Group, directly or indirectly as a subgroup of BNP Paribas and whose measurement and management are conducted in the most homogenous manner possible.

In addition to this Note, the Group also communicates additional information on risks in Pillar 3 the document available on the Bank's website.

4.a RISK FACTORS

This section summarizes the main risk factors to which the Group deems it is currently exposed. They are classified by category: risks related to the macroeconomic and market environment, regulatory risks, risks specific to the Group, its strategy, management and operations.

Risks related to the macroeconomic and market environment

Difficult macroeconomic and market conditions could have an adverse effect on the operating environment for financial institutions and hence on the financial position, results of operations and cost of risk for the Group.

The Group's business lines are sensitive to changes in financial markets and the operating environment. The Group has been and may continue to be confronted with a significant deterioration in market and economic conditions resulting, among other things, from crises affecting sovereign debt, the capital markets, credit or liquidity, regional or global recessions, sharp fluctuations in commodity prices, currency exchange rates or interest rates, volatility in prices of financial derivatives, inflation or deflation, restructurings or defaults, corporate or sovereign debt rating downgrades or adverse political and geopolitical events (such as natural disasters, societal unrest, acts of terrorism and military conflicts). Such disruptions, which can develop suddenly and hence whose effects cannot be fully hedged, could affect the operating environment in which financial institutions operate for short or extended periods and have a material adverse effect on the Group's financial position, results of operations and cost of risk.

In 2017, the macroeconomic environment may be subject to various specific risks, including geopolitical tensions and financial market volatility along with weak growth in the eurozone. Measures taken or that may be taken by central banks or the supervising authorities could have negative effects on the banking industry possibly bringing margin pressure but not necessarily lending volume growth.

Moreover, a resurgence of a sovereign debt crisis in Europe cannot be ruled out. European markets in particular have experienced significant disruptions in recent years as a result of concerns regarding the ability of certain countries in the eurozone to refinance their debt obligations. At several points in recent years these disruptions caused a contraction in the credit markets, increased volatility in the exchange rate of the euro against other major currencies, affected the levels of stock market indices and created uncertainty regarding the economic prospects of certain countries in the European Union as well as the quality of bank loans to sovereign debtors in the European Union.

The Group holds, and in the future may hold, substantial portfolios of sovereign obligations issued by the governments of certain of the countries that have been most significantly affected by the crisis in recent years, and also has, and may in the future have, substantial amounts of loans outstanding to borrowers in these countries. The Group also participates in the interbank financial market and as a result, is indirectly exposed to risks affecting the financial institutions with which it does business.

If economic conditions in Europe and other parts of the world were to deteriorate, in particular due to worries with regard to the economic situation in Europe, (such as a sovereign default or the exit of a country from the eurozone), the resulting political and financial turbulence could have a significant adverse impact on the creditworthiness of customers and financial institution counterparties, on market parameters such as interest rates, currency exchange rates and stock market indices, as well as on the Group's liquidity and ability to raise financing on acceptable terms.

The Group's access to and cost of funding could be adversely affected by a resurgence of financial crises, worsening economic conditions, rating downgrades, increases in credit spreads or other factors.

If such adverse credit market conditions were to reappear in the event of prolonged stagnation, resurgence of the financial crisis, the sovereign debt or a new form of crisis, or for reasons relating to the financial industry in general or to the Group in particular, the effect on the liquidity of the European financial sector in general and the Group in particular could be materially adverse and have a negative impact on the Group's results of operations and financial condition.

Any significant interest rates changes could adversely affect the Group's revenues or profitability.

The amount of net interest income earned by the Group during any given period has a significant impact on the overall revenues and profitability for that period. Interest rates are affected by many factors beyond the Group's control, such as the level of inflation or the monetary policies of states. Changes in market interest rates could affect the interest rates on interest-earning assets differently than the interest rates paid on interest-bearing liabilities. Any adverse change in the yield curve could cause a decline in net interest incomes from lending activities. In addition, maturity mismatches and increases in interest rates on the Group's short-term financing, may adversely affect profitability.

A prolonged period in a low interest rate environment could have inherent systemic risks.

The persistence of a low interest rate environment has favoured and could continue to favour excessive risk-taking by some financial market participants, such as increasing the maturities of funding and of assets held, and also to an increase in leveraged funding. Some of the market participants that have taken, or may take, additional or excessive risks are of systemic importance, and any attempt to unwind their positions in turbulent or pressurised market conditions (resulting in a reduction of liquidity) could have a destabilising effect on the markets and could lead the Group to register operating losses or writedowns.

The financial soundness and conduct of other financial institutions and market participants could have an adverse effect on the Group.

The Group's ability to engage in financing, investment or derivative transactions could be adversely affected by the financial soundness of other financial institutions and market participants. Financial services institutions are interrelated. As a result, defaults or even rumours or questions about one or more financial services institutions or the financial services industry generally, may have led to market-wide liquidity problems and could in the future lead to further losses or defaults.

There can be no assurance that any losses resulting from the risks summarised above will not materially affect the results of the Group.

The Group may incur significant losses on its trading and investment activities due to market fluctuations and volatility.

The Group maintains investment positions in the financial markets. These positions could be adversely affected by extreme volatility in these markets, i.e., the degree to which prices fluctuate over a particular period in a particular market, regardless of market levels. Moreover, volatility trends that prove substantially different from the Group's expectations may lead to losses relating to a broad range of other derivative products that the Group uses.

Lower revenues from brokerage and other commission and fee-based businesses may be generated during market downturns.

Financial and economic conditions affect the number and size of transactions for which the Group provides securities underwriting, financial advisory and other investment banking services. The bank's revenues, which include fees from these services, are directly related to the number and size of the transactions in which it participates and can decrease significantly as a result of economic or financial changes that are unfavourable to its Investment Banking business and clients. In addition, because the fees that the Group charges for managing its clients' portfolios are in many cases based on the value or performance of those portfolios, a market downturn that reduces the value of its clients' portfolios or increases the amount of withdrawals would reduce the revenues it receives from its asset management and Private Bank businesses. Independently of market changes, below-market performance by the Group's mutual funds, may result in BNP Paribas experiencing increased withdrawals and reduced inflows, which would reduce the revenues it receives from its asset management business.

Protracted market declines can reduce liquidity in the markets, making it harder to sell assets and possibly leading to material losses.

In some of the Group's businesses, protracted market movements, particularly asset price volatility, can reduce the level of activity in the market or reduce market liquidity. These developments could lead to material losses if the Group cannot close out received orders in a timely manner. This is particularly true for assets that are intrinsically illiquid. Assets that are not traded on stock exchanges or other public trading markets, such as certain derivative contracts between financial institutions, may have values that the Group calculates using models rather than publicly-quoted prices. Monitoring the deterioration of prices of assets like these is difficult and could lead to significant losses that the Group did not anticipate.

Regulatory Risks

Laws and regulations adopted in response to the global financial crisis may materially impact the Group and the financial and economic environment in which it operates.

In recent periods, laws and regulations have been enacted or proposed in Europe and the United States, in particular, with a view to introducing a number of changes, some permanent, in the financial environment. The impact of the new measures has changed substantially the environment in which the Group and other financial institutions operate. The new measures that have been or may be proposed and adopted include more stringent capital and liquidity requirements, more stringent governance and conduct of business rules, modifications stemming from IFRS 9, more extensive market abuse regulations, measures to improve the transparency and efficiency of financial markets. A large number of these measures have been adopted and are already applicable to the Group.

Regarding the European "Banking Union", the European Union adopted the Single Supervisory Mechanism (SSM) under the supervision of the European Central Bank. ("ECB"). Thus, the BNP Paribas Group, as well as other institutions of significant size in the eurozone, are now under the direct supervision of the European Central Bank. Within the SSM, the ECB is responsible in particular for the annual Supervisory Review and Evaluation Process or "SREP", and stress tests, and in framework of these powers, it can require banks to hold equity capital at a level above the minimum required to address certain risks (requirements referred to as "Pillar 2"), and more generally to impose additional liquidity requirements, and if necessary other monitoring measures. These actions could affect the Group's operating results and financial condition.

Furthermore, the Group must comply with new rules aimed at increasing the transparency and soundness of the financial system. These regulations include:

- the Regulation of 4 July 2012, known as "EMIR", relating to derivatives traded over-the-counter, central counterparties and trade repositories;
- the Regulation of 25 November 2015 relating to the transparency of financial securities transactions and the Directive 2010/73/UE;
- the Regulation of 15 May 2014 relating to markets in financial instruments (MiFID 2);
- the dispositions of IFRS 9;
- French banking law and the so-called "Volcker" rule.

These regulations could lead to uncertainties, a risk of non-compliance and additional costs due to their implementation. In addition, these regulations could also have a negative impact on the profitability of the Group and/or weigh on its operating results.

In conclusion, extensive legislative and regulatory reforms for financial institutions have been adopted in recent years and others are still being developed. It is impossible to accurately predict what additional measures will be adopted or to determine what will be the exact content and, given the complexity and uncertainty of a number of these measures, to determine their impact on the Group.

The Group is subject to extensive and evolving regulatory regimes where it operates.

The Bank faces the risk of changes in legislation or regulation in all of the jurisdictions in which it operates, including, but not limited to, the following:

- monetary, liquidity, interest rate and other policies of central banks and regulatory authorities;
- changes in government or regulatory policy that may significantly influence investor decisions, in particular in the markets in which the Group operates;
- changes in regulatory requirements applicable to the financial industry, such as rules relating to applicable governance, remunerations, capital adequacy and liquidity frameworks and restrictions on activities considered as speculative;
- changes in securities regulations as well as in financial reporting and market abuse regulations;
- changes in tax legislation or the application thereof;
- changes in accounting norms;
- changes in rules and procedures relating to internal controls, risk management and compliance;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership.

These changes, the scope and implications of which are highly unpredictable, could substantially affect the Bank and have an adverse effect on its business, financial condition and results of operations. Some reforms are not specifically aimed at financial institutions, such as measures, relating to the investment fund sector or those promoting technological innovation, could facilitate the entry of new players in the financial services sector or affect the Group's business model, competitiveness and profitability, which could adversely affect its financial condition and operating income.

The Group is exposed to the risk of non-compliance, that is to say, in particular the inability to comply fully with the laws, regulations, codes of conduct, professional standards or guidelines applicable to the financial services industry. Besides the damage to its reputation, the failure of these texts could expose the Group to legal proceedings and fines, public reprimand, enforced suspension of operations, or, in extreme cases, withdrawal by the authorities of operating licences. This risk is exacerbated by the continuously-increasing level of oversight by the competent authorities.

Risks linked to the Group, its strategy, management and operations

The Group may experience difficulties integrating acquired activities and may be unable to realise the benefits expected from these activities.

Integrating acquired businesses is a long and complex process. Successful integration and the realisation of synergies require, among other things, proper coordination of business development and marketing efforts, retention of key members of management, policies for effective recruitment and training as well as the ability to adapt information and computer systems.

Although the Group generally undertakes an in-depth analysis of the activities it plans to acquire, such analyses cannot always be complete or exhaustive. As a result, the Group may increase its exposure to doubtful or troubled assets and incur greater risks as a result of its acquisitions, particularly in cases in which it was unable to conduct comprehensive due diligence prior to acquisition.

Intense competition by banking and non-banking operators could adversely affect the Group’s revenues and profitability.

The Group's main business lines are all faced with intense competition. Competition in the banking industry could intensify as a result of the ongoing consolidation of financial services. If the Group is unable to remain competitive by offering an attractive and profitable range of products and services, it may lose market share in key areas of its business or incur losses on some or all of its activities.

A substantial increase in new provisions or a shortfall in the level of previously recorded provisions could adversely affect the Group's results of operations and financial condition.

In connection with its lending activities, the Group regularly establishes provisions for loan losses, which are recorded in its profit and loss account under "cost of risk". The Group's overall level of provisions is based on its assessment of prior loss experience, the volume and type of lending being conducted, industry standards, past due loans, economic conditions and other factors related to the recoverability of various loans. Although the Group seeks to establish an appropriate level of provisions, its lending businesses may have to increase their provisions for loan losses substantially in the future as a result of deteriorating economic conditions or other causes. Any significant increase in provisions for loan losses or a significant change in the Group's estimate of the risk of loss inherent in its portfolio of non-impaired loans, as well as the occurrence of loan losses in excess of the related provisions, could have a material adverse effect on the Group's results of operations and financial condition.

The Group also establishes provisions for contingencies and charges including in particular provisions for litigations. Any loss arising from a risk that has not already been provisioned or that is greater than the amount of the provision could have a negative impact on the Group's results of operation and financial condition.

The Group's risk management policies, procedures and methods could expose it to unidentified or unanticipated risks, which could lead to material losses.

The Group has devoted significant resources to developing its risk management policies, procedures and assessment methods and intends to continue to do so in the future. Nonetheless, the Group's risk management techniques and strategies may not be fully effective in mitigating its risk exposure in all economic and market environments.

These techniques and strategies might also be ineffective against certain risks, particularly risks that the Group may have failed to identify or anticipate. The Group's ability to assess the creditworthiness of its customers or to estimate the values of its assets may be impaired if, the models and approaches it uses become less predictive of future behaviour, valuations or estimates. Some of the Group's qualitative tools and metrics for managing risk are based on its use of observed historical market behaviour. The Group applies statistical and other tools to these observations to arrive at quantifications of its risk exposures. The process the Group uses to estimate losses inherent in its credit exposure or estimate the value of certain assets requires difficult, and complex judgments, including forecasts of economic conditions and how these economic predictions might impair the ability of its borrowers to repay their loans or impact the value of assets, which may, during periods of market disruption, be incapable of accurate estimation and, in turn, impact the reliability of the process. These tools and metrics may fail to predict future risk exposures, e.g., if the Group does not anticipate or correctly evaluate certain factors in its statistical models, or upon the occurrence of an event deemed extremely unlikely by the tools and metrics. This would limit the Group's ability to manage its risks. The Group's losses could therefore be significantly greater than the historical measures indicate. In addition, the Group's quantified modeling does not take all risks into account. Its more qualitative approach to managing certain risks could prove insufficient, exposing it to material unanticipated losses.

Hedging strategies implemented by the Group may not prevent losses.

The Group may incur losses if one of the instruments or strategies it uses to hedge its exposure to different types of risk to which it is exposed is not effective. Many of its strategies are based on historical trading patterns and correlations. The hedge may, however, be only partial, or the strategies used may not protect against all future risks, or allow for effective risk reduction in all market situations. Unexpected market developments may also diminish the effectiveness of these hedging strategies.

In addition, the manner in which gains and losses resulting from certain ineffective hedging strategies are recorded may increase the volatility of the reported earnings of the Group.

Adjustments made to the carrying value of the securities portfolio and the derivatives of the Group as well as the Group's debt could have an effect on net income and shareholders' equity.

The carrying value of the securities portfolio and derivative instruments of the Group and of certain other assets as well as the Group's balance sheet debt, is adjusted each time financial statements are prepared.

Most adjustments are made on the basis of changes in the fair value of assets or the Group's debt during a financial year, and the changes are recognised either in profit or loss or directly in equity. Changes recognised in the profit and loss account, to the extent that they are not offset by opposite changes in the value of other assets, affect the consolidated results of the Group and accordingly its net income. Any adjustment to the carrying value affects equity and consequently the Group's capital adequacy ratio. The fact that the adjustments to fair value are recorded for a given financial year does not mean that further adjustments will not be needed for subsequent periods.

The expected change in accounting principles related to financial instruments could have an impact on the Group's balance sheet as well as on regulatory capital ratios and additional costs could be incurred.

IFRS 9 "Financial Instruments" issued by the International Accounting Standards Board ("IASB") will replace IAS 39 with effect from 1 January 2018, after its adoption by the European Union. This standard amends and supplements the rules for the classification and measurement of financial instruments. It incorporates a new model for impairment of financial assets based on expected credit losses, whereas the current model is based on the losses incurred, as well as new rules for the accounting treatment of hedging instruments. The new approach based on expected credit losses could result in additional and significant provisions for impairment for the Group, as well as an increased volatility of its regulatory capital ratios, and costs relating to the application of these rules, to which the Group is committed, could have a negative impact on its operating results.

The Group's competitive position could be harmed if its reputation is damaged.

Considering the highly competitive environment in the financial services industry, a reputation for financial strength and integrity is critical to the Group's ability to attract and retain customers. The Group's reputation could be harmed if it fails to adequately promote and market its products and services. The Group's reputation could also be damaged if, as it increases its client base and the scale of its businesses, the Group's comprehensive procedures and controls dealing with conflicts of interest fail, or appear to fail, to address conflicts of interest properly. At the same time, the Group's reputation could be damaged by employee misconduct, fraud or misconduct by market participants to which the Group is exposed, a decline in, a restatement of, or corrections to its financial results, as well as any adverse legal or regulatory action. Such risks to reputation have recently increased as a result of the growing use of social networks within the economic sphere. The loss of business that could result from damage to the Group's reputation could have an adverse effect on its results of operations and financial position.

An interruption in or a breach of the Bank's information systems may result in material losses of client or customer information, damage to the Bank's reputation and lead to financial losses.

As with most other banks, the Group relies heavily on communications and information systems to conduct its business. Any failure or interruption or breach in security of these systems could result in failures or interruptions in the Group's customer relationship management, general ledger, deposit, servicing and/or loan organisation systems. The Group cannot provide assurances that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. An increasing number of companies have over the past few years experienced intrusion attempts or even breaches of their information technology security, some of which have involved sophisticated and highly targeted attacks on their computer networks. The techniques used to obtain unauthorised access, disable or degrade service, steal confidential data or sabotage information systems have become more sophisticated, change frequently and often are not recognised until launched against a target. The Group may therefore be unable to anticipate these techniques or to implement in a timely manner effective and efficient countermeasures. Any failures or interruptions of this nature could have an adverse effect on the Group's reputation, financial condition and results of operations.

Unforeseen external events may disrupt the Bank's operations and cause substantial losses and additional costs.

Unforeseen events such as political and social unrest, severe natural disasters, terrorist attacks, or other states of emergency could lead to an abrupt interruption of the Group's operations and could cause substantial losses that may not necessarily be covered by an insurance policy. Such losses can relate to property, financial assets, trading positions and key employees. Such unforeseen events could also lead to temporary or longer-term business interruption, additional costs (such as relocation of employees affected) and increase the Group's costs (particularly insurance premiums).

4.b RISK MANAGEMENT

4.b.1 Organisation of the risk management function

Risk management is inherent in the banking business and constitutes one of the bases of the Group's organisation. Front-line responsibility for risk management lies with the business lines. As part of its function as a second-level control, the entire process is supervised by the RISK function which is independent of the business lines and functions, and reports directly to the Management Board, and has responsibility for monitoring, measuring and warning with regard to credit, counterparty, market and liquidity risks In addition, the Compliance function monitors non-compliance and reputational risk. RISK is responsible for ensuring that the risks taken by the Group are compatible with its risk policies, as approved by the Central Credit Committee or the Management Board. In addition, major risk policies are presented to the Board of Directors. RISK and Compliance provide permanent and generally ex-ante control that is fundamentally different from the periodic ex-post examinations of the Internal Audit. Risk reports regularly to the Audit Committee and Risk Committee, as specialised committees of the Board of Directors, on its main findings, as well as on the methods used by RISK to measure these risks and consolidate them on a Group-wide basis. Compliance reports to these same Committees on issues relevant to their remit, particularly those concerning compliance and reputation risk.

RISK covers the risks resulting from the Group's business operations, and intervenes on all levels in the risk-taking and monitoring process. Its remit includes: formulating recommendations concerning risk policies; analysing the loan portfolio on a forward-looking basis; approving the most significant individual decisions taken with regard to corporate loans; setting and monitoring trading limits, with regard to counterparties and the market; guaranteeing the quality and effectiveness of monitoring procedures; defining or validating the risk management measures; and producing comprehensive and reliable risk reporting data for the Management Board. It is also responsible for ensuring that all risk implications when new businesses are launched, or new products have been adequately evaluated. These evaluations are performed jointly by the sponsoring business line and all of the functions concerned (Tax Department, Legal Department, Finance, and Compliance). RISK oversees the quality of the validation process: analysis of the inventory of the risks and of the resources deployed to mitigate them, definition of the minimum criteria to be met in order to ensure sound business development. Compliance has identical responsibilities with regard to non-compliance and reputation risks.

4.b.2 Risk categories

The risk categories reported by the Group evolve in keeping with methodological developments and regulatory requirements, and were revised in 2016 to establish a consistent and uniform risk mapping from a cross-business line perspective. In this context, the Group has adopted an analysis of 7 generic risks: Strategic risk, including risk of balance sheet structure, credit and counterparty risk, market risk, asset and liability management risk, operational risks, including IT systems, compliance risk and modeling risk.

All of the risk categories discussed below are managed by the Group. However, given their specific nature, no specific capital requirement is identified for four of them, insofar as the capital of the Group would provide no protection. These are compliance risks, and therefore reputation risk, IT systems security risk, modeling risk and strategic risk.

Strategic risk

Strategic risk is the risk of loss resulting from a bad strategic decision or from a failure to adequately adapt to the regulatory and competitive context. By extension, there will be the break-even point risk, which corresponds to the risk of a loss of income due to a change in the economic environment resulting in a fall in revenue, combined with insufficient cost elasticity. Finally, the risks of balance sheet structure combined with the leverage effect are integrated into the analysis.

Credit and counterparty risk

Credit risk is the risk of incurring losses on the Group's loans and receivables (existing or potential due to commitments given), resulting from a change in the credit quality of its debtors, which can ultimately result in the default of the latter. The probability of default and the expected recovery on the loan or receivable in the event of default are key components of the credit quality assessment.

Credit risk at the portfolio level, implies correlations between the values of the loans that comprise it, and a risk of contagion for related debtors.

Counterparty risk is the translation of credit risk during market operations, investments or payment transactions, during which the Group is exposed to potential counterparty default: it is a bilateral risk on a third party with which one or more market transactions were concluded. The amount of this risk may vary over time in line with changes in market parameters that impact the potential future value of the relevant transactions. In combination with specific credit risk and counterparty risk, there are risks of concentration whether in relation to a sector, a geographic area or an individual counterparty.

Market risk

Market risk is the risk of incurring a loss of value due to adverse trends in market prices or parameters, whether directly observable or not.

Observable market parameters include, but are not limited to, exchange rates, prices of securities and commodities (whether listed or obtained by reference to a similar asset), prices of derivatives, prices of other goods, and other parameters that can be directly inferred from market listings, such as interest rates, credit spreads, volatilities and implied correlations or other similar parameters.

Non-observable parameters include those based on working assumptions such as parameters contained in models or based on statistical or economic analyses that are not corroborated by market information.

The absence of liquidity is a major market risk factor. In times of limited or no liquidity, instruments or goods may not be tradable or may not be tradable at their estimated value; this may arise, for example, due to low transaction volumes, legal restrictions or a strong imbalance between supply and demand for certain assets.

Asset and liability management risk

Asset and liability management risk is the risk of impairment related to differences in interest rates, maturity and in their nature. For banking activities, this risk is analysed outside the trading book and essentially covers what is called the overall interest rate risk.

Operational risk

Operational risk is the risk of incurring a loss due to inadequate or failed internal processes, or due to external events, whether deliberate, accidental or natural occurrences. Management of operational risk is based on an analysis of the cause – event – effect change.

Internal processes giving rise to operational risk may involve employees and/or IT systems. External events include but are not limited to floods, fire, earthquakes and terrorist attacks. Credit or market events such as defaults or value fluctuations do not fall within the scope of operational risk. Operational risk encompasses human resources risks, legal risks, tax risks, information system risks, production risks, risks related to published financial information and the potential financial implications resulting from reputation and compliance risks.

Compliance and reputation risk

Compliance risk is the risk of legal, administrative or disciplinary sanctions, together with the significant financial loss that may result from the failure to comply with all provisions specific to banking and financial activities, whether of a legislative or regulatory nature, or with regard to professional and ethical standards, or instructions given by an executive body, particularly in application of guidelines issued by a supervisory body.

By definition, this risk is a sub-category of operational risk. However, certain implications of compliance risk can involve more than a purely financial loss and can actually damage the establishment's reputation. For this reason, the Group treats compliance risk separately.

Reputation risk is the risk of damaging the trust placed in a corporation by its customers, counterparties, suppliers, employees, shareholders, regulators and any other stakeholder whose trust is an essential condition for the corporation to carry out its day-to-day operations.

Reputation risk is primarily contingent on all of the other risks borne by the Group.

Modeling risk

The modeling risk is the potential risk linked to the inadequacy of the model compared to the reality that it is intended to estimate. The consequences of the modeling risk, insofar as the models are a tool of support to the analysis could generate decision biases.

4.c CREDIT AND COUNTERPARTY RISK

4.c.1 Exposure to credit risk

The accompanying table shows the exposure relative to all financial assets and off balance sheet items with a potential credit or counterparty risk, after taking into account the guarantees and collateral obtained and application of conversion factors.

Relative exposure to credit and counterparty risk, by Basel exposure class, excluding risk associated with securitisation positions and equity risk

In millions of euros	31 December 2016			31 December 2015		
	IRBA	Standardised approach	Total	IRBA	Standardised approach	Total
Central governments and central banks	7,031.4	437.6	7,468.9	6,404.4	386.6	6,791.1
Corporates	6,402.5	5,814.1	12,216.6	6,054.2	6,249.1	12,303.3
Institutions [1]	7,749.9	2,563.2	10,313.1	7,610.2	2,630.3	10,240.5
Retail	6,455.2	10,010.0	16,465.2	6,412.3	10,060.9	16,473.2
Other non credit-obligation assets [2]	72.7	1,061.2	1,133.9	63.2	1,312.3	1,375.5
Total exposure	**27,711.7**	**19,886.1**	**47,597.8**	**26,544.3**	**20,639.2**	**47,183.5**

IRBA: Internal Ratings Based Approach.
The above table shows the entire prudential scope based on the categories defined in Directive 2013/36/EU (CRD 4), transposed in the law of 23 July 2015, and Regulation (EU) No. 575/2013.
[1] The asset class "Institutions" includes credit institutions and investment firms (including those recognised in other countries) which are classified as credit institutions. This class also includes certain exposures to regional and local authorities, public sector agencies and multilateral development banks that are not treated as central government authorities.
[2] Other risky assets include tangible assets and accrued income.

Exposure linked to risks on securitisation positions

In millions of euros	31 December 2016		31 December 2015	
	Securitised exposures originated by BGL BNP Paribas	Securitisation positions held or acquired	Securitised exposures originated by BGL BNP Paribas	Securitisation positions held or acquired
Originator	-	-	-	-
Sponsor	-	-	-	-
Investor	-	105.2	-	148.4
Total exposure	**-**	**105.2**	**-**	**148.4**

The securitisation position is being managed on a run-down basis.

4.c.2 Credit risk management policy

General credit policy and control and provisioning procedures

The lending activities of the Group are governed by the general credit policies defined by the BNP Paribas Group as well as the policies and standards defined by the Board of Directors and by the BGL BNP Paribas Management Board, whose role is to define the strategy and the major risk policies. The aforesaid guidelines include the Group's requirements in terms of ethics, the clear definition of responsibilities, the existence and implementation of procedures and the thorough analysis of risks. This general approach is set out in the form of specific policies tailored to each type of business or counterparty.

Decision-making procedures

A system of discretionary lending limits has been established, for each business line, whereby all lending decisions must be approved by RISK, following the criteria set out and defined in the delegation of power and the credit procedure. Approvals are systematically evidenced in writing, either by means of a signed approval form or in the minutes of formal meetings of the Credit Committee. Discretionary lending limits correspond to aggregate commitments by business group and vary according to internal ratings and the specific nature of the business lines. Loan applications must comply with the provisions of the credit policies, as well as, in all cases, with the applicable laws and regulations.

The Central Credit Committee is the highest local credit committee, which is the final decision maker on credit and counterparty risks recorded in the books of the Group.

Monitoring procedures

A comprehensive monitoring and reporting system for credit and counterparty risk applies to the entire Group. The frequent production of monitoring reports provides early warnings of potentially deteriorating situations. Individual files that are selected for monitoring or considered impaired are reviewed quarterly in specific committees.

Impairment procedures

Assets classified as impaired are subject to a periodic contradictory review involving both business lines and RISK, to determine the potential value depreciation to be applied in accordance with applicable accounting rules. The amount of the impairment loss is based on the present value of probable net recoveries, taking into account the possible realisation of collateral held.

In addition, a collective impairment, derived from a statistical calculation, is also calculated on the basis of simulations of losses to maturity on the loan portfolios whose credit quality is considered impaired, without the clients being identified as being in default. The simulations are based on the parameters of the internal rating system.

Internal Rating procedures

Following the formal approval of the panel of regulators in March 2008, for materially important entities the Group uses an advanced internal ratings-based approach (IRBA) to credit risk, to calculate its regulatory capital requirements. Thus each transaction and each counterparty is allocated "credit risk" parameters in line with the requirements of banking supervisors with regards to capital adequacy.

The risk parameters consist of the probability of counterparty default to one-year horizon (PD, Probability of Default), of the rate of loss in the case of a default (LGD Loss Given Default) and of the exposed value at risk (EAD, Exposure at Default).

For counterparties subject to an individual rating, there are 12 counterparty rating levels: ten levels for clients who are not in default with credit assessments ranging from "excellent" to "very concerning"; two levels for clients classified as in default, as per the definition of the banking regulations. This internal scale also includes an approximate correspondence with the scales used by major rating agencies. This correspondence is based on the one-year default probability for each rating. Given the specificities of each of the methodologies for assessing credit risk, our internal risk assessment does not necessarily converge with that of the rating agencies.

The internal ratings must be reviewed on an annual basis and the probabilities of default are based mainly on statistical models.

Various quantitative and other methods are used to check rating consistency and the rating system's robustness. Also, adaptive approaches are used for loans to private customers and very small businesses ("Retail" population according to Basel 3), a large proportion of which are rated using statistical analyses of groups of risks with the same characteristics. RISK has overall responsibility for the system's general quality in assessing the probability of default, which is fulfilled by either defining the system directly, validating it or verifying its performance.

Loss given default (LGD) is determined using statistical models. The loss given default reflects the loss that the Group would suffer in the event of the counterparty's default at a time of economic crisis, at the end of the recovery process. Estimations of the scope of an LGD are calibrated under the assumption of an economic downturn, (a downturn LGD) in compliance with the regulatory provisions.

For each transaction, loss given default is measured while considering the collateral and other security received.

The Group uses internal models for determining the off-balance sheet exposure risk, based on the analysis of data or products at constant behaviour, or applies, primarily for off-balance sheet elements, a Credit Conversion Factor (CCF), when this is allowed by the regulations (i.e. excluding high risk transactions for which the conversion factor is 100%). This parameter is assigned automatically to open positions, depending on the transaction type.

Each of the three credit risk parameters is backtested and, as far as the information available allows, they are compared to external references – "benchmarked" – in order to check the system's performance for each of the Group's business segments. Backtesting consists of comparing estimated and actual results for each parameter. Benchmarking consists of comparing the parameters estimated internally with those of external organisations.

For backtesting ratings, the default rate of populations in each rating category, or each group of risks with similar characteristics for retail banking operations, is compared with the actual default rate observed on a year by year basis. An analysis by rating method is carried out to identify any areas where the model might be underperforming. The stability of the rating and its population is also verified.

Backtesting of loss given default is based mainly on analysing recovery flows on exposures in default. The recovery rate determined in this way is then compared with the initially forecasted rate.

The conversion factor is also subject to annual backtesting, by comparing observed credit utilisation with the amounts estimated by the models.

The result of these efforts is presented annually to the bodies responsible for overseeing the rating system of the Group. These results and the ensuing discussions help to set priorities in terms of developing methodology and deploying tools.

Internal estimates of risk parameters are used in the Group's day-to-day management in line with Basel II recommendations. As such, apart from calculating capital requirements, they are used notably to determine the level of authority an individual would have when taking credit decisions, to determine collective impairment and for internal and external reports to monitor risk.

4.c.3 Credit risk diversification

Diversification by counterparty

Diversification is a key component of the Group's policy and is assessed by taking account of all exposure to a single business group. Diversification of the portfolio by counterparty is monitored on a regular basis. The risk concentration ratio ensures that the total amount of risks incurred on a counterparty exceeds neither 10% of the Group's net consolidated shareholders' equity, nor its recurring beneficiary capacity.

At the request of BGL BNP Paribas, the CSSF has confirmed the total exemption of the risks taken on the BNP Paribas Group as part of the calculation of the major risk limits, in accordance with Directive 2013/36/EU (CRD 4), transposed in the law of 23 July 2015, and Regulation (EU) No. 575/2013.

Industry diversification

The distribution of the risks by business sector is carefully and regularly monitored.

Breakdown of credit risk by industry - corporate asset class

In millions of euros	31 December 2016		31 December 2015	
	Exposure	%	Exposure	%
Agriculture, food, tobacco	1,138.5	9%	988.1	8%
Insurance	99.6	1%	120.4	1%
Automotive	78.3	1%	69.0	1%
Household goods	68.2	1%	67.8	1%
Chemicals excluding pharmaceuticals	99.1	1%	59.3	0%
Building & public works	449.2	4%	877.4	7%
Retail trade	561.3	5%	543.2	4%
Energy excluding electricity	17.6	0%	13.2	0%
Equipment excluding IT electronic	545.4	4%	490.0	4%
Finance	1,003.3	8%	1,482.0	12%
Hotels, tourism and leisure	193.5	2%	158.0	1%
Real estate	2,024.8	17%	2,386.1	19%
Information technologies	207.8	2%	144.7	1%
Media and cultural services	138.7	1%	90.5	1%
Minerals & materials	279.1	2%	276.1	2%
Wholesale trade	812.9	7%	710.8	6%
Healthcare & pharmaceuticals	254.2	2%	231.0	2%
Business services	1,592.3	13%	1,699.4	14%
Services to individuals and public authorities	253.6	2%	207.4	2%
Communication services	213.3	2%	167.3	1%
Sovereign & public administrations	6.4	0%	1.5	0%
Heritage structures	911.5	7%	535.3	4%
Transportation & storage	920.0	8%	680.8	6%
Utilities (electricity, gas, water)	333.8	3%	281.9	2%
Others	14.1	0%	22.3	0%
Total exposure	12,216.6	100%	12,303.3	100%

Geographical diversification

"Country" risk is defined as the sum of all exposures to debtors registered or operating in the country in question. It is not the same as sovereign risk, which covers exposure to States, public institutions and their various offshoots; it reflects the Group's exposure to a given economic, political and judicial environment, which is taken into consideration when assessing counterparty quality.

The geographic breakdown below is based on the country where the counterparty conducts its principal business activities, without taking into account the location of its head office. Accordingly, a Luxembourgish company's exposure arising from a subsidiary or branch located in the United Kingdom is classified in the United Kingdom.

Geographical breakdown of credit risk

In millions of euros	31 December 2016					
	Central govern-ments and central banks	Corporates	Institutions	Retail	Total	%
Europe	7,407.4	11,761.1	10,253.9	15,777.9	45,200.3	97%
Germany	710.0	1,639.8	58.7	2,074.6	4,483.1	10%
Belgium	412.0	959.0	3,462.0	502.4	5,335.4	11%
France	645.1	2,784.1	5,769.3	3,184.0	12,382.5	27%
Italy	371.7	603.5	398.2	1,600.2	2,973.5	6%
Luxembourg	3,346.0	3,764.5	189.3	5,563.7	12,863.5	28%
United Kingdom	0.6	1,138.3	51.9	1,608.3	2,799.0	6%
Other European countries	1,922.0	872.0	324.6	1,244.7	4,363.3	9%
North America	39.8	77.9	0.2	3.7	121.6	0%
Asia Pacific	4.9	7.5	2.1	3.2	17.7	0%
Rest of the World	16.8	370.1	56.8	680.4	1,124.2	2%
Total	7,468.9	12,216.6	10,313.1	16,465.2	46,463.9	100%

In millions of euros	31 December 2015					
	Central govern-ments and central banks	Corporates	Institutions	Retail	Total	%
Europe	6,465.2	11,409.8	10,119.5	15,334.4	43,329.0	95%
Germany	578.6	1,399.9	182.0	1,811.6	3,972.2	9%
Belgium	641.9	873.4	1,850.5	277.3	3,643.1	8%
France	698.2	2,950.0	6,485.3	2,774.5	12,907.9	28%
Italy	349.8	416.6	804.2	1,329.2	2,899.8	6%
Luxembourg	2,575.7	3,865.7	297.6	6,305.6	13,044.5	28%
United Kingdom	0.3	1,033.4	112.1	1,741.3	2,887.1	6%
Other European countries	1,620.7	870.8	387.9	1,095.0	3,974.3	9%
North America	213.1	65.3	24.1	0.0	302.6	1%
Asia Pacific	90.6	580.3	39.9	490.1	1,200.9	3%
Rest of the World	22.1	247.9	57.0	648.6	975.6	2%
TOTAL	6,791.1	12,303.3	10,240.5	16,473.2	45,808.0	100%

The Group strives to avoid excessive concentrations of risk in countries in which the political and economic infrastructures are recognised as weak.

4.c.4 Measure of the quality of the portfolio exposed to credit risk

Model applicable to counterparties such as Central governments and central banks, Companies and Institutions

For each of the regulated portfolios, the determination of risk parameters according to the advanced internal risk approach follows a methodology which has been approved and validated by the RISK teams, which relies primarily on the analysis of the historical data of the Group. This methodology is applied by using statistical tools in the decision-making process, in order to ensure consistent application.

For determining counterparty ratings, the opinion of an expert complements the assessments derived from the statistical models, under the applicable rating policies. The counterparty ratings are validated by the competent credit committees.

The method for measuring risk parameters is based on a set of common principles, and particularly the "two pairs of eyes" principle, which requires at least two people, one of whom has no commercial involvement, to give their opinion on each counterparty rating in each transaction global recovery rate (GRR).

The definition of default is applied uniformly, and in compliance with the regulatory requirements.

Retail banking operations

For all activities related to the retail clientele, that are characterized by a high degree of granularity, small unit volumes and a standard risk profile, the Group applies an approach by "uniform risk classes". This approach notably adheres to the following constraints:

- the use of discriminating and understandable models;
- the quantification of risk indicators on the basis of historical observations covering a minimum of five years, and in-depth and representative sampling;
- the documentation and auditability of the models.

By using these methodologies for preparing and monitoring risk parameters on a monthly basis, retail banking customers can be assigned a rating, based on the most recent information, in terms of risk of default and in terms of loss in the event of default. The estimation of exposure to default, derived from the CCF, or from internal models, is a function of the type of transaction.

4.c.5 Credit risk mitigation techniques

Techniques to reduce Credit Risk are used in accordance with regulations of Basel III Advanced IRB approach. Their effectiveness is particularly evaluated under the conditions of an economic slowdown. They are divided into two broad categories: personal guarantees, on the one hand, and real guarantees, on the other.

A personal guarantee is a commitment taken by a third party to take the place of the primary debtor in the case of the latter being unable to meet their commitments. By extension, credit insurance and credit derivatives (buying protection) fall into this category.

Real guarantees set up in favour of the Group guarantee that the financial obligations of a debtor will be met on the due date.

Personal and real guarantees, subject to their eligibility, are accounted for by decreasing the scope of the "loss given default" (LGD) applicable to those transactions, for operations involving the bank intermediation portfolio

The guarantors are subject to a risk analysis of the same nature as primary debtors and are assigned risk parameters according to similar methodologies and processes.

In order to qualify, the guarantees must meet the following conditions:

- their value must not be strongly correlated to the risk of the debtor;
- the collateral must be documented;
- the Group must be able to assess the value of assets pledged under conditions of economic slowdown;
- the Group must have obtained reasonable comfort on the possible appropriation and realisation of the asset.

A guarantee may only be eligible to improve the risk parameters of a transaction if the guarantor is rated higher than the counterparty in question, and the guarantor is subject to the same analysis as the primary debtor.

In accordance with the general policy rating, personal and real guarantees are accounted for at their economic value and are only accepted as a principal source of repayment by exception: for example the repayment capacity of the borrower must be assessed on the basis of his operating cash flows.

The economic value of the assets underlying the guarantee is evaluated in an objective and verifiable manner, such as: market value, value as per an expert, book value. It represents the value of assets at the valuation date and not at the date of default, as this is assessed at a later date.

4.c.6 Counterparty risk

The Group is exposed to counterparty risk on its capital market transactions. The Group attenuates this counterparty risk through the widespread use of standard close-out netting and collateral agreements.

Netting agreements

Netting is a technique used by the Group to mitigate counterparty risks on derivatives transactions. The Group primarily uses close-out netting, which enables it to close out all positions at current market value in the event of default by the counterparty; all amounts due to and from the counterparty are then netted, to arrive at the net amount payable to the counterparty or receivable from the latter. This net amount ("close-out netting") may be secured by collateral in the form of a pledge of cash, securities or deposits.

The Group also uses bilateral payment flow netting to mitigate counterparty risk on foreign currency payments. Bilateral payment flow netting consists of replacing payment streams in a given currency by the relative balance due to or from each party, representing a single net sum in each currency to be settled on a given day between the Group and the counterparty.

The transactions are executed according to the terms of bilateral or multilateral master agreements that comply with the general provisions of national or international master agreements. The main employed bilateral agreement models are those of the International Swaps and Derivatives Association (ISDA).

Measurement of exposure

Exposure at default (EAD) for counterparty risk related to derivatives is determined on the basis of a market price evaluation method (Directive 2013/36/EU (CRD 4), transposed in the law of 23 July 2015, and Regulation (EU) No. 575/2013). The exposure at default related to repurchase agreements follows the standard approach.

Credit adjustments on financial instruments traded over-the-counter (OTC)

The valuation of financial instruments traded over-the-counter by BGL BNP Paribas in the framework of its market activities includes credit adjustments. A Credit Value Adjustment (or CVA) is an adjustment to the value of the portfolio of transactions to take account of counterparty risk. It reflects the expected loss in fair value of the existing exposure to a counterparty due to the probability of default of the counterparty, of the downgrading of credit quality and of estimated recovery rates.

4.d MARKET RISK

4.d.1 Market risk related to financial instruments

Definitions

Market Risk is the risk of incurring a loss of value due to adverse trends in market prices or parameters, whether directly observable or not. The parameters are defined as follows:

- Interest rate risk is the risk that a financial instrument's value will fluctuate due to changes in market interest rates;
- Foreign exchange risk is the risk that a financial instrument's value will fluctuate due to changes in foreign exchange rates;

- Equity risk arises from changes in the market prices of equities. It results not only from changes affecting the prices and volatility of equity themselves, but also price changes of equity indices;
- Commodities risk arises from changes in the market prices and volatilities of commodities and/or commodity indices;
- Credit spread risk arises from a change to the credit quality of an issuer, and is reflected in changes in the cost of purchasing protection on that issuer;
- Options give rise to an intrinsic volatility and correlation risk, the parameters of which can be determined from the observable prices of options traded in an active market.

Governance

The Capital Markets Risk Committee (CMRC) is the main committee governing the risks related to Capital Markets. It is responsible for coherently addressing the issues related to market and counterparty risks. The CMRC sets the aggregated market limits and outlines the risk approval procedures. It also reviews loss statements and hypothetical losses estimated on the basis of stress tests. The committee meets quarterly.

Limit setting and tracking

The current framework for the definition and management of the limits validated by CMRC is delegated to three levels, which are in order of delegation, the CMRC, followed by the Head of the business line and then the Head of markets.

Limits may be changed either temporarily or permanently, authorised in accordance with the delegation level of the limit in question and the applicable procedure.

RISK's responsibility in terms of market risk management is to define, measure and analyse sensitivities and risk factors, and to measure and control Value at Risk (VaR), which is the global indicator of potential losses RISK ensures that all business activity complies with the limits approved by the various committees. In this respect, it also approves new activities and major transactions, and further reviews and approves position valuation models.

RISK presents its risk analysis work in the form of summary reports, which are given to the members of the Management Committee in charge of the relevant activity, as well as to the CRO (Chief Risk Officer) of the Group.

The Group uses an integrated system called MRX (Market Risk eXplorer) to follow the trading positions on a daily basis and to manage VaR calculations. MRX not only tracks VaR, but also detailed positions and sensitivity to market parameters based on various simultaneous criteria (currency, product, counterparty, etc.) MRX is also configured to include market limits, reserves and stress tests.

Control processes

The main involvement areas of RISK are transaction accounting and the calculation of reserves. The procedures for the controls are discussed below.

Transaction accounting controls

Operations (Middle/Back-Office) is responsible for this control. However, RISK counter-checks the process for more complex transactions. Verification of the constituent parts of these operations is carried out by RISK before they are saved in the Front-Office systems. RISK also carries out second-level value checks.

Reserve calculations

RISK defines and calculates "reserves". These correspond to fair value accounting adjustments. Depending on the case, reserves can be considered either as the price for closing a position or as a premium for risk that cannot be diversified or hedged. Reserves mainly cover liquidity risk and bid/offer spreads.

Measurement of market risk

Market risk is measured using three types of indicators (sensitivities, VaR and stress tests), which aim to capture all risks.

The Group calculates its capital requirements for market risk under the standardised approach. In daily management, the Group's internal model is used for measuring and monitoring risk.

Analysis of sensitivities to market parameters

Market Risk is first analysed by systematically measuring portfolio sensitivity to various market parameters. The information obtained in this way is used to set tolerance ranges for maturities and option strike prices. The results of these sensitivity analyses are compiled at various aggregate position levels and compared with the limits.

Measurement under normal market conditions: VaR

VaR is calculated using the Group's internal model. It estimates the potential loss on a trading portfolio under normal market conditions over one trading day, based on changes in the market over the previous 260 days, with a confidence level of 99%. The internal model has been approved by the banking supervisory authorities and it takes into account all of the usual risk factors (interest rates, credit spreads, exchange rates, equity prices, commodity prices and associated volatilities), as well as the correlation between these factors in order to include the effects of diversification. It also takes the specific credit risk into account.

The algorithms, methodologies and sets of indicators are reviewed and improved on a regular basis in order to take growing market complexity and product sophistication into account.

Measurements under extreme market conditions

In order to optimise the qualitative analysis of the risks and their predictability during periods of intense crisis, the Group has also developed stress tests. These stress tests serve to identify and estimate potential credit risk in several scenarios, as well as their potential impact on the Group's equity. The assumptions, content and conclusion of the analyses are updated each quarter and sent to the Management Board and to the Risk Committee.

To monitor the market risk in case of extreme variations in the market, the program of the stress scenarios takes into account the contribution of the main risk factors to the variation of the result that occurs in each envisaged scenario, whether historical or hypothetical. If the results of the discussion area exceed the values that represent an initial alarm signal, they prompt the Management committee to undertake measures.

RISK constantly assesses the relevance of its internal calculation model by means of various techniques, including a regular comparison, over a long period, between the daily losses recorded in the market activities and the VaR (1 day). From a theoretical point of view, the choice of a 99% confidence interval means that the daily losses in excess of the VaR are expected two or three times per year.

4.d.2 Market risk related to banking activities

The market risk related to banking activities encompasses the interest and foreign exchange risks relative to banking intermediation activities, on the one hand, and the risk of loss of equity holdings on the other hand. Only the equity and foreign exchange risks give rise to a weighted assets calculation under Pillar 1. The interest rate risk falls under Pillar 2.

The market risk is calculated using the standard method.

Interest rate and foreign exchange risks related to banking intermediation activities and investments mainly concern Retail and Commercial Banking, the savings management transactions of Wealth Management in Luxembourg, as well as equity reinvestment activities. They also result from the transactions by specialised financing subsidiaries and transactions by the CIB financing business lines. These risks are managed on the local level by ALM Treasury, which is part of the ALM Treasury business line at the BNP Paribas Group level.

ALM Treasury has functional authority over the ALM Treasury teams in each subsidiary. Strategic decisions are made during committee meetings (Asset and Liability Committee - ALCO), that oversees the activities of ALM Treasury. These committees have been set up at Group, division and operating entity levels. For BGL BNP Paribas, this function is provided by its ALCO committee.

Equity risk

As part of the regulations implemented within the Basel III context, non-consolidated equity interests not deducted from equity, acquired after the end of 2007, are weighted on the basis of a simple weighting method. Significant holdings in financial positions, included in the basis of the larger regulatory capital tranche, defined as part of the Common Equity Tier 1, benefit from a flat-rate weighting of 250%. Exposures in non-consolidated equity interests purchased before the end of 2007 are weighted using the standard approach, on the basis of a temporary provision for exposures in the form of equities (equity grandfathering clause).

Exposure to equity risk [1)]

In millions of euros	31 December 2016	31 December 2015
Standardised approach (grandfathering)	**23.2**	**51.5**
Standardised approach on significantly owned entities of the financial sector	**237.5**	**295.5**
Simple risk weight method	**323.8**	**276.3**
Listed equities	0.7	0.9
Other equity exposures	323.0	275.4
Total	584.6	623.3

[1)] The term "equity" should be understood in a broad sense, including both investment funds and capital not yet paid on this type of instrument.

Foreign exchange risk

Foreign exchange risk and hedging of earnings generated in foreign currencies

The Group's exposure to operational foreign exchange risks stems from the net earnings in currencies other than the euro. The policy of the Group, as with the BNP Paribas Group, is to systematically hedge the variability of its net earnings due to currency movements.

Foreign exchange risk and hedging of net investments in foreign operations

The Group's currency position on investments in foreign operations arises mainly on equity interests denominated in foreign currencies. When such a case arises, and when the currency concerned allows it, the Group's policy is to obtain financing in the investment currency in order to protect this investment against exchange risks. Such borrowings are documented as hedges of net investments in foreign operations.

Interest rate risk (Pillar 2)

Organisation of the BGL BNP Paribas interest rate risk management

The interest rate risk on commercial transactions of the Retail and Commercial Banking Group, as well as Wealth Management Luxembourg in the domestic Luxemburg markets and abroad, of the specialised financing subsidiaries and financing subsidiaries of the CIB division are managed centrally by the Group's ALM – Treasury. In its management of interest rate risk, ALM - Treasury views these client intermediation activities together with equity and investment activities.

Transactions initiated by each of the Group's business lines are transferred to ALM-Treasury via analytical internal allocation means or lending/borrowing transactions. ALM-Treasury are in charge of managing the interest rate risks associated with these transactions.

The main management decisions regarding rates positions arising from banking intermediation activities are taken during meetings of the ALCO committee of BGL BNP Paribas.

Measurement of interest rate risk

Interest rate positions in the banking book are measured in terms of interest rate gaps, with embedded behavioural options translated into delta equivalents. Maturities of outstanding assets are determined based on the contractual terms of the transactions. For the Retail and Commercial Banking Group products as well as for Wealth Management Luxembourg, behavioural models are based on historical data and econometric studies. They notably relate to current accounts in credit, as well as certain savings accounts. Theoretical maturities of equity capital are determined according to internal assumptions.

Interest rate risk indicators such as interest rate gaps as well as the sensitivity of clientele intermediation portfolios and reinvestment of equity capital relative to the changes applied to the interest rate curves, are regularly presented to the ALCO Luxembourg, and are therefore used as the basis for management decisions, taking into account the nature of the risks involved.

Hedging of interest rate and foreign exchange risks

Hedging initiated by BGL BNP Paribas mainly consist of interest rate or currency hedges; they notably involve swaps, options and forward foreign exchange transactions.

Depending on the hedging objective, derivative financial instruments are used as fair value hedges or cash flow hedges. Each hedging relationship is formally documented at inception. The documentation describes the hedging strategy, identifies the hedged item and the hedging instrument, and the nature of the hedged risk. Over and above these hedges recognised under IFRS, BGL BNP Paribas is undertaking an economic hedge policy, notably for the exchange risk, and then for the hedging of structured issues.

Interest rate risk in the banking book

The strategy for managing global interest rate risk is based on closely monitoring the sensitivity of BGL BNP Paribas' earnings to changes in interest rates. In this way, it can determine how to achieve an optimum level of offset between different risks. This procedure requires an extremely accurate assessment of the risks incurred, in order to determine the most appropriate hedging strategy, after considering the effects of netting.

Structural foreign exchange risk

Currency hedges are contracted by the ALM-Treasury in relation to net foreign currency investments. A hedging relationship may also be set up to hedge the foreign exchange risk on the net foreign currency assets of consolidated subsidiaries. Hedging is utilised by BNP Paribas Leasing Solutions to cover its equity position in subsidiaries using a foreign currency.

Hedging of financial instruments recognised in the balance sheet (fair value hedges)

Fair-value hedges of interest rate risk relate either to identified fixed-rate assets or liabilities (Micro Fair Value Hedge), or to portfolios of fixed-rate assets or liabilities (Carved-out Macro Fair Value Hedge). Derivatives are contracted to reduce the exposure of the fair value of these instruments to changes in interest rates.

The identified hedges of assets or liabilities primarily, via Micro Fait Value Hedge consist of available-for-sale securities. Carved-out Macro Fair Value Hedges were used to cover financial liabilities, namely customer demand deposits.

To identify the hedged amount, the residual balance of the hedged item is split into maturity bands and a separate amount is designated for each band. The maturity split is determined based on historical observations of customer behaviour.

Demand deposits, which do not bear interest at contractual rights, are qualified as fixed rate medium-term financial liabilities. Consequently, the value of the liabilities is sensitive to changes in interest rates. Estimates of future cash flows are essentially based on historical analysis.

For each hedging relationship, expected hedge effectiveness is measured by ensuring that, for each maturity band, the fair value of the hedged items is greater than the fair value of the designated hedging instruments.

Actual effectiveness is assessed on an ex-post basis by ensuring that the monthly change in the fair value of its items since the start of the month does not indicate any over-hedging.

During fiscal 2016 and 2015, no hedge (established in accordance with IFRS) was disqualified.

Usage of the fair value option through profit or loss

The usage of the fair value option through profit or loss according to the IFRS standards, applied to portfolios of designated financial assets or liabilities, makes it possible to play on the economic netting (in value variation) between them and their economic hedge derivatives, at the level of the Group's consolidated income statement.

The European Medium Term Notes (EMTN) issued by BGL BNP Paribas are, to a large extent, qualified and traded at their value through profit or loss. As such, their fair value changes are recognised at the same time and in the same manner as those of their economic hedge derivatives, thereby limiting the volatility of the latter through profit or loss.

Cash flow hedge

In terms of interest rate risk, the Group uses derivative instruments to hedge fluctuations in income and expenses arising on floating-rate assets and liabilities, that are designated individually (Micro Cash Flow Hedge approach) or collectively (Macro Cash Flow Hedge approach). Using derivative instruments, the Group hedges all or parts of the exposure to interest-rate risk resulting from these floating-rate instruments.

The following table concerns the scope of the Group's medium- and long-term transactions and shows the amount (split by forecast date of realisation) of variable-rate outstandings whose cash flows are the object of a Cash Flow Hedge.

In millions of euros	31 December 2016				31 December 2015			
	Under 1 year	From 1 to 5 years	More than 5 years	Total	Under 1 year	From 1 to 5 years	More than 5 years	Total
Variable-rate outstandings whose cash flows are hedged	1,365.0	1,746.0	300.0	3,411.0	1,350.0	2,2437.7	715.0	4,308.7

During fiscal 2016, no cash flow hedge relationships (established in accordance with IFRS) were disqualified. Under ALM-Treasury management, two types of hedging swap known as a "macro cash flow hedge" were unwound in 2015 without the disappearance of the hedged items (which consisted of loans).

4.e SOVEREIGN RISK

Sovereign risk is the risk of a State defaulting on its debt, that is to say a temporary or prolonged interruption of debt servicing (interest and/or principal).

The Group holds sovereign bonds as part of its liquidity management process. This is based on holding securities eligible as collateral for refinancing by central banks, and includes a high proportion of debt securities with a high rating, issued by governments representing a low level of risk. Moreover, as part of assets and liability management and structural interest-rate risk management policy, the Group also holds a portfolio of assets that includes sovereign debt instruments, with interest rate characteristics that contribute to its hedging strategies.

Banking and trading books sovereign exposures by geographical breakdown

In millions of euros	31 December 2016	31 December 2015
Banking book [1]		
Eurozone		
Austria	700.0	550.0
Belgium	350.0	560.0
France	308.0	358.0
Italy	240.0	241.8
Lithuania	10.0	10.0
Luxembourg	183.0	183.0
The Netherlands	525.0	525.0
Portugal	235.0	235.0
Total eurozone	2,551.0	2,662.8
Other countries of the European Economic Area		
The Czech Republic	60.0	60.0
Total other EEE	60.0	60.0
Total banking book	2,611.0	2,722.8

[1] *Nominal value.*

4.f LIQUIDITY AND REFINANCING RISK

Liquidity and refinancing risk is defined as the risk of the Group being unable to fulfil current or future foreseen or unforeseen cash or collateral requirements without affecting routine transactions or its financial position.

The Group's liquidity and refinancing risk is managed through a global "liquidity policy" approved by the Bank's Board of directors. This policy is based on management principles designed to apply both in normal conditions and in the event of a liquidity crisis. The Group's liquidity position is assessed on the basis of internal indicators and regulatory ratios.

4.f.1 Liquidity risk policy

Policy objectives

The objectives of the Group's liquidity policy are: to secure a balanced financing mix to support the Group's development strategy; to ensure that the Group is always in a position to discharge its obligations to its customers; to comply with the standards set by the local banking supervisors (including standards set under Basel III); and to cope with any liquidity crises.

Roles and responsibilities in liquidity risk management

The Bank's Board of Directors is responsible for the targeted strategy and for the liquidity risk management policy of the Group as developed by the Executive Committee. Under the supervision of the Board of Directors, it is responsible for deciding on risk management policies and for ensuring adequate governance structures in order to adequately monitor the Group's liquidity risk.

The ALCO committee in BGL BNP Paribas is the Group's Management committee, directed by the Management Board to decide on all ALM and Treasury matters, within the framework of limits and rules as approved by ALM-Treasury on the BNP Paribas Group level, and by Group Risk Management.

In the case of a liquidity crisis, a Liquidity Crisis Committee (LCC) meets under the responsibility of the Executive Committee, several of whose members are involved in the LCC. The Liquidity Crisis Committee decides what action to take in times of crisis, and these decisions are then shared with the various units concerned.

4.f.2 LIQUIDITY RISK MANAGEMENT AND SUPERVISION

In its daily management, the steering of the liquidity is based on a complete range of standards and internal indicators.

An overnight target is set for each BNP Paribas Group Treasury unit, limiting the amount raised by the Group on interbank overnight markets. This applies to the major currencies in which the Group operates.

Liquidity management is based on both 1-month and 3-month stress tests (both internal and regulatory/LCR models), as well as medium- and long-term analyses. These include the analysis of available medium and long term liabilities in order to finance assets having in the same category. At a one-year horizon, the ratio of liabilities over assets is based on the liquidity schedules of the balance sheet and off-balance sheet items, contractual as well as conventional, under assumptions concerning client behaviour or under a certain number of conventions. Moreover, stress tests of liquidity crises are carried out on a regular basis, taking into account general market factors or ones that are specific to the Group and that are likely to weaken its liquidity situation. In this context, the ability to access sufficient funding to deal with unforeseen developments in liquidity needs, is regularly estimated.

Risk mitigation techniques

Within the normal course of liquidity management or in the event of a liquidity crisis, the most liquid assets constitute a financing reserve that will allow for an adjustment of the Group's treasury position by the sale of financial instruments on the repo market or by pledging them as collateral to a Central Bank. BGL BNP Paribas has a strong liquidity contingency plan ("Liquidity Contingency Plan") which is included in its liquidity policy. This plan details including possible actions available to the Liquidity Crisis Committee in the event of a liquidity crisis.

In a situation of a protracted crisis, the Group may need to gradually reduce the size of its balance sheet by definitively disposing of its assets. Finally, the diversification of funding sources, in terms of structures, investors and collateralised or non-collateralised financing, contributes to the reduction of liquidity risk.

Debt securities

The total amount of the Group's medium and long term outstanding bonds stood at EUR 0.59 billion at the end of 2016 compared to a stock of EUR 0.74 billion at the end of 2015. The Group also continued to fund itself through its Commercial Paper programmes. The total volume of this paper was EUR 0.73 billion at the end of 2016, compared to EUR 0.98 billion at 31 December 2015.

Netting and intra-group limits

In 2011, the Bank entered into global compensation agreements with BNP Paribas Fortis SA and BNP Paribas SA (and their respective branches within the European Union) in order to reduce its exposure to these entities both with regard to balance sheet exposures as well as off-balance sheet exposures.

In addition, under these netting agreements, the Bank ended its exposure limits to the BNP Paribas Group.

4.g OPERATIONAL RISK AND INTERNAL CONTROL

4.g.1 Internal control

The internal control system

The Group's internal control system is based on rules, action principles and control processes, implemented by the Management and all employees.

The fundamental rules

The Group's Internal Control is based on the following rules:

- Controlling risks and attaining the stated strategic objectives are first and foremost the responsibility of the Operational staff.

Indeed, each Operational staff member, on his own level, has a duty to efficiently verify the activities placed under his responsibility. The "Operational Staff" includes, in general terms, all employees of the business lines and functions, irrespective of their responsibilities or hierarchical level. This control duty is also an essential aspect of the responsibilities carried out by the Management.

The permanent Control system must therefore be strongly integrated into the operational organisation of the business lines and functions. It includes at least a control, by the Operational staff member, of the operations, transactions and activities for which he is responsible, and a control by the hierarchy as part of its managerial responsibility.

- Internal Control is everyone's affair, irrespective of one's level or responsibilities.

As such, each employee is responsible for controlling the activities placed under his responsibility, but also has the duty to raise the alarm in the event of any malfunction or deficiency of which he may learn.

- Internal Control is exhaustive.

It applies to all kind of risks and to all Group business lines and functions, without exception and with the same degree of requirement. It extends to the outsourcing of services or other essential or important operational tasks, under the conditions allowed by the regulations, and to the companies for which the Group provides the operational management, even if they do not enter into the full or proportional integration perimeter.

- Risk control is based on a strict segregation of tasks.

This segregation applies to the various phases of a transaction, from initiation and execution, to recording, settlement and control. It also leads to the set-up of specialised control functions, as well as a clear distinction between permanent Control and periodic Control.

- The risk control is proportional with the intensity of the risks; it can require a "second look".

The risks having to be controlled may require multiple, cumulative or successive controls, the scope and number of which are proportional with their intensity. If necessary, they include one or more controls carried out by one or more independent permanent Control functions (RISK, Compliance, Legal and Finance are included in this second control group).

A control performed by an independent permanent Control function, whether integrated into the operational entities or separate from them, may take the shape of a "second look" at operations, transactions and activities, meaning a joint assessment before the aforesaid activities, in terms of risk-taking of any kind. This "second look" may come at any point throughout a chain of controls carried out by the operational staff.

The business lines and permanent Control functions must determine provisions for resolving differences of opinion that could arise between them as part of this "second look". The normally applicable principle is an "escalation" of the differences of opinion, i.e. forwarding them to a higher level in the organisation (ultimately to the Management), so that they can be resolved or arbitrated. In certain cases, the possibility of a blocking opinion from the independent permanent Control function can be used.

- Internal Control is traceable.

Internal Control relies on written procedures and audit trails. In this regard, controls, results, exploitation and information reported by business lines and functions in Luxembourg to higher governance levels within the Group (Management Board, Board of Directors and its committees) and to the BNP Paribas Group (Divisions and Central functions, General Management, Board of Directors and its committees) must be traceable.

Action principles

Risk control requires the implementation of the following action principles:

- identification of the risks;
- their assessment and measurement;
- the effective implementation of controls in proportion with the risks to be covered;
- their steering: calculated risk-taking or risk reduction;
- their reporting;
- the monitoring of risks, in the form of follow-ups and verifications, consolidations and summaries.

The contribution of the permanent Control functions to risk control is based on the independence of their judgments and actions.

The internal Control organisation

Internal Control consists of Permanent Control and Periodic Control, which are separate and independent of one another, while still being complementary, and is based on several levels of control and several actors.

Permanent Control

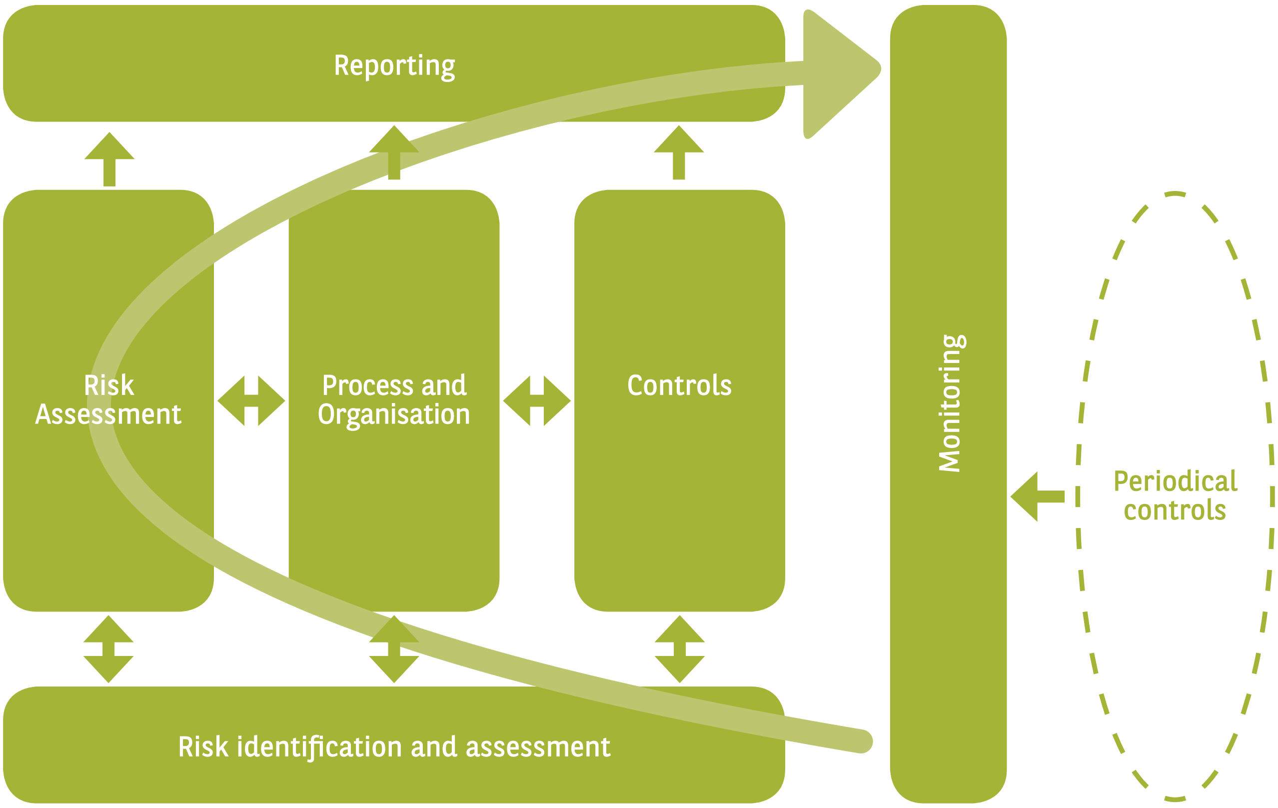
It is an overall system that makes continuous usage of risk management actions and follow-up of the realisation of strategic actions. It is based on control policies, procedures, processes and plans.

To begin with, it is provided by the Operational staff (Control level 1) and secondly by independent permanent Control functions, within the Group (Control level 2).

The consistency of the permanent control systems of the business lines and functions on the organisation's various levels, which together make up the Group permanent Control, is ensured by procedures that determine:

- the organisational level on which the controls are carried out;
- the reports to the organisation's higher levels, and then their consolidation or summary;
- the organisational levels on which the steering is provided.

The following diagram presents the linkage of the various permanent Control elements.



Control level 1

It includes the controls performed within the business lines and functions by the entire operational responsibility line, on the various Management rungs.

The Operational staff - first and foremost the operational hierarchy - have the lead responsibility for controlling their risks, and are the first Permanent Control actors to consider these risks. The controls that they perform are divided between:

- controls carried out directly by the Operational staff on the operations or transactions carried out by them and for which they are responsible on the basis of the operational procedures; these controls can be described as a self-control;
- controls carried out by the Operational staff members dealing with operations on transactions, on the operations or transactions carried out by other Operational staff members (controls provided by the Middle/Back Offices, cross-controls);
- controls carried out by the hierarchy on its various levels, as part of its managerial responsibilities.

Control level 2

The controls carried out by the independent permanent Control functions are divided between:

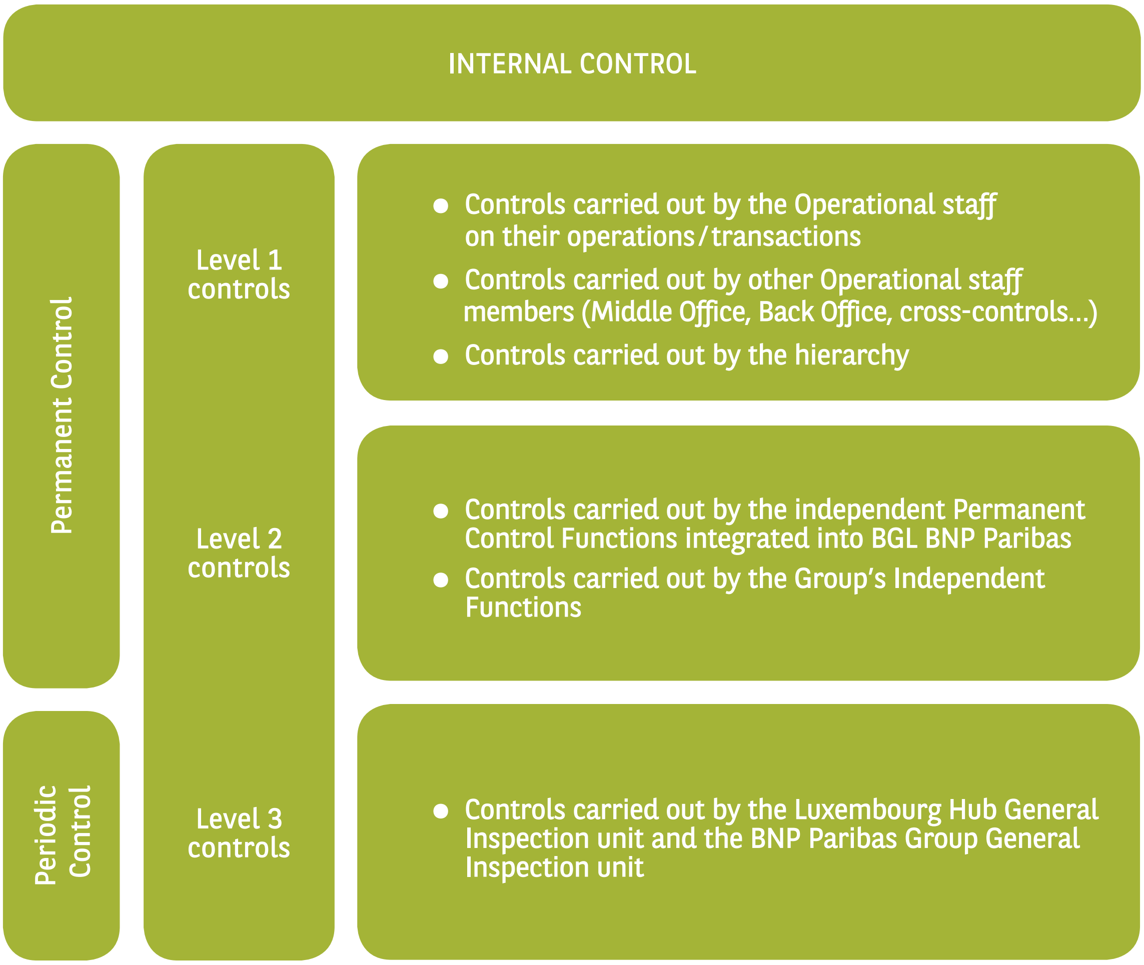
- the controls carried out by the independent permanent Control functions integrated into BGL BNP Paribas;
- the controls carried out by the independent permanent Control functions of the BNP Paribas Group.

In both cases, the second level control can take the shape of a "second look" at operations, transactions and activities. This "second look" allows the function performing it to escalate, if necessary, the decisions to a higher level within the organisation.

Periodic Control

This is the overall process for "ex-post" verification of the Group's proper functioning, notably of the efficiency and quality of the Permanent Control system, by means of investigations that are carried out by the General Inspection unit (Control level 3).

The general Internal Control architecture can be summarized in the following manner:



The internal control governance

The Internal Control system of the Group is based on a separation between Permanent Control and Periodic Control. Exchanges between Permanent Control and Periodic Control occur in a concerted manner within the Internal Control system, such as to optimise information circulation and to coordinate each group's actions.

The general framework of the governance bodies for the management of operational risks, compliance risk and the operational permanent control system were reviewed and validated by the BGL BNP Paribas Management Board. As such, this overall framework is monitored and managed by the specific committees presented below.

The Audit Committee and Risk Committee

The Audit Committee and Risk Committee were created out of the Board of Directors (it meets at least three times per year). They help the Board of Directors with the overall assessment of the quality of the internal control system, the follow-up of the process for preparing financial information and the compliance with laws and regulations. At least once each year, the periodic Control and permanent Control managers, as well as the corporate Auditor, inform these committees of their efforts.

The role of these two Committees was carried out by the Internal Control and Risk Committee up until 18 February 2016.

The Coordination and Internal Control Platform

The Coordination and Internal Control Platform ("P2Ci") meets every two months and it assembles around the Chairman of the BGL BNP Paribas Management Board those responsible for the functions that make up the second and third internal control levels. The purpose of this platform is to ensure good risk control on a day-to-day basis.

The BGL BNP Paribas Permanent Control Committee

Every six months, the Group's permanent Control Committee brings together the members of the Board of Directors, the RISK Group, BNP Paribas Fortis RISK, and the managers of the various business lines and of the main functions of BGL BNP Paribas. The objective is to review the status of the permanent control system as well as current and planned actions which aim to improve it.

4.g.2 Operational risk

Operational risk is the risk of losses, resulting either from the inadequacy, or failure, of internal processes or from external events, whether deliberate, accidental or natural.

Operational risk management is the responsibility of the director of the Oversight of Operational Permanent Control team in Luxembourg (Function RISK-ORC, an entity that is independent of the business lines and functions and reports directly to the Chief Risk Officer of the Bank) as its second-tier control function. It organises the semi-annual Permanent Control Committee meetings. The director of the Oversight of Operational Permanent Control (RISQ-ORC) team in Luxembourg also participates in the Coordination and Internal Control Platform (P2Ci), which meets every two months. The operational risk status is presented during these two meetings.

The objectives of the operational risk management policy are:

- mobilisation of all stakeholders in the Bank, with regard to risk management;
- reducing the probability of occurrence of events involving operational risk which would endanger:
  - The reputation of the Group or of BNP Paribas;
  - The trust shown by our customers, shareholders and employees;
  - The quality of services and products that are marketed;
  - The profitability of our activities;
  - The efficiency of the processes it manages.
- the establishment of a uniform system across the Group, with an adequate level of formalisation and traceability that can give a reasonable assurance of

risk management, to management, to the legislative body and regulators;

- a balance between the risks taken and the cost of the management of operational risks.

Standardising its approach to operational risk management allows various levels of Management to have reasonable assurance of risk management and the Group as a whole to benefit from the opportunities offered by the variety of its activities.

The process of certification, which was put in place through half-yearly reporting of historical incidents to the Permanent Control team is intended to:

- enhance the quality of data;
- ensure its completeness by relying on cross-checks from other sources.

Since 1 January 2008, the method used for calculating the economic and regulatory capital for the operational risk of the Bank has been the Advanced Measurement Approach (AMA), which requires data on internal and external losses, an analysis of various scenarios of potential events and an analysis of environmental factors and internal control. The Group has used the Advanced Measurement Approach (AMA) of BNP Paribas since 1 January 2012.

In this context, the monitoring and analysis of operational losses are carried out under the auspices of the RISK-ORC team in Luxembourg, applying the Group Forecast (Full Operational Risk & Control Analysis System).

The Oversight of Operational Permanent Control (RISK-ORC) team in Luxembourg also assists the permanent controllers in the exercise of operational risk mapping. The objectives of operational risk mapping are to:

- have a first global view of the major areas of risk of an entity, process, large functional area or type of risk;
- evaluate these risks against the wider control system and assess its effectiveness in terms of the risk tolerance of the entities;
- provide a tool for dynamic monitoring of the risk profile of the entities;
- define actions for the prevention and correction of risks and monitor their implementation.

The validation and review of the risk mapping process by executive management is a key part of the exercise: it gives it power and purpose, as it allows it to participate in the definition of risk tolerance and induce action to manage the risk.

The analysis of operational risks resulting from this mapping is done by describing and quantifying potential incidents. Potential incidents represent specific operational risks, characterized by causes, an event and effects that could affect a given process, and thus be related to specific business lines and functions.

The main objective of the methodology relating to potential problems is to identify the most significant potential problems that might arise in the context of the activity under consideration, then to analyse and quantify them, in order to determine the exposure to operational risks of the activity. Knowledge of this exposure is crucial both for the measurement of the risks, especially through the calculation of capital, as well as for their management.

Legal risk

The Group's Legal Department has developed an overarching Internal Control system designed to anticipate, detect, measure and manage legal risks. The system is organised around:

- specific committees, namely:
  - **Legal Affairs Committees**
    - Business Line Legal Affairs Committee (CAJM);
    - Luxembourg Legal Affairs Committee (CAJL);
  - **The Luxembourg Legal Affairs Control Plan**
    - The Luxembourg Legal Affairs Control Plan;
    - The application tickets for completed controls;

- internal procedures and databases providing a framework for (i) managing legal risk, in collaboration with the Compliance Function for all matters that also fall under their responsibility, and (ii) overseeing the activities of the legal staff and operating staff involved in legal areas. A procedures database has been set up and is accessible to all employees;

- dashboards already in existence within Luxembourg Legal Affairs:

  - Litigation and pre-litigation follow-up table prepared by the business lines;

  - For the BNP Paribas Group entities in Luxembourg, tables for reporting major files (major consulting, litigation and pre-litigation files in excess of 500,000 euros and files that include special risks).

Tax risk

In each country where it operates, the Group is bound by specific local tax regulations that apply to the business sectors in which the various Group entities are involved, for example the bank, insurance or financial services.

Within the BNP Paribas Group, the Group Tax Department (AFG) is a global function, responsible for overseeing the consistency of the Group's tax affairs while also sharing responsibility for monitoring global tax risks with the Finance Group (FG). The Group Tax Department performs controls to ensure that tax risks remain on an acceptable level and are consistent with the Group's reputation objectives.

To carry out its mission, the Group Tax Department has established:

- a network of tax correspondents in all of the countries in which the Group operates, in addition to the local tax specialists present in 18 countries;

- a qualitative data reporting system in order to manage tax risks and to assess compliance with local tax laws;

- regular reporting to the General Management on the use made of delegations of authority and compliance with internal standards.

With FG, the Group Tax Department co-chairs the Tax Coordination Committee, which also includes the Compliance function and, when appropriate, the core business lines. The purpose of this Committee is to analyse the elements regarding the Group's main tax issues, and to make appropriate decisions FDG is obliged to consult with Group Tax Department on any tax issues arising on processed transactions.

Lastly, the Group Tax Department has drawn up procedures covering all of the divisions, designed to ensure that tax risks are identified, addressed and controlled. It equally involves the Group's tax risk as much as it does the tax risk of the products or transactions proposed to the clientele by the Group's companies. The resources for attaining the objectives vary greatly, since the procedures involve, amongst other things:

- the application framework of the responsibilities related to tax issues: this is notably the purpose of the Tax Risk Charter that is prepared either in the form of a mission statement sent to the local tax function managers, or in the form of a delegation letter to the division managers for entities that are not covered by tax specialists. This letter is reviewed according to the evolution of the Territory Director's Charter;

- the validation by the Group Tax Departments of any new product with a pronounced tax content, of all new activities and "specific" operations that are structured in France and abroad;

- the provisions for the recourse to an external tax adviser;

- the definition of tax-related operational incidents, and of common declaration and reporting standards;

- the definition and dissemination of rules and standards applicable within the Group and the validation of any master agreement or marketplace agreement and any circular or internal organic text that has a pronounced tax aspect;

- reporting on the tax audits;

- the provisions for controlling the delivery of tax-related opinions and advice.

With regard to Luxembourg, the Luxembourg Fiscal Affairs (AFL) function is in charge of monitoring the application of these principles for Group entities.

AFL reports hierarchically to the Territory Director and to the COO looking after the AFLs, and functionally to the Group Tax Department managers.

Information systems security

Information is a key commodity for the activities of banks. With dematerialization now virtually in place, growing demand for swift online processing of ever more sophisticated transactions and the interconnection between the Group and its customers - via Internet or mobile phone for individuals and multiple channels for companies and institutions - are constantly increasing the need for control of the risk relative to information security.

Incidents reported in different countries involving banking and credit/payment card industries highlight the increased need for vigilance, with this topic having been reiterated by regulations and case law in the area of personal and banking data.

The rules governing information security in the Group are set out in various types of reference documents, in several categories: a general security policy, more specific policies for various issues related to information systems security, the formulation of requirements structured around the ISO 27001 standard and the cybersecurity framework of the NIST, practical guides to security requirements, and operational procedures.

This security framework is drilled down to each individual business line, while taking account of any regulatory requirements and the risk appetite of the business line in question, and while relying on the Group's security policy. Each business line takes the same approach to managing information security (the adopted methodology is the ISO 27005 completed by the French EBIOS methodology), common objective indicators, control plans residual risk assessment and action plans. This approach is part of the Permanent Control and Periodic Control framework set up within each banking activity.

Each of the Group's business lines is exposed to some specific form of information security risk, with some risks common to all businesses. The policy for managing these risks takes into consideration the specific nature of the business as well as Luxembourg's national specificities.

The Group takes a continuous progress approach to information security. Apart from investing heavily in protecting its information system assets and information resources, implemented security level must be supervised and controlled continuously. This provides for swift adjustment of the security efforts to new threats caused by cybercrime. One of the effects of this continuous progress approach is that investments are made to develop the management of authorisations and access control to the most important applications used by the business lines and the performance of intrusion tests on the information systems. The IT system also has a central control system of application logs which allows for continuous monitoring of activities. Our efforts to impose surveillance over the most sensitive systems continue, and new applications are added regularly to the scope of surveillance.

The availability of information systems is vital in order to ensure the continuation of banking operations in a crisis or emergency. While it is impossible to guarantee 100% availability, the Group maintains, improves and regularly verifies the information backup capabilities and the system robustness, in line with its values of operational excellence, in response to tighter regulations and extreme stress scenarios (natural disasters or other catastrophes, health pandemics, etc.); its efforts in this area are consistent with the general business continuity plan.

The Group seeks to minimise information security risk and optimise resources by:

- the introduction of the Group's security policy and governance, with the organisation of security committees between IT and business lines/ functions;
- setting up a procedural framework for each business line/ function, and governing day-to-day production and management of existing software and new applications;
- raising employee awareness of information security imperatives and training key players in the appropriate procedures and behaviours related to information system resources;

- adopting, with regard to the projects of the business lines/ functions as well as the infrastructures and shared systems, a formal approach for managing change, evaluating systems and improving management of security risks through measurable key performance indicators and action plans intended to reach these objectives, that are part of the Group's permanent and periodic Control initiative, which resulted in a tool to support risk management of IT systems;

- monitoring incidents and developing intelligence of technological vulnerabilities and cyber attacks: the local CSIRT (Corporate Security Incident Response Team) is being constantly developped and is in contact with the global CSIRT of the BNP Paribas Group. They have common tools and reporting systems.

- The definition of a multiyear security strategy to prioritise safety action plans based on the levels of exposure to risks of external fraud (cyber crime) or internal fraud. The roll-out of this multi-year security strategy began in 2016.

- The DSI has reorganised its human and governance system on security and continuity by creating an IT Risk Management team that is responsible for steering the level of risk in the area of IT.

4.g.3 Approach and scope

The principles of measurement and management of operational risk are defined by RISK-ORC Group. The operational risk system implemented by the BNP Paribas Group is scaled to be proportionate to the risks being incurred and to ensure that the vast majority of operational risks are covered.

The corresponding capital requirement is calculated for each legal entity in the BNP Paribas Group prudential scope. The amount of risk-weighted assets is calculated by multiplying the capital requirement by 12.5.

The Group has adopted a hybrid approach combining the Advanced Measurement Approach (AMA), the standard approach and the basic approach indicator. For the Group the AMA methodology has been deployed in the most significant entities.

Advanced Measurement Approach (AMA)

The Advanced Measurement Approach (AMA) for calculating capital requires the development of an internal operational risk model, based on internal loss data (potential and historical), external loss data, the analysis of various scenarios, and environmental and internal control factors.

The internal model meets the AMA criteria and includes the following principles:

- The model is based on the annual aggregate loss distribution, meaning that the frequency and severity of operational risk losses are modelled using an actuarial approach and according to distributions calibrated on available data;

- Historical and prospective data are used in the calculation of capital requirements, with a predominance for prospective data, since they can be shaped to reflect extreme risks;

- The model is faithful to its input data, so that the results can be used easily by the different business lines: thus, most of the assumptions are included in the data themselves;

- The capital calculations are made prudently: in this context, there is a thorough review of the input data, and any supplemental data are added if they are needed to cover all relevant risks within the Group.

The AMA uses VaR (Value at Risk), or the maximum potential loss over one year, at a 99.9% confidence level to calculate regulatory capital requirements. Capital requirements are calculated on an aggregate level using data from all Group entities that have adopted the AMA, then allocated to individual legal entities.

Fixed-Parameter Approaches

The Group has chosen to use fixed-parameter approaches (standard or basic) to calculate the capital requirements for entities in the scope of consolidation that are not integrated in the internal model.

Basic indicator approach: The capital requirement is calculated by multiplying the entity's average net banking income (the exposure indicator) over the past three years by an alpha parameter set by the regulator (15% risk weight).

Standardised approach: The capital requirement is calculated by multiplying the entity's average net banking income over the past three years by a beta factor (set by the regulator) according to the entity's business category. Therefore in order to use the banking supervisor's beta parameters, the Group has divided all its business lines into the eight business categories, with each business line assigned to these categories, without exception or overlap.

4.g.4 Risk reduction through insurance policies

Risks incurred by the Group are covered with the dual aim of protecting its balance sheet and profit and loss statement.

This involves an in-depth identification of risks, detailed analyses of operational losses suffered by the Group. The identified risks are then mapped and their impact is quantified.

Insurance policies are purchased from leading insurers in order to remedy any possible significant damages resulting from fraud, misappropriation and theft, operational losses or civil liability of the Group or of the employees for which it may be held responsible. In order to optimise costs and effectively manage its exposure, the BNP Paribas Group self-insures certain risks while maintaining perfect control of its exposure. These are well identified risks whose impact in terms of frequency and cost is known or foreseeable.

In selecting insurers, the Group pays close attention to the credit rating and solvency of its insurance partners.

Finally, detailed information on risks incurred as well as risk assessment visits enable insurers to assess the quality of the prevention efforts within the Group, as well as the security measures put in place and upgraded on a regular basis in light of new standards and regulations.

4.h COMPLIANCE AND REPUTATION RISK

Effective management of compliance risk is a core component of the Group's Internal Control system. It covers adherence to applicable laws, regulations and codes of conduct and standards of good practice, protecting the reputation of the Group, as well as of its managers, employees and customers, the precision and exhaustiveness of the disseminated information, ethical professional behaviour, the prevention of conflicts of interest, protection of the interests of customers and the integrity of the markets, anti-money laundering procedures, combating corruption and terrorist financing, and also respecting international sanctions and financial embargoes, data protection, tax compliance, banking laws and finally the Volcker law.

As required by the regulations, the Compliance function is in charge of implementing and controlling the system, and is one of the key actors in Internal Control. Reporting to the Co-Chairman of the Management Board in charge of Compliance, it has direct and independent access to the Chairman of the Board of Directors and to the Risk Committee.

It is an independent function for controlling the compliance of activities in view of the legislative, regulatory, normative and ethical environment, and if possible internal provisions specific to the establishment. It consequently focuses on compliance risks: these risks can, as relevant, have the financial, operational, legal or ethical impacts on the Group's activities.

Management of compliance and litigation risks is based on a system of permanent controls, built on five axes:

- general and specific procedures;
- dedicated controls;
- deployment of prevention and detection tools (notably for preventing money laundering, ensuring compliance with sanctions and embargoes, and preventing Market Abuses);
- training and awareness-raising actions;
- mapping of operational risk compliance and AML risk classification (Anti Money Laundering).

Protecting its reputation is high on the agenda of the BNP Paribas Group. It requires permanent revisions to the risk management policy in line with developments in the external environment. The BNP Paribas Group has strengthened its control function in the fight against money laundering, terrorist financing, corruption, the disrespect of international sanctions and financial embargos and Market Abuse, to ensure that the interests of clients and professional ethics and data are protected, and that tax compliance, banking laws and finally the Volcker law. are followed.

4.i CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

4.i.1 SCOPE OF APPLICATION

The prudential scope of application as defined in Regulation (EU) No 575/2013 on capital requirements is not the same as the accounting scope of consolidation whose composition concerns the application of IFRS as adopted by the European Union.

Prudential Scope

In accordance with banking regulations, the Group has defined a prudential scope to monitor capital ratios calculated on consolidated data.

As at 31 December 2016, the prudential scope of consolidation is identical to the accounting scope (with the exception of insurance entities that are prudently accounted for by the equity method and integrated in the accounting scope in whenever the percentage of ownership requires it).

As at 31 December 2015, the prudential scope was identical to the accounting scope of consolidation except for the entity SREI Equipment Finance Ltd, which is consolidated using the proportional integration method. At 31 December 2016, this entity had been sold.

The consolidation principles and the scope of consolidation, in accordance with the accounting consolidation method, are described respectively in notes 1.b and 8.b.

4.i.2 Capital ratios

In millions of euros	31 December 2016 Basel 3 (phased in)	31 December 2015 Basel 3 (phased in)
Common Equity Tier 1 (CET1 [1])	5.461,6	5.303,6
Tier 1 equity (Tier 1)	5.461,6	5.304,4
Total equity	5.485,5	5.339,5
Risk-weighted assets	23.663,2	23.801,5
Ratios		
Common Equity Tier 1 (CET1) ratio	23,1%	22,3%
Tier 1 equity (Tier 1) ratio	23,1%	22,3%
Total equity ratio	23,2%	22,4%

[1] The equivalent of CET1 under Basel 2.5 is Core Tier 1.

With phased Common Equity Tier 1 (CET1) & Tier 1 ratios of 23.1% and of total equity of 23.2% at 31 December 2016 (in accordance with CSSF circular – 14/599 issued on 19 December 2014) the Group largely meets the regulatory requirements.

With regard to the conservation buffer, Luxembourg has not adopted a transitional arrangement, so that the "full" Basel 3 ratios have been in application since 2014.

4.i.3 Regulatory capital

The Group is required to comply with the Luxembourg prudential regulation that transposes into Luxembourg law European Directives on "Access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms".

In the various countries where the Group operates, it is subject, in addition to compliance with specific ratios in line with procedures controlled by the relevant supervisory authorities. These include solvency ratios or ratios on risk concentration, liquidity and asset/liability mismatches (transformation).

As of 1 January 2014, Regulation (EU) No. 575/2013, establishing the methods for calculating the solvency ratio, defines it as the ratio between total regulatory capital and the sum of:

- the amount of risk-weighted assets for credit and counterparty risks, calculated using the standardised approach or the Internal Ratings Based Approach (IRBA) depending on the particular entity or the activity of the Group concerned;
- capital requirements for market risk, for credit valuation adjustment risk and for operational risk, multiplied by a factor of 12.5.

Breakdown of regulatory capital

Regulatory capital is divided into three categories (Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital), which consist of equity and debt instruments, to which regulatory adjustments have been made. These items are subject to transitional measures.

Common Equity Tier 1 capital

Common Equity Tier 1 capital is based on:

- the Group's consolidated equity, restated for net income for the current year and applying limits to the eligibility of minority reserves (the Group does not have eligible minority reserves);
- regulatory adjustments including prudential filters (components of consolidated equity that are not recognized as regulatory capital elements) and deductions (not components of book equity but which, according to the regulations, reduce prudential capital).

Additional Tier 1 capital

The Group has no additional capital Tier 1 items.

Tier 2 capital

Tier 2 capital is comprised of subordinated debt with no redemption incentive. A prudential discount is applied to subordinated debt with less than five years of residual maturity.

Transitional arrangements

CRR Regulation allows the gradual introduction of new methods of calculation. The CSSF communication (CSSF Regulation N ° 14-01 of 11 February 2014) includes specific percentages to be applied to prudential filters and deductions, as well as the minimum ratios to be respected. The main items subject to the transitional arrangements are restatements of unrealized gains and losses on available-for-sale securities.

In March 2016, ECB Regulation (EU 2016/445) was published and entered into force on 1 October 2016 thereby introducing amendments to the exercise of national options and discretions within the European Union. Articles 14 and 15 of this Regulation standardise the transitional treatment of unrealised losses and gains of securities classified as AFS. However, standardisation of this treatment remains without prejudice to national laws where the latter set higher percentages than those indicated in Articles 14 and 15 of Regulation 2016/445.

Regulatory Capital

In millions of euros	31 December 2016	
	Basel 3 (phased in)	Amounts subject to pre-regulation treatment or prescribed residual amount *
Total equity excluding minority interests and net income of the financial year (accounting standard)	6,138.9	-
Adjustments linked to the transition to the prudential scope	(0.0)	-
Total equity excluding minority interests and net income of the financial year (prudential scope)	6,138.9	-
of which equity instruments and the related share premium accounts	3,474.6	-
of which: Ordinary shares	713.1	-
Share premiums	2,761.6	-
of which accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	2,664.3	-
Regulatory adjustments	**(677.3)**	**249.9**
Tier 1 equity (Tier 1) [1]	5,461.6	249.9
Subordinated loans	58.3	-
Direct holdings of Tier 2 subordinated loans of more than 10%-owned financial institutions	(34.4)	-
Tier 2 equity (Tier 2)	23.9	-
Total equity (Tier 1 + Tier 2)	5,485.5	249.9

** According to regulation (UE) n° 575/2013.*
1) The Group has no additional capital Tier 1 items.

In millions of euros	31 December 2015	
	Basel 3 (phased in)	Amounts subject to pre-regulation treatment or prescribed residual amount *
Total equity excluding minority interests and net income of the financial year (accounting standard)	5,919.6	-
Adjustments linked to the transition to the prudential scope	(0.0)	-
Total equity excluding minority interests and net income of the financial year (prudential scope)	5,919.6	-
of which equity instruments and the related share premium accounts	3,474.9	-
of which: Ordinary shares	713.1	-
Share premiums	2,761.8	-
of which accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	2,444.6	-
Regulatory adjustments	**(615.9)**	**119.1**
Tier 1 equity (Tier 1) [1]	5,303.6	119.1
Subordinated loans	70.3	-
Direct holdings of Tier 2 subordinated loans of more than 10%-owned financial institutions	(34.4)	-
Tier 2 equity (Tier 2)	35.9	-
Total equity (Tier 1 + Tier 2)	5,339.5	119.1

** According to regulation (UE) n° 575/2013.*
1) The Group has no additional capital Tier 1 items.

Regulatory adjustments – Common Equity Tier 1 (CET1) capital

In millions of euros	31 December 2016		31 December 2015	
	Basel 3 (phased in)	Amounts subject to pre-regulation treatment or prescribed residual amount*	Basel 3 (phased in)	Amounts subject to pre-regulation treatment or prescribed residual amount*
Intangible assets and goodwill	(161.2)	-	(161.0)	-
Net deferred tax assets that rely to losses carried forward	(5.5)	-	(5.6)	-
Fair value reserves related to gains or losses on cash flow hedges	(46.9)	-	(35.9)	-
Negative amounts resulting from the calculation of expected loss amounts (credit exposure by Internal Ratings Based Approach)	(53.2)	-	(31.9)	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(9.5)	-	(9.7)	-
Defined benefit pension funds assets	(12.4)	-	(14.4)	-
Fair value reserves related to unrealised gains or losses with regard to available-for-sale securities	(261.0)	249.9	(217.3)	119.1
Reserves related to the "Luxembourg Deposit Guarantee Fund" (LDGF) not recognized as regulatory capital	(77.2)	-	(83.3)	-
Unrealised gains related to property investment, accounted for in the first application of the IAS guideline	(44.7)	-	(51.4)	-
Expected loss amounts related to shares by simple weighting method	(5.8)	-	(5.3)	-
Regulatory adjustments to Tier 1 equity (CET1)	**(677.3)**	**249.9**	**(615.9)**	**119.1**

** According to regulation (UE) n° 575/2013.*

Amounts below the thresholds for deduction (before risk weighting)

In millions of euros	31 December 2016		31 December 2015	
	Basel 3 (phased in)	Amounts subject to pre-regulation treatment or prescribed residual amount*	Basel 3 (phased in)	Amounts subject to pre-regulation treatment or prescribed residual amount*
Direct and indirect holdings of the equity of financial sector entities in which the institution does not have a significant investment [1]	275.8	-	253.2	-
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities in which the institution has a significant investment [1]	238.3	-	329.1	-
Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in article 38 (3) are met)	98.8	-	122.0	-

** According to regulation (UE) n° 575/2013.*
[1] An investment is considered to be significant if exceeding the 10% threshold net of eligible short positions.

As at 31 December 2016 and 31 December 2015, none of the thresholds that require deduction from capital had been reached.

4.i.4 Capital requirements and risk-weighted assets

Capital requirements and risk-weighted assets under Pillar 1

In millions of euros	31 December 2016		31 December 2015	
	Amount of risk weighted assets	Capital requirements (8%)	Amount of risk weighted assets	Capital requirements (8%)
Credit risk	20.240,0	1.619,2	20.374,1	1.629,9
Credit risk - IRBA	**6.937,7**	**555,0**	**5.787,3**	**463,0**
Central governments and central banks	466.5	37.3	469.2	37.5
Corporates	4,205.7	336.5	2,760.2	220.8
Institutions	932.4	74.6	984.4	78.8
Retail	1,261.4	100.9	1,255.9	100.5
Real estate loans	716.0	57.3	659.7	52.8
Other exposures	545.4	43.6	596.2	47.7
Other non credit-obligation assets	71.7	5.7	317.7	25.4
Credit risk - Standardised approach	**13,302.2**	**1,064.2**	**14,586.8**	**1,166.9**
Central governments and central banks	153.4	12.3	348.2	27.9
Corporates	5,304.6	424.4	5,730.4	458.4
Institutions	1,091.2	87.3	1,071.4	85.7
Retail	5,769.5	461.6	6,186.5	494.9
Real estate loans	220.2	17.6	454.9	36.4
Other exposures	5,549.4	444.0	5,731.6	458.5
Other non credit-obligation assets	983.5	78.7	1,250.3	100.0
Securitisation positions of the banking book	56.0	4.5	66.4	5.3
Securitised exposures - IRBA	56.0	4.5	66.4	5.3
Securitised exposures - Standardised approach	-	-	-	-
Counterparty credit risk	151.0	12.1	127.2	10.2
Counterparty credit risk - IRBA	**146.2**	**11.7**	**125.4**	**10.0**
Other counterparty credit risk	146.2	11.7	125.4	10.0
Corporates	44.0	3.5	33.5	2.7
Institutions	99.8	8.0	90.6	7.2
Retail	2.4	0.2	1.3	0.1
Counterparty credit risk - Standardised approach	**4.8**	**0.4**	**1.8**	**0.1**
Sided credit vlaue adjustment (CVA)	4.7	0.4	1.6	0.1
Other counterparty credit risk	0.2	0.0	0.2	0.0
Corporates	0.2	0.0	-	-
Institutions	-	-	0.2	0.0
Retail	-	-	-	-
Equity risk	1,794.2	143.5	1,812.5	145.0
Simple weighting method	1,177.1	94.2	1,022.2	81.8
Standardised approach	617.1	49.4	790.3	63.2
Market risk	8.7	0.7	1.3	0.1
Standardised approach	8.7	0.7	1.3	0.1
Operational risk	1,413.3	113.1	1,420.1	113.6
Advanced Measurement Approach	1,200.8	96.1	1,130.4	90.4
Standardised approach	186.7	14.9	172.5	13.8
Basic indicator approach	25.7	2.1	117.1	9.4
Total	23,663.2	1,893.1	23,801.5	1,904.1

4.i.5 Capital adequacy

Single Supervisory Mechanism

The Single Supervisory Mechanism (SSM) is the banking supervision system for the eurozone. The SSM is one of the three pillars of the Banking Union, a process initiated in June 2012 by the European Union in response to the financial crisis in the eurozone, together with the Single Resolution Mechanism (SRM) and the Deposit Guarantee Scheme.

The ECB thus became the direct prudential supervisor of BGL BNP Paribas. The ECB draws on the competent National Supervisory Authorities in fulfilling this role.

Capital adequacy

The minimum ratio requirement has been increased, with a gradual implementation until 2019.

As at 31 December 2016, the BGL BNP Paribas Group is required to meet a minimum Common Equity Tier 1 (CET 1) ratio that allows it to cover 4.5% under Pillar 1, 2.5% conservation buffer (a capital reserve to absorb losses in a situation of intense economic stress) and a 0.125% (transitional) O-SII buffer (a capital reserve to prevent or mitigate systemic or macro-prudential non-cyclical risks that might have a negative impact on the real economy), 0% as a countercyclical buffer (capital reserve to be released in the event of economic recession).

The transitional measures concern the O-SII buffer set at 0.5% on 16 November 2015 and confirmed by letter on 25 October 2016. This O-SII cushion is to be taken into account progressively over 4 years. These measures also concern the recognition of the components of capital, mainly restatements of the unrealised gains and losses on available-for-sale securities.

4.i.6 Capital management and planning

The Group manages its solvency ratios prospectively, combining prudential objectives, profitability and growth. The Group maintains a balance sheet structure to enable it to finance the development of its activities in the best conditions, taking into account, in particular, a high quality credit rating.

Changes in ratios are reviewed by the Management Committee on a quarterly basis and at any time when an event or decision is likely to have a significant effect on the ratios at Group level.

Pillar 2 Process

The second Pillar of the Basel Accord, as transposed in CRD IV, provides that the supervisor shall determine whether the policies, strategies, procedures and arrangements implemented by the Group on the one hand, and the capital held on the other hand, are adequate for risk management and risk coverage purposes. This evaluation exercise by the supervisors to determine the adequacy of mechanisms and capital with respect to bank risk levels is designated in the regulations under the acronym SREP (Supervisory Review Evaluation Process).

The SREP conducted by the supervisor has an internal equivalent within institutions in the form of the ICAAP (Internal Capital Adequacy Assessment Process). ICAAP is the annual process by which institutions assess the adequacy of their capital with their internal measurements of the levels of risk generated by their usual activities.

The Group's ICAAP focuses on two key pillars: risk review and capital planning.

The risk review is a comprehensive review of management policies and internal control rules applicable to Pillar 1 exposures as stated in the Basel regulations and Pillar 2 exposures as defined in the classification of risks used by the Group.

Capital planning is based on the most recent actual and estimated financial data available at the time. These data are used to project future capital requirements, in particular by factoring in the Group's goal of maintaining a first-class credit rating to protect its origination capability, its business development targets and anticipated regulatory changes.

Capital planning consists of comparing the capital ratio targets defined by the Group with future projected capital requirements, then testing their robustness in a stressed macroeconomic environment.

Based on CRD 4/CRR, Pillar 1 risks are covered by regulatory capital, calculated on the basis of the methods defined in the current regulation. Pillar 2 risks addressed, are based on qualitative approaches, dedicated monitoring frameworks and, if necessary, quantitative assessments.

The SREP and ICAAP definitions as well as the conditions for their interaction are defined in the "Guidelines on the Application of the Supervisory Review Process under Pillar 2" of 25 January 2006 published by the CEBS (Committee of European Banking Supervisors).

This directive was supplemented on 19 December 2014 by the EBA (the European Banking Association) with "Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)". These new guidelines are a step in the implementation of the Single Supervisory Mechanism (SSM) and offer supervisors a common and detailed methodology that enables them to successfully complete the SREP according to a European standard. The EBA SREP guidelines have been applicable since 1 January 2015, with transitional provisions until 2019.

The 2016 financial adequacy of internal capital demonstrated that the Group is adequately capitalised and has a large surplus of internal capital.

5. NOTES TO THE BALANCE SHEET AT 31 DECEMBER 2016

5.a FINANCIAL ASSETS, FINANCIAL LIABILITIES AND DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities at fair value or model value through profit or loss consist mainly of issues for the Group's own account, made to fulfil customer demand, transactions negotiated for trading, and instruments which accounting regulations do not allow the Group to classify as hedging instruments.

In millions of euros	31 December 2016		31 December 2015	
	Trading book	Portfolio designated at fair value on option	Trading book	Portfolio designated at fair value on option
Securities portfolio	108.3	-	98.3	2.4
Loans and repurchase agreements	27.7	5.5	5.1	5.5
Financial assets at fair value through profit or loss	**135.9**	**5.5**	**103.4**	**7.9**
Borrowing and repurchase agreements	-	-	83.8	-
Debt securities (note 5.i)	-	133.3	-	231.6
Subordinated debt (note 5.i)	-	84.7	-	83.1
Financial liabilities at fair value through profit or loss	**-**	**218.0**	**83.8**	**314.7**

The details of these headings are presented in note 5.d.

Financial assets

The financial assets in the trading portfolio notably consist of securities transactions that the Group carried out on its own behalf, repurchase agreements as well as some derivatives. Assets designated at fair value or model value through profit or loss include assets with embedded derivatives that have not been separated from the host contract.

Financial liabilities

Financial liabilities at fair value or model value through profit or loss consist mainly of originated and structured issues on behalf of the clientele, where the risk exposure is managed in combination with the hedging strategy. These types of issues contain significant embedded derivatives, whose changes in value are cancelled out by changes in the value of economic hedging derivatives.

The redemption value of liabilities at fair value or model value through profit or loss amounted to EUR 209.1 million on 31 December 2016 compared to EUR 304.2 million on 31 December 2015.

Derivatives held for trading

The majority of derivatives held for trading are related to financial assets and liabilities which do not qualify for hedge accounting under IFRS.

Some derivatives held in the trading portfolio relate to transactions initiated by the activities to manage positions. They may result from market-making or arbitrage activities.

The positive or negative fair value of derivative instruments classified in the trading book represents the replacement value of these instruments. This value may fluctuate significantly in response to changes in market parameters (such as interest rates or exchange rates).

In millions of euros	31 December 2016		31 December 2015	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Currency derivatives				
Interest rates derivatives	32.8	18.9	37.0	21.2
Equity derivatives	11.7	11.1	14.1	12.4
Financial derivatives	**92.3**	**73.6**	**82.4**	**61.5**

The table below shows the total notional amount of trading derivatives. The notional amounts of derivatives are merely an indication of the volume of the Group's activities and financial instrument markets, and do not reflect the market risks associated with such instruments.

In millions of euros	31 December 2016	31 December 2015
Currency derivatives	5,155.2	5,220.8
Interest rate derivatives	2,401.0	3,962.1
Equity derivatives	221.3	317.9
Transaction derivatives	**7,777.5**	**9,500.8**

5.b DERIVATIVES USED FOR HEDGING PURPOSES

The table below shows the fair values of derivatives for hedging purposes.

In millions of euros	31 December 2016			31 December 2015		
	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value
Fair value hedges						
Interest rate derivatives	5,105.0	102.5	53.2	3,575.0	87.8	55.3
Cash flow hedges	3,414.7	67.8	4.9	4,308.7	57.1	9.3
Interest rate derivatives	3,414.7	67.8	4.9	4,308.7	57.1	9.3
Derivatives used for hedging purposes	8,519.7	170.3	58.1	7,883.7	144.8	64.6

Derivatives used for hedging purposes are exclusively contracted on over-the-counter markets.

5.c AVAILABLE-FOR-SALE FINANCIAL ASSETS

In millions of euros	31 December 2016			31 December 2015		
	Net	of which impairments	of which changes in value recognised directly to equity	Net	of which impairments	of which changes in value recognised directly to equity
Fixed-income securities	**4,784.0**	**-**	**223.5**	**5,748.7**	**-**	**224.7**
Government Bonds	2,539.6	-	134.7	2,578.4	-	137.9
Other Bonds	2,244.3	-	88.7	3,170.3	-	86.8
Equities and other variable-income securities	**692.0**	**(240.3)**	**94.1**	**682.2**	**(246.4)**	**75.1**
Listed securities	26.8	-	4.6	0.9	-	0.4
Non-listed securities	665.2	(240.3)	89.5	681.3	(246.4)	74.7
Total available-for-sale financial assets	5,476.0	(240.3)	317.6	6,430.8	(246.4)	299.8

Changes in value taken directly to equity are included in equity as follows:

In millions of euros	31 December 2016			31 December 2015		
	Fixed - income securities	Equities and other variable - income securities	Total	Fixed - income securities	Equities and other variable - income securities	Total
Unhedged reevalutation of securities recognised in "available-for-sale financial assets"	**223,5**	**94,1**	**317,6**	**224,7**	**75,1**	**299,8**
Deferred tax linked to these reevaluation	(54,2)	(20,3)	(74,5)	(58,1)	(19,6)	(77,7)
Share of reevaluation of available-for-sale securities owned by associates, net of deferred tax	27,2	5,9	33,1	22,6	(0,6)	22,0
Unamortised reevaluation of available-for-sale securities reclassified as loans and receivables	(17,5)		(17,5)	(28,5)		(28,5)
Other variations	-	(0,0)	(0,0)	-	(0,0)	(0,0)
Changes in value of assets recognised directly to equity under the heading "Available-for-sale financial assets"	179,0	79,7	258,7	160,7	54,8	215,6
Attributable to equity shareholders	179,0	70,7	249,8	160,9	52,6	213,6
Attributable to minority interests	-	8,9	8,9	(0,2)	2,2	2,0

5.d MEASUREMENT OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation process

The Group has retained the fundamental principle that it should have a unique and integrated processing chain for producing and controlling the valuations of financial instruments that are used for the purpose of daily risk management and financial reporting. All these processes are based on a common economic valuation which is a core component of business decisions and risk management strategies.

Economic value is composed of mid-market value and additional valuation adjustments.

Mid-market value is derived from external data or valuation techniques that maximise the use of observable and market-based data. Mid-market value is a theoretical additive value which does not take account of i) the direction of the transaction or its impact on the existing risks in the portfolio, ii) the nature of the counterparties, and iii) the aversion of a market participant to particular risks inherent in the instrument, the market in which it is traded, or the risk management strategy.

Additional valuation adjustments reflect the valuation uncertainties and market risk premiums and credit to reflect the costs that could induce an output operation on the main market. Where valuation techniques are used to calculate the fair value, the assumptions about the cost of financing future expected cash flows are an integral part of the midmarket valuation, particularly through the use of appropriate discount rates. These assumptions reflect the Bank's expectations of what a market participant would hold as actual conditions to refinance the instrument. They take into account, where appropriate, the terms of collateral agreements.

Fair value generally equals the economic value, subject to limited additional adjustments, such as own credit adjustments, which are specifically required by IFRS standards.

The main additional valuation adjustments are presented in the section below.

Additional valuation adjustments

Additional valuation adjustments retained by the Group for determining fair values are as follows:

Bid/offer adjustments: the bid/offer range reflects the additional exit cost for a price taker (potential client). It represents symmetrically the compensation sought by dealers to bear the risk of holding the position or closing it out by accepting another dealer's price.

The Group assumes that the best estimate of an exit price is the bid price, if the Group holds the asset, or offer price, if there is a short position, unless there is evidence that another point in the bid/offer range would provide a more representative exit price.

Value adjustment for counterparty risk (Credit valuation adjustment or CVA): the CVA adjustment applies to valuations and market quotations whereby the credit worthiness of the counterparty is not reflected. It aims to account for the possibility that the counterparty may default and that the Group may not receive the full fair value of the transactions. In determining the cost of exiting or transferring counterparty risk exposures, the relevant market is deemed to be an inter-dealer market. However, the observation of CVA remains judgemental due to:

- the absence or lack of price discovery in the inter-dealer market;
- the influence of the regulatory landscape relating to counterparty risk on the market participants' pricing behaviour; and
- the absence of a dominant business model for managing counterparty risk.

The CVA model is grounded on the same exposures as those used for regulatory purposes. The model attempts to estimate the cost of an optimal risk management strategy based on i) implicit incentives and constraints inherent in the regulations in force and their evolutions, ii) market perception of the probability of default and iii) default parameters used for regulatory purposes.

Own-credit valuation adjustment for debts (OCA) and for derivatives (debit valuation adjustment – DVA): OCA and DVA are adjustments reflecting the effect of credit worthiness of BGL BNP Paribas, on respectively the value of debt securities designated as at fair value through profit and loss and derivatives. Both adjustments are based on the expected future liability profiles of such instruments. The own credit worthiness is inferred from the market-based observation of the relevant bond issuance levels.

Thus, the carrying value of debt securities designated as at fair value though profit or loss fell by EUR 11.2 million as at 31 December 2016, compared with a reduction in value of EUR 13.1 million as at 31 December 2015.

The change in the result is largely correlated to changes in the level of spreads: the average level of senior spread applied at 31 December 2016 was 23 basis points compared to 19 basis points applied at 31 December 2015.

The change in fair value of derivative liabilities in respect of own credit risk instruments is not significant at 31 December 2016.

Adjustment cost of financing (Funding Valuation Adjustment or FVA): this adjustment was implemented at the end of the third quarter 2015 within BGL BNP Paribas. In the context of non- collateralised or imperfectly-collateralised derivatives, this valuation method contains an explicit adjustment to the inter-bank interest rate in the event that the bank had to refinance the instrument on the market.

The change in the fair value cost of financing derivatives was not material at 31 December 2016.

Instrument classes and classification within the fair value hierarchy for assets and liabilities measured at fair value

As explained in the summary of significant accounting policies (note 1.c.8), financial instruments measured at fair value are categorised into a fair value hierarchy consisting of three levels.

The disaggregation of assets and liabilities into risk classes is meant to provide further insight into the nature of the instruments:

- securitised exposures are further broken down by collateral type;
- for derivatives, fair values are broken down by dominant risk factor, namely interest rate, foreign exchange, credit and equity. Derivatives used for hedging purposes are mainly interest rate derivatives.

In millions of euros	31 December 2016				31 December 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS								
Trading book	108.3	27.7	-	135.9	98.3	5.1	-	103.4
Securities portfolio	**108.3**	**-**	**-**	**108.3**	**98.3**	**-**	**-**	**98.3**
Equities and other variable-income securities	108.3	-	-	108.3	98.3	-	-	98.3
Loans and repurchase agreements	**-**	**27.7**	**-**	**27.7**	**-**	**5.1**	**-**	**5.1**
Repurchase agreements	-	27.7	-	27.7	-	5.1	-	5.1
Portfolio designated as at fair value on option	-	5.5	-	5.5	-	7.8	0.1	7.9
Securities portfolio	**-**	**-**	**-**	**-**	**-**	**2.3**	**0.1**	**2.4**
Equities and other variable-income securities	-	-	-	-	-	2.3	0.1	2.4
Loans and repurchase agreements	**-**	**5.5**	**-**	**5.5**	**-**	**5.5**	**-**	**5.5**
Loans	-	5.5	-	5.5	-	5.5	-	5.5
Available-for-sale assets	4,282.7	884.1	309.2	5,476.0	4,299.7	1,807.5	323.6	6,430.8
Government bonds	2,223.2	316.5	-	2,539.6	2,324.7	253.7	-	2,578.4
Other fixed-income securities	2,032.2	212.1	-	2,244.3	1,973.8	1,196.5	-	3,170.3
Equities and other variable-income securities	27.3	355.6	309.2	692.0	1.3	357.3	323.6	682.2
FINANCIAL LIABILITIES								
Trading book	-	0.0	-	0.0	-	83.8	-	83.8
Securities portfolio	**-**	**0.0**	**-**	**0.0**	**-**	**-**	**-**	**-**
Other fixed-income securities	-	0.0	-	0.0	-	-	-	-
Borrowings and repurchase agreements	**-**	**-**	**-**	**-**	**-**	**83.8**	**-**	**83.8**
Repurchase agreements	-	-	-	-	-	83.8	-	83.8
Portfolio designated as at fair value on option	-	218.0	-	218.0	-	314.7	-	314.7
Debt securities	-	133.3	-	133.3	-	231.6	-	231.6
Subordinated debts	-	84.7	-	84.7	-	83.1	-	83.1

In millions of euros	31 December 2016				31 December 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Positive fair value								
Foreign exchange derivatives	-	47.8	-	47.8	-	31.2	-	31.2
Interest rate derivatives	-	32.8	-	32.8	-	37.0	-	37.0
Equity derivatives	-	11.7	-	11.7	0.0	14.1	-	14.1
Positive fair value of derivatives (not used for hedging purposes)	-	92.3	-	92.3	0.0	82.4	-	82.4
Positive fair value of derivatives used for hedging purposes	-	170.3	-	170.3	-	144.8	-	144.8
Negative fair value								
Foreign exchange derivatives	-	43.6	-	43.6	-	27.9	-	27.9
Interest rate derivatives	-	18.9	-	18.9	-	21.2	-	21.2
Equity derivatives	0.0	11.1	-	11.1	0.0	12.3	-	12.4
Negative fair value of derivatives (not used for hedging purposes)	0.0	73.6	-	73.6	0.0	61.4	-	61.5
Negative fair value of derivatives used for hedging purposes	-	58.1	-	58.1	-	64.6	-	64.6

Transfers between levels may occur when an instrument fulfils the criteria defined, which are generally market and product dependent. The main factors influencing transfers are changes in the observation capabilities, passage of time, and events during the transaction lifetime. The timing of recognising transfers is determined at the end of the reporting period.

During 2016, there were no transfers between levels.

Description of main instruments in each level

The following section provides a description of the instruments in each level in the hierarchy. It describes notably instruments classified in Level 3 and the associated valuation methodologies.

For main trading book instruments and derivatives classified in Level 3, further quantitative information is provided about the inputs used to derive fair value.

Level 1

This level encompasses all derivatives and securities that are listed on exchanges or quoted continuously in other active markets.

Level 1 includes notably equity securities and liquid bonds, shortselling of these instruments, derivatives traded on organised markets (for example futures) and shares of funds and UCITS, for which the net asset value is calculated on a daily basis.

Level 2

he Level 2 **stock of securities** is composed of securities which are less liquid than the Level 1 bonds. They are predominantly government bonds, corporate debt securities, Asset Backed Securities and Student Loans, Mortgage Backed Securities, not using a modeling methodology of cash flows, fund shares and short-term securities such as certificates of deposit. They are classified in Level 2 notably when external prices for the same security can be regularly observed from a reasonable number of market makers that are active in this security, but these prices do not represent directly tradable prices. This comprises amongst other, consensus pricing services with a reasonable number of contributors that are active market makers as well as indicative runs from active brokers and/or dealers. Other sources such as primary issuance market, collateral valuation and counterparty collateral valuation matching may also be used where relevant.

Repurchase agreements are classified predominantly in Level 2. The classification is primarily based on the observability and liquidity of the repo market, depending on the underlying collateral.

Debts issued designated as at fair value on option, are classified in the same level as the one that would apply to the embedded derivative taken individually. Own credit spread is an observable input.

Derivatives classified in Level 2 comprise mainly the following instruments:

- vanilla instruments such as interest rate swaps, caps, floors and swaptions, credit default swaps, equity/foreign exchange (FX)/commodities forwards and options;

- structured derivatives such as exotic forex options, mono- and multi-underlying equity/funds derivatives, single curve exotic interest rate derivatives and derivatives based on structured rates.

Derivatives are classified in Level 2 when there is a documented stream of evidence supporting one of the following:

- fair value is predominantly derived from prices or quotations of other Level 1 and Level 2 instruments, through standard market interpolation or stripping techniques whose results are regularly corroborated by real transactions;

- fair value is derived from other standard techniques such as replication or discounted cash flows that are calibrated to observable prices, that bear limited model risk and enable an effective offset of the risks of the instrument through trading Level 1 or Level 2 instruments;

- fair value is derived from more complex or proprietary valuation techniques but is directly evidenced through regular back-testing using external market-based data.

Determining whether an over-the-counter (OTC) derivative is eligible for Level 2 classification involves judgement. Consideration is given to the origin, transparency and reliability of external data used, and the amount of uncertainty associated with the use of models. It follows that the Level 2 classification criteria involve multiple analysis axes within an "observability zone" whose limits are determined by i) a predetermined list of product categories and ii) the underlying and maturity bands. These criteria are regularly reviewed and updated, together with the applicable additional valuation adjustments, so that the classification by level remains consistent with the valuation adjustment policy.

Level 3

Level 3 securities of the trading book, designated as at fair value through profit or loss or classified as available for sale comprise units of funds and unquoted equity shares.

Fair value is determined using a methodology that takes into consideration both the available external indicative prices as well as discounted expected cash flows.

The Discounted Expected Cash flow approach for CDOs takes into consideration both an internal and an external independent set of hypotheses to derive expectations about the underlying cash flow payments

Fund units relate to real estate funds for which the valuation of the underlying investments is not frequent, as well as hedge funds for which the observation of the net asset value is not frequent.

Unlisted private equities are systematically classified as Level 3, with the exception of UCITS with a daily net asset value, presented as unlisted securities in note 5.c, but which are classified in the Level 1 of the fair value hierarchy.

The portfolio of available for sale financial assets classified as Level 3 contains mainly assets controlled by BNP Paribas. The value of most of these securities corresponds to the book value. The value of the stake in BNP Paribas Investment Partners is determined using the discounted cash flow method. This method is based on a multi-year financial plan for the first 5 years, then extrapolated on a growth rate to infinity to determine a final value. The test uses a cost of capital in line with market practices. The other parameters are the coefficient of cost/income and the sustainable growth rate of costs and revenues; these settings are specific to the industry.

Repurchase agreements, mainly long term on corporate bonds: the valuation of these transactions requires internal methodologies given the bespoke nature of the transactions and the lack of activity and price discovery in the long-term repo market.

Debts issued designated as at fair value on option, are classified in the same level as the one that would apply to the embedded derivative taken individually. Own credit spread is an observable input.

Derivatives

Vanilla derivatives are classified in Level 3 when the exposure is beyond the observation zone for rate curves or volatility surfaces, or relates to less liquid markets such as tranches on old credit index series or emerging markets interest rates markets.

Complex derivatives classified in Level 3 predominantly comprise hybrid products (FX/Interest Rates hybrids, Equity hybrids), credit correlation products, prepayment-sensitive products, some options on a basket of stocks, and some interest-rate option instruments.

Table of movements in level 3 financial instruments

For Level 3 financial instruments, the following movements occurred between 1 January and 31 December 2016:

Financial assets

In millions of euros	31 December 2016			31 December 2015		
	Financial instruments at fair value through profit or loss on option	Available-for-sale financial assets	Total	Financial instruments at fair value through profit or loss on option	Available-for-sale financial assets	Total
Start of period	**0.1**	**323.6**	**323.7**	**0.4**	**302.0**	**302.4**
Purchases	-	0.8	0.8	-	0.0	0.0
Sales	-	(23.4)	(23.4)	-	(2.9)	(2.9)
Settlements	(0.1)	0.2	0.1	-	-	-
Transfers from Level 2	-	-	-	-	0.1	0.1
Others	-	6.9	6.9	-	(6.5)	(6.5)
Gains (or losses) recognised in profit or loss	-	(11.7)	(11.7)	(0.3)	(0.5)	(0.8)
Changes in fair value of assets and liabilities recognised directly in equity	-	12.8	12.8	-	31.4	31.4
Items related to exchange rate movements	-	-	-	-	0.4	0.4
Changes in fair value of assets and liabilities recognised in equity	-	12.8	12.8	-	31.0	31.0
End of period	**-**	**309.2**	**309.2**	**0.1**	**323.6**	**323.7**

Transfers have been reflected as if they had taken place at the start of the reporting period.

Level 3 financial instruments may be hedged by other level 1 and/or level 2 instruments, the gains and losses of which are not shown in this table. Consequently, the gains and losses shown in this table are not representative of the gains and losses arising from management of the net risk on all of these instruments.

5.e RECLASSIFICATION OF FINANCIAL INSTRUMENTS INITIALLY ACCOUNTED FOR AS AVAILABLE-FOR-SALE ASSETS

The amendments to IAS 39 and IFRS 7 adopted by the European Union on 15 October 2008 permit the reclassification of instruments initially held for trading or available-for-sale, within the customer loan portfolios or as securities available- for-sale.

The Group has twice reclassified as loans and receivables assets that were initially recorded as available-for-sale assets:

- In 2009, the Group reclassified structured transactions with a net value of EUR 669.7 million;
- In 2011, the Group reclassified Portuguese debt securities with a net value of EUR 299.8 million.

The variation in the carrying value of securities reclassified in 2009 as loans and receivables is due to repayments, partially offset by the amortisation of the reclassification discount.

The variation in the net book value of sovereign debt, reclassified in 2011 as loans and receivables is due to sales of securities and repayments partially offset by the amortisation of the reclassification discount.

The following table summarises the securities reclassified to loans and receivables:

In millions of euros		31 December 2016		31 December 2015	
	Reclassification date	Carrying value	Fair value or model	Carrying value	Fair value or model
Sovereign securities from portfolio of available-for-sale assets		205.7	230.6	197.0	239.3
of which: Portuguese sovereign securities	*30 juin 2011*	*205.7*	*230.6*	*197.0*	*239.3*
Structured transactions and other fixed-income securities from portfolio of available-for-sale assets	*30 juin 2009*	96.4	98.1	137.0	137.5

Without these reclassifications, equity would have been EUR -4.9 million different in 2016, compared to a difference of EUR 11.0 million currently recognised (EUR 5.6 million and EUR 10.2 million respectively for 2015). In 2015 and 2016, the reclassifications had no impact on the Group's net income.

5.f INTERBANK TRANSACTIONS, LOANS AND RECEIVABLES DUE FROM/TO CREDIT INSTITUTIONS

Loans and receivables due from credit institutions

In millions of euros	31 December 2016	31 December 2015
On demand accounts	1,053.9	1,040.9
Loans	7,655.9	6,627.1
Total loans and receivables due from credit institutions before impairment	8,709.8	7,667.9
of which: Doubtful loans	*0.4*	*0.5*
Impairments (note 2.h)	(0.3)	(0.4)
Specific impairments	*(0.3)*	*(0.4)*
Collective impairments	*(0.0)*	*(0.0)*
Total loans and receivables due from credit institutions, net of impairment	8,709.4	7,667.5

Due to credit institutions

In millions of euros	31 December 2016	31 December 2015
On demand accounts	554.0	424.9
Borrowings	9,416.7	10,232.1
Total due to credit institutions	9,970.7	10,657.0

5.g LOANS AND RECEIVABLES DUE FROM/TO CUSTOMERS

Loans and receivables due from customers

In millions of euros	31 December 2016	31 December 2015
Ordinary debitory accounts	979.0	1,008.3
Loans to customers	14,148.7	13,667.2
Finance leases	11,964.0	11,512.8
Total loans granted and receivables due from customers before impairment	27,091.8	26,188.3
of which: Doubtful loans	*883.1*	*993.9*
Impairments (note 2.h)	(510.9)	(561.5)
Specific impairments	(428.5)	(467.2)
Collective impairments	(82.4)	(94.3)
Total loans granted and receivables due from customers, net of impairment	26,580.9	25,626.9

Breakdown of finance leases

In millions of euros	31 December 2016	31 December 2015
Gross investment	14,023.4	13,757.0
Receivable within 1 year	*5,345.2*	*5,067.7*
Receivable after 1 year but within 5 years	*8,190.2*	*8,295.9*
Receivable beyond 5 years	*488.0*	*393.4*
Unearned interest income	(2,059.4)	(2,244.2)
Net investment before impairment	11,964.0	11,512.8
Receivable within 1 year	*4,635.2*	*4,305.9*
Receivable after 1 year but within 5 years	*6,940.4*	*6,899.5*
Receivable beyond 5 years	*388.4*	*307.3*
Impairments	(283.1)	(306.9)
Net investment after impairment	11,680.9	11,205.9

Due to customers

In millions of euros	31 December 2016	31 December 2015
Demand deposits	13,844.8	11,430.9
Term accounts	4,011.5	3,740.6
Savings accounts	5,971.9	5,948.0
Regulated saving accounts	24.6	31.1
Total due to customers	23,852.8	21,150.6

5.h PAST DUE AND DOUBTFUL LOANS AND RESTRUCTURED RECEIVABLES

The tables below present the carrying amounts of financial assets that are past due but not impaired (by order of delinquency), impaired assets and related collateral or other guarantees and finally the carrying value of restructured loans. The amounts shown in these tables are stated before any provision on a portfolio basis.

The reported amount for collateral and other guarantees received is the lower of the value of the guarantee and the value of the secured asset. The sharp rise in assets is due to the integration of leasing in the scope.

Past due but not impaired loans

In millions of euros						31 December 2016
	< 90 days	> 90 days < 180 days	> 180 days < 1 year	> 1 year	Total	Collateral received
Loans and receivables due from credit institutions	0.2	0.0	-	-	0.3	0.3
Loans and receivables due from customers	926.8	24.6	9.0	5.1	965.5	717.5
Total past-due but not impaired loans	**927.1**	**24.6**	**9.0**	**5.1**	**965.8**	**717.8**

In millions of euros						31 December 2015
	< 90 days	> 90 days < 180 days	> 180 days < 1 year	> 1 year	Total	Collateral received
Loans and receivables due from credit institutions	0.8	0.1	0.0	-	0.9	0.9
Loans and receivables due from customers	717.2	21.0	3.9	1.4	743.5	551.5
Total past-due but not impaired loans	**718.1**	**21.1**	**3.9**	**1.4**	**744.4**	**552.4**

Doubtful loans

In millions of euros				31 December 2016
	Gross value	Impair-ment	Net	Collateral received
Loans and receivables due from credit institutions (note 5.f)	0.4	(0.3)	0.0	-
Loans and receivables due from customers (note 5.g)	883.1	(428.5)	454.6	393.2
Doubtful assets	**883.5**	**(428.8)**	**454.6**	**393.2**
Financing commitments given	8.6	(0.2)	8.4	4.3
Guarantee commitments given	10.9	(6.7)	4.2	-
Off-balance sheet doubtful commitments	**19.4**	**(6.9)**	**12.6**	**4.3**
Total	**902.9**	**(435.7)**	**467.2**	**397.5**

In millions of euros	31 December 2015			
	Gross value	Impair-ment	Net	Collateral received
Loans and receivables due from credit institutions (note 5.f)	0.5	(0.4)	0.1	-
Loans and receivables due from customers (note 5.g)	993.9	(467.2)	526.8	476.5
Doubtful assets	**994.4**	**(467.6)**	**526.9**	**476.5**
Financing commitments given	6.0	(0.5)	5.4	3.0
Guarantee commitments given	12.0	(6.9)	5.1	-
Off-balance sheet doubtful commitments	**18.0**	**(7.4)**	**10.6**	**3.0**
Total	**1,012.4**	**(475.0)**	**537.4**	**479.6**

Restructured Receivables

In millions of euros	31 December 2016					
				Of which: Doubtul loans		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
Loans and receivables	**218.4**	**(34.9)**	**183.4**	**110.7**	**(33.6)**	**77.1**
Central governments and central banks	0.2	-	0.2	-	-	-
Corporates	167.2	(29.3)	137.9	76.1	(28.0)	48.1
Institutions	-	-	-	-	-	-
Retail	50.9	(5.6)	45.3	34.5	(5.6)	29.0
Off-balance sheet commitments	**0.1**	**-**	**0.1**	**0.1**	**-**	**0.1**
Total	**218.4**	**(34.9)**	**183.5**	**110.7**	**(33.6)**	**77.2**

In millions of euros	31 December 2015					
				Of which: Doubtul loans		
	Gross amount	Impairment	Net amount	Gross amount	Impairment	Net amount
Loans and receivables	**294.0**	**(40.0)**	**254.0**	**130.8**	**(36.1)**	**94.7**
Central governments and central banks	-	(0.0)	(0.0)	-	-	-
Corporates	228.7	(33.9)	194.8	95.3	(30.2)	65.1
Institutions	0.4	-	0.4	-	-	-
Retail	64.9	(6.1)	58.8	35.6	(5.9)	29.6
Off-balance sheet commitments	**1.4**	**0.0**	**1.5**	**0.1**	**0.0**	**0.1**
Total	**295.4**	**(40.0)**	**255.5**	**131.0**	**(36.1)**	**94.8**

5.i DEBT SECURITIES AND SUBORDINATED DEBTS

This note covers all debt securities and subordinated debts measured at an amortised cost and at fair value through profit or loss.

Debts measured at fair value though profit and loss (note 5.a)

In millions of euros	31 December 2015	Issues	Redemptions	Foreign exchange movements and other movements	31 December 2016
Debt with a maturity of more than 1 year on issue					
Negociable debt securities	223.4	4.1	(99.6)	(2.5)	125.3
Bond issues	8.2	-	-	(0.2)	8.0
Debt securities	**231.6**	**4.1**	**(99.6)**	**(2.7)**	133.3
Redeemable subordinated debt	83.1	-	-	1.6	84.7
Subordinated debt	83.1	-	-	1.6	84.7

In millions of euros	31 December 2014	Issues	Redemptions	Foreign exchange movements and other movements	31 December 2015
Debt with a maturity of more than 1 year on issue					
Negociable debt securities	279.5	8.6	(69.6)	4.9	223.4
Bond issues	63.2	8.4	(63.2)	(0.2)	8.2
Debt securities	**342.7**	**17.1**	**(132.8)**	**4.6**	231.6
Redeemable subordinated debt	114.6	-	(30.0)	(1.5)	83.1
Subordinated debt	114.6	-	(30.0)	(1.5)	83.1

Debts measured at amortised cost

In millions of euros	31 December 2015	Issues	Redemptions	Effect of exchange rate and other movements	31 December 2016
Debt with a maturity of less than 1 year on issue					
Negociable debt securities	981.3	1.595.4	(1.835.5)	(11.8)	729.4
Debt with a maturity of more than 1 year on issue					
Negociable debt securities	440.6	0.2	(61.9)	(0.6)	378.3
Debt securities	**1,421.9**	**1,595.6**	**(1,897.5)**	**(12.3)**	1,107.7

In millions of euros	31 December 2014	Issues	Redemptions	Effect of exchange rate and other movements	31 December 2015
Debt with a maturity of less than 1 year on issue					
Negociable debt securities	944.4	1.765.6	(1.738.6)	10.0	981.3
Debt with a maturity of more than 1 year on issue					
Negociable debt securities	622.5	25.3	(205.6)	(1.6)	440.6
Debt securities	**1,566.8**	**1,791.0**	**(1,944.3)**	**8.5**	1,421.9

5.j HELD-TO-MATURITY FINANCIAL ASSETS

In millions of euros	31 December 2016	31 December 2015
Bonds	**293.8**	**322.7**
Government bonds	173.5	175.2
Other bonds	120.2	147.6
Total held-to-maturity financial assets	293.8	322.7

At 31 December 2016, as at 31 December 2015, no impairment was recognised on held-to-maturity financial assets.

5.k CURRENT AND DEFERRED TAXES

In millions of euros	31 December 2016	31 December 2015
Current taxes	28.3	34.8
Deferred taxes	104.3	128.4
Current and deferred tax assets	132.6	163.2
Current taxes	45.1	71.4
Deferred taxes	465.3	523.7
Current and deferred tax liabilities	510.4	595.1

Changes in deferred taxes over the period

In millions of euros	2016	2015
Net deferred taxes at start of period	(395.3)	(408.3)
Deferred tax income	38.2	19.8
Changes in deferred taxes linked to remeasurement and reversal through profit or loss of available-for-sale financial assets including those reclassified as loans and receivables	3.1	(0.3)
Changes in deferred taxes linked to remeasurement and reversal through or loss on hedging derivatives	(1.6)	3.4
Changes in deferred taxes linked to items recognised directly in equity that may not be reclassified to profit and loss	3.8	(5.7)
Reclassification	-	(0.2)
Exit from scope of consolidation	0.7	(8.9)
Exchange rate movements and other movements	(9.8)	4.9
Net deferred taxes at end of period	(361.0)	(395.3)

Breakdown of deferred tax assets and liabilities by origin

In millions of euros	31 December 2016	31 December 2015
Available-for-sale financial assets	(89.8)	(85.7)
Finance leases	(224.1)	(235.9)
Provisions for employee benefit obligations	15.7	12.0
Provisions for credit risk	50.6	44.9
Earnings on capital gains to be immunized according to art.54 LIR	(48.8)	(66.6)
Property, plant, equipment and intangible assets	(37.7)	(38.4)
Provisions for the contribution to the resolution and deposit guarantee schemes	(27.8)	(32.6)
Lump-sum provision	(32.4)	(32.9)
Financial assets at fair value through profit or loss	6.0	11.8
Other items	12.8	13.0
Tax loss carryforwards	14.7	15.1
Net deferred taxes	**(361.0)**	**(395.3)**
of which: Deferred tax assets	*104.3*	*128.4*
Deferred tax liabilities	*(465.3)*	*(523.7)*

5.l ACCRUED INCOME/EXPENSE AND OTHER ASSETS/LIABILITIES

In millions of euros	31 December 2016	31 December 2015
Guarantee deposits and bank guarantees paid	10.1	6.9
Settlement accounts related to securities transactions	5.2	10.7
Collection accounts	42.8	35.3
Accrued income and prepaid expenses	73.2	70.8
Other debtors and miscellaneous assets	563.7	592.7
Total accrued income and other assets	**695.1**	**716.4**
Guarantee deposits received	34.1	14.7
Settlement accounts related to securities transactions	12.5	11.8
Collection accounts	70.4	60.4
Accrued expenses and deferred income	167.1	192.4
Other creditors and miscellaneous liabilities	786.6	736.3
Total accrued expense and other liabilities	**1.070.8**	**1.015.6**

5.m INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Group's investments in associates are all accounted for using the equity method. At 31 December 2016, the Group had no joint ventures.

The main associates of the Group are identified below.

In millions of euros	Investments in equity associates				
	Country	Activity	% interest	31 December 2016	31 December 2015
Associates					
Cardif Lux Vie SA	Luxembourg	Insurance	33.33%	118.6	107.3
BNP Paribas Leasing Solutions SPA	Italie	Leasing	13.09%	47.9	51.1

The investment SREI Equipment Finance Ltd, which was reclassified in Assets held for sale at 31 December 2015, was sold in June 2016.

The cumulative financial data relating to associates is detailed in the table below:

In millions of euros	2016			31 December 2016
	Share of net income	Share of changes in assets and liabilities recognised directly in equity	Share of net income and changes in assets and liabilities recognised directly in equity	Investments in equity associates
Associates [1)]	**22.4**	**13.5**	**35.9**	**241.4**
Cardif Lux Vie SA	15.6	4.4	20.0	118.6
BNP Paribas Leasing Solutions SPA	(3.1)	(0.1)	(3.1)	47.9
Others	9.9	9.1	19.0	74.9
Joint ventures	**0.3**	**(0.4)**	**(0.1)**	**-**
SREI Equipment Finance Ltd	0.3	(0.4)	(0.1)	n/a *
Total associates and joint ventures	22.7	13.1	35.7	241.4

[1)] Including controlled but non material entities consolidated under the equity method (see Note 1.b).

** Participating interests reclassified as Assets held for sale at 31 December 2015 were sold in June 2016.*

In millions of euros			2015	31 December 2015
	Share of net income	Share of changes in assets and liabilities recognised directly in equity	Share of net income and changes in assets and liabilities recognised directly in equity	Investments in equity associates
Associates [1)]	**16.8**	**1.8**	**18.6**	**294.2**
Cardif Lux Vie SA	13.3	(3.1)	10.3	107.3
BNP Paribas Leasing Solutions SPA	(11.1)	(0.1)	(11.2)	51.1
Others	14.6	5.0	19.5	135.8
Joint ventures	**(7.1)**	**3.3**	**(3.8)**	**-**
SREI Equipment Finance Ltd	(7.1)	3.3	(3.8)	n/a *
Total associates and joint ventures	9.7	5.0	14.7	294.2

[1)] *Including controlled but non material entities consolidated under the equity method (see Note 1.b).*

* *Participating interests reclassified as Assets held for sale at 31 December 2015 were sold in June 2016.*

The Group does not consider holding significant associates within the meaning of IFRS 12. The appreciation of the significance of joint ventures and Associates is based on the contribution of these investments to the balance sheet and the Group's equity, as well as net profit excluding non-recurring items.

5.n PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

In millions of euros	31 December 2016			31 December 2015		
	Gross value	Accumulated depreciation or amortisation and impairment losses	Carrying amount	Gross value	Accumulated depreciation or amortisation and impairment losses	Carrying amount
Investment property	294.5	(116.5)	178.0	194.6	(97.8)	96.8
Land and buildings	404.9	(139.4)	265.5	324.7	(134.5)	190.2
Equipment, furniture and fixtures	291.4	(197.1)	94.4	235.6	(202.5)	33.2
Plant and equipment leased as lessor under operating leases	515.6	(242.9)	272.7	517.4	(241.7)	275.8
Other property, plant and equipment	83.5	(62.8)	20.7	250.9	(60.4)	190.5
Property, plant and equipment	1.295.4	(642.2)	653.3	1.328.7	(639.0)	689.6
Purchased software	134.7	(124.7)	10.1	136.6	(126.4)	10.2
Internally developped software	9.4	(3.2)	6.2	1.8	(1.8)	-
Other intangible assets	16.4	(5.1)	11.4	18.9	(4.0)	14.8
Intangible assets	160.6	(132.9)	27.7	157.2	(132.2)	25.0

Investment property

Investment property includes residential and commercial buildings, as well as mixed-usage buildings.

The estimated fair value, using internal models (Level 3) of investment properties carried at amortised cost amounted to EUR 209.3 million compared with EUR 106.0 million at 31 December 2015.

Most investment properties are periodically assessed by an independent expert. The evaluation is based primarily on:

- Indications in the market based on unit prices of similar properties. In this case, account is taken of all the parameters available at the valuation date (location, market conditions, nature of the construction, maintenance status, assignment, etc.).
- The capitalization of the estimated rental value.

Operating leases

Operating leases and investment property transactions are in certain cases subject to agreements providing for the following minimum future payments:

In millions of euros	31 December 2016	31 December 2015
Payments receivable within 1 year	102.0	153.3
Payments receivable after 1 year but within 5 years	204.4	245.1
Payments receivable beyond 5 years	32.4	39.3
Future minimum lease payments receivable under non-cancellable leases	**338.8**	**437.7**

Future minimum lease payments under non-cancellable leases correspond to payments that the lessee is required to make during the term of the lease.

Other fixed assets

Other fixed assets include assets under construction amounting to EUR 4.0 million (EUR 182.4 million at 31 December 2015).

The decrease in this item is mainly due to the commissioning of the new building following the completion of the enlargement of the Luxembourg-Kirchberg site.

The value of the asset has been reallocated in both the investment properties and the property, plant and equipment.

Intangible assets

Other intangible assets comprise leasehold rights, goodwill and trademarks required by the Group.

Depreciation, amortisation and impairment

Net depreciation and amortisation expense booked in 2016 amounted to EUR 30.5 million versus EUR 27.9 million in 2015.

The net increase in the impairment losses on property, plant, equipment and intangible assets taken to the profit and loss statement is virtually nil for 2016 as it was in 2015.

Change in investment properties

In millions of euros	2016	2015
Gross value at start of period	194.6	230.5
Acquisitions	6.6	0.6
Divestments	(19.7)	(45.2)
Reclassification	96.5	0.0
Other movements	16.4	8.6
Gross value at end of period	294.5	194.6
Depreciation and amortisation at period start	(97.8)	(107.5)
Amortisation charges	(9.4)	(9.0)
Amortisation reversal after divestments	6.9	13.9
Depreciations	(0.5)	(0.2)
Depreciation reversals	9.4	10.1
Reclassification	(14.2)	(0.0)
Other movements	(10.7)	(5.0)
Depreciation and amortisation at end of period	(116.5)	(97.8)
Carrying value at end of period	178.0	96.8

Change in tangible assets

In millions of euros				2016
	Lands and buildings	Equipment, furniture and fixtures	Plant and equipment leased as lessor under operating leases	Other fixed assets
Gross value at start of period	324.7	235.6	517.4	250.9
Acquisitions	39.4	33.0	74.2	17.1
Disposals	(4.6)	(4.4)	(73.4)	(14.3)
Reclassifications	45.8	27.6	(1.7)	(170.2)
Exit from scope of consolidation	(0.4)	(0.2)	-	-
Currency translation adjustments	-	(0.1)	(1.0)	-
Other movements	(0.0)	(0.0)	-	-
Gross book value at period end	404.9	291.4	515.6	83.5
Depreciation and amortisation at period start	(134.5)	(202.5)	(241.7)	(60.4)
Amortisation charges	(7.6)	(12.1)	(58.9)	(2.8)
Reversal of amortisation after disposals	0.5	4.2	54.5	0.4
Depreciations	-	-	(0.8)	-
Depreciation reversals	0.1	-	0.9	-
Reclassifications	2.1	12.4	2.5	-
Exit from scope of consolidation	0.1	0.9	-	-
Currency translation adjustments	-	0.1	0.5	-
Other movements	(0.0)	(0.0)	-	0.0
Depreciation and amortisation at end of period	(139.4)	(197.1)	(242.9)	(62.8)
Carrying value at end of period	265.5	94.4	272.7	20.7

In millions of euros				2015
	Lands and buildings	Equipment, furniture and fixtures	Plant and equipment leased as lessor under operating leases	Other fixed assets
Gross value at start of period	323.1	208.0	531.7	157.2
Acquisitions	11.7	9.7	79.4	101.5
Disposals	(0.1)	(6.1)	(93.3)	(7.8)
Exit from scope of consolidation	(10.0)	24.2	-	-
Currency translation adjustments	-	(0.1)	(0.4)	-
Other movements	-	(0.1)	-	-
Gross book value at period end	324.7	235.6	517.4	250.9
Depreciation and amortisation at period start	(128.3)	(180.9)	(251.0)	(58.6)
Amortisation charges	(6.4)	(12.2)	(56.6)	(2.4)
Reversal of amortisation after disposals	0.1	5.6	67.5	0.6
Depreciations	-	-	(3.2)	-
Depreciation reversals	0.1	-	1.6	-
Exit from scope of consolidation	0.0	(15.0)	-	-
Currency translation adjustments	-	0.0	0.1	-
Other movements	0.0	0.1	-	-
Depreciation and amortisation at end of period	(134.5)	(202.5)	(241.7)	(60.4)
Carrying value at end of period	190.2	33.2	275.8	190.5

5.o GOODWILL

In millions of euros	2016	2015
Carrying value at period start	136.4	136.3
Currency translation adjustments	(6.5)	0.1
Other movements	3.9	-
Carrying value at end of period	133.8	136.4
of which: Gross value	*134.4*	*149.3*
Accumulated impairments recognised at the end of period	*(0.6)*	*(12.9)*

Goodwill is exclusively related to the integration of leasing activities under the business combination method of common control. It is therefore equivalent to the goodwill previously recognised by the BNP Paribas Group in these companies.

Goodwill impairment recorded on the subsidiary SADE SA for EUR 12.3 million and depreciated for the same amount, was reversed as of 31 December 2016 following the sale of this entity.

Valuation of goodwill

Goodwill impairment tests are based on three different methods: observation of transactions related to comparable businesses; share price data for listed companies with comparable businesses; and discounted future cash flows (DCF).

If one of the two comparables-based methods indicates the need for impairment, the DCF method is used to validate the results and determine the amount of impairment required.

The DCF method is based on a number of assumptions in terms of future revenues, expenses and cost of risk (cash flows) based on medium-term business plans over a period of five years. Cash flow projections beyond the 5-year forecast period are based on a growth rate to perpetuity and are normalised when the short-term environment does not reflect the normal conditions of the economic cycle.

The key parameters which are sensitive to the assumptions made are the cost/income ratio, the cost of capital and the growth rate to perpetuity.

Cost of capital is determined on the basis of a risk-free rate, an observed market risk premium weighted by a risk factor based on comparables specific to each homogeneous group of businesses. The values of these parameters are obtained from external information sources.

Allocated capital is determined for each homogeneous group of businesses based on the Core Tier One regulatory requirements for the legal entity to which the homogeneous group of businesses belongs, with a minimum of 7%.

The growth rate to perpetuity used is 2% for mature economies.

The following table shows the sensitivity of the valuations of the cash generating unit Treasury Leasing Solutions, to changes in the value of parameters used in the DCF calculation: the cost of capital, cost/income ratio, and the growth rate to perpetuity.

Sensitivity of the main Goodwill valuations to a 10-basis point change in the cost of capital, a 1% change in the cost/income ratio and a 50 basis-point change in the growth rate to perpetuity

In millions of euros at 31 December 2016	Leasing Solutions
Cost of capital	**8.7%**
Adverse change of +10 basis points	(55.6)
Positive change of -10 basis points	57.4
Cost/income ratio [1]	**42.5% - 48.1%**
Adverse change of +1%	(81.0)
Positive change of -1%	81.0
Growth rate to perpetuity	**2.0%**
Adverse change of -50 basis points	(149.5)
Positive change of +50 basis points	173.6

[1] *From 2017*

Even when retaining for the impairment test, the three worst changes in the table, there would be no need to depreciate the goodwill of the UGT Leasing Solutions.

5.p PROVISIONS FOR CONTINGENCIES AND CHARGES

Changes in provisions by type

In millions of euros	31 December 2015	Net additions to provisions	Provisions used	Changes in value recognised directly in equity	Changes in the scope of consolidation	Exchange rates movements and other movements	31 December 2016
Provisions for employee benefits	95.8	12.6	(17.9)	6.6	(0.6)	0.9	97.5
provisions for defined-benefit pension plan (note 7.b)	28.2	3.0	(2.0)	6.6	(0.3)	(0.4)	35.1
provisions for unindexed deferred bonus cash (note 7.c)	5.5	4.6	(4.6)	-	-	1.3	6.8
provision for other long-term benefits (note 7.c)	28.6	3.6	(2.2)	-	(0.2)	-	29.7
provision for early retirement plans and headcount adaptation plan (note 7.d)	33.5	1.5	(9.1)	-	-	-	25.9
Provisions for off-balance sheet commitments (note 2.h)	11.4	(1.4)	-	-	-	4.0	14.0
Provisions for tax litigations and staff-related litigations	7.7	2.2	(3.5)	-	-	0.1	6.5
Provisions for commercial litigations	21.2	(1.8)	(0.0)	-	-	0.1	19.5
Provisions for restructuring	1.6	(0.0)	-	-	(1.0)	-	0.6
Provisions on investment securities	12.1	(5.7)	-	-	-	-	6.5
Provisions for operational risk on buildings under operating leases	13.4	(0.8)	-	-	-	-	12.6
Other provisions for contingencies and charges	15.9	(0.8)	(0.4)	-	-	2.4	17.1
Total provisions for contingencies and charges	**179.1**	**4.4**	**(21.8)**	**6.6**	**(1.6)**	**7.4**	**174.1**

At 31 December 2065, provisions for commercial disputes were mainly related to guarantees given by the Bank to subsidiaries or former subsidiaries regarding existing disputes within these entities. These disputes are on-going; the Bank does not expect the short-term resolution.

5.q OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

The following tables present the amounts of financial assets and liabilities before and after offsetting. This information, required by the amendment to IFRS 7 (Disclosures – Offsetting Financial Assets and Financial Liabilities), aims to enable the comparability with the accounting treatment applicable in accordance with generally accepted accounting principles in the United States (US GAAP), which are less restrictive than IAS 32 as regards offsetting.

"Amounts set off on the balance sheet" have been determined according to IAS 32. Thus, a financial asset and a financial liability are offset and the net amount presented on the balance sheet when and only when, the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Amounts set off derive mainly from repurchase agreements and derivative instruments traded with clearing houses.

The "Impact of Master Netting agreements and similar agreements" are relative to outstanding amounts of transactions within an enforceable agreement, which do not meet the offsetting criteria defined by IAS 32. This is the case of transactions for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the contracting parties.

"Financial instruments given or received as collateral" include guarantee deposits and securities collateral recognised at fair value. These guarantees can only be exercised in case of default, insolvency or bankruptcy of one of the contracting parties.

Regarding master netting agreements, the guarantee deposits received or given in compensation for the positive or negative fair values of financial instruments are recognised in the balance sheet in accrued income or expenses and other assets or liabilities.

In millions of euros at 31 December 2016	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements and similar agreements	Financial instruments received as collateral	Net amounts
Assets						
Cash and amounts due from central banks	1,454.3	-	1,454.3	-	-	1,454.3
Financial instruments at fair value through profit or loss						-
Trading securities portfolio	108.3	-	108.3	-	-	108.3
Loans and repurchase agreements	27.7	-	27.7	-	(23.8)	3.9
Instruments designated as at fair value on option	5.5	-	5.5	-	-	5.5
Derivatives (including derivatives used for hedging purposes	277.6	(15.0)	262.6	(54.4)	(21.7)	186.5
Loans and receivables due from credit institutions and customers	35,860.2	(569.9)	35,290.3	-	-	35,290.3
Accrued income and other assets	695.1	-	695.1	-	-	695.1
of which: Guarantee deposits given	*10.1*	-	*10.1*	-	-	*10.1*
Other assets not subject to offsetting	7,136.5	-	7,136.5	-	-	7,136.5
Total assets	**45,565.1**	**(584.9)**	**44,980.2**	**(54.4)**	**(45.5)**	**44,880.3**

In millions of euros at 31 December 2016	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements and similar agreements	Financial instruments given as collateral	Net amounts
Liabilities						
Financial instruments at fair value through profit or loss	-	-	-	-	-	-
Trading securities portfolio	0.0	-	0.0	-	-	0.0
Borrowings and repurchase agreements	-	-	-	-	-	-
Instruments designated at fair value on option	218.0	-	218.0	-	-	218.0
Derivatives (including derivatives used for hedging purposes)	146.7	(15.0)	131.7	(54.4)	-	77.3
Due to credit institutions and customers	34,393.5	(569.9)	33,823.6	-	-	33,823.6
Accrued expenses and other liabilities	1,070.8	-	1,070.8	-	-	1,070.8
of which: Guarantee deposits received	*34.1*	-	*34.1*	-	-	*34.1*
Other liabilities not subject to offsetting	1,879.1	-	1,879.1	-	-	1,879.1
Total liabilities	**37,708.1**	**(584.9)**	**37,123.2**	**(54.4)**	**-**	**37,068.8**

In millions of euros at 31 December 2015	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements and similar agreements	Financial instruments received as collateral	Net amounts
Assets						
Cash and amounts due from central banks	666.7	-	666.7	-	-	666.7
Financial instruments at fair value through profit or loss	-	-	-	-	-	-
Trading securities portfolio	98.3	-	98.3	-	-	98.3
Loans and repurchase agreements	5.1	-	5.1	(0.0)	(5.1)	0.0
Instruments designated as at fair value on option	7.9	-	7.9	-	-	7.9
Derivatives (including derivatives used for hedging purposes	242.2	(15.0)	227.2	(36.9)	(13.2)	177.1
Loans and receivables due from credit institutions and customers	33,840.6	(546.2)	33,294.4	-	-	33,294.4
Accrued income and other assets	716.4	-	716.4	-	-	716.4
of which: Guarantee deposits given	*6.9*	-	*6.9*	-	-	*6.9*
Other assets not subject to offsetting	8,198.8	-	8,198.8	-	-	8,198.8
Total assets	**43,776.0**	**(561.2)**	**43,214.8**	**(36.9)**	**(18.3)**	**43,159.6**

In millions of euros at 31 December 2015	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements and similar agreements	Financial instruments given as collateral	Net amounts
Liabilities						
Financial instruments at fair value through profit or loss	-	-	-	-	-	-
Trading securities portfolio	-	-	-	-	-	-
Borrowings and repurchase agreements	83.8	-	83.8	(0.0)	(83.7)	0.0
Instruments designated at fair value on option	314.7	-	314.7	-	-	314.7
Derivatives (including derivatives used for hedging purposes)	141.0	(15.0)	126.0	(36.9)	(1.1)	88.0
Due to credit institutions and customers	32,353.8	(546.2)	31,807.6	-	-	31,807.6
Accrued expenses and other liabilities	1,015.6	-	1,015.6	-	-	1,015.6
of which: Guarantee deposits received	*14.7*	-	*14.7*	-	-	*14.7*
Other liabilities not subject to offsetting	2,269.5	-	2,269.5	-	-	2,269.5
Total liabilities	**36,178.4**	**(561.2)**	**35,617.2**	**(36.9)**	**(84.9)**	**35,495.4**

5.r TRANSFER OF FINANCIAL ASSETS

In 2015, the financial assets that the Group had transferred, but continued to account for, consist essentially of securities, temporarily sold under a repurchase agreement. Liabilities associated with investments sold under a repurchase agreement are recorded under the heading "Repurchase Agreements".

There was no transfer of financial assets in 2016.

In millions of euros	31 December 2016		31 December 2015	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements				
Securities at fair value through profit or loss	-	-	82.6	78.7
Available-for-sale financial assets	-	-	-	-
Total	-	-	82.6	78.7

In 2016, as in 2015, the Group made no significant transfers leading to the partial or full derecognition of financial assets, where it has a continuing involvement in those assets.

5.s SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

On 31 December 2016, the share capital and additional paid-in capital amounted to EUR 713.1 million, represented by 27,976,574 shares (compared to EUR 713.1 million and 27,979,135 shares on 31 December 2015. BGL BNP Paribas does not hold any own equity instruments. (See note 8.a)

On 31 December 2016, the additional paid-in capital was equal to EUR 2,761.6 million (compared to EUR 2,761.8 on 31 December 2015).

6. FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS

6.a FINANCING COMMITMENTS GIVEN OR RECEIVED

Contractual value of financing commitments given and received by the Group:

In millions of euros	31 December 2016	31 December 2015
Financing commitments given		
- to credit institutions	**-**	**38.9**
- to customers	**4,242.3**	**3,699.2**
Confirmed letters of credit	4,100.5	3,586.7
Other commitments given to customers	141.8	112.5
Total financing commitments given	4,242.3	3,738.1
Financing commitments received		
from the Central Bank of Luxembourg	2,055.7	2,266.7
from credit institutions	1,220.1	415.3
Total financing commitments received	3,275.8	2,682.0

6.b GUARANTEE COMMITMENTS GIVEN BY SIGNATURE

In millions of euros	31 December 2016	31 December 2015
Guarantee commitments given:		
to credit institutions	543.6	459.7
to customers	1,421.5	1,208.9
Total guarantee commitments given	1,965.1	1,668.6

6.c OTHER GUARANTEE COMMITMENTS

Financial instruments given as collateral

In millions of euros	31 December 2016	31 December 2015
Financial instruments (negotiable securities and private receivables) lodged with central banks and eligible for use at any time as collateral for refinancing transactions after haircut	**2,055.7**	**2,266.7**
used as collateral with central banks	-	-
available for refinancing transactions	2,055.7	2,266.7
Securities sold under repurchase agreements	**-**	**87.7**
Other financial assets pledged as collateral for transactions with credit institutions et financial customers	**23.1**	**16.8**

No financial instruments were given as collateral by the Group that the beneficiary is authorised to sell or reuse as collateral in 2016. The value of such instruments amounted to EUR 103.5 million at 31 December 2015.

Financial instruments received as collateral

In millions of euros	31 December 2016	31 December 2015
Financial instruments received as collateral (excluding repurchase agreements)	**1,739.7**	**1,534.4**
of which: Instruments that the Group is authorised to sell and reuse as collateral	*19.5*	*23.5*
Securities received under repurchase agreements	**23.8**	**5.1**

7. SALARIES AND EMPLOYEE BENEFITS

7.a Staff costs

In millions of euros	2016	2015
Fixed and variable remuneration, incentive bonuses and profit-sharing	(330.0)	(329.5)
Retirement bonuses, pension costs and social security taxes	(89.8)	(80.1)
Payroll taxes	(3.8)	(7.4)
Total staff costs	**(423.5)**	**(417.0)**

7.b POST-EMPLOYMENT BENEFITS

IAS 19 distinguishes between two categories of plans, each handled differently depending on the risk incurred by the entity. When the entity is committed to paying a fixed amount, stated as a percentage of the beneficiary's annual salary, for example, to an external entity handling payment of the benefits based on the assets available for each plan member, it is described as a defined-contribution plan. Conversely, when the entity's obligation is to manage the financial assets funded through the collection of contributions from employees and/or the employer and to bear the cost of benefits itself – or to guarantee the final amount subject to future events – it is described as a defined-benefit plan. The same applies if the entity entrusts management of the collection of premiums and payment of benefits to a separate entity, but retains the risk arising from management of the assets and from future changes in the benefits.

Defined-contribution pension plans of the Group

The Group contributes to various nationwide schemes and supplementary retirement plans, outsourced with several pension funds. By means of a company agreement, BGL BNP Paribas SA has set up a funded pension plan. As such, upon retirement, employees will receive an amount that is added to the pension provided by the national schemes.

As the defined-benefit plans were closed to new employees several years ago, the latter have access to defined contribution pension plans. As part of these plans, the company's commitment is primarily to pay a percentage of the beneficiary's annual salary to the pension plan.

The amounts paid to the defined contribution schemes were EUR 4.5 million for 2016, versus EUR 3.5 million for 2015.

Defined-benefit pension plans for Group entities

The remaining defined-benefit plans are valued by independent firms using actuarial techniques, applying the projected unit credit method, in order to determine the expense arising from rights vested by employees and benefits payable to retired employees. The demographic and financial assumptions used to determine the present value of these obligations and of plan assets take into account economic conditions specific to each country and group company.

For all of the plans involved, uncovered commitments are carried in the balance sheet of the Group.

Commitments relating to defined benefit plans

Assets and liabilities recognised on the balance sheet

In millions of euros	Present value of defined benefit obligation	Fair value of plan assets	Fair value of reimbursement rights	Net obligation	of which asset recognised in the balance sheet for defined benefit plans	of which obligation recognised in the balance sheet for defined-benefit plans
31 December 2016						
France	25.3	(18.5)	-	6.8	-	6.8
Luxembourg	127.5	(110.1)	(1.1)	16.3	(1.1)	17.4
United-Kingdom	103.4	(104.8)	-	(1.4)	(3.3)	1.9
Others	20.8	(11.8)	(2.5)	6.5	(2.5)	9.0
Total	**277.0**	**(245.2)**	**(3.6)**	**28.2**	**(6.9)**	**35.1**
31 December 2015						
France	20.4	(16.0)	-	4.4	-	4.4
Luxembourg	106.7	(95.2)	-	11.5	-	11.5
United-Kingdom	104.0	(118.4)	-	(14.4)	(14.4)	-
Others	21.8	(9.5)	(3.1)	9.2	(3.1)	12.3
Total	**252.9**	**(239.1)**	**(3.1)**	**10.7**	**(17.5)**	**28.2**

Change in the present value of the defined benefit obligation

In millions of euros	31 December 2016	31 December 2015
Present value of obligations at start of period	252.9	268.9
Current service cost	8.1	7.5
Interest cost	5.3	5.9
Past service cost	1.5	-
Settlements	-	0.4
Actuarial losses (gains) on change in demographic assumptions	0.6	(0.1)
Actuarial losses (gains) on change in financial assumptions	28.1	(12.5)
Actuarial losses (gains) on experience gaps	0.6	(5.4)
Benefits paid directly by employer	(0.5)	(4.5)
Benefits paid from assets/reimbursement rights	(17.5)	(14.0)
Change in exchange rates	(15.3)	5.4
(Gains)/losses on obligation related to changes in the consolidation scope	-	-
Other changes	13.2	1.3
Present value of obligations at end of period	277.0	252.9

Change in the fair value of plan assets

In millions of euros	31 December 2016	31 December 2015
Fair value of plan assets at start of period	239.1	214.8
Interest income on assets	4.8	5.1
Actuarial gains over the period	10.7	2.9
Contributions by the Group	8.6	24.5
Benefits paid from plan assets	(16.6)	(14.0)
Change of exchange rates	(16.4)	5.8
(Gains)/losses on assets related to changes in the consolidation scope	-	-
Other changes	15.0	-
Fair value of plan assets at end of period	245.2	239.1

Change in the fair value of reimbursement rights

In millions of euros	31 December 2016	31 December 2015
Fair value of reimbursement rights at start of period	3.1	2.7
Interest income on assets	0.1	-
Actuarial gains over the period	-	0.1
Contributions by the Group	0.1	0.2
Benefits paid from assets	(0.9)	-
(Gains)/losses on assets related to changes in the consolidation scope	1.2	-
Other changes	-	0.1
Fair value of reimbursement rights at end of period	3.6	3.1

Components of the cost of defined benefit plans

In millions of euros	2016	2015
Service costs	**9.6**	**7.9**
Current service cost	8.1	7.5
Past service cost	1.5	-
Settlements	-	0.4
Net financial expense	**0.4**	**0.8**
Cost for actualisation of the present value of the obligations	5.3	5.9
Interest income on plan assets	(4.8)	(5.1)
Interest income on reimbursement rights	(0.1)	-
Total recorded in "Staff costs"	10.0	8.7

Other items recognised directly in equity

In millions of euros	2016	2015
Other items recognised directly in equity	**(18.6)**	**21.0**
Actuarial (losses)/gains on plan assets or reimbursement rights	10.7	3.0
Actuarial (losses)/gains of demographic assumptions on the present value of obligations	(0.6)	0.1
Actuarial (losses)/gains of financial assumptions on the present value of obligations	(28.1)	12.5
Experience (losses)/gains on the present value of obligations	(0.6)	5.4

Principal actuarial assumptions used to calculate post-employment benefit obligations

In the eurozone and the United Kingdom, the Group discounts its obligations using the yields of high quality corporate bonds, with a term consistent with the duration of the obligations.

The rates used are as follows:

In percentage	31 December 2016		31 December 2015	
	Discount rate	Rate of future compensation increase [1]	Discount rate	Rate of future compensation increase [1]
France	1.30%	2.30% - 3.30%	2.00%	2.30% - 3.30%
Luxembourg	0.00% - 0.90%	1.00% - 3.50%	1.20% - 2.00%	1.00% - 3.50%
United-Kingdom	2.60%	4.70%	3.70%	4.70%

[1] *Including price increases (inflation)*

The impact of a 100bp change in discount rates on the present value of post-employment benefit obligations is as follows:

In millions of euros	31 December 2016		31 December 2015	
	Discount rate -100pb	Discount rate +100pb	Discount rate -100pb	Discount rate +100pb
France	3.3	(2.7)	2.7	(2.2)
Luxembourg	10.3	(8.7)	11.0	(9.5)
United-Kingdom	21.3	(16.1)	21.3	(20.0)

Actual rate of return on plan assets and reimbursement rights over the period

In percentage [1]	31 December 2016	31 December 2015
France	3.20%	3.50%
Luxembourg	1.00% - 1.40%	1.50% - 5.20%
United-Kingdom	6.90% - 14.50%	2.30% - 2.50%

[1] *Range of values, reflecting the existence of several plans in the same country.*

Breakdown of plan assets

In percentage	31 December 2016					
	Shares	Government bonds	Non-government bonds	Real estate	Deposit accounts	Others
France	7%	66%	18%	9%	0%	0%
Luxembourg	6%	24%	30%	0%	7%	33%
United Kingdom	27%	66%	4%	2%	1%	0%
Others	0%	0%	0%	0%	0%	100%
Total	**14%**	**44%**	**17%**	**2%**	**3%**	**20%**

In percentage	31 December 2015					
	Shares	Government bonds	Non-government bonds	Real estate	Deposit accounts	Others
France	7%	66%	18%	9%	0%	0%
Luxembourg	8%	26%	29%	0%	19%	18%
United Kingdom	27%	70%	0%	3%	0%	0%
Others	0%	0%	0%	0%	0%	100%
Total	**17%**	**49%**	**12%**	**2%**	**8%**	**12%**

The Group introduced an asset management governance for assets backing defined-benefit pension plan commitments, the main objectives of which are the management and control of the risks in term of investment.

It sets out investment principles, in particular, by defining an investment strategy for plan assets, based on financial objectives and financial risk management, to specify the way in which plan assets have to be managed, via financial management servicing contracts.

The investment strategy is based on an assets and liabilities management analysis that should be realised at least on an annual basis for plans with assets in excess of EUR 100 million and every three years for plans with assets of between EUR 20 and EUR 100 million.

7.c OTHER LONG-TERM BENEFITS

The Group offers its employees various long-term benefits, mainly long-service awards and the ability to save up paid annual leave in time savings accounts.

On 31 December 2016, the provisions existing within the Group relative to other long-term benefits amounted to EUR 36.5 million (EUR 34.1 million on 31 December 2015).

7.d TERMINATION BENEFITS

The Group has implemented a number of voluntary redundancy plans for employees who meet certain eligibility criteria. The expenses related to voluntary redundancy plans are provisioned relative to the eligible working employees.

On 31 December 2016, the existing provisions within the Group for the voluntary redundancy and early retirement plans amounted to EUR 25.9 million (EUR 33.5 million at 31 December 2015).

8. ADDITIONAL INFORMATION

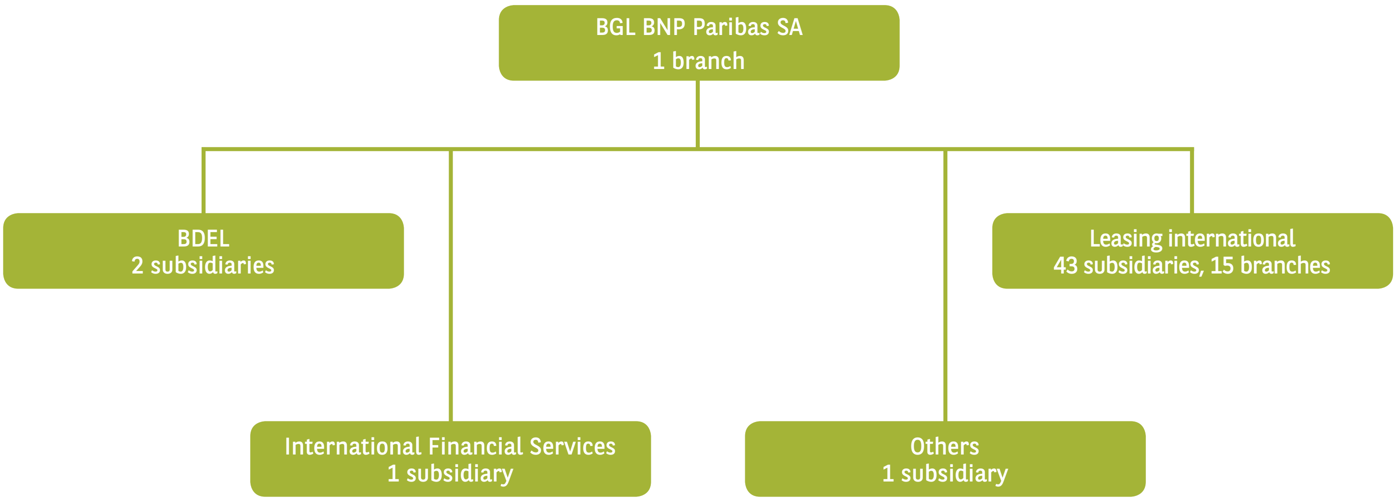
8.a CHANGES IN SHARE CAPITAL

In accordance with the law of 28 July 2014 relating to the immobilisation of shares and units in Luxembourg companies, the Bank cancelled 2,561 shares on 19 February 2016, thereby reducing the subscribed and paid-up capital by 65 thousand euros and shareholders' equity by 535 thousand euros.

BGL BNP Paribas did not perform any share capital transactions in 2015.

8.b SCOPE OF CONSOLIDATION

Simplified structure of the Group by core business



List of subsidiaries and branches consolidated in the Group

			31 December 2016			31 December 2015		
Name	Country	Activity	Consolidation method	Group ownership interest	Ref.[1]	Consolidation method	Group ownership interest	Ref.[1]
Consolidating company								
BGL BNP Paribas SA	Luxembourg	Bank						
BGL BNP Paribas (German branch)	Germany	Bank	IG	100.00%		IG	100.00%	
BDEL								
BGL BNP Paribas Factor SA	Luxembourg	Factoring	-	-	S2	IG	100.00%	
BNP Paribas Lease Group Luxembourg SA	Luxembourg	Leasing	IG	100.00%		IG	100.00%	
Cofhylux SA	Luxembourg	Real Estate	IG	100.00%		IG	100.00%	

Name	Country	Activity	31 December 2016 Consolidation method	Group ownership interest	Ref.[1)]	31 December 2015 Consoli-dation method	Group ownership interest	Ref.[1)]
BDEL								
Structured entities								
Société Immobilière de Monterey SA	Luxembourg	Real Estate	-	-	S4	IG	100.00%	
Leasing International								
Ace Equipment Leasing NV	Belgium	Leasing	-	-	S3	IG	50.00%	
Albury Asset Rentals Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
All In One Vermietungsgesellschaft für Telekommunikationsanlagen mbH	Germany	Leasing	ME*	50.00%		ME*	50.00%	
All In One Vermietung GmbH	Austria	Leasing	-	-	S3	ME*	50.00%	
Aprolis Finance SA	France	Leasing	IG	25.50%		IG	25.50%	
Arius SA	France	Leasing	IG	50.00%		IG	50.00%	
Artegy SA	France	Leasing	IG	50.00%		IG	50.00%	
BNPP Rental Solutions Ltd (Anc. Artegy Ltd	United-Kingdom	Leasing	ME*	50.00%		ME*	50.00%	
BNP Paribas Finansal Kiralama AS	Turkey	Leasing	IG	47.74%		IG	47.74%	
BNP Paribas Lease Group (Belgique) SA	Belgium	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Group BPLG SA	France	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Groupe (German branch)	Germany	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Groupe (Spanish branch)	Spain	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Groupe (Italian branch)	Italy	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Groupe (Portuguese branch)	Portugal	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Group IFN SA	Romania	Leasing	ME*	49.97%		ME*	49.97%	
BNP Paribas Lease Group Kft	Hungary	Leasing	ME*	50.00%		ME*	50.00%	
BNP Paribas Lease Group Lizing RT	Hungary	Leasing	ME*	50.00%		ME*	50.00%	
BNP Paribas Lease Group Sp.z o.o.	Poland	Leasing	ME*	50.00%		ME*	50.00%	
BNP Paribas Lease Group UK PLC	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Group Rentals Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Leasing Solutions NV	The Netherlands	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Leasing Solutions Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Leasing Solutions SA	Luxembourg	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Leasing Solutions SPA	Italy	Leasing	ME	13.09%		ME	13.09%	
BNP Paribas Leasing Solutions Suisse SA	Switzerland	Leasing	ME*	50.00%		ME*	50.00%	
Claas Financial Services Inc.	United States	Leasing	-	-	S4	IG	30.05%	
Claas Financial Services Ltd	United-Kingdom	Leasing	IG	25.50%		IG	25.50%	
Claas Financial Services SA	France	Leasing	IG	30.05%		IG	30.05%	
Claas Financial Services (German branch)	Germany	Leasing	IG	30.05%		IG	30.05%	

			31 December 2016			31 December 2015		
Name	Country	Activity	Consolidation method	Group ownership interest	Ref.[1]	Consoli-dation method	Group ownership interest	Ref.[1]
Leasing International								
Claas Financial Services (Spanish branch)	Spain	Leasing	IG	30.05%		IG	30.05%	
Claas Financial Services (Polish branch)	Poland	Leasing	IG	30.05%		IG	30.05%	
Class Financial Services (Italian branch)	Italy	Leasing	IG	30.05%		IG	30.05%	
CNH Industrial Capital Europe BV	The Netherlands	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe GmbH	Austria	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe Ltd	United-Kingdom	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe SA	France	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe (German branch)	Germany	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe (Belgian branch)	Belgium	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe (Spanish branch)	Spain	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe (Italian branch)	Italy	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe (Polish branch)	Poland	Leasing	IG	25.05%		IG	25.05%	
Commercial Vehicle Finance Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
Fortis Lease Belgium SA	Belgium	Leasing	IG	50.00%		IG	50.00%	
Fortis Lease SA	France	Leasing	IG	50.00%		IG	50.00%	
Fortis Lease Deutschland GmbH	Germany	Leasing	ME*	50.00%		ME*	50.00%	
Fortis Lease Operativ Lizing Zartkoruen Mukodo Reszvenytarsasag	Hungary	Leasing	-	-	S1	ME*	50.00%	
Fortis Lease Iberia SA	Spain	Leasing	ME*	39.31%		ME*	39.31%	
Fortis Lease Portugal SA	Portugal	Leasing	ME*	50.00%		ME*	50.00%	
Fortis Lease UK Ltd	United-Kingdom	Leasing	ME*	50.00%		ME*	50.00%	
Fortis Lease UK Retail Ltd	United-Kingdom	Leasing	-	-	S3	ME*	50.00%	
Fortis Vastgoed Lease BV	The Netherlands	Leasing	ME*	50.00%		ME*	50.00%	
HFGL Ltd	United-Kingdom	Leasing	-	-	S1	IG	50.00%	
Humberclyde Commercial Inv. Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
Humberclyde Commercial Inv. (N1) Ltd	United-Kingdom	Leasing	-	-	S1	IG	50.00%	
JCB Finance Holdings Ltd	United-Kingdom	Leasing	IG	25.05%		IG	25.05%	
JCB Finance SA	France	Leasing	IG	25.05%		IG	25.05%	
JCB Finance (German branch)	Germany	Leasing	IG	25.05%		IG	25.05%	
JCB Finance (Italian branch)	Italy	Leasing	IG	25.05%		IG	25.05%	
Locatrice Italiana SPA	Italy	Leasing	ME*	50.00%		ME*	50.00%	V1
Manitou Finance Ltd	United-Kingdom	Leasing	IG	25.50%		IG	25.50%	
MFF SAS	France	Leasing	IG	25.50%		IG	25.50%	
RD Portofoliu SRL	Romania	Leasing	ME*	50.00%		ME*	50.00%	E1
Same Deutz Fahr Finance Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
Same Deutz Fahr Finance SA	France	Leasing	IG	50.00%		IG	50.00%	
SREI Equipment Finance Ltd	India	Leasing	-	-	S4	ME**	25.00%	

Name	Country	Activity	31 December 2016 Consolidation method	Group ownership interest	Ref.[1]	31 December 2015 Consoli-dation method	Group ownership interest	Ref.[1]
International Financial Services								
Cardif Lux Vie SA	Luxembourg	Insurance	ME	33.33%		ME	33.33%	
Corporate & Institutional Banking								
Alleray SA RL	Luxembourg	Equity management	-	-	S1	IG	100.00%	
Other activities								
Plagefin SA	Luxembourg	Equity management	IG	100.00%		IG	100.00%	
Société Alsacienne de développement et d'expansion (SADE) SA	France	Finance	-	-	S4	IG	100.00%	

[1] Changes in the scope of consolidation:

New entries (E) in the scope of consolidation
E1 Incorporation
E2 Purchase, gain of control or significant influence
E3 Crossing of threshold as defined by Group

Removals (S) from the scope of consolidation
S1 Disposal
S2 Merger
S3 Entities no longer consolidated as below the thresholds defined by the Group
S4 Assignment outside the Group, loss of control or loss of significant influence

Interest rate variations (V)
V1 Additional acquisition
Others(D)
D1 Change in consolidation method not related to changes in interest rates
ME* Controlled Entities subject to a simplified consolidation the equity method due to their immateriality (see Note 1.b)
ME** Entity consolidated using the equity method following the application of IFRS 11 for the reporting entity; remains on a proportionate basis for the prudential consolidation scope.

8.c MINORITY INTERESTS

Main minority interests

BGL BNP Paribas owns 50% + 1 share of the Luxembourg holding company BNP Paribas Leasing Solutions SA (BPLS). The minority shareholder of BPLS is BNP Paribas, which holds 50% minus 1 share. Other subsidiaries are all 100% owned.

BPLS itself holds many international leasing subsidiaries (see Note 8b), some of which also have minority interests (partnerships with manufacturers in particular). These minority interests are not material to the Group.

In millions of euros	31 December 2016	31 December 2015
Shareholders'equity - Minority interests	1,314.9	1,320.1
Net income attributable to minority interests	151.4	122.1
Dividends paid to minority shareholders	(106.1)	(50.9)
Interim dividend payments to minority shareholders	(25.1)	-

Contribution of BNP Paribas Leasing Solutions and its subsidiaries (before elimination of intercompany transactions)

In millions of euros	31 December 2016	31 December 2015
Total balance sheet	19,468.3	18,387.7
Balance of cash and equivalent accounts	1,068.5	698.5
Revenues	687.4	688.3
Net income	262.8	208.2
Net income and changes in assets and liabilities recognised directly in equity	208.3	231.8

There are no particular contractual restrictions on the assets of BNP Paribas Leasing Solutions, related to the presence of the minority shareholder.

Acquisitions of additional interests or partial sales of interests leading to changes in minority interests in the equity of subsidiaries

During 2016, there were no acquisitions of additional interests or partial sales of interests by the Group which could have changed the share of minority shareholders in the equity and reserves.

In 2015, BNP Paribas Lease Group (Italian branch) acquired 100% of the company Locatrice Italiana SPA with the entity BNP Paribas Leasing Solutions SPA, increasing the Group's holding from 13.09% to 50.00%.

Commitments to repurchase minority shareholders' interests

In connection with the acquisition of certain entities, the Group has granted minority shareholders put options for their participation in a specific price.

The total value of these commitments, which are recorded as a reduction of shareholders' equity, was EUR 6.4 million at 31 December 2016 compared with EUR 8.8 million at 31 December 2015.

8.d SIGNIFICANT RESTRICTIONS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Significant restrictions related to the ability of entities to transfer cash to the Group

The ability of entities to pay dividends or to repay loans and advances depends, inter alia, on local regulatory requirements for capitalisation, and legal reserves, as well as the entities financial and operational performance. During 2016 and 2015, no Group entity was subject to significant restrictions other than those related to regulatory requirements.

Significant restrictions related to the Group's ability to use assets pledged as collateral or sold under repurchase agreements

Financial instruments pledged by the Group as collateral or sold under repurchase agreements are presented in the notes and 6c and 5.r.

Significant restrictions related to liquidity reserves

The amount of mandatory deposits with central banks and other regulators amounted to EUR 471.4 million at 31 December 2016 (EUR 131.8 million at 31 December 2015).

8.e STRUCTURED ENTITIES

The Group considers that it sponsored a structured entity when it was involved in its creation. The Group is engaged in transactions with sponsored structured entities primarily through its activities of specialised asset financing.

In addition, the Group is also engaged in transactions with structured entities that it has not sponsored, notably in the form of investments in funds and securitisation vehicles.

The method for assessing control for structured entities is detailed in Note 1.b.2. "Consolidation methods".

8.e.1 Consolidated structured entities

Structured entities consolidated by the Group mainly include structured entities controlled by the Group as part of its core business of structured finance or investments.

8.e.2 Unconsolidated structured entities

The Group is involved in relationships with unconsolidated structured entities as part of its activities to meet the needs of its customers.

Information relative to interests in sponsored structured entities

The main categories of unconsolidated sponsored structured entities are:

Funds: historically, the Group has been involved in the management and structuring of funds in order to offer investment opportunities to its clients. The Group may hold a residual number of shares issued by these funds.

Asset financing: the Group finances structured entities that acquire assets (aircraft, ships, etc.) intended for lease, and the lease payments received by the structured entity are used to repay the financing, which is guaranteed by the asset held by the structured entity.

Real Estate structure: on behalf of its customers, the Group may also structure entities, whose objective is to invest in real estate assets.

Other: on behalf of its customers, the Group may also structure entities, which invest in assets to acquire holdings or to raise funds.

The Group's assets and liabilities related to interests held in sponsored structured entities are as follows:

In millions of euros	31 December 2016					
	Securitisation	Funds	Assets financing	Real estate structure	Others	Total
Interests on the Group balance sheet						
Assets						
Available-for-sale financial assets	-	-	-	0.0	2.4	2.5
Loans and receivables	-	-	-	5.4	-	5.4
Total assets	**-**	**-**	**-**	**5.5**	**2.4**	**7.9**
Liabilities						
Financial liabilities carried at amortised cost	-	-	0.0	4.2	2.4	6.7
Total liabilities	**-**	**-**	**0.0**	**4.2**	**2.4**	**6.7**
Maximum exposure to loss	**-**	**-**	**-**	**234.5**	**2.4**	**236.9**
Size of structured entities	n/a	-	2.0	472.3	2.5	476.8

In millions of euros						31 December 2015
	Securitisation	Funds	Assets financing	Real estate structure	Others	Total
Interests on the Group balance sheet						
Assets						
Available-for-sale financial assets	-	0.0	-	0.0	6.8	6.8
Loans and receivables	-	0.0	-	40.8	-	40.8
Total assets	**-**	**0.0**	**-**	**40.8**	**6.8**	**47.6**
Liabilities						
Financial liabilities carried at amortised cost	-	0.0	0.0	7.3	11.1	18.4
Total liabilities	**-**	**0.0**	**0.0**	**7.3**	**11.1**	**18.4**
Maximum exposure to loss	**-**	**0.0**	**-**	**269.8**	**6.8**	**276.6**
Size of structured entities	n/a	14.7	25.6	499.1	7.1	546.5

The maximum exposure to losses on structured entities is the carrying amount of the potential loss in cash flow.

It is composed of the carrying value of the asset, excluding, for available-for-sale, financial assets changes in value taken directly to equity, as well as the nominal amount of financing and guarantee commitments given and the notional amount of credit default swaps (CDS) sold.

Information on the size of the structured entities sponsored differs depending on their type.

Thus, the following financial data have been used to measure the size:

- Securitisation: total assets of the structured entity, mentioned in the last report to investors;
- Funds: Fund NAV;
- Other structured entity: total assets of the structured entity or, if the information is not available, the amount of the Group's commitment.

Information relative to interests in non-sponsored structured entities

The main interests held by the Group when it acts solely as an investor in non-sponsored structured entities are detailed below:

Securitisation: the Group invests in securitisation vehicles to provide asset financing solutions. These vehicles finance the purchase of assets (loans or bonds) mainly by issuing bonds backed by these assets and the repayment of these assets is linked to their performance. These investments represent a total of EUR 105.1 million at 31 December 2016 (EUR 148.4 million at 31 December 2015).

Funds: the Group may invest in mutual funds or securities investment funds without any involvement in either their management or structuring. These investments represent a total of EUR 355.0 million on 31 December 2016 (EUR 355.1 million on 31 December 2015).

8.f COMPENSATION AND BENEFITS AWARDED TO MEMBERS OF THE BOARD OF DIRECTORS AND KEY CORPORATE OFFICERS

In 2016, the remuneration paid to the Group's key officers amounted to EUR 8.8 million (including EUR 0.6 million of pension expenses) (2015: EUR 7.4 million including EUR 0.7 million of pension expenses).

The remuneration paid in 2016, relative to 2015, to the members of the BGL BNP Paribas Board of Directors amounted to EUR 1.3 million (2015: EUR 1.4 million).

During the year 2016 the key officers were allocated EUR 0.7 million under the retention scheme (2015: EUR 0.6 million)

At 31 December 2016, the loans granted to members of the Board of Directors were equal to EUR 2.1 million

(31 December 2015: EUR 1.1 million); the loans granted to key officers were equal to 4.7 million (31 December 2015: EUR 1.9 million).

At 31 December 2016, the credit lines granted to members of the Board of Directors were 2.7 million (31 December 2015: EUR 1.2 million); the credit lines granted to key officers were EUR 6.5 million (31 December 2015: EUR 2.3 million).

8.g RELATED PARTIES

The related parties of the Group are associated companies, joint ventures, pension funds, the members of the Board of Directors and the key officers of the Group, the members of the close families of the aforesaid persons, entities controlled or appreciably influenced by any of the aforesaid persons, as well as any other related entity.

As part of its operational activities, the Group is often required to carry out transactions with related parties. These transactions primarily involve loans and deposits and are carried out on an arm's length basis.

The table below summarises the financial scope of the activities carried out with the following related parties:

- associated companies;
- parent companies: BNP Paribas SA, BNP Paribas Fortis SA and their branches;
- other BNP Paribas Group companies not held by the Group.

The relations with members of the Board of Directors and the Group's key officers are covered in part 8.f.

Relationships with joint ventures are not significant.

The State of Luxembourg is a 34% shareholder of BGL BNP Paribas SA. As such, it received a dividend of EUR 51.5 million from BGL BNP Paribas SA in 2016. Other transactions, with the State of Luxembourg, or with any other entity controlled by the State of Luxembourg, are carried out on an arm's length basis.

Related-party balance sheet items

In millions of euros	31 December 2016			31 December 2015		
	Associates	Parent companies	Other BNP Paribas entities	Associates	Parent companies	Other BNP Paribas entities
ASSETS						
Financial assets at fair value through profit or loss	-	41.7	40.0	-	25.6	17.4
Derivatives used for hedging purposes	-	170.3	-	-	144.8	-
Available-for-sale financial assets	-	-	231.9	-	-	218.1
Loans and receivables due from credit institutions	340.6	8,079.4	230.3	370.0	6,906.9	209.3
Loans and receivables due from customers	463.6	0.1	155.6	476.0	0.0	154.3
Accrued income and other assets	8.3	12.8	75.4	2.6	21.3	73.9
Total	812.5	8,304.3	733.3	848.7	7,098.6	673.0
LIABILITIES						
Financial liabilities at fair value through profit or loss	-	34.5	9.3	-	32.8	13.4
Derivatives used for hedging purposes	-	58.1	-	-	64.6	-
Due to credit institutions	23.4	8,718.2	49.5	16.4	9,784.6	53.3
Due to customers	84.0	-	315.1	92.6	-	303.8
Debt securities	-	7.5	-	-	-	-
Accrued expenses and other liabilities	30.3	55.5	7.7	43.2	31.4	2.8
Total	137.7	8,873.8	381.7	152.2	9,913.4	373.4

Moreover, the Group also carries out, with these related parties, trading transactions on an arm's length basis involving derivatives (swaps, options, futures contracts...) and financial instruments (equities, debt securities...) contracted or issued by them.

In millions of euros	31 December 2016			31 December 2015		
	Associates	Parent companies	Other BNP Paribas entities	Associates	Parent companies	Other BNP Paribas entities
FINANCING AND GUARANTEE COMMITMENTS						
Financing commitments given	-	-	-	-	38.8	-
Financing commitments received	-	1,201.0	4.2	-	410.8	4.3
Guarantee commitments given	130.5	324.8	98.9	97.8	198.9	89.7
Guarantee commitments received	0.0	80.7	31.8	0.0	93.6	26.9

At 31 December 2016, as at 31 December 2015, guarantees given included EUR 100.0 million of guarantees given to Cardif Lux Vie SA, following the merger of Fortis Luxembourg Vie SA and Cardif Lux International SA At 31 December 2016, a provision of EUR 4.2 million for this guarantee was recorded in the accounts (compared with EUR 5.5 million at the end of 2015).

The Bank had netting agreements with the entities BNP Paribas Fortis SA and BNP Paribas SA (and their respective branches established in the territory of the European Union) thereby reducing its exposure to such entities, for both on-balance sheet and off-balance sheet exposures.

Related-party profit and loss items

In millions of euros			2016			2015
	Associates	Parent companies	Other BNP Paribas entities	Associates	Parent companies	Other BNP Paribas entities
Interest income	6.9	170.1	9.6	8.3	155.5	12.4
Interest expense	(0.8)	(162.6)	(4.5)	(0.3)	(173.4)	(6.2)
Commission (income)	6.8	8.2	30.7	6.8	5.2	33.2
Commission (expense)	(4.6)	(3.6)	(5.3)	(5.7)	(10.1)	(1.5)
Gains (losses) on financial instruments at fair value through profit or loss	(0.0)	74.8	(0.2)	0.3	(49.1)	1.5
Income (expenses) from other activities	(14.6)	(0.0)	42.9	(18.9)	0.1	42.9
Total	**(6.3)**	**86.9**	**73.2**	**(9.5)**	**(71.9)**	**82.3**

8.h COUNTRY-BY-COUNTRY INFORMATION

In accordance with Article 38-3 of the law of 5 April 1993 as amended by the law of 23 July 2015, credit institutions, financial holding companies (mixed) and investment firms must disclose information on their locations and activities, included in their scope of consolidation in each State or territory.

Details of countries of operation are available in note 8.b: Scope of Consolidation.

Profit and loss items and employees by country

	2016* In millions of euros					Staff for financial purposes** at 31 December 2016
	Revenues	Income before tax	Current tax expense	Deferred tax	Income tax expense	
Member States of the European Union						
Germany	87.9	33.4	(15.3)	2.3	(12.9)	273
Austria [1)]	2.2	1.6	(0.4)	(0.0)	(0.4)	-
Belgium	35.4	25.9	(6.9)	(2.7)	(9.6)	122
Spain	21.8	12.7	(4.7)	0.6	(4.1)	72
France	250.1	88.9	(35.1)	19.5	(15.7)	1,234
Italia [2)]	79.3	34.8	(10.6)	(0.1)	(10.6)	-
Luxembourg	680.3	356.5	(73.8)	21.6	(52.2)	2,347
The Netherlands	25.3	14.6	(2.8)	(0.8)	(3.6)	68
Poland	4.4	1.3	(0.7)	0.3	(0.4)	9
Portugal	6.4	2.5	(0.7)	0.1	(0.6)	30
United-Kingdom	121.1	69.6	(13.9)	(0.2)	(14.1)	403
Africa and mediterranean region						
Turkey	38.0	16.6	-	(2.4)	(2.4)	142
Total Group	**1,352.2**	**658.4**	**(164.7)**	**38.2**	**(126.5)**	**4,700**

* *The financial data correspond to the contribution to the consolidated profit and loss of consolidated entities under exclusive control.*

** *Financial staff: the full-time equivalent (FTE) workforce on 31 December 2016 of the consolidated entities under exclusive control.*

[1)] *The staff are located in Austrian entities, which are not consolidated and therefore not included in this note.*

[2)] *The staff are located in an Italian entity, consolidated using the equity method, and therefore not included in this note.*

The Group did not receive any government grants during 2016.

	2015* *In millions of euros*					Staff for financial purposes** at 31 December 2015
	Revenues	Income before tax	Current tax expense	Deferred tax	Income tax expense	
Member States of the European Union						
Germany	83.1	32.8	(12.7)	1.6	(11.1)	269
Austria [1)]	2.5	1.7	(0.5)	0.1	(0.4)	-
Belgium	33.1	24.7	(7.6)	0.4	(7.2)	123
Spain	19.6	8.3	(0.7)	(1.3)	(2.0)	67
France	284.9	104.0	(69.1)	14.5	(54.6)	1,248
Italia [2)]	62.5	22.9	(8.3)	1.0	(7.3)	-
Luxembourg	692.4	337.8	(65.4)	(3.8)	(69.2)	2,370
The Netherlands	24.0	9.7	(2.8)	0.2	(2.5)	62
Poland	4.0	1.4	(0.9)	0.7	(0.3)	9
Portugal	6.4	3.8	(0.6)	0.0	(0.5)	29
United-Kingdom	126.2	79.8	(27.2)	8.8	(18.4)	380
Africa and mediterranean region						
Turkey	34.2	18.7	-	(2.4)	(2.4)	140
The Americas						-
United States	0.7	0.7	0.0	-	0.0	-
Total Group	**1,373.5**	**646.2**	**(195.7)**	**19.8**	**(176.0)**	**4,697**

** The financial data correspond to the contribution to the consolidated profit and loss of consolidated entities under exclusive control.*

*** Financial staff: the full-time equivalent (FTE) workforce on 31 December 2016 of the consolidated entities under exclusive control.*

[1)] *The staff are located in Austrian entities, which are not consolidated and therefore not included in this note.*

[2)] *The staff are located in an Italian entity, consolidated using the equity method, and therefore not included in this note.*

8.i BALANCE SHEET BY MATURITY

The table below gives a breakdown of the balance sheet by contractual maturity. The maturity of financial assets and liabilities at fair value through profit or loss within the trading portfolio is deemed to be "undetermined" insofar as these instruments are intended to be sold or redeemed before their contractual maturity dates. The maturities of variable- income financial assets classified as available-for-sale, hedging derivatives, remeasurement adjustments on interest-rate risk hedged portfolios and undated subordinated debt are also deemed to be "undetermined".

The majority of the financing and guarantee commitments given may be drawn at sight.

31 December 2016 *In millions of euros*	Undetermined	Overnight or demand	Up to 1 month (excl. overnight)	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Cash and amounts due from central banks	-	1,454.3	-	-	-	-	-	1,454.3
Financial assets at fair value through profit or loss	228.2	-	-	-	-	5.5	-	233.7
Derivatives used for hedging purposes	170.3	-	-	-	-	-	-	170.3
Available-for-sale financial assets	692.0	-	-	68.6	4.8	3,740.5	970.1	5,476.0
Loans and receivables due from credit institutions	-	1,053.5	459.5	288.6	734.6	4,989.3	1,184.0	8,709.4
Loans and receivables due from customers	-	939.3	917.3	1,735.2	5,086.1	11,170.9	6,732.1	26,580.9
Held to maturity financial assets	-	-	24.5	7.0	-	242.6	19.7	293.8
Financial assets by maturity	**1,090.5**	**3,447.1**	**1,401.3**	**2,099.3**	**5,825.5**	**20,148.9**	**8,905.8**	**42,918.4**
Financial liabilities at fair value through profit or loss	73.6	-	7.5	16.6	6.2	156.7	31.0	291.7
Derivatives used for hedging purposes	58.1	-	-	-	-	-	-	58.1
Due to credit institutions	-	554.0	802.0	1,271.2	2,524.9	4,457.1	361.4	9,970.7
Due to customers	-	19,800.7	536.8	2,842.9	318.9	280.5	73.0	23,852.8
Debt securities	-	-	43.4	200.6	495.9	367.7	-	1,107.7
Remeasurement adjustment on the interest-rate-risk hedged portfolios	86.9	-	-	-	-	-	-	86.9
Financial liabilities by maturity	**218.7**	**20,354.8**	**1,389.8**	**4,331.4**	**3,345.9**	**5,262.1**	**465.4**	**35,367.9**

31 December 2015 *In millions of euros*	Undetermined	Overnight or demand	Up to 1 month (excl. overnight)	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Cash and amounts due from central banks	-	666.7	-	-	-	-	-	666.7
Financial assets at fair value through profit or loss	188.1	-	-	-	-	5.5	-	193.7
Derivatives used for hedging purposes	144.8	-	-	-	-	-	-	144.8
Available-for-sale financial assets	682.2	-	918.6	176.5	376.0	2,863.7	1,413.9	6,430.8
Loans and receivables due from credit institutions	-	1,040.4	937.4	93.1	806.3	3,536.0	1,254.2	7,667.5
Loans and receivables due from customers	-	951.7	1,001.7	1,625.1	4,623.9	10,534.5	6,890.0	25,626.9
Held to maturity financial assets	-	-	-	16.4	20.3	213.6	72.4	322.7
Financial assets by maturity	**1,015.1**	**2,658.8**	**2,857.6**	**1,911.1**	**5,826.5**	**17,153.4**	**9,630.5**	**41,053.1**
Financial liabilities at fair value through profit or loss	145.2	-	34.4	7.5	63.3	180.1	29.4	459.9
Derivatives used for hedging purposes	64.6	-	-	-	-	-	-	64.6
Due to credit institutions	-	425.0	1,880.6	1,119.7	2,359.6	4,448.3	423.7	10,657.0
Due to customers	-	17,363.0	562.5	2,221.8	601.8	214.2	187.3	21,150.6
Debt securities	-	-	242.3	261.8	540.3	377.5	-	1,421.9
Remeasurement adjustment on the interest-rate-risk hedged portfolios	73.4	-	-	-	-	-	-	73.4
Financial liabilities by maturity	**283.2**	**17,787.9**	**2,719.9**	**3,610.8**	**3,565.1**	**5,220.1**	**640.4**	**33,827.4**

8.j FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST

The information supplied in this note must be used and interpreted with the greatest caution for the following reasons:

- These fair values are an estimate of the value of the relevant instruments as of 31 December 2016. They are liable to fluctuate from day to day as a result of changes in various parameters, such as interest rates and credit quality of the counterparty. In particular, they may differ significantly from the amount actually received or paid on maturity of the instrument. In most cases, the fair value is not intended to be realised immediately, and in practice might not be realised immediately. Consequently, this fair value does not reflect the actual value of the instruments to the Group as a going concern.

- Most of these fair values are not meaningful, and hence are not taken into account in the management of commercial banking activities that use these instruments.

- Estimating a fair value for financial instruments carried at historical cost often requires the use of modeling techniques, hypotheses and assumptions that may vary from bank to bank. This means that comparisons between the fair values of financial instruments carried at historical cost as disclosed by different banks may not be meaningful.

- Finally, the fair values shown below do not include the fair values of finance lease operations, non-financial instruments such as property, plant and equipment, goodwill and other intangible assets such as the value attributed to demand deposit portfolios or to the clientele in relation with the Group in its various activities. Consequently, these fair values should not be regarded as the actual contribution of the instruments concerned to the overall valuation of the Group.

In millions of euros, at 31 December 2016	Estimated fair value				Balance sheet value
	Level 1	Level 2	Level 3	Total	
FINANCIAL ASSETS					
Loans and receivables due from credit institutions	-	8,709.4	-	8,709.4	8,709.4
Loans and receivables due from customers [1]	230.6	1,000.6	13,838.0	15,069.3	14,899.9
Held-to-maturity financial assets	331.0	-	-	331.0	293.8
FINANCIAL LIABILITIES					
Due to credit institutions	-	9,975.7	-	9,975.7	9,970.7
Due to customers	-	23,854.8	-	23,854.8	23,852.8
Debt securities	-	1,112.8	-	1,112.8	1,107.7

[1] *Excludig finance lease operations.*

In millions of euros, at 31 December 2015	Estimated fair value				Balance sheet value
	Level 1	Level 2	Level 3	Total	
FINANCIAL ASSETS					
Loans and receivables due from credit institutions	-	7,667.5	-	7,667.5	7,667.5
Loans and receivables due from customers [1]	239.3	990.2	13,296.3	14,525.8	14,421.0
Held-to-maturity financial assets	365.3	-	-	365.3	322.7
FINANCIAL LIABILITIES					
Due to credit institutions	-	10,882.9	-	10,882.9	10,657.0
Due to customers	-	21,152.5	-	21,152.5	21,150.6
Debt securities	-	1,429.4	-	1,429.4	1,421.9

[1] *Excludig finance lease operations.*

The valuation techniques and assumptions used ensure that the fair value of financial assets and liabilities is measured at amortised cost throughout the Group. Fair value is based on prices quoted in an active market when these are available. In other cases, fair value is determined using valuation techniques such as discounting of estimated future cash flows for loans, liabilities and held-to-maturity financial assets, or specific valuation models for other financial instruments as described in note 1 relative to the accounting principles applied by the Group. The allocation by level was conducted in accordance with the accounting principles described in this note. In the case of loans, liabilities and held-to-maturity financial assets that have an initial maturity of less than one year (including demand deposits) fair value is used and these were classified in Level 2, with the exception of loans to customers, classified as Level 3.

Where fair value cannot be determined, the amortised cost is used.

8.k CONTINGENT LIABILITIES: LEGAL PROCEEDINGS AND ARBITRATION

Like any other financial institution, the Group is involved as defendant in various claims, disputes and legal proceedings, arising in the ordinary course of the banking and insurance business.

The Group makes provisions for such matters when, in the opinion of management and upon consultation with its legal advisors, it is probable that a payment will have to be made by the Group, and when the amount can be reasonably estimated (see note 6.q "Provisions for contingencies and charges.").

In respect of further claims and legal proceedings against the Group of which management is aware (and which, according to the principles outlined above, have not been provided for), it is the opinion of management, after due consideration of appropriate professional advice, that such claims are without merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss in the Group's consolidated financial statements.

8.l GUARANTEE FUND

On 18 December 2015, the Luxembourg Government transposed into the Law on the resolution and liquidation of credit institutions and the system for the protection of depositors and investors, European Directives 2014/59/EU, laying down the framework for the recovery and resolution of credit institutions and investment firms, and 2014/49/EU defining deposit guarantee schemes.

This new mechanism covers all eligible deposits up to 100,000 euros and investments up to 20,000 euros. In addition, the law stipulates that recent deposits (less than 12 months) resulting from specific transactions linked to a social objective or correlated with certain events in life are also guaranteed beyond the ceiling of 100,000 euros.

The Act thus replaces the depositors' and investors' guarantee mechanism in Luxembourg, which was governed by the "Association pour la Garantie des Dépôts, Luxembourg (AGDL)" by means of a new mechanism based on an ex-ante contribution principle in a new fund, the "Luxembourg Deposit Guarantee Fund" (LDGF). In accordance with Article 163 (8) of the Law, this fund will be capitalised through the payment of a first tranche of 0.8% of the total guaranteed deposits of Luxembourg credit institutions and investment firms, at the latest by the end of 2018.

When the target of 0.8% is reached by the end of 2018, in accordance with Article 163 (8) of the Law, credit institutions and investment firms will contribute to the construction of a second tranche of 0.8% of guaranteed deposits of credit institutions and investment firms in Luxembourg over a period of 8 years.

In December 2015, the bank made a provision equivalent to one quarter of its estimated total contribution as soon as the law was published, for an amount of EUR 8.2 million. In January 2016, the bank took into account the tranche relating to the 2016 financial year under IFRIC 21, for an amount of EUR 8.1 million. In April 2016, the bank made an initial contribution to the LDGF of EUR 10.3 million on the basis of the invoice received.

8.m FEES PAID TO THE STATUTORY AUDITORS

Year to 31 December 2016 *In thousands of euros*	Deloitte		PricewaterhouseCoopers		Mazars		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Statutory audit, certification, examination of the individual and consolidated accounts, of which:								
- *Consolidating entity*	-	0%	712	68%	553	30%	1,265	43%
- *Consolidated subsidiaries*	7	44%	285	27%	1,287	70%	1,579	54%
Other due diligence reviews and services directly related to the corporate auditor's scope, of which:								
- *Consolidating entity*	-	0%	23	2%	-	0%	23	1%
- *Consolidated subsidiaries*	-	0%	-	0%	10	1%	10	0%
Audit total	**7**	**44%**	**1,020**	**98%**	**1,850**	**100%**	**2,877**	**99%**
Other services provided by the networks								
Legal, tax, social	-	0%	-	0%	-	0%	-	0%
Other	9	56%	22	2%	-	0%	31	1%
Other services total	**9**	**56%**	**22**	**2%**	**-**	**0%**	**31**	**1%**
Total fees	16	100%	1,042	100%	1,850	100%	2,908	100%

Year to 31 December 2015 *In thousands of euros*	Deloitte		PricewaterhouseCoopers		Mazars		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Statutory audit, certification, examination of the individual and consolidated accounts, of which:								
- *Consolidating entity*	-	0%	729	72%	552	32%	1,281	44%
- *Consolidated subsidiaries*	29	26%	267	26%	1,199	68%	1,495	52%
Other due diligence reviews and services directly related to the corporate auditor's scope, of which:								
- *Consolidating entity*	-	0%	23	2%	-	0%	23	1%
- *Consolidated subsidiaries*	68,0	61%	-	0%	-	0%	68	2%
Audit total	**97**	**87%**	**1,019**	**100%**	**1,751**	**100%**	**2,867**	**99%**
Other services provided by the networks								
Legal, tax, social	-	0%	-	0%	-	0%	-	0%
Other	14	13%	3	0%	-	0%	17	1%
Other services total	**14**	**13%**	**3**	**0%**	**-**	**0%**	**17**	**1%**
Total fees	111	100%	1,022	100%	1,751	100%	2,884	100%

8.n SUBSEQUENT EVENTS

There were no significant events subsequent to the closing.

UNCONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

The unconsolidated annual accounts of BGL BNP Paribas SA have been prepared in accordance with the legislation and regulations applicable in Luxembourg, and in particular with the modified Law of 17 June 1992 on the accounts of credit institutions.

The annual accounts are provided hereafter in an abridged form. The unconsolidated annual accounts, comprising the balance sheet, income statement and notes to the annual accounts as well as the Board of directors' report and the auditor's report are published in accordance with legal requirements.

Pursuant to article 71 of the modified Law of 17 June 1992 on the approved annual accounts of credit institutions, the Board of directors' report, as well as the auditor's report must be filed with the register of commerce and companies in the month they are approved by the General Meeting of Shareholders, and no later than 7 months after the closing of the period. The accounts are published by mention in the Recueil électronique des sociétés et associations of the filing with the register of commerce and companies where these documents are available.

The auditor delivered an unqualified certification of the unconsolidated annual accounts of BGL BNP Paribas SA as at 31 December 2016.

10

UNCONSOLIDATED BALANCE SHEET

In millions of euros	31 December 2016	31 December 2015
Assets		
Cash, credit notes with central banks and post office banks	**1,299.6**	**663.9**
Receivables from credit institutions	**7,588.3**	**7,653.9**
a) demand	119.3	407.4
b) other receivables	7,469.0	7,246.5
Receivables due from customers	**17,443.1**	**15,979.2**
Bonds and other fixed income securities	**5,372.5**	**6,347.7**
a) from public issuers	4,594.8	3,741.5
b) other issuers	777.7	2,606.2
Equities and other variable income securities	**160.5**	**147.7**
Participating interests	**12.1**	**45.9**
Shares in affiliated undertakings	**1,353.2**	**1,507.3**
Intangible fixed assets	**9.3**	**9.1**
Tangible fixed assets	**358.3**	**295.2**
Other assets	**24.2**	**37.8**
Accrued income	**312.1**	**280.9**
Total assets	33,933.3	32,968.6

UNCONSOLIDATED BALANCE SHEET (CONTINUATION)

In millions of euros	31 December 2016	31 December 2015
Liabilities		
Due to credit institutions	**1,883.7**	**2,945.1**
a) demand	556.9	1,122.1
b) forward or with notice	1,326.8	1,823.0
Due to customers	**23,452.4**	**21,220.4**
a) savings deposits	6,036.5	6,012.6
b) other debts	17,415.9	15,207.8
- demand	13,680.8	11,427.5
- forward or with notice	3,735.1	3,780.3
Debt securities	**1,242.0**	**1,674.4**
a) bills and outstanding bonds	529.7	692.2
b) other	712.3	982.2
Other liabilities	**707.6**	**681.5**
Accrued income	**114.4**	**107.1**
Provisions	**318.3**	**341.2**
a) provisions for taxes	30.4	40.9
b) other provisions	287.9	300.2
Subordinated liabilities	**80.0**	**80.0**
Special items with a share of the reserves	**185.5**	**224.9**
Fund for general banking risks	**340.4**	**117.4**
Share capital	**713.1**	**713.1**
Additional paid-in capital	**2,770.1**	**2,770.4**
Retained earnings	**1,940.3**	**1,940.5**
Profit or loss brought forward	**0.1**	**0.3**
Profit or loss for the fiscal year	**185.4**	**152.4**
Total liabilities	33,933.3	32,968.6

Off-balance sheet		
Contingent liabilities	**2,109.8**	**1,690.3**
of which: surety bonds and assets given in guarantee	*407.0*	*219.8*
Commitments	**2,825.7**	**2,486.3**
Fiduciary operations	**1,276.5**	**1,388.5**

UNCONSOLIDATED PROFIT AND LOSS ACCOUNT

In millions of euros	2016	2015
Interest income	**679.6**	**726.3**
including: on fixed revenue marketable securities	*150.1*	*157.3*
Interest expense	**(193.2)**	**(221.3)**
Income on equities and other variable instruments	**158.3**	**47.1**
a) earnings from equities, shares and other variable instruments	3.1	3.6
b) earnings from holdings	16.0	3.4
c) earnings from affiliates	139.3	40.1
Commissions earned	**167.6**	**181.1**
Commissions paid	**(46.7)**	**(52.0)**
Earnings on financial operations	**10.4**	**20.3**
Other operating income	**69.9**	**57.8**
Administrative overhead costs	**(354.5)**	**(373.4)**
a) staff costs	(230.2)	(235.3)
including: wages and salaries	*(194.1)*	*(199.7)*
social charges	*(28.5)*	*(28.1)*
including social charges applying to pensions	*(22.1)*	*(20.7)*
b) other administrative costs	(124.3)	(138.0)
Value corrections on intangible fixed assets and on tangible fixed assets	**(18.1)**	**(134.0)**
Other operating expenses	**(8.7)**	**(5.7)**
Additions/reversals for value creations on receivables and provisions for possible debts and commitments	**(22.9)**	**(39.7)**
Additions/reversals for value creations on marketable securities described as financial fixed assets, on participating interests and shares in affiliated undertakings	**(17.0)**	**(0.2)**
Allocations to special items with a quota share of reserves	**(4.1)**	**-**
Proceeds resulting from the dissolution of the "special items with a share of the reserves"	**43.5**	**0.2**
Allocations to Fund for general banking risks	**(223.0)**	**-**
Income tax applicable to ordinary activities	**(55.0)**	**(53.6)**
Proceeds resulting from ordinary activities, after tax	186.1	152.9
Other taxes not included in the above items	**(0.7)**	**(0.4)**
Profit or loss for the fiscal year	185.4	152.4

BRANCH NETWORK

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LUXEMBOURG/BONNEVOIE
101-103, rue de Bonnevoie
L-1261 Luxembourg

LUXEMBOURG/CLOCHE D'OR
2, rue Henri Schnadt
L-2530 Luxembourg
Pro Business Center Am Ban
Tel.: (+352) 42 42-89 34

LUXEMBOURG/GARE
76, avenue de la Liberté
L-1930 Luxembourg

LUXEMBOURG/GRAND-RUE
1-3, rue du Marché-aux-Herbes
L-1728 Luxembourg

LUXEMBOURG/KIRCHBERG-EUROPE
13, avenue J.F. Kennedy
L-1855 Luxembourg

LUXEMBOURG/KIRCHBERG
10, rue Edward Steichen
L-2540 Luxembourg
Private Banking Site
Tel.: (+352) 42 42-54 91
Pro Business Center
Portes de l'Europe
Tel.: (+352) 42 42-69 21

LUXEMBOURG/LIMPERTSBERG
43-45, allée Scheffer
L-2520 Luxembourg

LUXEMBOURG/MERL-BELAIR
123, avenue du X Septembre
L-2551 Luxembourg

LUXEMBOURG/MERL-JARDINS DE LUXEMBOURG
17, rue Guillaume de Machault
L-2111 Luxembourg

LUXEMBOURG/ROYAL-MONTEREY
26, boulevard Royal
L-2449 Luxembourg
Pro Business Center Luxembourg
Tel.: (+352) 42 42-2951

LUXEMBOURG/BOULEVARD ROYAL
10A, boulevard Royal
L-2440 Luxembourg
Private Banking Site "d'Villa"
Tel.: (+352) 42 42-76 48
Fax: (+352) 42 42-21 22

BASCHARAGE/KORDALL
6, avenue de Luxembourg
L-4950 Bascharage

BERELDANGE
70, route de Luxembourg
L-7240 Bereldange

BETTEMBOURG
6a, rue de la Gare
L-3236 Bettembourg

CLERVAUX
34, Grand'Rue
L-9710 Clervaux

DIEKIRCH
5, rue de Stavelot
L-9280 Diekirch

DIFFERDANGE
26, avenue de la Liberté
L-4601 Differdange

DUDELANGE
59, avenue Gr.-D. Charlotte
L-3441 Dudelange

ECHTERNACH
25, place du Marché
L-6460 Echternach

ESCH/BENELUX
Place Benelux
L-4027 Esch/Alzette

ESCH/CENTRE
30, rue de l'Alzette
L-4010 Esch/Alzette
Private Banking Site
Tel.: (+352) 42 42-54 93
Fax: (+352) 42 42-59 80
Pro Business Center Terres Rouges
Tel.: (+352) 42 42-88 59

ESCH/BELVAL
12, avenue du Rock'n Roll
L-4361 Esch/Belval

ETTELBRUCK
77-79, Grand'Rue
L-9051 Ettelbruck
Private Banking Site
Tel.: (+352) 42 42-59 53
Fax: (+352) 42 42-59 56
Pro Business Center Nordstad
Tel.: (+352) 42 42-46 90

GREVENMACHER
2, route de Trèves
L-6793 Grevenmacher

HOWALD
201, route de Thionville
L-5885 Howald

JUNGLINSTER
2, route de Luxembourg
L-6130 Junglinster

LAROCHETTE
14, place Bleiche
L-7610 Larochette

MAMER
13 A-B, route d'Arlon
L-8211 Mamer

MERSCH
1, rue d'Arlon
L-7513 Mersch

MONDORF-LES-BAINS
58, avenue François Clement
L-5612 Mondorf-les-Bains

NIEDERANVEN
141, route de Trèves
L-6940 Niederanven

PÉTANGE
1, rue Robert Schuman
L-4779 Pétange

REDANGE-SUR-ATTERT
35, Grand'Rue
L-8510 Redange-sur-Attert

REMICH
24, route de l'Europe
L-5531 Remich

SCHIFFLANGE
36-38, avenue de la Libération
L-3850 Schifflange

STEINFORT
5-7, square du Général Patton
L-8443 Steinfort

STRASSEN
255, route d'Arlon
L-8011 Strassen
Private Banking Site
Tel.: (+352) 42 42-86 78
Fax: (+352) 42 42-68 29
Pro Business Center 7 Châteaux
Tel.: (+352) 42 42-68 54

TÉTANGE/KÄLDALL
149, rue Principale
L-3770 Tétange

VIANDEN
4, Grand'Rue
L-9410 Vianden

WASSERBILLIG
36, Grand'Rue
L-6630 Wasserbillig
Pro Business Center Moselle
Tel.: (+352) 42 42-88 93

WEISWAMPACH
33, Gruuss-Strooss
L-9991 Weiswampach
Pro Business Center Ardennes
Tel.: (+352) 42 42-64 39

WILTZ
53-55, Grand'Rue
L-9530 Wiltz
Private Banking Site
Tel.: (+352) 42 42-54 52
Fax: (+352) 42 42-53 98

SUBSIDIARIES/BRANCH, PARTICIPATING INTERESTS, BUSINESS CENTERS AND OTHER COMPANIES OF THE GROUP IN LUXEMBOURG

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HEAD OFFICE

BGL BNP PARIBAS SA
50, avenue J.F. Kennedy
L-2951 Luxembourg
Tel.: (+352) 42 42-1
Fax: (+352) 42 42-33 12 ou -25 05
www.bgl.lu
info@bgl.lu

SUBSIDIARIES

LUXEMBOURG

BNP PARIBAS LEASING SOLUTIONS SA
10, rue Edward Steichen
L-2540 Luxembourg
Tel.: (+352) 26 43 47-89
Fax: (+352) 26 43 47-88
www.leasingsolutions.bnpparibas.com

BNP PARIBAS LEASE GROUP LUXEMBOURG SA
10, rue Edward Steichen
L-2540 Luxembourg
Tel.: (+352) 47 99-85 15
Fax: (+352) 47 99-51 81
www.bgl.lu
bplg.sales@bgl.lu

GLOBAL GENERAL PARTNER SA
50, Avenue J.F. Kennedy
L-2951 Luxembourg
Tel.: (+352) 42 42 75 35
Fax: (+352) 42 42 81 37

BRANCH

BGL BNP PARIBAS GERMAN BRANCH
Herzogenbuscher Str. 10
D-54292 Trier
Tel.: (+49) 651 460 40 10
Fax: (+49) 651 994 96 09

PARTICIPATING INTERESTS

LUXEMBOURG

CARDIF LUX VIE
23-25, avenue de la Porte-Neuve
L-2227 Luxembourg
Tel.: (+352) 26 214-1
Fax: (+352) 26 214-93 71
www.cardifluxvie.lu

BUSINESS CENTERS

GERMANY

BUSINESS CENTER SAARBRÜCKEN
Lebacherstraße 4
D-66113 Saarbrücken
Tel.: (+49) 681 996 34 57
Fax: (+49) 681 996 34 59

BUSINESS CENTER KOBLENZ
August-Thyssen-Straße 27
D-56070 Koblenz

LUXEMBOURG

BUSINESS CENTER LUXEMBOURG
50, avenue J.F. Kennedy
L-2951 Luxembourg
Tel.: (+352) 42 42-20 08
Fax: (+352) 42 42-51 41

OTHER COMPANIES OF THE GROUP IN LUXEMBOURG

ARVAL LUXEMBOURG SA
36, route de Longwy
L-8080 Bertrange
Tel.: (+352) 44 91-801
Fax: (+352) 44 91-90
www.arval.lu
info@arval.lu

BNP PARIBAS INVESTMENT PARTNERS LUXEMBOURG
10, rue Edward Steichen
L-2540 Luxembourg
Tel.: (+352) 26 46-30 01
Fax: (+352) 26 46-91 70
www.bnpparibas-ip.lu

BNP PARIBAS REAL ESTATE INVESTMENT MANAGEMENT LUXEMBOURG SA
Axento Building - Aile B - 3e étage
44, avenue J.F. Kennedy
L-1855 Luxembourg
Tel.: (+352) 26 26-06 1
Fax: (+352) 26 26-06 26
www.realestate.bnpparibas.lu
reimlux@bnpparibas.com

BNP PARIBAS REAL ESTATE ADVISORY & PROPERTY MANAGEMENT SA
Axento Building - Aile B - 3e étage
44, avenue J.F. Kennedy
L-1855 Luxembourg
Tel.: (+352) 34 94-84
Fax: (+352) 34 94-73
www.realestate.bnpparibas.lu

BNP PARIBAS SECURITIES SERVICES LUXEMBOURG
60, avenue J.F. Kennedy
L-1855 Luxembourg
Tel.: (+352) 26 96-20 00
Fax: (+352) 26 96-97 00
www.securities.bnpparibas.com

IMPRESSUM

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BGL BNP Paribas
Société Anonyme
50, avenue J.F. Kennedy - L-2951 Luxembourg
Tel.: (+352) 42 42-1 - Fax: (+352) 42 42-33 12
R.C.S. Luxembourg: B 6481
www.bgl.lu

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