ANNUAL REPORT 2018

BGL BNP PARIBAS

The bank for a changing world

ANNUAL REPORT 2018

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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.

01

CONSOLIDATED KEY FIGURES

In millions of euro	2018 *IFRS 9 and IFRS 15*	2017 *IAS 39*	2016 *IAS 39*
PROFIT AND LOSS ACCOUNT			
Revenues	1,447.0	1,345.3	1,352.2
Operating expenses	(763.9)	(683.5)	(664.7)
Cost of risk	(60.4)	(35.5)	(52.6)
Net profit attributable to equity holders of the parent	**338.9**	**365.8**	**403.2**
BALANCE SHEET			
Balance sheet total	54,597.2	49,630.9	44,980.2
Loans and receivables due from customers	31,707.4	28,553.8	26,580.9
Due to customers	**31,287.1**	26,238.5	23,852.8

	2018 *IFRS 9 and IFRS 15* Basel III (phased in)	2017 *IAS 39* Basel III (phased in)	2016 *IAS 39* Basel III (phased in)
Regulatory capital	5,909.3	5,710.3	5,485.5
Risk-weighted assets	26,208.0	24,599.1	23,663.2
Solvency ratio Basel III	22.6%	23.2%	23.2%

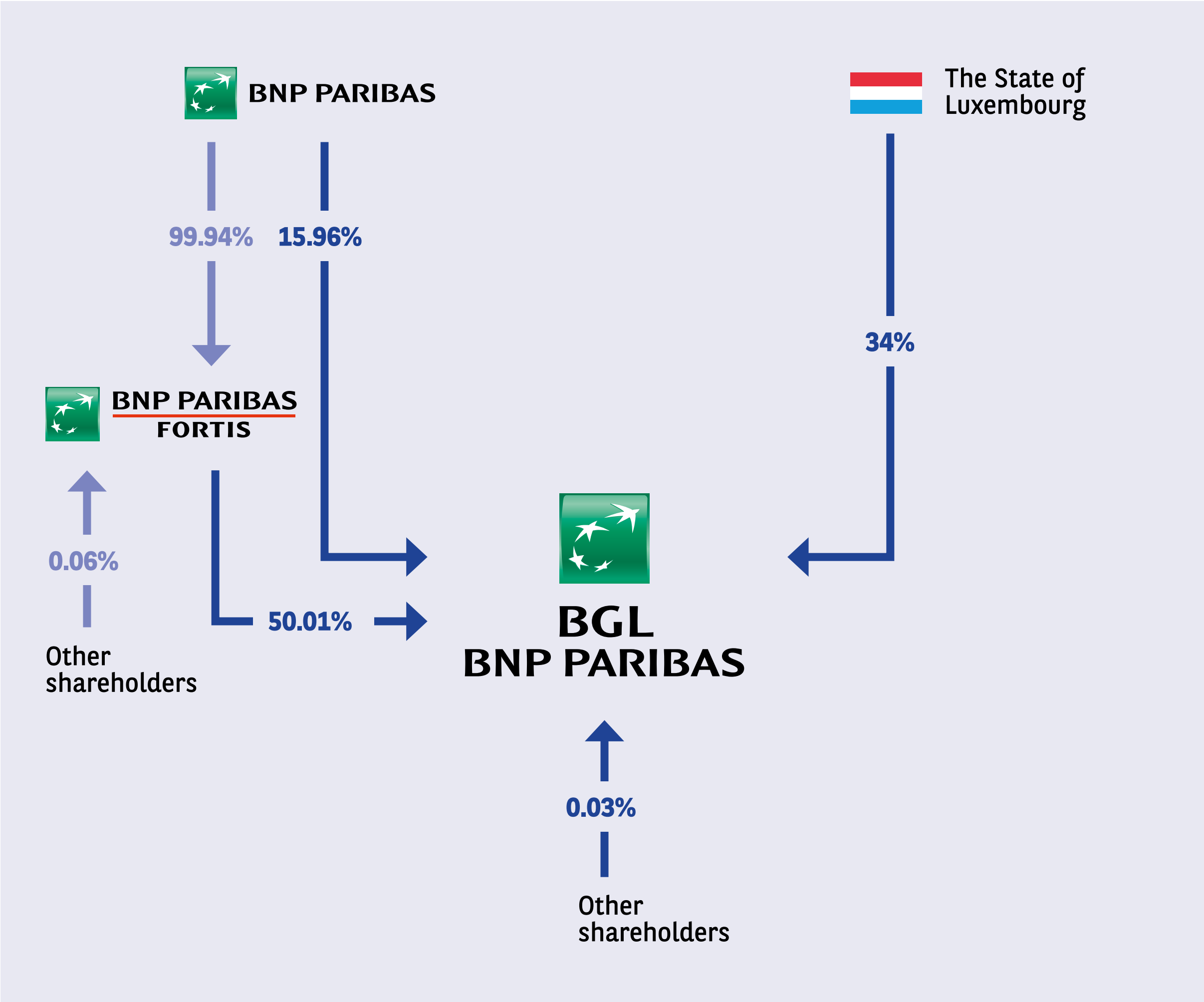
RATINGS (MARCH 2019)	Moody's	Standard & Poor's	Fitch
Short term	P-1	A-1	F1
Long term	A2	A	A+

02

BGL BNP PARIBAS AND ITS SHAREHOLDERS

SHAREHOLDING STRUCTURE

AS AT 31 DECEMBER 2018



03

THE BNP PARIBAS GROUP IN LUXEMBOURG

With some **3,900 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 clients in the business areas of **Retail Banking & Services**, **International Financial Services** and **Corporate & Institutional Banking**.

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

BUSINESS LINES

- The **BGL BNP Paribas Retail & Corporate Banking** business line provides – variously through Retail Banking, Corporate Banking, Private Banking Luxembourg – a broad range of financial products and services, including current accounts, savings products and insurance products, plus specialised services for professionals and companies, such as leasing.

Its commercial network is made of 41 branches, 4 Private Banking sites for high-net-worth residents of the Grand Duchy, 6 business centres that provide services exclusively to professional clients, plus 1 business center dedicated to liberal professions.

- Leasing :

BNP Paribas Leasing Solutions Luxembourg SA is the local market leader for financial leasing, providing attractive equipment financing solutions to its professional clients.

Arval offers vehicle operating lease services to individuals and businesses, 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 and wealth management solutions, in addition to high-end specialist services such as investment advice, discretionary wealth management mandates, wealth organisation and succession planning, finance and daily banking services as well as asset diversification expertise.

- Asset Management :

  BNP Paribas Asset Management offers a full range of financial management services to institutional clients and distributors throughout the world.

- Insurance :

  Cardif Lux Vie covers the specific needs of its clients on several complementary markets: individual and group life insurance for domestic private individuals and corporate customers as well as international life insurance as a means of asset structuring solutions.

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

The **Corporate and Institutional Banking Luxembourg (CIB)** business line offers products and services related to the capital and financing markets in Luxembourg mainly to corporate and institutional clients.

CIB comprises three main businesses:

- CIB CBK aims to meet the day-to-day account-related requirements of Institutional clients;
- Financing Solutions which arranges financing for tangible assets;
- Prime Solutions & Financing which specialises in providing collateralised investment solutions for Institutional clients.

In addition, the Financial Institution Coverage department provides customer-relations assistance to the different business lines.

Lastly, **BNP Paribas Securities Services** in Luxembourg offers clients its long-standing expertise and unique skills in investment fund management, international bond issuance, custodian and transfer agent services and the technical systems and knowhow which b underpin these activities.

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HISTORY OF BGL BNP PARIBAS

BANQUE GÉNÉRALE DU LUXEMBOURG

1919

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

BANQUE GÉNÉRALE DU LUXEMBOURG

The shares of Banque Générale du Luxembourg are **listed on the Luxembourg Stock Exchange**.

1998

FORTIS

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 FORTIS

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

BGL

The Luxembourg State acquires a 49.9% shareholding of the Bank which operates under the name of **BGL.**

2009

BNP PARIBAS

The BNP Paribas Group acquires a majority stake in BGL (65.96%) alongside the Luxembourg State which remains a significant shareholder (34%).

2009

BGL BNP PARIBAS

BGL adopts the name **BGL BNP Paribas**.

05

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Étienne Reuter, Chairman of the Board of Directors

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

THIERRY LABORDE
Deputy Chief Operating Officer of BNP Paribas, Paris
Vice-Chairman

HRH PRINCE GUILLAUME OF LUXEMBOURG
Luxembourg
Director

JEAN-MARIE AZZOLIN
Staff Representative, Palzem
Director

GEOFFROY BAZIN
Chairman of the Executive Committee
Director
(since 1 July 2018)

DIDIER BEAUVOIS
Member of the Management Committee and the Executive 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

GABRIEL DI LETIZIA
Staff Representative, Bergem
Director

JEAN-PAUL FRIEDRICH
Staff Representative, Dudelange
Director

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

JOSIANE KREMER
Staff Representative, Roodt/Septfontaines
Director

VINCENT LECOMTE
Co-CEO BNP Paribas Wealth Management, Paris
Director

ERIC MARTIN
Corporate Director, Paris
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 Executive Committee
(until 30 June 2018)
Economist, 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 Executive Committee
Member
(until 30 June 2018)

GEOFFROY BAZIN
Chairman of the Executive Committee
(since 1 July 2018)
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

EXECUTIVE COMMITTEE

From left to right:
Fabrice Cucchi, Christian Keup, François Dacquin, Geoffroy Bazin, Marc Lenert, Mathilde Jahan (Corporate Secretary), Thierry Schuman, Louis de Looz-Corswarem, Carlo Lessel, Luc Henrard.

EXECUTIVE COMMITTEE

GEOFFROY BAZIN
Chairman
(since 1 July 2018)

CARLO THILL
Chairman
(until 30 June 2018)

FABRICE CUCCHI
Compliance
(until 30 September 2018)
Chief Innovation & Transformation Officer
(since 1 October 2018)
Member

FRANCOIS DACQUIN
Wealth Management
Member

CARLO LESSEL
Finance
Member

LAURE MORSY
Chief Operating Officer,
Corporate & Institutional Banking
Member
(until 31 August 2018)

THIERRY SCHUMAN
Retail and Corporate Banking
Member

DOMINIQUE GOULEM
Capital Markets
Member
(until 31 December 2018)

PATRICK GREGORIUS
Human Resources
Member
(until 31 October 2018)

LOUIS DE LOOZ-CORSWAREM*
Human Resources
Member
(since 1 November 2018)
** Ongoing approval procedure*

LUC HENRARD
Risk
Member

MARC LENERT
Chief Operating Officer
Member

CHRISTIAN KEUP
Chief Administration Officer
(since 1 October 2018)

CORPORATE SECRETARIAT

MATHILDE JAHAN
Corporate Secretary

REMUNERATION AND NOMINATION COMMITTEE

THIERRY LABORDE
Vice-chairman of the Board of Directors
Chairman

DENISE STEINHÄUSER
Director
Member (for remuneration issues)

ÉTIENNE REUTER
Chairman of the Board of Directors
Member

MICHEL WURTH
Director
Member

EXTERNAL AUDITOR

DELOITTE AUDIT SÀRL

INTERNAL AUDITOR

OLIVIER THIRY

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

GLOBAL GENERAL PARTNER SA
CHRISTIAN BRUCCULERI
Board Member & Conducting Officer
FRÉDÉRIQUE MOUSSET
Conducting Officer

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STATEMENT BY 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, 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 2018, and that the management report fairly presents the evolution, earnings and position of BGL BNP Paribas S.A. and the companies included in the scope of consolidation, as well as a description of the principal risks and uncertainties that they face.

Luxembourg, 12 March 2019

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MANAGEMENT REPORT BY THE BOARD OF DIRECTORS

PREAMBLE

Volatility returned to financial markets in 2018 due to political uncertainty, especially regarding Brexit and US-China trade developments. After a remarkably quiet 2017, the markets hit an initial spot of turbulence in February 2018. Market conditions were particularly difficult towards the end of the year, with significant corrections to global equities in December. The end of the year also saw a flight to quality, which triggered a sharp drop in yields on bonds considered to be relatively low-risk. The 10-year Bund yield, for example, ended the year at around 0.24%, down 19 basis points on the level at the end of 2017. Between these two bouts of global volatility, the markets focused their attention on emerging markets during the summer of 2018, with a marked depreciation in the Argentinian and Turkish currencies. The other headline of the year for financial markets was the slump in oil prices, with the price of Brent tumbling by around 40% between early October and late December 2018.

Growth picked up in the United States, rising from 2.2% in 2017 to about 2.9% in 2018. The other major economies grew more slowly in 2018. This was the case for China and Japan, as well as the eurozone where the rate slipped from 2.5% in 2017 to around 1.8% in 2018.

Although eurozone growth slowed in 2018, the overall pace remained steady. Unemployment in the region continued to fall, dropping below 8% in November. Towards the end of 2018, we also started to see more sustained wage growth for the first time in several years. This generally positive backdrop allowed the European Central Bank to reduce its net monthly asset purchases from EUR 30 billion to EUR 15 billion in October 2018, and announce that its net asset purchases would end in January 2019.

The acceleration in US growth over 2018 was largely attributable to corporate and individual tax cuts, which stimulated consumer spending and investment. Numerous jobs were created, and the unemployment rate fell below 4%, the lowest rate seen since the end of the 1960s. Wage growth climbed above 3% y/y in the fourth quarter. Inflation averaged more than 2% in 2018, and the Federal Reserve raised its key interest rate by 0.25% on four occasions during the year. These adjustments widened the interest rate differential between the United States and the eurozone, and helped strengthen the dollar against the euro, from 1.20 at the end of 2017 to 1.14 at the end of 2018. The US central bank also continued to taper its balance sheet.

In Luxembourg, Statec is estimating GDP growth of 3% in 2018, compared with 1.5% in 2017. Employment growth held firm at 3.7% in 2018, up from 3.4% a year earlier. The unemployment rate dropped further, approaching 5% towards the end of 2018. Inflation was relatively stable, averaging 1.6% versus 1.7% in 2017. In accordance with the Luxembourg Labour Code, wages were automatically increased by 2.5% in August 2018 after a new round of indexation was triggered.

CONSOLIDATED MANAGEMENT REPORT

The following issues are key to the interpretation of BGL BNP Paribas Group's financial statements:

- Firstly, consolidated results for the financial year 2018 were affected by the new accounting standards, IFRS 9 and IFRS 15, which came into force on 1 January 2018. BGL BNP Paribas Group has chosen not to restate the comparative financial statements for 2017, as permitted by the two standards.
- Secondly, the lowering of consolidation thresholds also widened the scope:
  - five entities (of which one is attached to the Bank, three to the Leasing International business line and one to BNP Paribas Lease Group Luxembourg SA) were included in the scope of consolidation for the first time.
  - six entities attached to the Leasing International business line and previously accounted for by the equity method are now fully consolidated.
- In addition, the Leasing International business line acquired three new entities in 2018: CMV Médiforce SA, BNP Paribas Leasing Solution SA and RD Leasing IFN SA, active in France, Norway and Romania respectively.
- Furthermore, BGL BNP Paribas acquired ABN AMRO Bank (Luxembourg) SA on 3 September 2018. Following the takeover, the entity was renamed BNP Paribas Wealth Management Luxembourg SA and merged into the Bank on 1 November 2018.

CONSOLIDATED RESULTS

Profit and loss account			Changes	
In millions of euros	2017	2018	Value	%
Revenues	**1,447.0**	**1,345.3**	**101.7**	**8%**
Operating expenses	(763.9)	(683.5)	(80.4)	12%
Gross operating income	**683.1**	**661.8**	**21.3**	**3%**
Cost of risk	(60.4)	(35.5)	(24.9)	70%
Operating income	**622.7**	**626.3**	**(3.6)**	**-1%**
Share of earnings of associates	1.1	23.1	(22.0)	-95%
of which: Leasing	*(7.1)*	*7.7*	*(14.7)*	*-192%*
Net gains on other fixed assets	0.6	5.3	(4.7)	-89%
Pre-tax income	**624.3**	**654.6**	**(30.3)**	**-5%**
Corporate income tax	(124.5)	(122.4)	(2.2)	2%
NET INCOME	**499.8**	**532.2**	**(32.4)**	**-6%**
OF WHICH : NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**338.9**	**365.8**	**(26.9)**	**-7%**

PRO FORMA PROFIT AND LOSS ACCOUNT

The table below presents comparative pro forma figures in order to make movements in the profit and loss account easier to analyse. The 2018 figures are shown without the impact related to the expansion in the scope of consolidation, whilst the 2017 figures have been reconfigured in accordance with IFRS 9 and IFRS 15.

Profit and loss account			Changes	
In millions of euros	2018 pro-forma	2017 pro-forma	Value	%
Revenues	**1,380.7**	**1,351.2**	**29.5**	**2%**
General expenses	(721.1)	(683.5)	(37.6)	6%
Gross operating income	**659.5**	**667.7**	**(8.2)**	**-1%**
Cost of risk	(55.1)	(65.4)	10.2	-16%
Operating income	**604.4**	**602.4**	**2.0**	**0%**
Share of earnings of associates	14.2	23.1	(8.8)	-38%
of which: Leasing	*6.2*	*7.7*	*(1.4)*	*-19%*
Net gains on other fixed assets	(0.0)	5.3	(5.3)	-101%
Pre-tax income	**618.6**	**630.7**	**(12.1)**	**-2%**
Corporate income tax	(118.6)	(117.4)	(1.3)	1%
NET INCOME	**500.0**	**513.3**	**(13.3)**	**-3%**
OF WHICH : NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**337.3**	**351.0**	**(13.7)**	**-4%**

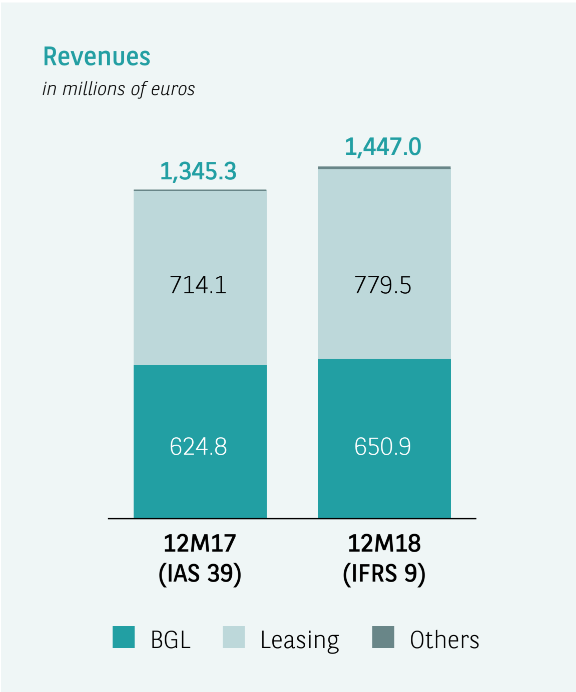
ANALYSIS OF THE PROFIT AND LOSS ACCOUNT AND BALANCE SHEET

Revenues was EUR **1.4470 billion** as at 31 December 2018 under IFRS 9, versus EUR 1.3453 billion at the end of 2017 under IAS 39.

Restated for the impact of the changes in standards and scope, revenues rose by EUR 29.5 million or 2%.

Net interest income was EUR 1.1065 billion as at 31 December 2018 versus EUR 1.0922 billion as at 31 December 2017 (an increase of EUR 14.3 million or 1%).

For banking activities, net interest income declined by EUR 39.4 million or 9%. Restated for hedging positions, on which interest income is recognised under net gains on financial instruments, it fell by EUR 11.6 million or 3%. The markets and treasury activities continue to be penalised by an environment of low, or indeed negative, interest rates and earnings are down as a result. On the other hand, net interest income for client-related activities rose by EUR 10.1 million or 4% thanks to strong growth in deposits and outstanding loans. Net interest income for Leasing International activities rose by EUR 49.5 million or 8%, of which EUR 35.0 million were connected to the expansion in the scope of consolidation. Restated for this impact, there was a rise of EUR 14.6 million or 2%, thanks to continued business development in agriculture, technology and medicine. However, this growth was EUR 15.6 million lower as a result of unfavourable exchange rate movements for some entities located outside of the eurozone.



Net commission income rose from EUR 157.5 million at 31 December 2017 to EUR 162.9 million in 2018, an increase of EUR 5.5 million or 3%, EUR 4.4 million of which came from BNP Paribas Wealth Management Luxembourg. Excluding this impact, fee growth was around 1%. Commercial expansion and new product development allowed the Bank to offset the adverse effects of new regulations that entered into force in 2018.

Net gain/(loss) on financial instruments at fair value through profit or loss rose by EUR 9.4 million or 45% to EUR 30.1 million versus EUR 20.7 million as at 31 December 2017. The item was greatly affected by the entry into force of IFRS 9 in 2018, as well as gains resulting from the completion of hedging transactions, the settlement of which can be found in net interest income. Restated for these factors, net gain/(loss) on financial instruments at fair value through profit or loss fell by EUR 35.8 million. This item was mainly penalised by the downward revaluation of certain securities positions now recognised directly through profit or loss under IFRS 9. Italian bonds held in the proprietary portfolio were mainly responsible for the decline at Bank level, whereas for Leasing International the fall could be traced to the stake in SREI INFRASTRUCTURE FINANCE LIMITED in India. There was also a EUR 2.9 million impact on this item from changes in the scope of consolidation.

Net gain/(loss) on financial instruments valued through equity showed a gain of EUR 62.2 million in 2018 versus EUR 20.3 million in 2017, an increase of EUR 41.9 million. Restated for the impact of the change in accounting standards, net gain/(loss) on financial instruments at fair value through profit or loss increased by EUR 53.2 million. The Bank also received an interim dividend of EUR 51.8 million from BNP Paribas Asset Management Holding SA in 2018, and realised net capital gains of EUR 8.1 million on the sale of government and bank bonds. Bank-level income for 2017 mainly comprised an EUR 8.7 million capital gain on the partial disposal of stakes in Visalux S.C. and Europay Luxembourg S.C., and a EUR 1.4 million net capital gain on the sale of sovereign and banking securities.

Leasing International operations added EUR 2.2 million to this line item, which was down EUR 5.4 million or 71% on the previous year. Indeed, Leasing International had generated higher income from non-consolidated participating interests in 2017, and from the partial disposal of shares in SREI INFRASTRUCTURE FINANCE LIMITED for EUR 1.2 million.

Income and expenses from other activities amounted to EUR 85.3 million versus EUR 54.6 million in 2017, which represents an increase of EUR 30.7 million or 56%. This item mainly consists of net income on investment properties at the Bank and in certain Leasing International entities, together with income from the management of IT environments and fleets of industrial rolling stock by specialised entities within Leasing International. Restated by EUR 3.9 million for the impact of the change in accounting standards and by EUR 17.1 million for the expansion in the scope of consolidation, the item rose by EUR 9.7 million or 13% and reflects business development at Leasing International level.

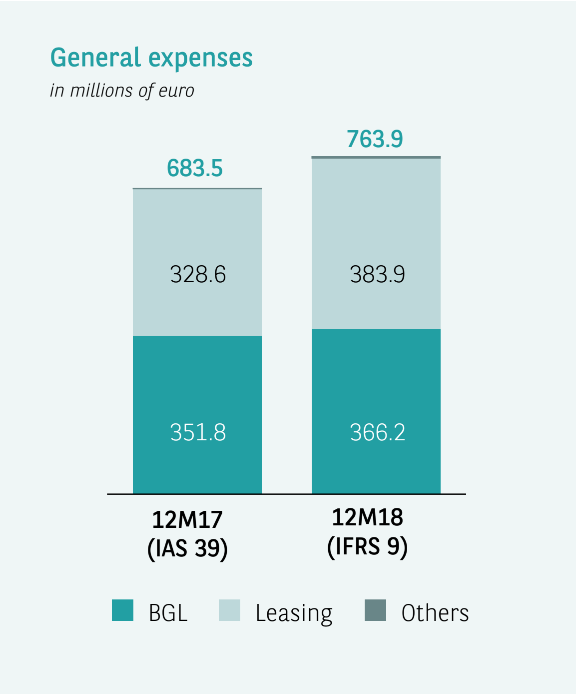
General expenses were EUR 763.9 million as at 31 December 2018 versus EUR 683.5 million at the end of the previous financial year, which represents an increase of EUR 80.4 million or 12%. Restated for the scope effect, overheads rose by EUR 37.6 million or 6%.

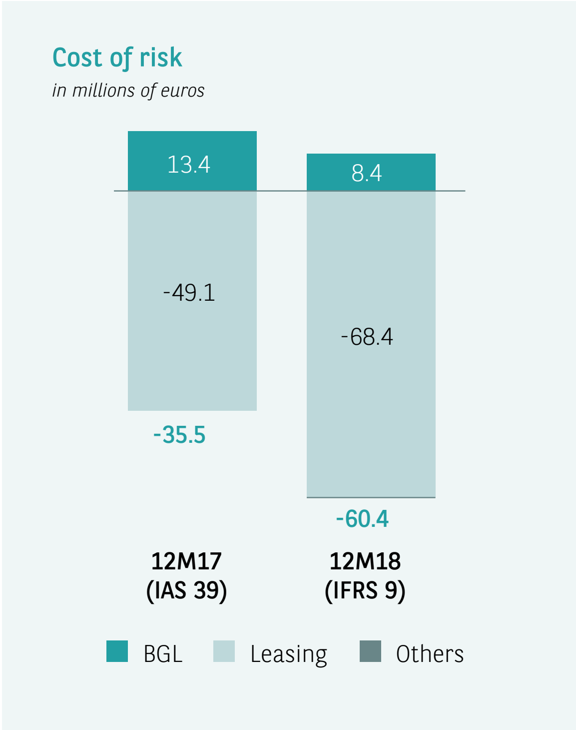
For banking activities, overheads were up EUR 14.4 million or 4%. Excluding the impact of changes in standards, staff costs increased by EUR 10.7 million or 5%. In 2018, the Bank set aside a EUR 9 million provision for the introduction of a new voluntary early retirement plan. The integration of BNP Paribas Wealth Management Luxembourg SA operations added another EUR 2.2 million. Restated for these factors, staff costs were EUR 0.5 million lower due to the ongoing reduction in the workforce.

Other overheads rose by EUR 2.7 million or 2%. In 2018, they included EUR 8.3 million in costs linked to the integration of BNP Paribas Wealth Management Luxembourg SA operations. The Bank also continued to make investments under the 2020 transformation plan, with an increase of EUR 0.4 million on the previous year. Contributions to the Single Resolution Fund and the Deposit Guarantee Fund rose by EUR 4.0 million or 32% to EUR 16.3 million.

Excluding this impact, the Bank's overheads fell by EUR 9.4 million or 4% following a significant reduction in IT expenditure, costs incurred on the Securities platform, and real estate fees. These items were offset by depreciation, amortisation and impairment of property, plant and equipment and intangible assets, which were up EUR 1.2 million or 5%.

Overheads for Leasing International activities rose by EUR 55.4 million or 17%. Restated for the impact of the change in scope of consolidation, these overheads rose by EUR 23.0 million or 7%. At constant exchange





rates and excluding costs related to implementation of the 2020 transformation plan and contributions to the Single Resolution Fund, overheads rose by EUR 17.3 million or 5%. Costs were EUR 6.5 million higher as a result of inflationary pressure in the different regions in which the business line is active. The rest of the increase came from continued investment and recruitment to support the business development plan and launch of new services.

Gross operating income rose by EUR 21.3 million or 3% to EUR 683.1 million. Excluding the impact of changes in standards and the scope of consolidation, it was down EUR 8.2 million or 1%.

Cost of risk amounted to EUR -60.4 million versus EUR -35.5 million in 2017. Restated for the impact of the change in accounting standards and scope of consolidation, cost of risk fell by EUR 10.2 million or 16%. This improvement was at the level of the Bank, where there was a net write-back of EUR 8.4 million versus a release of EUR 3.8 million in the previous year. At Leasing International level, cost of risk was EUR -68.4 million, an improvement of EUR 6.2 million or 9% on a like-for-like basis.

Share of earnings of associates stood at EUR 1.1 million versus EUR 23.1 million in 2017. Restated for the effect of the change in scope, share of earnings of associates fell by EUR 8.8 million or 38%.

The contribution from Leasing International slumped by EUR 14.7 million, going from EUR 7.7 million in 2017 to EUR -7.1 million in 2018. EUR 13.2 million of this deterioration is due to the lowering of the consolidation thresholds resulting in the full consolidation of six entities previously accounted for by the equity method. The contribution from life insurance in Luxembourg (Cardif Lux Vie SA in which the Bank holds 33%) was EUR 8.0 million, down EUR 7.4 million compared with 2017. This decrease stemmed from the downward revaluation of the securities portfolio relative to the previous year.

Net gains on fixed assets were EUR 0.6 million as at 31 December 2018. The item showed a net gain of EUR 5.3 million at 31 December 2017 following the sale of a building owned by Cofhylux SA.

The **income tax charge** increased by EUR 2.2 million or 2% to EUR 124.5 million in 2018 versus EUR 122.4 million in 2017. Excluding the impact of changes in standards and the scope of consolidation, the income tax charge was up EUR 1.3 million or 1%.

At the level of the Bank, the increase in the valuation of the BNP Paribas Leasing Solutions SA stake in the statutory financial statements resulted in a tax charge of EUR 39.0 million. This item was partially offset by an increase in tax-exempt income and by the further cut in the Luxembourg tax rate in 2018. At Leasing International level, the earnings outlook for some entities in the coming years led to the recognition of previously unrecognised tax losses of EUR 28.4 million.

Lastly, after the deduction of net income attributable to minority interests, **Net income attributable to equity holders** for the 2018 financial year was EUR 338.9 million versus EUR 365.8 million in 2017, which is a fall of EUR 26.9 million or 7%. Excluding the impact of changes in standards and the scope of consolidation, the fall was EUR 13.7 million or 4%.

Balance sheet

As at 31 December 2018, the balance sheet total stood at EUR 54.6 billion versus EUR 49.5 billion as at 1 January 2018[1], which was an increase of 10%.

On the **assets** side, **Cash and amounts due from central banks** stood at EUR 0.7 billion versus EUR 0.6 billion as at 1 January 2018[1]. This item consists mainly of short-term deposits with Central Bank of Luxembourg.

Financial instruments at fair value through profit or loss were EUR 1.3 billion as at 31 December 2018 versus EUR 862 million as at 1 January 2018[1]. This item mainly consists of the Bank's securities portfolios, which do not fulfil the criteria of IFRS 9 for classification as instruments at fair value through equity or at amortised cost.

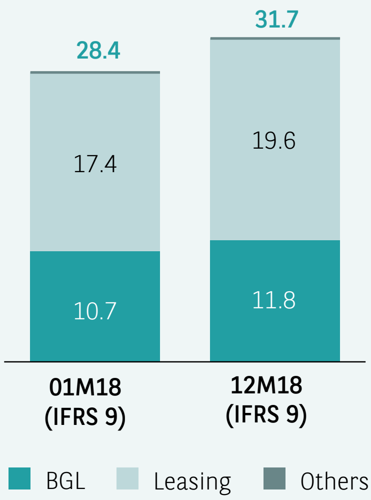
Financial assets at fair value through equity amounted to EUR 1.5 billion versus EUR 2.6 billion as at 1 January 2018[1]. This item consists mainly of the bond portfolio held by the Bank, composed mostly of sovereign and supranational securities and bank bonds.

The fall in the bond portfolio as at 31 December 2018 was primarily due to the sale of EUR 1.2 billion of sovereign and supranational bonds.

Loans and receivables at amortised cost were up EUR 5.9 billion to EUR 47.3 billion as at 31 December 2018.

Loans and receivables due from customers

in billions of euros



- Loans and receivables due from credit institutions amounted to EUR 15.6 billion, up EUR 2.6 billion. This increase was mainly due to the conclusion of reverse repurchase agreements by BGL BNP Paribas with the BNP Paribas Group for EUR 3.8 billion at the end of the year.
- Loans and receivables due from customers rose by EUR 3.3 billion to EUR 31.7 billion. For banking activities, the outstanding rose by EUR 1.1 billion or 10% versus 1 January 2018[1]. This growth came from mortgages (EUR 425 million, +8%) and investment loans (EUR 271 million, +11%) in particular. Loans taken over from BNP Paribas Wealth Management Luxembourg SA added EUR 234 million to the item. For leasing activities, Loans and receivables due from customers rose by EUR 2.2 billion or 12% to EUR 19.6 billion. Debt securities at amortised cost were down EUR 475 million or 24% to EUR 1.5 billion as at 31 December 2018. This decrease, which was entirely at bank level, mainly resulted from government bonds reaching maturity.

Investments in associates stood at EUR 153 million, a decline of 8% versus the previous year. **Goodwill** increased by EUR 56 million to EUR 188 million, largely due to the acquisitions of BNP Paribas Wealth Management Luxembourg SA and BNP Paribas Leasing Solution SA in 2018, which had impacts of EUR 39 million and EUR 17 million respectively.

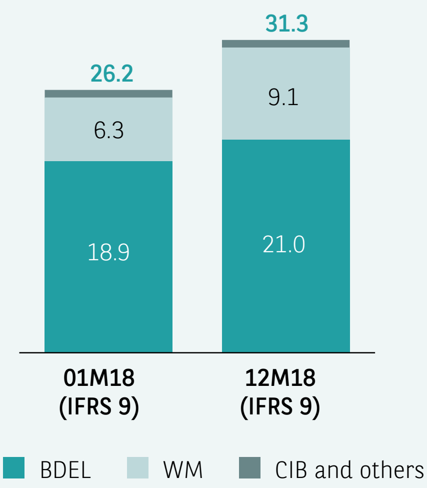
[1] Pro forma, after application of IFRS 9 and IFRS 15.

On the **liabilities** side, **Financial instruments at fair value through profit or loss** stood at EUR 291 million, down EUR 63 million or 18% on the previous year. This decrease largely resulted from the maturing of certain EMTN (Euro Medium Term Notes) measured at fair value, and from the non-renewal of repurchase agreements by Prime Solutions & Financing.

- **Debt at amortised cost** totalled EUR 43.3 billion as at 31 December 2018, up EUR 5.4 billion or 14%. **Amount due to credit institutions at amortised** cost rose by EUR 365 million to EUR 12.0 billion as at 31 December 2018. This growth is mainly attributable to the increase in Leasing International's financing with entities outside of BGL BNP Paribas Group.
- **Amount due to clients at amortised cost** rose from EUR 26.2 billion as at 1 January 2018[1] to EUR 31.3 billion as at 31 December 2018, which represents a growth of 19%. This growth was seen across all of the Bank's business lines

Amount due to customers at amortised cost

in billions of euros



For Corporate Banking in Luxembourg, deposits at the end of the period were up EUR 1.5 billion or 14% versus 1 January 2018[1]. Meanwhile, deposits in Retail Banking rose by EUR 0.5 billion or 7%. Wealth Management saw deposits increase by EUR 2.8 billion or 45% in 2018, with EUR 1.9 billion of this attributable to BNP Paribas Wealth Management Luxembourg SA's inclusion in the scope of consolidation. **Debts securities** fell from EUR 1.5 billion as at 1 January 2018[1] to EUR 1.1 billion as at 31 December 2018, a decrease of 25% due to the maturing of certain positions held in GBP, USD and EUR.

[1] Pro forma, after application of IFRS 9 and IFRS 15.

Subordinated debt showed a balance of EUR 111 million as at 31 December 2018 as a result of Fortis Lease Zeebruge's entry into the scope of consolidation.

Capital

As at 31 December 2018, excluding income for the current period and after deductions in accordance with prudential rules, **regulatory capital** in accordance with Basel 3 stood at EUR 5.9 billion and the **solvency ratio** was 22.6%, versus EUR 5.7 billion and 22.5% respectively as at 1 January [1] .

Risk management within the Bank

The Bank's risk management policy is explained in more detail in Note 5 to the consolidated financial statements as at 31 December 2018. The aim of this policy is to implement all measures necessary to respond to obligatory requirements on governance issues. In addition to the central risk management functions of the Bank with responsibility for coordinating risk monitoring, each business line has a permanent control function focused on its specific business area and with primary responsibility for any risks taken within the scope of the business line's activities.

Risk monitoring and management is handled centrally by specific committees that meet at regular intervals.

Credit risks are monitored by the weekly Central Credit Committee, market risks by the quarterly Capital Market Risk Committee, interest rate and liquidity risks by the monthly Asset & Liability Committee and operational risks by the half-yearly Internal Control Committee. On top of this comes the Operational Risk Steering Committee, which meets twice a month and is responsible for the close operational monitoring of all day-to-day risks and malfunctions. Dependent on the subject, the Risk Committee or the Audit Committee, which are bodies established by the Board of Directors, receive a summary presentation of all risks managed by the specific committees cited above. The Bank has thus implemented robust risk management systems that comply with regulatory requirements.

Corporate governance and non-financial disclosure

Non-financial disclosure, in accordance with Article 68a of the Law of 19 December 2002 regarding the trade and companies register and the accounting and annual financial statements of companies, as amended, and corporate governance disclosure, in accordance with Article 70a of the Law of 17 June 1992 regarding the financial statements of credit institutions, as amended, can be consulted on the Bank's website.

https://www.bgl.lu/en/bank/pages/about-bgl-bnp-paribas/knowing-us/financial-and-legal-information/financial-results.htm

The Bank's activities

Retail and Corporate Banking (BDEL)

Retail and Corporate Banking in Luxembourg includes Retail Banking, Corporate Banking and Private Banking Luxembourg. It offers a broad range of financial products and services for retail, professional and corporate clients via its network of 41 branches and its dedicated corporate and retail banking divisions and departments.

Looking to continuously improve its client satisfaction, Retail and Corporate Banking has drawn up new customer journeys for both its retail and corporate clients. The optimisation of customers journeys is intended to ensure a smooth, simpler experience. In this vein, and with a view to gathering feedback, Retail and Corporate Banking has started to use client satisfaction surveys more systematically.

In 2018, *Retail Banking (BDL)* continued to develop its omnichannel model, notably by relocating two branches, with locality, modernity and accessibility in mind. Following an innovative concept that the Bank has introduced to its network, the relocated branches focus on welcoming clients and combining personalised service with digital technology.

Retail and Corporate Banking also continued to expand its range of investments by marketing the Diversipierre real estate investment fund (REIF). This REIF combines diversified real estate investment – especially in Luxembourg property – with financial investment.

Also in 2018, Retail Banking, which already has seven Corporate Business Centres for its SME (small and medium-sized enterprise) clients, opened a Business Centre for liberal professions with a view to providing a service adapted to the specific needs and expectations of this type of client.

The Client Service division within Retail Banking offers telephone support to assist clients with their day-to-day banking operations. This simplified approach aims to improve the experience of clients who prefer to interact with the Bank remotely.

Corporate Banking (BEL) is Luxembourg's reference banking partner for large firms, the public sector, social organisations, real estate and start-ups professionals. It offers one of the widest ranges of banking products and solutions on the Luxembourg marketplace for the corporate segment.

Its includes all the Coverage teams focused on client relations in each segment, as well as Trade, Cash Management, Forex, Escrow Account and Real Estate product specialists.

Corporate Banking works in close collaboration with the BNP Paribas Group's international corporate banking network. With its "One Bank for Corporates" offer, the Bank can provide each and every client with a banking continuity solution conducive to international development with a single point of contact: the relationship manager.

In 2018, the Bank continued to play an active role in the development of the Luxembourg economy and local business, providing assistance through loans, introducing effective cash management services, and supporting internationalisation.

Private Banking Luxembourg (BPL) provides integrated and personalised financial and wealth management solutions for high net worth clients who live in Luxembourg and the Greater Region, as well as day-to-day banking services via four private banking sites within the branch network. Close collaboration with the seven Corporate Business Centers for SME clients shows the importance of the entrepreneur approach to Private Banking Luxembourg, which offers its clients an array of bespoke solutions.

2018 also saw the launch of the Master Class for young adults taking over family businesses in Luxembourg. This programme allows them to discuss with, and receive advice and resources from, bank experts and internationally renowned business leaders to understand how the process works when a family business is passed on.

Private Banking Luxembourg also continued to offer a range of personalised discretionary asset management mandates and advisory management services to clients in 2018. Furthermore, the Asset Advisory range enables clients to communicate with an investment manager on their investments and the management of their portfolios.

Innovation:
launch of the new Private Lease service

As the bank for a changing world, BGL BNP Paribas responds to the constantly evolving needs and habits of its clients through continuous innovation and development of its range of services.

Exclusive to Luxembourg at the time of its launch, and making the Bank a pioneer in the field, the Bank introduced a new Private Lease service in 2018, in partnership with Arval Luxembourg. The private leases in question are long-term rental agreements for a new totally personalised vehicle, with a specific period and mileage. Initially reserved for retail clients living in Luxembourg, this service has since been extended to liberal professions.

Wealth Management (WM)

Operating under the BNP Paribas Wealth Management banner, the Wealth Management business line offers international clients tailored asset and financial management solutions, in addition to a suite of high-quality services.

At the core of a rapidly consolidating market, BNP Paribas Wealth Management strengthened its foothold among the leaders on the Luxembourg marketplace by finalising the acquisition of ABN Amro Bank (Luxembourg). This deal contributed to the growth of the Dutch customer base while increasing the amount of assets under management and loan outstanding.

Reflecting the appeal of its offer, and capitalising on the recent acquisition of ABN Amro Bank (Luxembourg), Wealth Management's assets under management rose sharply across all segments and regions covered in 2018.

Against the backdrop of persistently low interest rates and thanks to a responsive and tailored range of financing solutions, loans outstanding continued to rise in 2018. Discretionary and advisory management solutions also grew strongly in 2018.

In terms of offering, discretionary management adopted a new approach to portfolio management with a "Smart" range. Based on a detailed analysis of each client's needs, it offers highly customised mandates and has been very popular with clients.

In a similar vein to action taken to improve the client experience, and following the launch of the myFeedback app in 2017, clients are now able to share their opinions at key points in their relationship with the Bank. These surveys led to the production of an initial NPS (Net Promoter Score) for Wealth Management in Luxembourg, which will be used as a benchmark for monitoring future progress.

BGL BNP Paribas named
Best Bank in Luxembourg and Bank of the Year in Luxembourg

BGL BNP Paribas received two awards from The Banker and Euromoney in 2018, recognising the Bank's continuous efforts to serve its clients.

Named best Bank in Luxembourg for the third consecutive year by internationally renowned financial magazine Euromoney, the Bank also received the prestigious Bank of the Year in Luxembourg prize from The Bankers, a monthly international financial affairs publication.

Corporate and Institutional Banking Luxembourg (CIB)

The Corporate and Institutional Banking Luxembourg business line offers products and services related to the capital and financing markets in Luxembourg to the Bank's corporate and institutional clients.

Financing Solutions arranges financing for tangible assets such as ships and aircraft. The business again confirmed its status as a priviledged and renowned partner to the Luxembourg marketplace in this highly specialised segment in 2018.

Prime Solutions and Financing, which uses the BNP Paribas Group's Global Markets platform, has developed strategic equity products for corporate and institutional clients in Luxembourg, allowing them to arrange loans secured by equity.

CIB Correspondent Banking provides institutional investors with services such as account management, bank guarantees and general financing.

Alongside these three activities, the Financial Institutions Coverage division, which assists business lines in their client relationships, markets the products and services offered by BNP Paribas Group

BNP Paribas Leasing Solutions took the *Digital Innovation prize at the Leasing Life Awards* and was named *Financial Solutions Provider of the Year at the European IT & Software Excellence Awards*.

BNP Paribas Leasing Solutions received the Financial Solutions Provider of the Year award for the sixth consecutive year at the European IT & Software Excellence Awards in 2018. It also took the Digital Innovation prize at the 14th Leasing Life Awards. Given out by Europe's number one leasing magazine, the Leasing Life Awards recognise the greatest achievements in the European asset financing industry each year. The main reason for the award going to Leasing Solutions was the Kintessia project. Launched at the start of 2018, this is the first platform for the lease and sale of professional equipment used in agriculture, transport and construction. The completely secure platform connects professionals who want to buy, sell or rent equipment.

BNP Paribas Leasing Solutions

The various leasing entities of BNP Paribas Group, including BNP Paribas Lease Group Luxembourg, a wholly owned subsidiary of the Bank, operate under the BNP Paribas Leasing Solutions banner to offer a range of leasing solutions for corporate and professional clients. The offer ranges from equipment financing to the outsourcing of vehicle fleets and long-term leasing through various channels: direct sales, sales by referrals, partnerships and banking networks.

BNP Paribas Leasing Solutions, which is half-owned by BGL BNP Paribas, is one of Europe's leading leasing and finance specialists, mainly covering two major types of equipment: rolling stock and technological hardware.

Operating in 18 countries with nearly 3,400 employees, BNP Paribas Leasing Solutions provides its clients and partners with value-adding solutions, and strives to act as a business catalyst.

As part of its 2020 transformation plan, BNP Paribas Leasing Solutions has undertaken various initiatives to stimulate its growth and enhance its operational efficiency: new capital-lite services, promotion of lease offers, digitalisation of sales.

BNP Paribas Leasing Solutions has also become more ambitious on the healthcare market with the integration of CMV Médiforce in France. This merger gives BNP Paribas Leasing Solutions a full range of financing solutions for the healthcare sector, the aim being to become the French market leader.

BNP Paribas Leasing Solutions also pursued its international development in 2018 with the acquisition of Norway's Landkreditt Finans AS, a company specialising in the financing of agricultural, forestry and construction equipment. With this acquisition, BNP Paribas Leasing Solutions has laid the cornerstone of its expansion into the Nordic countries, consolidating its position as number one for leasing in Europe.

BNP Paribas Group in Luxembourg certified *Top Employer* for the third time

BGL BNP Paribas received the prestigious Top Employer award for the third year running. Issued by the Top Employer Institute, an independent body of international renown, this certification recognises companies that have established excellent conditions for their staff.

The Bank progressed in nearly all areas of the survey, with the category on employee integration improving the most, largely due to the extension of the onboarding process that has been in place since the end of 2017. The aim is to give every new employee a sense of belonging and support from the moment a contract is signed. This approach has also been a key factor in integrating ABN Amro Bank (Luxembourg) staff, who joined the Bank in 2018. Its various components include the Wëllkom App, which guides new employees through the integration process, and the attendance at a Cultural Days seminar focused on the corporate values and behaviour expected at BGL BNP Paribas.

Human Resources

The BNP Paribas Group attaches great importance to its code of conduct and, in particular, respect for colleagues, which is a pillar of one particular value: Good Place to Work. As such, in 2018, BGL BNP Paribas extended its array of measures to prevent workplace violence and harassment through a new procedure, a communications campaign, and training sessions on the issue. The Bank also chose respect as the theme of its 2018 Diversity Week.

These initiatives are motivated by the Bank's desire to continue acting as a responsible employer. They also entail substantial investment in staff employability and training. Indeed, BGL BNP Paribas has made training one of its strengths in recent years. New training programmes appeared in 2018, covering forward-looking issues such as digital technology and agile working.

These sit alongside continued efforts to improve internal mobility, making it easier for staff to move around and skills to be shared at the Bank, while offering inspiring career opportunities. With the About Me portal, introduced in 2017, staff are invited to list their skills, aspirations and career goals so that they can receive job offers that match their profile.

This information is used in a Strategic Workforce Planning project, the aim of which is to predict the Bank's skills requirements for the coming years so that suitable training and staffing measures can be taken. This approach started to be rolled out to certain pilot groups in 2018.

Identified as a lever for employee engagement, BGL BNP Paribas paid close attention to its people managers in 2018. By combining the results of its Strategic Workforce Planning approach with a staff questionnaire, the Bank is working to build a profile of the ideal manager's skills, which will be central to transforming the role of managers at BGL BNP Paribas and guiding future action in this area.

The Bank is also looking to improve how it identifies, attracts and secures the loyalty of its talents, appointing a talent manager to manage these particular individuals. BGL BNP Paribas also recruited 26 highly promising young adults as part of its Graduate programme in 2018.

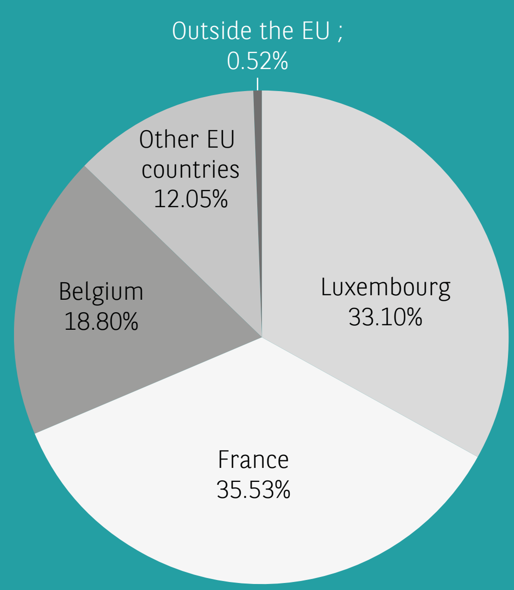
In taking all these actions, BGL BNP Paribas is pursuing the goals of its 2020 HR plan, the aim of which is to increase its staff's commitment and performance through a positive employee experience, all to the benefit of client satisfaction.

More than ever during these changing times, the Board of Directors recognises and appreciates the extreme importance of its human capital, which includes all of the Bank's employees. The Board wishes to express its recognition for the continuous work and commitment shown by everyone throughout 2018. It also wishes to highlight the extremely responsible and constructive working relationship with all of the social partners and thanks them for their day-to-day cooperation.

Staffing situation within BGL BNP Paribas

As at 31 December 2018, the total number of Bank employees in Luxembourg was 2,474 including 1,212 women (48.99%) and 1,262 men (51.01%). The Bank hired 112 new employees (31 fixed-term contracts and 81 permanent contracts) in 2018. The percentage of employees working part time was 27.56%.

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



OUTLOOK FOR 2019

The Bank will continue with the active deployment of its 2017-2020 development plan in 2019. In line with its interim goals, BGL BNP Paribas will further its efforts to optimise the client experience and build on the work undertaken in 2018, mainly through improvements in commercial aspects, but also through initiatives to maximise operational efficiency.

Against an unchanged backdrop of low interest rates and of regulations affecting business lines' profitability, cross-selling between the different BNP Paribas Group entities present in Luxembourg will remain a basis for the Bank's development. In 2019, BGL BNP Paribas will reaffirm its position as a universal bank capable of offering a wide range of products and services, and guaranteeing an excellent standard of service for its clients through a good collaboration with the other BNP Paribas Group entities in Luxembourg.

The Bank will strengthen its position in sustainable finance by further developing its range of socially responsible products, which couple community engagement with financial performance.

In relation to the European Banking Authority's publication on 25 June 2018 of its opinion on the risks incurred by financial institutions' lack of preparation for the United Kingdom leaving the European Union (Brexit) without ratifying a withdrawal agreement by 30 March 2019, BGL BNP Paribas has conducted a study of the main implications for the Bank's different business lines and departments in such a scenario. Taking all available information into account, the impact on BGL BNP Paribas would appear to be limited at this stage.

BGL BNP Paribas will also assume its responsibilities as a key player in the local economy and will uphold its social commitment, whether financing micro-enterprises through its involvement with microlux, supporting local associations, or as a privileged sport sponsor in Luxembourg.

BGL BNP Paribas will celebrate its 100th anniversary in 2019. Celebrations will begin in June 2019 and include an official ceremony and client events, and will be a special time for staff.

Luxembourg, 12 March 2019
The Board of Directors

08

CONSOLIDATED FINANCIAL STATEMENTS

AT 31 DECEMBER 2018

AUDIT REPORT

To the Board of Directors of
de BGL BNP Paribas SA

Report of the reviseur d'entreprises agree

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of BGL BNP Paribas and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and of its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 on the audit profession (Law of July 23, 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier (CSSF). Our responsibilities under those Regulation, Law and standards are further described in the "Responsibilities of the Réviseur d'Entreprises Agréé for the Audit of the Consolidated Financial Statements" section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS

IFRS 9 - Classification and valuation methodology for financial assets

BGL BNP Paribas applied IFRS 9 (phases I and II), from January 1, 2018 to its financial assets and liabilities, with the exception of those of the Insurance business line.

This standard significantly changes the rules concerning the classification, measurement and impairment of financial assets. In particular, the calculation of impairment losses according to the expected credit losses model requires management to exercise judgement, as described below.

The first-time application of IFRS 9 led BGL BNP Paribas to recognise a negative impact of EUR 152.9 billion, net of tax, in equity, to publish an opening balance sheet at January 1, 2018 and to provide detailed disclosures on the transition from the balance sheet at December 31, 2017 prepared under IAS 39 to the opening balance sheet at January 1, 2018 prepared under IFRS 9.

Determining impacts and detailed information related to this first-time application required reliance on many assumptions and judgements as well as new operational processes.

Given the complexity of the application of IFRS 9 and the significance of the information published, we deemed the determination of the impact of the first-time application of IFRS 9 and the related disclosures to be a key audit matter.

OUR ANSWER

We assessed the procedures deployed by BGL BNP Paribas (aligned with the procedures of BNP Paribas) to implement the new standard. We asked our experts to assess the analyses performed and the models used by BGL BNP Paribas to apply the new IFRS 9 accounting principles.

With respect to the classification and measurement of assets and liabilities, our work consisted in:

- Examining the analyses performed and the accounting principles defined by the Group and their implementation by the main business lines;
- Based on a sample of contracts, verifying the analysis prepared by BGL BNP Paribas as regards the classification of financial assets;
- Assessing the models used for managing financial assets.

With respect to expected credit losses, our audit work consisted in:

- Assessing the compliance of BGL BNP Paribas' accounting principles with IFRS 9 and the methods implemented by the business lines by examining the independent verifications performed internally where appropriate;
- Based on a sample of models, assessing the implementation of said models in IT systems and the financial reporting;
- Performing an independent calculation of the expected losses based on a sample of contracts.

We also assessed the appropriateness of the disclosures provided in the notes to the consolidated financial statements in relation to the impact of the first-time application of IFRS 9.

KEY AUDIT MATTER

IFRS 9 - Customer loans valuation

BGL BNP Paribas recognises impairment losses to hedge the credit risks inherent to its banking intermediation activities.

As from 1 January 2018, these impairment losses are determined in accordance with IFRS 9 and the expected credit losses model.

The measurement of expected credit losses on customer loan portfolios requires management to exercise judgement, in particular in order to:

- Assess the significant deterioration of credit risk to classify outstandings in stage 1, stage 2, or stage 3;
- Estimate the amount of expected losses according to the different stages;
- Prepare macro-economic projections which are integrated into both the criteria for recognising deterioration and in the measurement of expected losses.

At December 31, 2018, total outstanding customer loans exposed to credit risk amounted to EUR 17.1 billion; total impairment losses stood at EUR 192.1 million.

We deemed the assessment of credit risk and the measurement of impairment losses to be a key audit matter insofar as management is required to exercise judgement and make estimates to assess credit risk, in particular as regards loans granted to companies and individuals, given the potentially substantial amounts of the outstanding loans concerned.

OUR ANSWER

We concentrated our work on the most significant exposures and/ or portfolios covering the different business lines of the Group.

We assessed the relevance of BGL BNP Paribas' internal control system and tested the manual and computerised controls for assessing credit risk and measuring expected losses.

During our work, we focused on:

- Classification of outstanding by stage: we assessed the relevance and the correct application of the indicators used by the various business lines to measure significant increases in credit risk;
- Measurement of expected losses (stages 1, 2 and 3):
    - Assisted by our credit risk experts and relying on the internal system for independent validation of the BNP Group's models, we assessed the methodologies as well as the assumptions underlying the macro-economic projections used by BGL BNP Paribas across the various scopes, the proper integration of said projections into the information system and the effectiveness of the data quality controls;
    - With regard to impairment losses specific to outstanding loans for BDEL and WM classified In stage 3, we verified that a periodic review of the counterparties under surveillance had been carried out by BGL BNP Paribas and based on a sample, assessed the assumptions and data used by management to estimate impairment.

We have also been assisted by our information systems specialists in the areas requiring an expertise to validate the integrity and completeness of the data.

In addition, we examined the disclosures in the notes to the consolidated financial statements with respect to credit risk and particularly the new disclosures required as a result of the application of IFRS 9.

KEY AUDIT MATTER	OUR ANSWER
General IT Controls The reliability and security of information technology systems play a key role in the preparation of BGL BNP Paribas' consolidated financial statements. We thus deemed the assessment of the general IT controls and the application controls specific to the information processing chains that contribute to the preparation of accounting and financial information to be a key audit matter. In particular, a system for controlling access rights to IT systems and authorisation levels based on employee profiles represents a key control for limiting the risk of inappropriate changes to applications' settings or underlying data.	For the main systems used to prepare accounting and financial information, assisted by our IT specialists, our work notably consisted in: ■ Obtaining an understanding of the systems, processes and controls which underpin accounting and financial data; ■ Assessing the general IT controls (application and data access management, application changes/developments management and IT operations management) on material systems (in particular, accounting, consolidation and automatic reconciliation applications, operational applications of which certain information are flowing into the accounting frame); ■ Examining the control for the authorisation of manual accounting entries; ■ Performing additional audit procedures, where appropriate; ■ Verification of the integrity of the data used for the audit work.

KEY AUDIT MATTER	OUR ANSWER
Litigation and operational risk As of December 31, 2018 the total provision for litigation and claims corresponds to EUR 34 million. The Banks's governance and internal control environment is designed to identify, validate and monitor litigations and related provisions. In this context, the business lines and the legal and operational risk department are monitoring on a continuing basis consistency of the provisions allocated to the different identified claims. We deemed the identification of the provisions related to litigations to constitute a key audit matter insofar as the estimate of the provision requires professional judgement.	We observed the internal control environment of the Bank in regards to the detection, the estimate and the follow up of the litigations and the provisions through interviews with the legal department and the operational risk department. We have reviewed the minutes of the different business committees, the provisioning Committee for Operational Risk as well as the litigation detailed descriptive memo given by the legal department. We have also circularised all the lawyers of the Bank as of the 31st of December to ensure the accuracy and the consistency of the follow up of the litigations and the provisions.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated annual report including the management report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of the Réviseur d'Entreprises Agréé 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.

Responsibilities of the Board of Directors and Those Charged with Governance 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 IFRSs 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.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Responsibilities of the Réviseur d'Entreprises Agréé for the Audit of the Consolidated Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the Réviseur d'Entreprises Agréé that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU Regulation N° 537/2014, the Law of July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the Réviseur d'Entreprises Agréé to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the Réviseur d'Entreprises Agréé. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on Other Legal and Regulatory Requirements

We have been appointed as Réviseur d'Entreprises Agréé by the General Meeting of the Shareholders and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 6 years.

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

The Corporate Governance Statement, as published on the Company's website https://www.bgl.lu/fr/banque/pages/a-propos-de-bgl-bnp-paribas/nous-connaitre/donnees-financieres-et-juridiques/resultats-financiers.htm, is the responsibility of the Board of Directors. The information required by Article 70bis Paragraph (1) Letters c) and d) of the Law of 17 June 1992 relating to the annual and consolidated accounts of credit institutions governed by the laws of Luxembourg,, as amended, is consistent, at the date of this report, with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Other matter

The Corporate Governance Statement includes, when applicable, information required by Article 70bis Paragraph (1) Letters c) and d) of the Law of 17 June 1992 relating to the annual and consolidated accounts of credit institutions governed by the laws of Luxembourg, as amended.

For Deloitte Audit,
Cabinet de Révision Agréé

Martin Flaunet,
Réviseur d'Entreprises Agréé
Partner

March 12, 2019

CONSOLIDATED FINANCIAL STATEMENTS

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 2018 and 2017, in compliance with the IFRS standards adopted by the European Union.

IFRS 9 and IFRS 15 are applicable retrospectively as at 1 January 2018, and both standards offer the possibility of not restating comparative figures for prior financial years. As the Group has chosen this option, the comparative financial statements for 2017 have not been restated for these changes in methodology.

However, some presentational changes have been made to these comparative statements in order to harmonise account headings with those under IFRS 9. Details of these changes are provided in note 2.a. In addition, there is a balance sheet summary presenting a comparative framework as at 1 January 2018 that reflects the effects of the application of IFRS 9 and IFRS 15 (see note 2.b). The comparative data presented in the notes to the balance sheet in section 5 was established on the basis of this framework.

CONSOLIDATED PROFIT AND LOSS

In millions of euros	*Notes*	2018 *IFRS 9 and IFRS 15*	2017[1] *IAS 39*
Interest and similar income	*3.a*	1,406.2	1,337.0
Interest and similar expense	*3.a*	(299.7)	(244.9)
Commission (income)	*3.b*	221.9	379.6
Commission (expense)	*3.b*	(59.0)	(222.1)
Net gain on financial instruments at fair value through profit or loss	*3.c*	30.1	20.8
Net gain on financial instruments at fair value through equity	*3.d*	62.2	20.3
Income on other activities	*3.e*	657.7	383.6
Expense on other activities	*3.e*	(572.4)	(329.0)
Revenues		**1,447.0**	**1,345.3**
Staff costs	*8.a*	(462.0)	(422.4)
Other operating expense	*3.f*	(264.4)	(225.9)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	*6.l*	(37.5)	(35.2)
Gross operating income		**683.1**	**661.8**
Cost of risk	*3.g*	(60.4)	(35.5)
Operating income		**622.7**	**626.3**
Share of earnings of associates	*3.h*	1.1	23.1
Net gain or loss on other fixed assets	*3.i*	0.6	5.3
Pre-tax income		**624.3**	**654.6**
Corporate income tax	*3.j*	(124.5)	(122.4)
Net income		**499.8**	**532.3**
Minority interests		160.9	166.5
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**338.9**	**365.8**

[1] New presentation taking account of the reclassifications and new headings within revenues described in note 2.a: "Net gain on available-for-sale financial assets» is renamed "Net gain on financial instruments at fair value through equity" and interest on instruments held for trading purposes has been reclassified within "Net gain on financial instruments at fair value through profit or loss".

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

In millions of euros	2018 *IFRS 9 and IFRS 15*	2017[1)] *IAS 39*
Net income	**499.8**	**532.2**
Changes in assets and liabilities recognised directly in equity	**(16.4)**	**(68.9)**
Items that may be reported in income	**(58.5)**	**(68.6)**
Items related to exchange rate movements	(30.9)	(32.1)
Changes in fair value of financial instruments at fair value through equity	(22.5)	(22.7)
Changes in fair value recognised in equity	*(14.6)*	*(11.4)*
Changes in fair value reported in net income	*(8.0)*	*(11.3)*
Changes in fair value of hedging instruments	(1.0)	(18.9)
Changes in fair value recognised in equity	*(0.9)*	*(18.9)*
Changes in fair value reported in net income	*(0.1)*	-
Income tax	6.1	12.2
Changes in fair value of items related to equity associates, net of tax	(10.2)	(7.2)
Items not reported in income	**42.1**	**(0.2)**
Changes in fair value of financial instruments designated at fair value option through equity	6.2	-
Debt remeasurement effect arising from own credit risk	3.4	-
Remeasurement gains (losses) related to post-employment benefit plans	20.5	0.4
Income tax	10.7	(0.6)
Changes of fair value in items related to equity associates, net of tax	1.3	-
TOTAL	**483.4**	**463.3**
Attributable to equity shareholders of the parent	299.7	314.5
Attributable to minority interests	183.7	148.9

[1)] New presentation taking account of the changes described in note 2.a: "Changes in fair value of available-for-sale assets including those reclassified as loans and receivables" is renamed "Changes in fair value of financial instruments at fair value through equity". Additionally, changes are now presented before taxes.

CONSOLIDATED BALANCE SHEET

In millions of euros	*Notes*	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018[1] *IFRS 9 and IFRS 15*	31 December 2017[2] *IAS 39*
ASSETS				
Cash and amounts due from central banks		745.2	585.5	585.5
Financial instruments at fair value through profit or loss		1,273.7	861.6	182.5
Securities	*6.a*	969.2	730.2	86.6
Loans and repurchase agreements	*6.a*	113.1	62.6	28.7
Derivatives	*6.a*	191.4	68.9	66.8
Derivatives used for hedging purposes	*6.b*	115.9	114.3	116.4
Financial assets at fair value through equity		1,481.6	2,568.0	4,708.2
Debt securities	*6.c*	1,165.9	2,256.1	4,318.4
Equity instruments	*6.c*	315.6	311.9	389.8
Financial assets at amortized cost		48,778.6	43,350.3	42,056.4
Loans and receivables due from credit institutions	*6.e*	15,559.5	12,961.8	12,961.8
Loans and receivables due from customers	*6.e*	31,707.4	28,402.1	28,523.1
Debt securities	*6.e*	1,511.7	1,986.4	570.6
Current and deferred tax assets	*6.i*	178.9	127.3	110.3
Accrued income and other assets	*6.j*	782.2	661.7	663.0
Investments in associates	*6.k*	152.8	165.7	186.4
Property, plant and equipment and investment property	*6.l*	866.5	865.2	865.2
Intangible assets	*6.l*	33.7	25.9	25.9
Goodwill	*6.m*	188.1	132.6	132.6
TOTAL ASSETS		**54,597.2**	**49,458.0**	**49,630.9**
LIABILITIES				
Financial instruments at fair value through profit or loss		291.4	354.1	354.1
Deposits and repurchase agreements	*6.a*	102.5	118.9	118.9
Issued debt securities	*6.a*	131.7	182.5	182.5
Derivatives	*6.a*	57.2	52.8	52.6
Derivatives used for hedging purposes	*6.b*	8.5	31.2	31.4
Financial liabilities at amortized cost		44,529.2	39,372.7	39,372.7
Due to credit institutions	*6.g*	12,026.0	11,661.0	11,661.0
Due to customers	*6.g*	31,287.1	26,238.5	26,238.5
Issued debt securities	*6.h*	1,105.0	1,473.2	1,473.2
Subordinated debt	*6.h*	111.1	-	-
Remeasurement adjustment on interest-rate risk hedged portfolios		60.5	50.1	50.1
Current and deferred tax liabilities	*6.i*	452.7	453.3	486.8
Accrued expenses and other liabilities	*6.j*	1,249.3	1,111.4	1,092.4
Provisions for contingencies and charges	*6.n*	158.9	161.5	165.7
TOTAL LIABILITIES		**46,750.5**	**41,534.4**	**41,553.0**
CONSOLIDATED EQUITY				
Share capital and additional paid-in capital		*6,403.2*	*6,197.8*	*6,150.7*
Net income for the period, attibutable to shareholders		*338.9*	*365.8*	*365.8*
Total capital, retained earnings and net income for the period, attibutable to shareholders		**6,742.1**	**6,563.6**	**6,516.5**
Changes in assets and liabilities recognised directly in equity		(36.0)	3.2	158.1
TOTAL CONSOLIDATED EQUITY		**6,706.1**	**6,566.8**	**6,674.5**
Retained earnings and net income attributable to minority interests		1,216.9	1,456.0	1,494.6
Changes in assets and liabilities recognised directly in equity		(76.2)	(99.2)	(91.1)
Total minority interests		**1,140.6**	**1,356.8**	**1,403.5**
TOTAL CONSOLIDATED EQUITY		**7,846.7**	**7,923.6**	**8,078.0**
TOTAL LIABILITIES AND EQUITY		**54,597.2**	**49,458.0**	**49,630.9**

[1] Data as at 1 January 2018 after implementation of IFRS 9 and IFRS 15, as described in note 2.b..

[2] New presentation taking account of the reclassifications and restatements detailed in note 2.a, mainly relating to new headings for financial instruments.

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FROM 1 JANUARY 2017 TO 31 DECEMBER 2018

ATTRIBUTABLE TO SHAREHOLDERS

	Capital and retained earnings			Change in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss			
In millions of euros	Capital and additional paid-in capita	Undistributed reserves	Total capital and retained earnings	Financial instruments designated at fair value option through equity	Own-credit valuation adjustment of debt securities designated as at fair value through profit or loss	Remeasurement gains (losses) related to pos-temployment benefits plans	Total
As at 31 December 2016	**3,474.6**	**2,832.2**	**6,306.8**				**-**
Reduction of capital	-	0.0	0.0	-	-	-	-
Dividends		(184.1)	(184.1)				
Change in the scope of consolidation		2.1	2.1	-	-	-	-
Other movements		(0.0)	(0.0)	-	-	-	-
Change in assets and liabilities recognised directly in equity		1.0	1.0	-	-	-	-
Net income for 2017		365.8	365.8	-	-	-	-
As at 31 December 2017	**3,474.6**	**3,016.9**	**6,491.6**	**-**	**-**	**-**	**-**
Revised presentation (note 2.a)		24.9	24.9	-	-	(24.9)	(24.9)
As at 31 December 2017 revised presentation	**3,474.6**	**3,041.8**	**6,516.5**			**(24.9)**	**(24.9)**
IFRS 9 impacts (note 2.b)		47.9	47.9	3.5	3.1		6.6
IFRS 15 impacts (note 2.b)		(0.8)	(0.8)	-	-	-	-
As at 1 January 2018	**3,474.6**	**3,088.9**	**6,563.6**	**3.5**	**3.1**	**(24.9)**	**(18.3)**
Dividends		(145.0)	(145.0)	-	-	-	-
Changes in the scope of consolidation		(16.7)	(16.7)	-	-	-	-
Other movements		1.3	1.3	-	-	-	-
Change in assets and liabilities recognised directly in equity		-	-	(11.9)	2.4	12.3	2.8
Net income for 2018		338.9	338.9	-	-	-	-
As at 31 December 2018	**3,474.6**	**3,267.4**	**6,742.1**	**(8.4)**	**5.5**	**(12.6)**	**(15.5)**

	Change in assets and liabilities recognised directly in equity that will be reclassified to profit or loss				**Total equity attributable to equityholders of the parent**
In millions of euros	Exchange rates	Financial assets designated at fair value through equity	Derivatives used for hedging purposes	Total	
As at 31 December 2016	**(61.4)**	**249.8**	**46.9**	**235.2**	**6,542.1**
Reduction of capital	-	-	-	-	**0.0**
Dividends					**(184.1)**
Change in the scope of consolidation	-	-	-	-	**2.1**
Other movements	-	-	-	-	**-**
Change in assets and liabilities recognised directly in equity	(15.8)	(22.8)	(13.8)	(52.3)	**(51.3)**
Net income for 2017	-	-	-	-	**365.8**
As at 31 December 2017	**(77.2)**	**227.0**	**33.1**	**183.0**	**6,674.5**
Revised presentation (note 2.a)	-	-	-	-	**-**
As at 31 December 2017 revised presentation	**(77.2)**	**227.0**	**33.1**	**183.0**	**6,674.5**
IFRS 9 impacts (note 2.b)		(160.0)	(1.4)	(161.4)	**(106.9)**
IFRS 15 impacts (note 2.b)	-	-	-	-	**(0.8)**
As at 1 January 2018	**(77.2)**	**67.0**	**31.7**	**21.6**	**6,566.8**
Dividends	-	-	-	-	**(145.0)**
Changes in the scope of consolidation	-	-	-	-	**(16.7)**
Other movements	-	-	-	-	**1.3**
Change in assets and liabilities recognised directly in equity	(14.4)	(26.8)	(0.8)	(42.0)	**(39.2)**
Net income for 2018	-	-	-	-	**338.9**
As at 31 December 2018	**(91.6)**	**40.2**	**30.9**	**(20.4)**	**6,706.1**

At 31 December 2018, undistributed reserves included reserves not available for distribution according to Luxembourg regulation for a net amount of EUR 186.3 million (compared with EUR 182.8 million at 31 December 2017 and EUR 167.8 million at 31 December 2016).

MINORITY INTERESTS

In millions of euros	Retained earnings	Changes in assets and liabilities recognised directly in equity that will be not reclassified to profit or loss	Changes in assets and liabilities recognised directly in equity that will be reclassified to profit or loss	Total minority interests
As at 31 December 2016	**1,378.0**		**(63.1)**	**1,314.9**
Dividends	(73.1)	-	-	**(73.1)**
Commitment to repurchase minority shareholders' interests	0.5	-	-	**0.5**
Changes in the scope of consolidation	9.1	-	-	**9.1**
Other movements	3.1	-	-	**3.1**
Changes in assets and liabilities recognised directly in equity	(1.2)	-	(16.3)	**(17.5)**
Net income for 2017	166.5	-	-	**166.5**
As at 31 December 2017	**1,482.9**	**-**	**(79.4)**	**1,403.5**
Revised presentation (note 2.a)	11.7	(11.7)		**-**
As at 31 December 2017 revised presentation	**1,494.6**	**(11.7)**	**(79.4)**	**1,403.5**
IFRS 9 impacts (note 2.b)	(37.9)	3.4	(11.5)	**(46.0)**
IFRS 15 impacts (note 2.b)	(0.7)	-	-	**(0.7)**
As at 1 January 2018	**1,456.0**	**(8.3)**	**(90.9)**	**1,356.8**
Dividends	(127.1)	-	-	**(127.1)**
Interim dividend payments	(60.0)	-	-	**(60.0)**
Commitment to repurchase minority shareholders' interests	(4.5)	-	-	**(4.5)**
Reduction of capital	(195.2)	-	-	**(195.2)**
Changes in the scope of consolidation	(15.1)	-	-	**(15.1)**
Other movements	1.9	-	-	**1.9**
Changes in assets and liabilities recognised directly in equity	-	39.3	(16.3)	**45.2**
Net income for 2018	160.9			**82.6**
As at 31 December 2018	**1,216.9**	**31.0**	**(107.2)**	**1,140.7**

CONSOLIDATED CASH FLOW STATEMENT

In millions of euros	2018 *IFRS 9 and IFRS 15*	2017 *IAS 39*
Pre-tax income	**624.3**	**654.6**
Non-monetary items included in pre-tax income and other adjustments	**261.2**	**224.6**
Net depreciation/amortisation on property, plant and equipment and intangible assets	121.2	104.1
Impairment of goodwill and other fixed assets	(3.8)	(5.3)
Net addition to provisions	69.2	9.1
Share of earnings of associates	(1.1)	(23.1)
Net expense from investing activities	(0.6)	(5.5)
Net income from financing activities	0.1	0.2
Other movements	76.1	145.0
Net decrease in cash related to assets and liabilities generated by operating activities	**(103.5)**	**(1,743.9)**
Net decrease in cash related to transactions with customers and credit institutions	(978.6)	(2,364.1)
Net increase in cash related to transactions involving other financial assets and liabilities	1.057.5	786.1
Net decrease in cash related to transactions involving non-financial assets and liabilities	(57.9)	(64.8)
Taxes paid	(124.4)	(101.2)
Net increase in cash generated by operating activities	**782.0**	**(864.7)**
Net increase related to financial assets and particpating interests	431.5	3.5
Net decrease related to property, plant and equipment and intangible assets	(19.0)	(7.6)
Net increase in cash related to investing activities	**412.5**	**(4.1)**
Decrease in cash related to transactions with shareholders	(527.4)	(240.2)
Net decrease in cash related to financing activities	**(527.4)**	**(240.2)**
Effect of movement in exchange rates on cash and cash equivalents	(2.6)	(0.1)
NET CHANGES IN CASH	**664.5**	**(1,109.1)**
Balance of cash and cash equivalent accounts at the start of the period	**844.8**	**1.953.8**
Balance of cash and cash equivalent accounts at the end of the period	**1,509.3**	**844.8**

ADDITIONAL INFORMATION

In millions of euros	2018 *IFRS 9 and IFRS 15*	2017 *IAS 39*
Composition of cash and cash equivalents	**1,509.3**	**844.8**
Cash and amounts due from central banks	745.2	585.5
Demand deposits with credit institutions	1,471.3	982.8
Demand loans from credit institutions	(707.2)	(723.1)
Deduction of receivables and accrued interest on cash and cash equivalents	(0.0)	(0.4)

In millions of euros	2018 *IFRS 9 and IFRS 15*	2017 *IAS 39*
Additional Information		
Interests paid	(294.4)	(251.2)
Interests received	1,431.0	1,349.4
Dividends paid	(332.1)	(257.2)
Dividends received	50.2	36.6

09

NOTES TO THE FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

GENERAL REMARKS

BGL BNP Paribas SA, 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 société anonyme (public limited company), operating under Luxembourg law, on 21 June 1935. The Bank's 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 object of the BGL BNP Paribas Group (hereinafter referred to as the "Group") is to carry out any banking and financial operations of any kind, to render any services, to acquire participating interests, and to undertake any commercial, industrial or other operations, involving movable or immovable assets, on its own behalf and on that of third parties, directly or indirectly linked to its corporate object or that might facilitate the accomplishment thereof. It may pursue its object in the Grand Duchy of Luxembourg and abroad.

The BNP Paribas Group is the majority shareholder of BGL BNP Paribas. It controls 65.97% 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 (50.01%). The consolidated financial statements of BNP Paribas Fortis SA are available at its registered 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 registered office at 16 boulevard des Italiens, F-75009 Paris.

The Group's accounting year runs from 1 January to 31 December of the same year.

1. SUMMARY OF ACCOUNTING PRINCIPLES APPLIED BY THE GROUP

1.a ACCOUNTING STANDARDS

1.a.1 Applicable accounting standards

The Group's consolidated financial statements have been prepared in accordance with international accounting standards (International Financial Reporting Standards – IFRS) as adopted by the European Union)[1].

Information on the nature and extent of risks associated with financial instruments, as required by IFRS 7 "Financial Instruments: disclosures", and information on regulatory capital as required by IAS 1 "Presentation of financial statements", is presented in section 5 of the reference document. This information, which forms an integral part of the notes to the Group's consolidated financial statements, is covered by the Statutory Auditors' opinion on the financial statements, and is marked "audited" to identify it in the management report.

IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers

Since 1 January 2018, the Group has applied:

- IFRS 9 Financial Instruments and Prepayment Features with Negative Compensation (Amendments to IFRS 9), adopted by the European Union on 22 November 2016 and 22 March 2018, respectively.

  IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement covering the classification and measurement of financial instruments. It sets out new principles for the classification and measurement of financial instruments (Phase 1) , credit risk impairment on debt instruments recognised at amortised cost or at fair value through shareholders' equity, financing commitments and financial guarantees granted, lease and trade receivables and contract assets (Phase 2), and general hedge accounting or micro hedging (Phase 3).

  IFRS 9 has modified the provisions relating to the own credit risk of financial liabilities designated as at fair value through profit or loss (fair value option).

[1] The full list of accounting standards adopted by the European Union can be consulted on the website of the European Commission at the following address: https ://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting_en

As regards hedge accounting (micro-hedging), the Group has maintained the hedge accounting principles under IAS 39. Besides, IFRS 9 does not explicitly address the fair value hedge of the interest rate risk on a portfolio of fi nancial assets or liabilities. The provisions of IAS 39 for these portfolio hedges, as adopted by the European Union, continue to apply.

- IFRS 15 Revenue from Contracts with Customers adopted by the European Union on 22 September 2016.

  Revenue from lease contracts, insurance contracts or financial instruments are excluded from the scope of this standard.

  IFRS 15 defines a single five-step model for revenue recognition. In particular, these five steps allow for the identification of the distinct performance obligations included in the contracts and for the allocation of a transaction price to each one. Revenue relating to each performance obligation is recognised when the perfor mance obligation is fulfilled, i.e. when control of an asset has been transferred or a service has been rendered.

IFRS 9 and IFRS 15 introduce the option not to restate the comparative figures for prior periods. Since the Group has retained this option, the comparative financial statements for 2017 have not been restated for these changes in methodology.

The entry into force of the other standards and amendments, which became mandatory on 1 January 2018, had no effect on the 2018 financial statements.

The Group did not anticipate the application of the new standards, amendments, and interpretations adopted by the European Union, when the application in 2018 was optional, except for the amendment to IFRS 9 "Prepayment Features with Negative Compensation".

1.a.2 Main new accounting standards published but not yet applicable

IFRS 16 Locations

IFRS 16 Leases, issued in January 2016, will supersede IAS 17 Leases and the interpretations relating to the recognition 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.

From the perspective of the lessor, the expected impact should be limited, as the main requirements remain essentially unchanged versus the current standard, IAS 17.

For the lessee, IFRS 16 will require all leases to be recognised on the balance sheet, 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 lease payments and other payments to be made over the leasing period. The right-of-use will be amortised on a straight-line basis and the financial liabilities will be amortised on an actuarial basis over the lease period. This standard therefore results mainly in a change for contracts defined under IAS 17 as operating leases and as such do not require the leased assets to be recorded in the balance sheet.

Adopted by the European Union on 31 October 2017, IFRS 16 will enter into force on a mandatory basis for financial years beginning on or after 1 January 2019.

With regard to IFRS 16, the Group has decided to apply the simplified retrospective method.

The discount rate applied to the calculation of user rights and lease liabilities is the marginal borrowing rate on the date IFRS 16 was first applied, based on the contract's term to maturity at this time.

The leases identified are real estate leases, vehicle leases and IT equipment leases. Real estate leases concern retail bank branches, office buildings and car parks classed as buildings used for operational purposes in Luxembourg.

The key assumptions used by the Group in valuing user rights and lease liabilities are the following:

- lease durations will correspond to the non-cancellable period of contracts plus any renewal options that the Group is considered reasonably certain to exercise.
- for each asset, the discount rates applied to the calculation of user rights and lease liabilities will be determined according to the marginal borrowing rate on the date of signature.

The Group will use two exemptions for recognising contracts under IFRS 16: contracts of under 12 months, and leases with a new unit value of 5,000 euro or dollars or less, excluding taxes.

The Group has chosen not to apply the initial accounting exemption for deferred tax assets (DTA) and deferred tax liabilities (DTL) provided for by paragraphs 15 and 24 of IAS 12 "Income taxes". As a result, separate deferred tax assets and deferred tax liabilities will be recognised in total user rights and lease liabilities on the balance sheet.

The expected impacts of IFRS 16 on the balance sheet are:

- an increase in property, plant and equipment and recognition of a lease liability;
- an increase in deferred tax assets and liabilities.

The main expected impact on the income statement after the standard has been applied will be the replacement of rents previously written down in a straight line under overheads, with a rise in interest expenses under net banking income (NBI) due to lease liabilities, and an increase in amortisation expenses due to user rights.

Following different studies of the standard, its principles and its interpretation, leases have been identified and data collected to determine the implications of applying the necessary accounting model.

At this point, estimates on the effects of applying IFRS 16 are being finalised. The impact on the Group's financial statements is not expected to be significant.

The Group does not expect other standards and amendments applicable in 2019 to affect its financial statements.

1.b CONSOLIDATION PRINCIPLES

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.

Companies that hold shares in consolidated companies are also consolidated.

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

Exclusive control

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

Where entities are governed by voting rights, the Group is generally deemed to control the entity if it holds the majority of the voting rights directly or indirectly and there are no contractual provisions that alter the the power of these voting rights or if the power to direct the relevant activities of the entity is conferred on it by contractual agreements.

Structured entities are defined as entities created so that they are not governed by the voting rights, such as when those voting rights relate to administrative decisions while the management of relevant activities is governed through contractual arrangements. They often have characteristics such as circumscribed activities, a specific and well-defined purpose and insufficient equity to enable them to finance their activities without recourse to subordinate financial support.

For these entities, the control analysis encompasses the purpose and design of the entity, the risks to which they are designed to be exposed and the extent to which the Group is exposed to the related variability of returns. The control assessment encompasses all relevant facts and circumstances that may be used to determine the Group's practical ability to make decisions that could significantly affect the returns it receives, even if such decisions are contingent on uncertain future events or circumstances.

In assessing whether it has control, the Group only considers 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.

The control analysis must be reassessed whenever one of the criteria used to measure control is changed..

Where the Group contractually holds 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 coupled 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 behalf and that it thus has control over those entities.

Minority interests are presented separately in the consolidated profit and loss account and in the 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 fully consolidated funds, units held by third-party investors are recorded as liabilities at fair value when units issued by these funds are redeemable at fair value at the holder's discretion.

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.

Joint control

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 conducted via a separate legal structure 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 conducted via a separate legal 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 assets, liabilities, revenues and expenses in accordance with the applicable IFRSs.

Significant influence

Enterprises over which the Group exercises significant influence or 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. Investments below this threshold can be included in the scope of consolidation if the Group exercises significant effective influence. This is, for instance, the case for companies developed in partnership with other associates in which the BGL BNP Paribas Group participates in the strategic decisions of the enterprise by being represented in the management bodies, or by influencing the operational management of the company associated with the provision of management systems or management personnel, or provides technical cooperation for the development of this company.

Changes in equity of associates, are recognised on the assets side of the consolidated balance sheet under the heading "Investments in associates" and in liabilities of the consolidated balance sheet under the relevant component of shareholders' equity. Goodwill recorded 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 amount (equal to the higher of its value in use and market value, net of disposal costs) with its carrying amount. Where appropriate, an impairment loss is recognised under «Share of earnings of associates» in the consolidated profit or loss account and can be reversed later.

If the Group's share of losses in an associate equals or exceeds its investment in the associate, the Group discontinues including its share of further losses. The investment is then reported at nil value. Provisions to cover additional losses with regard to a fully consolidated associate are only created when the Group has entered into a legal or constructive obligation, or when it has made payments on behalf of the associate.

When the Group holds a participating interest in an associated company, directly or indirectly via an entity that is a venture capital entity, a mutual fund, an investment company with variable capital or a similar entity such as an investment-linked insurance fund, it can choose to measure this participating interest at fair value through profit or loss.

Realised gains and losses on investments in consolidated undertakings are recognised in the profit and loss account under "Net gain on noncurrent assets".

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

1.b.3 Consolidation rules

Elimination of intragroup 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 financial instruments at fair value through equity and available-for-sale assets are maintained in the financial statements at Group level.ed in the financial statements at Group level.

Translation of financial statements expressed in foreign currencies

The consolidated accounts of BGL BNP Paribas are prepared in euro.

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.

The same method is applied to the financial statements of the subsidiaries of the Group located in hyperinflationary economies, after adjusting for the effects of inflation by applying a general price index.

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

On liquidation or disposal of some, or all, of an interest held in a company located outside the euro zone, leading to a change in the nature of the investment (loss of control, loss of significant influence or loss of joint control without keeping a significant influence), the cumulative translation adjustment at the date of liquidation or sale, determined according to the step method, is recognised in the profit and loss account.

Should the percentage of interest held change without leading to a modification in the nature of the investment, the difference is reallocated between the portion attributable to shareholders and that attributable to minority interests; For enterprises consolidated under the equity method, the portion related to the interest sold is recognised in the profit and loss account.

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 and liabilities assumed are measured at fair value on the acquisition date, except for non-current assets classified as assets held for sale, which are accounted for at fair value less costs to sell.

The contingent liabilities of the acquiree are only recognized 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 on which assets are exchanged, liabilities incurred or assumed, or 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 the value of any additional costs, qualifying as a financial liability, are recognised in the profit and loss account.

The Group has a period of 12 months from the acquisition date to finalise the accounting for the business combinations under consideration.

Goodwill represents the difference between the acquisition cost and the acquirer's proportionate interest in the fair value, or its equivalent, of the identifiable assets and 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 using the spot exchange rate at the end of the reporting period.

When the Group takes 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 on the date on which the Group takes control.

Since the adoption of the revised IFRS 3 has been applied prospective, business combinations completed prior to 1 January 2010 were not restated for the effects of changes to IFRS 3.

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

Measurement of goodwill

The Group tests goodwill for impairment on a regular basis.

Cash-generating units

The Group has broken down all its activities into cash-generating units, representing similar business lines. This breakdown is consistent with the way in which the Group's business lines are organised and managed, and reflects the independent nature of each unit in terms of results generated and management approach. This breakdown 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.

Impairment tests for cash-generating units

Impairment tests of goodwill allocated to each cash-generating unit are carried out whenever there is an indication that a unit may be impaired, and in any event at least once a year. The carrying amount of the cash-generating unit is then 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 less costs of disposal and its value in use.

The fair value is the price that would be received if a cash-generating unit were sold under the prevailing market conditions on the measurement date. 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 that will be generated by the cash-generating unit, derived from annual forecasts prepared by the unit's management and approved by the senior management of the Group, 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 in question.

1.c TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

The method used to account for and measure 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. Exchange differences are recognised through profit or loss, except for any exchange differences relating to financial instruments that qualify as cash flow hedges or net foreign currency investment hedges, which are recognised through 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 instance, measured using the exchange rate on the transaction date, i.e. the date on which the non-monetary asset is first recognised or the non-monetary liability derived from the payment or receipt of an advance is recognised. In the latter case, they are subsequently measured at the exchange rate prevailing on the reporting date.

Exchange differences on non-monetary assets expressed in foreign currencies and measured at fair value (equity instruments) are recognised in the profit or loss account if the asset is classified under "Financial instruments at fair value through profit or loss", and in equity if the asset is classified under "Financial assets at fair value through equity."

1.d NET INTEREST MARGIN , COMMISSIONS AND INCOME FROM OTHER ACTIVITIES

1.d.1 Net interest margin

Income and expenses arising from financial debt instruments measured at amortised cost and at fair value through equity are recognised in the profit and loss account using the effective interest method.

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

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

Commissions considered as an additional component of interest are included in the effective interest rate and are recognised in the profit and loss account under "Interest and similar income and expenses". This category specifically includes fees for financing commitments when it is more likely than not that the loan will be taken out; the fees received for financing commitments are deferred until the loan is drawn and are then included in the effective interest rate calculation and spread over the life of the loan. This category also includes syndication fees for the share of fees equating to the income of other syndication participants.

This item also includes income from financial instruments not held for trading purposes with characteristics that do not permit recognition at amortised cost or at fair value through equity, as well as income from financial instruments that the Group has designated as measured at fair value through profit or loss. The change in fair value on financial instruments at fair value through profit or loss (excluding accrued interest) is recognised under "Net gain/(loss) 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 revenue generated by the hedged item. Similarly, interest income and expense arising from derivatives used to hedge transactions recognised at fair value through profit or loss is allocated to the same heading as the interest from these transactions.

1.d.2 Commissions and income from other activities

Commissions received for the provision of banking and similar services (except those arising from the effective interest rate), revenues from property development and revenues from services provided in connection with lease contracts fall under the scope of IFRS 15 Revenues from Contracts with Customers.

This standard defines a single five-step model for revenue recognition. In particular, these five steps allow for the identification of the distinct performance obligations included in the contracts and for the allocation of a transaction price to each one. Revenues relating to each performance obligation is recognised when the performance obligation is fulfilled, i.e. when control of an asset has been transferred or a service has been rendered.

The price for a service may include a variable element. Variable amounts can only be recognised to profit or loss if it is highly likely that the amounts recognised will not require significant downwards revision.

Commissions

The Group recognises commission income and expenses in profit and loss as follows:

- if an ongoing service is provided to the client, then fees are recognised in stages to match provision of the service. Such commissions include: certain transaction fees with clients when services are provided on an ongoing basis; fees for financing commitments not included in the interest margin as there is little likelihood of them leading to a loan drawing; financial guarantee fees; clearing fees for financial instruments; fees relating to trust and similar activities; custody fees for securities; etc.
- 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 other cases, commissisons are recognised when the service is provided. Such commissions include: distribution fees received; syndication arrangement fees; advisory fees; etc.

Income from other activities

- Income from services related to operating leases is recognised in "Income from other activities" in the consolidated profit and loss account.
- The Group recognises income from services related to leases in the profit and loss account as the services are provided, i.e. pro rata with the costs incurred on the maintenance contracts.

1.e FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets are classified at amortised cost, fair value through equity or fair value through profit or loss based on the business model and for the asset and the asset's contractual characteristics of the instruments upon initial recognition.

Financial liabilities are classified at amortised cost or at fair value through profit or loss upon initial recognition.

Financial assets and liabilities are recognised in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets carried out within a time frame established by the regulations or an agreement in a particular market are recognised in the consolidated balance sheet on the settlement date.

1.e.1 Financial assets at amortised cost

Financial assets are classified at amortised cost if both of the following conditions are met: the instrument is held within a business model whose objective is to hold it in order to collect contractual cash flows (the "hold to collect" business model), and cash flows are solely payments of principal and interest on the principal amount outstanding.

Business model criterion

The financial assets are held in order to collect cash flows from the receipt of contractual payments over the lifetime of the instrument.

Disposing of instruments close to the maturity date, or as a result of an increase in the credit risk of the counterparty is consistent with a hold to collect business model. Sales made as a result of regulatory constraints or in order to manage the concentration of credit risk (without an increase in credit risk) are also compatible with this business model, when such sales are infrequent and of insignificant value.

Cash flow criterion

The cash flow criterion is satisfied if the contractual terms of the debt instrument give rise on specific dates to cash flows that are solely payments of principal and interest on the amount of outstanding principal.

The criterion is not satisfied by contractual terms that expose the holder to risks or volatility in the contractual cash flows that are not consistent with a non structured or basic lending arrangement. Nor is the criterion met if there is any leverage that increases the variability of the contractual cash flows.

Interest represents consideration for the time value of the money, the credit risk, any other potential risks (e.g. liquidity risk), costs (e.g. administration fees), and a profit margin consistent with that of a basic lending arrangement. The cash flow criterion may still be satisfied if interest is negative.

So, for example, if a variable financial asset's interest rate is periodically reset but the frequency of that reset does not match the length of time for which the interest rate is established, then the time value of the money can be assumed altered and, depending upon the extent of this alteration, the cash flow criterion may not be satisfied. Some of the Group's financial assets show a mismatch between the frequency with which the rate is revised and its maturity, and rates determined based on averages. The Group has developed a consistent approach to analyse this issue.

Some contractual clauses may modify the timing or amount of cash flows. Early repayment clauses do not call into question the cash flow criterion if the repayment substantially represents the outstanding principal and related interest. It may also include reasonable compensation for the early termination of the contract. Actuarial penalties corresponding to the discounted difference between the contractual cash flows remaining on the loan and their replacement with a similar counterparty or on the interbank market for an equivalent maturity are also considered to be reasonable, including where the penalty may be positive or negative (i.e. symmetric penalty). Clauses relating to a switch from a variable to fixed rate do not undermine the cash flow criterion if the fixed rate is determined from the outset, or if it represents the time value of money for the term to maturity of the loan on the date on which the clause is exercised.

In the particular case of financial assets that are contractually linked to payments received on a portfolio of underlying assets and include a subordination ranking for payments of cash flows between investors (tranches), thus creating concentrations of credit risk, a specific analysis is carried out. The contractual characteristics of the tranche and of the portfolios of underlying financial instruments must satisfy the cash flow criterion, and the credit risk exposure inherent in the tranche must be lower than or equal to the credit risk exposure of the portfolio of underlying financial instruments.

The "Financial assets at amortised cost" category includes loans granted by the Group, as well as reverse repurchase agreements and securities used for ALM Treasury activities, which are held with a view to collecting the contractual cash flows, and which meet the cash flow criterion.

Recognition

At initial recognition, financial assets are recognised at fair value including any directly attributable transaction costs and fees linked to arranging the loans.

They are subsequently measured at amortised cost, including interest accrued and not yet due, and deducting any interest and principal repayments made in the intervening period. These financial assets are also subject from inception to an impairment calculation for expected credit losses (note 1.e.4).

Interest is calculated using the effective interest rate determined at inception of the contract

1.e.2 Financial assets at fair value through equity

Debt instruments

Debt instruments are classified at fair value through equity if both of the following criteria are met:

- Business model criterion: The financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (the "hold to collect and sell" business model). The sale of the financial assets is not incidental, but an integral part of the business model.
- Cash flow criterion: The principles are identical to those applicable to financial assets at amortised cost.

This category specifically includes securities held as part of ALM Treasury activities with a view to collecting contractual cash flows or selling the securities, and which respect the cash flow criterion.

At initial recognition, the financial assets are recognised at fair value including any directly attributable transaction costs. They are subsequently measured at fair value, with any changes in fair value recognised in a specific heading of equity entitled "Changes in assets and liabilities recognised directly in equity that will be reclassified to profit or loss". Equally, expected losses, which are calculated using the same methods as those applicable to debt instruments at amortised cost and recognised in cost of risk, are classified under this specific item of other comprehensive income. Upon disposal, amounts previously recognised in other comprehensive income are reclassified in profit or loss.

In addition, interest is recognised in the profit and loss account using the effective interest rate determined at inception of the contract.

Equity instruments

An irrevocable election is made on a transaction by transaction basis to classify investments in equity instruments such as shares as instruments at fair value through equity (under a specific heading). When the shares are sold, the changes in value previously recognised in equity are not recognised in profit or loss. Only dividends are recognised in profit and loss, provided that they represent a return on the investment and not a repayment of capital. These instruments are not subject to impairment.

Following the entry into force of IFRS 9, puttable fund units that do not meet the cash flow criteria are now recognised at fair value through profit or loss.

1.e.3 Financing and guarantee commitments

Financing and guarantee commitments that are not recognised as derivatives at fair value through profit or loss are presented in the note relating to the commitments given or received. When not recognised at fair value through profit or loss, they are subject to impairment for expected credit losses. These provisions are presented under "Provisions for contingencies and charges".

1.e.4 Impairment of financial assets at amortised cost and debt instruments at fair value through equity

The credit risk impairment model is based on expected losses.

This model applies to loans and debt instruments measured at amortised cost or at fair value through equity, to loan commitments and financial guarantees granted that are not recognised at fair value, to lease and trade receivables, and contract assets.

General model

The Group identifies three "stages", each of which corresponds to a specific situation regarding the development of counterparty credit risk since initial recognition of the asset.

- 12-month expected credit losses (stage 1): if, at the reporting date, the credit risk of the financial instrument has not increased significantly since initial recognition, this instrument is subject to a provision for impairment for an amount equal to 12-month expected credit losses (resulting from the risk of default in the coming 12 months
- Credit losses at maturity for assets that are not impaired (stage 2): the provision for impairment is measured at an amount equal to the lifetime expected credit losses (to maturity) if the credit risk of the financial instrument has increased significantly since its initial recognition and the asset is not impaired.
- Expected credit losses at maturity for impaired financial assets (stage 3): when an asset is impaired, the impairment provision is also assessed for an amount equal to the expected credit losses at maturity.

This general model is applied to all instruments subject to the impairment requirements of IFRS 9, except assets written down at the time of their acquisition or issue, and instruments for which a simplified model is used (see below).

The simplified model, which is based on a historic default rate for the portfolio in question, is also used to determine the expected credit loss for newly acquired exposures, for exposures considered to be unusually loss-making, and at Leasing International level.

The approach to expected credit losses is applied symmetrically under IFRS 9, i.e. if expected credit losses at maturity have been recognised during a previous reporting period, and if at the reporting date for the current period there is no longer a significant increase in credit risk for the financial instrument since its initial recognition, the provision is once again calculated on the basis of the 12-month expected credit losses.

Interest income on assets classified in stage 1 and stage 2 is calculated on the gross book value. For stage 3 assets, interest income is calculated on the basis of the amortised cost of the loan, i.e. the gross book value net of the impairment provision.

Definition of default

The definition of default is aligned with that of the Basel Agreement, with a rebuttable presumption that default has occurred at the latest when a loan payment is 90 days overdue.

The definition of default is applied consistently for assessing the increase in credit risk and the extent of expected credit losses.

Impaired financial assets

A financial asset is impaired and classified in stage 3 when one or more events have occurred that have a detrimental impact on the future cash flows of that financial asset.

On an individual level, an objective indication of an impairment loss includes observable data regarding the following events: the existence of outstanding payments more than 90 days overdue; knowledge or indications that the counterparty is experiencing significant financial difficulties, such that a risk can be considered to have arisen, whether or not any payments are overdue; and concessions granted on credit terms that would not have been granted in the absence of financial difficulties of the borrower (see the section "Restructuring of financial assets as a result of financial difficulties").

Significant increase in credit risk

The significant increase in credit risk can be assessed on an individual or collective basis (grouping together financial instruments on the basis of shared credit risk characteristics), taking into account all reasonable and justifiable information and comparing the credit risk of the financial instrument at the reporting date with the credit risk of the financial instrument on the date of initial recognition.

The extent of any deterioration is measured by comparing the probability of default or ratings of the financial instruments on the date of initial recognition 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 principles applied in assessing a significant increase in credit risk are detailed in note 3.g (Cost of risk).

Measurement of expected credit losses

Expected credit losses are defined as an estimate of credit losses, i.e. the present value of any cash shortfall, weighted by the probability of these losses occurring during the expected lifetime of the financial instruments. They are calculated individually for each exposure.

In practice, for exposures classified as stage 1 or stage 2, expected credit losses are calculated as the product of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD), discounted at the effective interest rate of the exposure. They are based on the risk of default in the coming 12 months (stage 1) or the risk of default during the lifetime of the facility (stage 2). In the specialised consumer credit business line, given the characteristics of the portfolios, the method used is based on both default probabilities and updated loss rates post default. Parameters are calculated on a statistical basis for homogenous groups.

For outstanding amounts classified as stage 3, expected credit losses are calculated based on the cash shortfall over the lifetime of the instrument discounted at the effective interest rate. Cash shortfalls represent the difference between the cash flows that are contractually due and the expected cash flows, i.e. that are likely to be received.

The methodology that has been developed is based on existing concepts and frameworks (notably the Basel framework) for exposures for which capital requirements for credit risk are calculated according to the IRBA. This framework is also applied to portfolios for which capital requirements for credit risk are calculated according to the Standardised approach. In addition, the Basel framework has been supplemented by the specific provisions of IFRS 9, in particular as regards the inclusion of forecast information.

Maturity

All contractual conditions over the lifetime of the financial instrument (including early repayment, extensions and similar options) are taken into account. In the rare cases where the expected lifetime of the financial instrument cannot be reliably estimated, the time to contractual maturity must be used. The Standard states that the maximum contractual period represents the maximum period to be considered when calculating expected credit losses. However, for authorised overdrafts and credit lines, in accordance with the exception permitted under IFRS 9 for these products, the maturity used in the calculation of expected credit losses is the period during which the entity is exposed to the credit risk, which may extend beyond the contractual maturity (notice period). For authorised overdrafts and credit lines granted to counterparties other than retail clients, the contractual maturity may be used, in particular when these items are managed individually and the next credit review occurs when the contract reaches maturity.

Probability of default (PD)

The probability of default is an estimate of the probability of a default arising over a given time horizon.

Measurement of expected credit losses requires an estimate of the probability of default at one year and at maturity.

The PD at one year are derived from regulatory PD based on long-term averages through the cycle, in order to reflect current conditions (point in time – PIT).

The PD at maturity are defined using migration matrices showing the expected development of the internal rating of the exposure to maturity and the associated PD.

Loss given default (LGD)

The loss given default is the difference between the contractual cash flows and the expected cash flows, discounted at the effective interest rate (or an approximation thereof) at the date of default. The LGD is expressed as a percentage of the EAD.

The estimate of expected cash flows takes into account cash flows resulting from the sale of collateral held and other credit enhancements, provided these are included in the contractual conditions and not recognised separately by the entity (e.g., a mortgage guarantee related to a property loan), net of the costs of obtaining and selling this collateral.

The LGD used for the requirements of IFRS 9 is derived from the Basel framework parameters for LGD. It is restated for the impact of the "bottom-of-the-cycle" and for margins of conservatism, in particular regulatory, except for margins for model uncertainty.

Exposure at default (EAD)

The exposure at default of an instrument is the expected residual amount due by the debtor at the time of default. This amount is defined on the basis of the expected repayment profile and takes into account the contractual repayment schedule, expected early repayments and expected drawdowns on the credit lines, by type of exposure.

The inclusion of forecast information

Expected credit losses are measured on the basis of probability-weighted scenarios, in view of past events, current conditions and reasonable and supportable economic forecasts.

The principles applied to the inclusion of economic scenarios in the calculation of expected credit losses are detailed in note 3.g (Cost of risk).

Write-offs

A write-off consists in reducing the gross carrying amount of a financial asset when there is no longer reasonable expectations of recovering that financial asset in its entirety or a portion thereof, or when it has been fully or partially abandonned. The write-off is recorded when all other means available to the Bank have failed, and also generally depends on the context specific to each jurisdiction.

If the amount of the loss at write-off is higher than the accumulated provision for impairment, the difference is recorded as an additional loss of value in "Cost of risk". Any amount recovered after derecognition of the financial asset (or part of this asset) in the balance sheet is recorded as income in "Cost of risk".

Amounts recovered from enforcement of the collateral

When a loan is secured by a financial or non-financial asset received as a guarantee and the counterparty defaults, the Group may decide to exercise the guarantee and, dependent on the jurisdiction, may then

become the owner of the asset. In such a situation, the loan is derecognised against the asset received as guarantee.

Once beneficial title to the asset is established, it is recognised at fair value and classified in the consolidated balance sheet on the basis of its intended business model.

Restructuring of financial assets as a result of financial difficulties

The restructuring of an asset as a result of financial difficulties experienced by the borrower is viewed as a modification to the terms and conditions governing the initial transaction that the Group is only considering for economic or legal reasons linked to the borrower's financial difficulties.

For restructurings not resulting in derecognition of the financial asset, the restructured asset is subject to an adjustment of its gross carrying amount, to reduce it to the discounted amount, at the original effective interest rate of the asset, of the new expected future flows. The modification in the value of the asset is recognised in profit and loss under "Cost of risk".

The existence of a significant increase in credit risk for the financial instrument is then assessed by comparing the risk of default after the restructuring (under the revised contractual terms) and the risk of default at the initial recognition date (under the original contractual terms). In order to demonstrate that the criteria for recognising lifetime expected credit losses are no longer met, good quality payment behaviour will have to be observed over a certain period of time.

When the restructuring consists of a partial or total exchange against other substantially different assets (for example, the exchange of a debt instrument against an equity instrument), it results in the extinction of the original asset and the recognition of the assets remitted in exchange, measured at their fair value at the date of exchange. The difference in value is recorded in the income statement in "Cost of risk".

Modifications of financial assets that are not due to the borrower's financial difficulties (i.e. commercial renegotiations) are generally analysed as the early prepayment of the former financial asset, which is then derecognised, followed by the set-up of a new financial asset at market conditions.

1.e.5 Cost of risk

Cost of risk includes the following elements of profit or loss:

- movements in provisions for impairment covering expected credit losses at 12 months and at maturity (stage 1 and stage 2) relating to debt instruments measured at amortised cost or at fair value through equity, to loan commitments and financial guarantees that are not recognised at fair value, lease receivables, contract assets and trade receivables;
- impairment gains and losses of financial assets for which there is an objective indication of a loss of value (stage 3), losses on irrecoverable loans and amounts recovered on loans written off.

The cost of risk also includes expenses relating to fraud and to disputes inherent to the financing business.

1.e.6 Financial instruments at fair value through profit or loss

Trading book and other financial assets at fair value through profit or loss

The trading book includes instruments held for trading purposes, including derivatives.

Other financial assets at fair value through profit or loss are debt instruments not held for trading purposes that do not fulfil the criteria of the "hold to collect" or "hold to collect and sell" business models or thecash-flow criterion . This category also includes equity instruments for which the fair value through shareholders' equity option has not been retained.

These financial instruments are recognised at fair value with initial transaction fees recognised directly in the consolidated profit and loss account. On the reporting date, any changes in fair value are presented in the consolidated profit and loss account under "Net gain/(loss) on financial instruments at fair value through profit or loss". Income, dividends and realised gains and losses on disposals in the trading book are treated in the same way.

Financial liabilities valued using the fair value option through profit or loss

The Group uses this option in the following two cases:

- when they are hybrid financial instruments containing one or more embedded derivatives that otherwise would have been separated and recognised separately. An embedded derivative is one for which the economic characteristics and risks are not closely linked to those of the host contract;
- when use of this option allows for the elimination of, or a significant reduction in, an inconsistency in the measurement and recognition of assets and liabilities that would otherwise result from their classification in separate accounting categories.

Changes in fair value resulting from changes in own credit risk are recognised in a separate line in equity.

1.e.7 Financial liabilities and equity instruments

A financial instrument issued or its different components are classified as financial liabilities or an equity instrument in accordance with the economic substance of the legal contract.

Financial instruments issued by the Group are qualified as debt instruments if there is a contractual obligation for the Group company issuing these instruments to deliver cash or a financial asset to the holder of the securities. 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 shares.

Equity instruments arise from contracts representing a residual interest in the assets of an entity after deduction of all its liabilities.

Issued debt securities and subordinated debt

Debt securities and subordinated debt are recognised at amortised cost if not recognised at fair value through profit or loss.

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

Bonds redeemable or convertible into own equity are hybrid instruments that may contain a debt component and an equity component, determined upon initial recognition of the transaction.

Equity instrumentss

The term "own shares" refers to shares of the consolidating company BGL BNP Paribas SA and of its fully consolidated subsidiaries. External costs that are directly attributable to the issue of new shares are deducted from equity, net of any related taxes.

Own shares held by the Group are netted against consolidated equity, irrespective of the reason for holding them, and any related profit or loss is eliminated from the consolidated profit and loss account.

As shares issued by fully controlled subsidiaries of the Group are treated in the same way as shares issued by the consolidating company, when the Group purchases securities issued by these subsidiaries, the difference between the acquisition price and the share of net assets acquired is recognised in consolidated retained earnings, Attributable to shareholders. Similarly, where applicable, the value of any debt representing put options granted to minority shareholders in these subsidiaries, and any change in this value, is included in minority interests and, failing that, in consolidated retained earnings, Attributable to shareholders. Until these options are exercised, the profit or loss linked to minority interests is included in minority interests in the consolidated profit and loss account. A fall in the percentage interest held by the Group in a fully consolidated subsidiary is treated in the accounts as a movement in equity.

Distributions on financial instruments classified as equity instrument are recognised directly as a deduction to equity. Similarly, transaction costs in relation to an instrument classified as equity are recognised as a deduction to equity.

Depending on the method of settlement, derivatives on own shares are recognised as follows:

- as equity instruments if settlement results in the physical delivery of a fixed number of own shares for a fixed amount of cash or other financial asset; in this case, the instruments are not revalued;
- as derivatives if settled in cash or with the option of the physical delivery of own shares or cash. In this case, any changes in value are recognised in profit or loss.

In addition, if the contract includes an obligation, even if only conditional, for the Bank to repurchase its own shares, a debt is recognised at its present value against equity.

1.e.8 Hedge accounting

The Group has chosen the option permitted under the standard to maintain the hedge accounting principles under IAS 39 until the new macro hedging standard comes into force. 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, continue to apply.

Derivatives entered into as part of a hedging relationship are categorised 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 revisable-rate assets and liabilities, including rollovers, and foreign exchange risk on highly probable forecast foreign currency revenue.

At the inception of the hedge, the Group prepares formal documentation 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 hedging relationship.

In accordance with this documentation , the Group carries out prospective and retrospective testing of the effectiveness of hedges at inception and at least quarterly thereafter. Retrospective tests of effectiveness aim to ensure that the relationship between the actual changes in value or cash flows of the hedging instruments and those of the hedged instruments are within a range of 80% to 125%. Prospective tests aim to ensure that the expected changes in value or cash flows of the hedging instruments over the remaining life of the hedge adequately offset those of the hedged instruments. Highly probable transactions are identified on the basis of historical data for similar transactions.

In application of IAS 39 adopted by the European Union (excluding certain provisions concerning accounting for portfolio hedging), fair value hedges of the interest rate risk on a portfolio of assets or liabilities are used. In this context:

- the risk that is hedged is the interest rate risk linked to the interbank rate component included in interest rates on commercial credit transactions offered to customers, savings accounts and demand deposits;
- for each maturity band, the instruments considered as hedged correspond to a fraction of the position made up of the gaps related to the hedged underlyings;
- only simple interest rate swaps are used as hedging instruments;
- prospective hedge effectiveness is ensured by the fact that at inception the impact of all hedging instruments must be to reduce the interest rate risk of the portfolio of hedged underlyings. On a retrospective basis, these instruments no longer qualify as hedges if the underlyings specifically linked to them for each maturity band become insufficient (as a result of early repayments of loans or deposit withdrawals).

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

In a fair value hedging relationship, derivatives are revalued at fair value on 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 revaluation of the hedged items to reflect the hedged risk. On the balance sheet, the revaluation 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 "Remeasurement adjustment on interest-rate risk hedged portfolios» in the case of a portfolio hedging relationship.

If a hedging relationship is interrupted or no longer fulfils the effectiveness criteria, hedging derivatives are transferred to the trading book and recognised in accordance with the principles applicable to this category. As regards identified fixed income instruments that are initially hedged, the revaluation amount recognised on the balance sheet is amortised at the effective interest rate over their remaining life of the instrument. As regards portfolios of fixed income instruments that are initially hedged against interest rate risk, the adjustment is amortised on a straightline basis over the remainder of the original term of the hedge. If the hedged items no longer appear on the balance sheet, in particular due to early redemptions, the adjustment is immediately transferred to the profit and loss account.

In a future cash flow hedging relationship, derivatives are revalued at fair value on the balance sheet, with changes recorded in equity under "Changes in fair value recognised directly in equity". The amounts recognised in equity for accrued interest over the life of the hedge are transferred to the profit and loss account under "Interest and similar income and charges" as and when the cash flows from the hedged item affect profit or loss. The hedged items continue to be recognised in accordance with the principles applicable to the category to which they belong.

If the hedging relationship is interrupted or no longer fulfils the effectiveness criteria, the cumulative amounts recognised in equity in respect of the revaluation of the hedging instrument remain in equity until the hedged transaction itself affects 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 equity are immediately posted to the profit and loss account.

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

Hedges of net foreign currency investments in branches and 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.

1.e.9 Determination of fair value

Fair value is the price that would be received on the sale of an asset or paid to transfer a liability in a transaction conducted under normal market conditions between market participants in the principal market or most advantageous market, on 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 data and minimise the use of unobservable data. They are calibrated to reflect current market conditions, and valuation adjustments are applied as appropriate when factors such as model, liquidity and credit risk are not captured by the valuation techniques or the parameters used but are nevertheless considered by market participants when determining fair value.

Fair value must be determined for each financial asset or liability individually but a portfolio-based measurement can be elected when certain conditions are met. Accordingly, the Group makes use of this exception when a group of financial assets and liabilities and other contracts within the scope of the standard relating to financial instruments is managed on the basis of net exposure to similar market and credit risks that offset one another, in accordance with the duly documented internal risk management strategy.

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

- Level 1: fair values are determined using directly quoted prices in active markets for identical assets and liabilities. The characteristics of an active market include the existence of a sufficient frequency and volume of activity and of continuously available
- Level 2: fair values are determined based on valuation techniques for which significant parameters are directly or indirectly observable market data. These techniques are regularly calibrated and the parameters are corroborated with information from active markets.
- Level 3: fair values are determined using valuation techniques for which significant parameters are unobservable or cannot be corroborated by market data, due for instance to the illiquidity of the instrument or significant model risk. An unobservable parameter is an input for which no market data is 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 is based on the most significant parameter when determining the fair value of the instrument.

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

1.e.10 Derecognition of financial assets and financial liabilities

Derecognition of financial assets

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 almost all of the risks and rewards related to ownership of the asset in question. Unless all of these conditions are met, the Group retains the asset on its balance sheet and recognises a liability for the obligations created at the time of the asset's transfer.

Derecognition of financial liabilities

The Group derecognises all or part of a financial liability when all or part of the liability ceases to exist.

Repurchase agreements and securities lending/borrowing

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

Securities temporarily acquired as part of a reverse repurchase agreement are not recognised on the Group's balance sheet. The corresponding receivable is recognised at amortised cost under the appropriate "Financial assets at amortised cost" heading, with the exception of reverse repurchase agreements contracted for the Group's trading purposes, where the corresponding receivable is recognised under "Financial instruments 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 on the balance sheet. In the case where borrowed securities are subsequently sold by the Group, the obligation to deliver the borrowed securities on maturity is recognised in the form of a financial liability in the balance sheet under "Financial instruments at fair value through profit or loss".

1.e.11 Offsetting financial assets and financial liabilities

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 set- tle on a net basis, or to realise the asset and settle the liability simultaneously.

Repurchase agreements and derivatives whose principles of operation meet both criteria required by the standard, are offset on the balance sheet.

1.f PROPERTY, PLANT, EQUIPMENT AND INTANGILE ASSETS

Property, plant and equipment and intangible assets shown on the Group's balance sheet include both tangible and intangible fixed assets for operations as well as investment property.

Fixed assets used in operations are those used in the provision of services or for administrative purposes. Non-property assets leased by the Group are included in this category.

The investment property category comprises property assets held to generate rental income and capital gains.After initial recognition, the Bank, which has chosen the cost model, must value all of its investment properties according to the provisions of IAS 16 that relate to this model.

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 measured at cost, less accumulated depreciation or amortisation and any impairment losses.

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 are presumed to have a residual value, as the useful life of fixed assets used in operations is generally the same as their expected economic life.

Property, plant and equipment and intangible assets are depreciated or amortised using the straight-line method over the asset's expected useful life for the company. Depreciation and amortisation expenses are recognised in the profit and loss account 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 or produce economic benefits at a different frequency, 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 office property are 50 years for the shell, 15 years for general and technical installations and 10 years for fixtures and fittings.

Software is, amortised, depending on its type, over periods of no more than 8 years in the case of infrastructure developments and 3 years or 5 years for developments primarily linked to providing services to customers.

Software maintenance costs are recognised as expenses in the profit and loss account 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 production costs.

Depreciable property, plant and equipment and intangible assets are tested for impairment if there is an indication of potential impairment on the reporting date. Non-depreciable assets are tested for impairment at least annually, using the same method as for goodwill allocated to cash-generating units.

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 account. This loss is reversed in the event of a change to the estimated recoverable amount or if there is no longer any indication of impairment. Impairment losses are recognised in the profit and loss account 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 assets used in operations are recognised in the profit and loss account under "Net gain on other fixed 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 activites".

1.g LEASES

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

1.g.1 Group company as 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 the risks and rewards incidental to ownership of an asset to the lessee. It is treated as a loan granted to the lessee in order to finance the purchase of the asset.

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 account under "Interest and other income". The lease payments are spread over the term of the finance lease, 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 on the lease. The rate of interest used is the interest rate implicit in the lease.

The provisions established for these receivables follow the same rules as described for financial assets recognised at amortised cost.

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 its useful life. The depreciable amount excludes the residual value of the asset, while the lease payments are recognised in the profit and loss account in their entirety on a straight-line basis over the lease term. Lease payments and depreciation expenses are listed in the profit and loss account under "Income from other activities" and "Expenses on other activities".

1.g.2 Group company as lessee in the leasing contract

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

Finance leases

A finance lease is treated as an acquisition of an asset by the lessee, financed by a loan. The leased asset is

recognised on the lessee's balance sheet at the lower of its fair value or 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 on the lessee's balance sheet. The asset is depreciated using the same method as that applied to assets owned outright, after deducting the estimated residual value from the acquisition price over the useful life of the asset. The depreciation period used is 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 leases

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

1.h NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

When the Group decides to sell non-current assets or a group of assets and liabilities and it is highly probable that the sale will occur within 12 months, these assets are shown separately on the balance sheet, on the line "Non-current assets held for sale". Any liabilities associated with these assets are also shown separately on the line "Liabilities linked to non-current assets held for sale". Where the Group is planning a sale and is highly likely to lose control of a subsidiary within one year, it must classify all of this subsidiary's assets and liabilities as being held for sale.

Once classified in this category, non-current assets or the group of assets and liabilities are measured at the lower of carrying amount and the fair value less costs to sell.

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 account. Impairment losses recognised for this purpose may be reversed.

Moreover, when a group of assets and liabilities held for sale represents a cash-generating unit, it is categorised as a discontinued operation. Discontinued operations include operations that are held for sale, operations that have been shut down, and subsidiaries acquired exclusively with a view to resale.

In this case, any gains or losses relating to these transactions are presented separately in the profit and loss account under "Post-tax gain/loss on discontinued operations and assets held for sale". This item includes the post-tax profit or loss of discontinued operations, the post-tax gain or loss arising from the measurement of fair value (less selling costs), and the post-tax gain or loss on disposal.

1.i EMPLOYEE BENEFITS

Group employee benefits are classified under four categories:

- short-term benefits such as salaries, annual leave, incentive bonuses, profit-sharing and additional payments;
- long-term benefits including paid leave, long-service payments and certain deferred cash payments;
- termination benefits;
- post-employment benefits, which in France relate specifically to additional banking sector retirement benefits and end-of-service bonuses, and in other countries to retirement schemes, in some cases backed by pension funds.

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

Long-term benefits are all benefits that are not shortterm benefits, post-employment benefits or termination benefits. This relates, in particular, to compensation deferred for more than 12 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 that used for defined benefit post-employment benefits, except that the revaluation items are recognised in the profit and loss account and not in equity.

Termination benefits

Termination benefits are the benefits payable to a staff member in return for termination of the employment contract, either as a result of the Group terminating the employment contract before the legal retirement age, or by the staff member's voluntary departure in return for compensation. Termination benefits payable more than twelve months after the reporting date are discounted to present value.

Post-employment benefits

In keeping with generally accepted principles, the Group makes a distinction between 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 therefore 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.

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 value 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 services 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 equity 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-benefi t liability or asset).

1.j SHARE-BASED PAYMENTS

Share-based payments are payments based on shares issued by BNP Paribas SA, wether they are settled by the delivery of shares or by a payment of cash, the amount of which depends on the evolution of the value of the shares.

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.

BGL BNP Paribas may award employees options in a share ownership plan, deferred compensation paid in shares issued by BNP Paribas SA or in cash indexed to the value of the BNP Paribas share, and offer employees the possibility to subscribe for BNP Paribas SA shares issued for this purpose at a discount linked to a lock-up period for the subscribed shares.

Deferred variable compensation paid in cash and indexed to the value of the share price

This compensation is recognised as an expense in the reporting period in which the employee provides the corresponding services.

When a share-based payment of deferred variable compensation is explicitly subject to a vesting condition linked to presence, services are presumed to have been received during the vesting period and the corresponding compensation expense is recorded pro rata temporis over this period in staff costs with a compensating liability entry. The expense is adjusted to reflect any non-compliance with presence or performance conditions, and any change in the value of the BNP Paribas share.

If the compensation is not conditional on the staff member's presence, the expense is recognised in full with a compensating liability entry, which is subsequently revalued at each reporting date up until the date of payment, based on any potential performance conditions and any change in the value of the BNP Paribas share.

1.k PROVISIONS RECORDED UNDER LIABILITIES

Provisions recorded under liabilities on the Group's 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 out- flow of resources representing economic benefits will be required to settle an obligation arising from a past event, and it is possible to reliably estimate the value of the obligation. The amount of such obligations is discounted in order to determine the provision amount, provided that this discounting will have a material impact.

Following the acquisition of ABN AMRO Bank (Luxembourg) SA, provisions for contingent liabilities were recognised in provisions for liabilities, in accordance with IFRS3 R.

1.l 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 be reversed in the fore seeable 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 that is expected to apply over the period in which 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 reporting date for the period. They are not discounted.

Deferred tax assets and liabilities are offset when they arise within a single group tax 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 equity, which are also recognised in equity.

When tax credits on revenue from receivables and securities are used to settle the 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.m CASH FLOW STATEMENT

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

Changes in cash related to operating activities reflect cash flows generated by the Group's operations, including those related to transferable debt instruments.

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

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

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

Preparing the Group's 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 account and of assets and liabilities on the balance sheet, and in the disclosure of information in the notes to the financial statements. This requires the managers in question to exercise their judgement and to make use of information available at the date on which the financial statements are drawn up 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 as a result of market conditions, which may have a material impact on the financial statements.

This applies in particular to the following:

- analysis of the cash flow criterion for certain financial assets;
- the calculation of expected credit losses. More specifically, this relates to determining whether there has been a significant increase in credit risk, the models and assumptions used to measure expected credit losses, and assessment of the various economic scenarios and their weighting;
- the use of internal models to measure positions in financial instruments that are not listed on active markets;
- calculations of the fair value of unlisted financial instruments classified in "Financial assets at fair value through equity" or as an asset or liability in "Financial instruments 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 notes to the financial statements;
- whether a market is active or inactive for the purposes of using a valuation technique;
- impairment tests performed on intangible assets;
- goodwill shown in the financial statements;
- appropriateness of the classification of certain hedges using derivatives 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;
- measurement of provisions to cover the risk of losses and charges. In particular, the outcome and potential impact of ongoing investigations and disputes is particularly difficult to predict before their conclusion. Provisions are estimated taking into account all information available on the date the financial statements are prepared, in particular, the nature of the dispute, the underlying facts and ongoing legal proceedings and decisions, including those made in relation to similar cases. The Group may also seek advice from experts and independent consultants in exercising its judgement.

This is also the case for assumptions applied to assess sensitivity to each type of market risk and the sensitivity of valuations to unobservable parameters

2. EFFECTS OF CHANGES IN PRESENTATION AND ACCOUNTING PRINCIPLES, AND THE APPLICATION OF IFRS 9 AND IFRS 15

As at 1 January 2018, the Group made the following presentational changes to the financial statements:

- in view of the application of IFRS 9 Financial Instruments as at 1 January 2018, certain headings in the balance sheet, profit and loss account and the statement of net income and changes in assets and liabilities recognised directly in equity have been renamed;
- in order to harmonise the definition of "credit institutions" in the financial statements with that used for regulatory reporting, amounts outstanding with certain counterparties have been reclassified from "Loans and receivables due from credit institutions" to "Loans and receivables due from clients";
- Remeasurement gains or losses related to post-employment benefits have been reclassified within equity.

The impact of these changes on the balance sheet, profit and loss account and the statement of net income and changes in assets and liabilities recognised directly in equity are presented in note 2a.

BNP Paribas Group has also applied the new accounting standards IFRS 9 and IFRS 15. These standards apply retrospectively from 1 January 2018, and both offer the possibility of not restating comparative figures for prior financial years. As the Group has chosen this option, the comparative financial statements for 2017 have not been restated for these changes in methodology.

The effects of the application of IFRS 9 and IFRS 15 are described in note 2.b.

2.a THE EFFECTS OF PRESENTATIONAL CHANGES

Balance sheet

In millions of euros	31 December 2017 *IAS 39 former presentation*	Re-labelling of financial instruments item headings	Other reclassifications	31 December 2017 *IAS 39 revised presentation*
ASSETS				
Cash and amounts due from central banks	585.5	-	-	585.5
Financial instruments at fair value through profit or loss	182.1	-	-	182.5
Securities	86.6	-	-	86.6
Loans and repurchase agreements	23.1	5.5[a]	-	28.7
Instruments designated at fair value option	5.5	(5.5)[a]	-	-
Derivatives	66.8	-	-	66.8
Derivatives used for hedging purposes	116.4	-	-	116.4
Available-for-sale financial assets	4,708.2	(4,708.2)[b]	-	-
Financial assets at fair value through equity	-	4.708.2[b]	-	4,708.2
Debt securities	-	4.318.4[b]	-	4,318.4
Equity instruments	-	389.8[b]	-	389.8
Financial assets at amortised cost	41,765.1	290.4[c]	-	42,056.4
Loans and receivables due from credit institutions	13,211.3	-	(249.5)[e]	12,961.8
Loans and receivables due from customers	28,553.8	(280.2)[c]	249.5[e]	28,523.1
Debt securities	-	570.6[c]	-	570.6
Held-to-maturity financial assets	290.4	(290.4)[c]	-	-
Current and deferred tax assets	110.3	-	-	110.3
Accrued income and other assets	663.0	-	-	663.0
Investments in associates	186.4	-	-	186.4
Property, plant and equipment and investment property	865.2	-	-	865.2
Intangible assets	25.9	-	-	25.9
Goodwill	132.6	-	-	132.6
TOTAL ASSETS	**49,630.9**	**-**	**-**	**49,630.9**
LIABILITIES				
Financial instruments at fair value through profit or loss	354.0	-	-	354.1
Deposits and repurchase agreements	118.9	-	-	118.9
Instruments designated at fair value option	182.5	(182.5)[a]	-	-
Issued debt securities	-	182.5[a]	-	182.5
Derivatives	52.6	-	-	52.6
Derivatives used for hedging purposes	31.4	-	-	31.4
Financial liabilities at amortised cost	39,372.7	-	-	39,372.7
Due to credit institutions	11,661.0	-	-	11,661.0
Due to customers	26,238.5	-	-	26,238.5
Issued debt securities	1,473.2	-	-	1,473.2
Remeasurement adjustment on interest-rate risk hedged portfolios	50.1	-	-	50.1
Current and deferred tax liabilities	486.8	-	-	486.8
Accrued expense and other liabilities	1,092.4	-	-	1,092.4
Provisions for contingencies and charges	165.7	-	-	165.7
TOTAL LIABILITIES	**41,553.0**	**-**	**-**	**41,553.0**

In millions of euros	**31 December 2017** *IAS 39 former presentation*	**Re-labelling of financial instruments item headings**	**Other reclassifications**	**31 December 2017** *IAS 39 revised presentation*
CONSOLIDATED EQUITY				
Share capital and additional paid-in capital	*6,125.8*	*24.9*[(d)]	-	*6,150.7*
Net income for the period, attibutable to shareholders	*365.8*	-	-	*365.8*
Total capital, retained earnings and net income for the period, attibutable to shareholders	**6,491.6**	**24.9**	**-**	**6,516.5**
Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss	-	(24.9)[(d)]	-	(24.9)
Changes in assets and liabilities recognised directly in equity that will be reclassified to profit or loss	183.0	-	-	183.0
Total consolidated equity	**6,674.5**	**-**	**-**	**6,674.5**
Retained earnings and net income attributable to minority interests	1,482.9	11.7[(d)]	-	1,494.6
Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss	-	(11.7)[(d)]	-	(11.7)
Changes in assets and liabilities recognised directly in equity that will be reclassified to profit or loss	(79.4)	-	-	(79.4)
Minority interests	**1,403.5**	**-**	**-**	**1,403.5**
TOTAL CONSOLIDATED EQUITY	**8,078.0**	**-**	**-**	**8,078.0**
TOTAL LIABILITIES AND EQUITY	**49,630.9**	**-**	**-**	**49,630.9**

Presentational changes relative to the balance sheet published as at 31 December 2017 are as follows:

The Group has renamed some headings in the balance sheet and this table shows the transfers made between the old and new headings:

(a) The "Portfolio valued using the fair value option" that was previously presented as a specific line in assets and liabilities has been broken down by type of instrument in other headings within "Financial instruments at fair value through profit or loss". This relates in particular to EUR 182.5 million in liabilities classified as "Debt securities".

(b) "Available-for-sale financial assets" are now presented under "Financial assets at fair value through equity".

(c) "Held-to-maturity financial assets" and securities previously classified as "Loans and receivables due from customers" and "Loans and receivables due from credit institutions" are presented in the line "Debt securities" within "Financial assets at amortised cost".

(d) Remeasurement gains or losses related to post-employment benefits are presented separately within the new heading "Changes in assets and liabilities recognised directly through equity that will not be reclassified to profit or loss".

(e) In order to harmonise the definition of "credit institutions" in the financial statements with that used for regulatory financial reporting (FINREP), certain counterparties have been reclassified from "Loans and receivables due from credit institutions" to "Loans and receivables due from customers", in the amount of EUR 249.5 million.

Profit and loss account

In millions of euros	31 December 2017 *IAS 39 former presentation*	Re-labelling of financial instruments item headings	Reclassification of interest income and expense on trading instruments	31 December 2017 *IAS 39 revised presentation*
Interest and similar income	1,339.8	-	(2.9)[a]	1,337.0
Interest and similar expense	(247.6)	-	2.8[a]	(244.9)
Commission (income)	379.6	-	-	379.6
Commission (expense)	(222.1)	-	-	(222.1)
Net gains on financial instruments at fair value through profit or loss	20.7	-	0.1[a]	20.8
Net gains on available-for-sale financial assets and other financial assets not measured at fair value	20.3	(20.3)[b]	-	-
Net gains on financial instruments at fair value through equity	-	20.3[b]	-	20.3
Income from other activities	383.6	-	-	383.6
Expense on other activities	(329.0)	-	-	(329.0)
Revenues	**1,345.3**	**-**	**-**	**1,345.3**
Staff costs	(422.4)	-	-	(422.4)
Other operating expense	(225.9)	-	-	(225.9)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	(35.2)	-	-	(35.2)
Gross operating income	**661.8**	**-**	**-**	**661.8**
Cost of risk	(35.5)	-	-	(35.5)
Operating income	**626.3**	**-**	**-**	**626.3**
Share of earnings of associates	23.1	-	-	23.1
Net gain on other fixed assets	5.3	-	-	5.3
Goodwill	-	-	-	-
Pre-tax income	**654.6**	**-**	**-**	**654.6**
Corporate income tax	(122.4)	-	-	(122.4)
Net income	**532.2**	**-**	**-**	**532.2**
of which: Minority interests	166.5	-	-	166.5
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	**365.8**	**-**	**-**	**365.8**

(a) Interest income and expense on instruments in the trading book that was previously presented within "Interest and similar income and charges" is now presented within "Net gain on instruments at fair value through profit or loss" (a net amount of EUR 0.1 million for 2017).

(b) "Available-for-sale financial assets" have been renamed "Financial assets at fair value through equity".

Statement of net income and changes in assets and liabilities recognised directly in equity

In millions of euros	**2017** *IAS 39 former presentation*	**Re-labelling of financial instruments item headings**	**2017** *IAS 39 revised presentation*
Net income	**532.2**	**-**	**532.2**
Changes in assets and liabilities recognised directly in equity	**(68.9)**	**-**	**(68.9)**
Items that are or may be reclassified to income	**(68.6)**	-	**(68.6)**
Changes in fair value of exchange rate items	(33.4)	1.3[a]	(32.1)
Changes in fair value of financial instruments at fair value through equity	(11.5)	(11.2)	(22.7)
Changes in fair value recognised in equity	-	*(11.4)*[a] [b]	*(11.4)*
Changes in fair value reported in net income for the period	*(11.5)*	*0.2*[a]	*(11.3)*
Changes in fair value of available-for-sale financial assets and securities reclassified as loans and receivables	(2.7)	2.7[a]	-
Changes in fair value of hedging instruments	(13.9)	(5.0)[a]	(18.9)
Income tax	-	12.2[a]	12.2
Changes in fair value of items related to equity associates, net of tax	(7.2)	-	(7.2)
Items not reclassified to income	**(0.2)**	**-**	**(0.2)**
Remeasurement gains (losses) related to post-employment benefit plans	(0.2)	(0.6)[a]	0.4
Income tax	-	0.6[a]	0.6
TOTAL	**463.3**	**-**	**463.3**
Attributable to equity shareholders	314.5	-	314.5
Attributable to minority interests	148.9	-	148.9

(a) All items are now presented before taxes.

(b) Available-for-sale financial assets" have been renamed "Financial assets at fair value through equity".

2.b IMPACT OF THE APPLICATION OF IFRS 9 AND IFRS 15

Summary of the impacts of the application of IFRS 9 and IFRS 15 on the balance sheet as at 1 January 2018

	31 December 2017 *IAS 39 revised presentation*	Impacts of the IFRS 9 adoption			Impacts of the IFRS 15 adoption[3]	1 January 2018 *IFRS 9 and IFRS 15*
		Reclassifications	Remeasurements			
In millions of euros			Phase 1[1]	Phase 2[2]		
ASSETS						
Cash and amounts due from central banks	585.5	-	-	-	-	585.5
Financial instruments at fair value through profit or loss	182.1	672.8	6.9	-	-	861.6
Securities	86.6	637.6[(a)]	6.1	-	-	730.2
Loans, receivable and repurchase agreements	28.7	33.2[(b)]	0.8	-	-	62.6
Derivatives	66.8	2.0	-	-	-	68.9
Derivatives used for hedging purposes	116.4	(2.0)	-	-	-	114.3
Financial assets at fair value through equity	4,708.2	(2,140.3)	0.1	-	-	2,568.0
Debt securities	4,318.4	(2,062.5)[(c)]	0.1	-	-	2,256.1
Equity instruments	389.8	(77.9)[(d)]	-	-	-	311.9
Financial assets at amortised cost	42,055.5	1.470.9	(85.9)	(90.3)	-	43,350.3
Loans and receivables due from credit institutions	12,961.8	-	0.0	-	-	12,961.8
Loans and receivables due from customers	28,523.1	(32.3)[(e)]	-	(88.9)[(l)]	-	28,402.1
Debt securities	570.6	1,503.1[(f)]	(85.9)[(j)]	(1.4)	-	1,986.4
Current and deferred tax assets	110.3	-	-	17.0	-	127.3
Accrued income and other assets	663.0	(1.4)	-	-	-	661.7
Investments in associates	186.4	-	-	(20.7)[(m)]	-	165.7
Property, plant and equipment and investment property	865.2	-	-	-	-	865.2
Intangible assets	25.9	-	-	-	-	25.9
Goodwill	132.6	-	-	-	-	132.6
TOTAL ASSETS	**49,630.9**	**-**	**(78.9)**	**(94.0)**	**-**	**49,458.0**

[1] Phase 1: classification and measurement of financial instruments.

[2] Phase 2: credit risk impairment for financial assets.

[3] IFRS 15 has an impact of EUR -1.5 million net of tax on equity as at 1 January 2018. This impact is due to a change in the timing of recognition for income from maintenance services provided by the operating lease entities. Income from these activities is recognised in the profit and loss account in "Income and expenses from other activities".

In millions of euros	31 December 2017 *IAS 39 revised presentation*	Impacts of the IFRS 9 adoption			Impacts of the IFRS 15 adoption[3]	1 January 2018 *IFRS 9 and IFRS 15*
		Reclassifications	Remeasurements			
			Phase 1[1]	Phase 2[2]		
LIABILITIES						
Financial instruments at fair value through profit or loss	354.1	-	-	-	-	354.1
Deposits and repurchase agreements	118.9	-	-	-	-	118.9
Issued debt securities	182.5	-	-	-	-	182.5
Derivatives	52.6	0.2	-	-	-	52.8
Derivatives used for hedging purposes	31.4	(0.2)	-	-	-	31.2
Financial liabilities at amortised cost	39,372.7	-	-	-	-	39,372.7
Due to credit institutions	11,661.0	-	-	-	-	11,661.0
Due to customers	26,238.5	-	-	-	-	26,238.5
Issued debt securities	1,473.2	-	-	-	-	1,473.2
Remeasurement adjustment on interest-rate risk hedged portfolios	50.1	-	-	-	-	50.1
Current and deferred tax liabilities	486.8	-	(20.1)	(13.3)	-	453.3
Accrued expenses and other liabilities	1,092.4	-	-	-	19.0	1,111.4
Provisions for contingencies and charges	165.7	-	-	13.4[(n)]	(17.5)	161.5
TOTAL LIABILITIES	**41,553.0**	**-**	**(20.1)**	**0.1**	**1.5**	**41,534.4**

[1] Phase 1: classification and measurement of financial instruments.

[2] Phase 2: credit risk impairment for financial assets.

[3] IFRS 15 has an impact of EUR -1.5 million net of tax on equity as at 1 January 2018. This impact is due to a change in the timing of recognition for income from maintenance services provided by the operating lease entities. Income from these activities is recognised in the profit and loss account in "Income and expenses from other activities".

In millions of euros	31 December 2017 *IAS 39 revised presentation*	Impacts of the IFRS 9 adoption			Impacts of the IFRS 15 adoption[3]	1 January 2018 *IFRS 9 and IFRS 15*
		Reclassifications	Remeasurements			
			Phase 1[1]	Phase 2[2]		
CONSOLIDATED EQUITY						
Share capital and retained earnings	*6,150.7*	*94.3* [(g)]	*2.2*	*(48.6)*	*(0.8)*	*6,197.8*
Net income for the period, attributable to shareholders	*365.8*	*-*	*-*	*-*	*-*	*365.8*
Total capital, consolidated retained earnings and net income for the period, attributable to shareholders	**6,516.5**	**94.3**	**2.2**	**(48.6)**	**(0.8)**	**6,563.6**
Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss	(24.9)	6.6[(i)]	-	-	-	(18.3)
Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss	183.0	(100.9)[(h)]	(60.5)[(k)]	-	-	21.6
Total consolidated equity	**6,674.6**	**-**	**2.2**	**(48.6)**	**(0.8)**	**6,566.8**
Retained earnings and net income attributable to minority interests	1,494.6	7.6	-	(45.5)	(0.7)	1,456.0
Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss	(11.7)	3.4	-	-	-	(8.3)
Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss	(79.4)	(11.0)	(0.5)	-	-	(90.9)
Minority interests	**1,403.5**	**-**	**(0.5)**	**(45.5)**	**(0.7)**	**1,356.8**
TOTAL CONSOLIDATED EQUITY	**8,078.0**	**-**	**(58.8)**	**(94.1)**	**(1.5)**	**7,923.6**
TOTAL LIABILITIES AND EQUITY	**49,630.9**	**-**	**(78.9)**	**(94.0)**	**-**	**49,458.0**

Based on the chosen business models and the characteristics of the financial assets held by the Group, the major Phase 1 classifications and valuation changes as at 1 January 2018 are as follows:

(a) Transfers to the item "Financial instruments at fair value through profit or loss/Securities portfolio" include in particular:

1. Debt securities previously measured at fair value through equity and for which contractual cash flows are not solely payments of principal and interest on the principal amount outstanding in the amount of EUR 465.0 million.
2. Debt securities previously measured at amortised cost and for which contractual cash flows are not solely payments of principal and interest on the principal amount outstanding in the amount EUR 98.5 million.
3. Some of the equity instruments previously measured at fair value through equity in the amount EUR 77.9 million.

(b) The transfer to the item "Financial instruments at fair value through profit or loss/Loans, receivables and repurchase agreements" mainly relates to loans linked to structured transactions for which

[1] Phase 1: classification and measurement of financial instruments.

[2] Phase 2: credit risk impairment for financial assets.

[3] IFRS 15 has an impact of EUR -1.5 million net of tax on equity as at 1 January 2018. This impact is due to a change in the timing of recognition for income from maintenance services provided by the operating lease entities. Income from these activities is recognised in the profit and loss account in "Income and expenses from other activities".

contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. These were previously recorded within "Financial assets at amortised cost/Loans and receivables due from customers". This had an impact of EUR 33.2 million.

(c) The item fell by EUR 2,062.5 million as a result of the transfer of EUR 1,601.7 million from the securities portfolio to "Financial assets at amortised cost/Debt securities", and the transfer of EUR 465 million in debt securities previously measured at fair value through equity and for which cash flows are not solely payments of principal and interest on the principal amount outstanding.

(d) The item fell by EUR 77.9 million as a result of the transfer of a portion of the equity instruments to "Financial instruments at fair value through profit or loss/Securities portfolio".

(e) The item fell by EUR 32.3 million as a result of the transfer of loans related to structured transactions for which cash flows are not solely payments of principal and interest on the principal amount outstanding to the item "Financial instruments at fair value through profit or loss/Loans, receivables and repurchase agreements".

(f) Transfers to "Financial assets at amortised cost/ debt securities" includes in particular:

1. Items in the securities portfolio previously measured at fair value through equity in the amount of EUR 1,601.7 million.
2. The reclassification of debt securities for which contractual cash flows are not solely payments of principal and interest on the principal amount outstanding into the item "Financial instruments at fair value through profit or loss/ Securities portfolio" in the amount EUR -98.5 million.

(g) The increase of EUR 94.3 million net of tax in this item results mainly from the following elements:

1. A portion of the equity instruments previously measured at fair value through equity has been reclassified in "Financial instruments at fair value through profit or loss/Securities portfolio". This classification resulted in the transfer of EUR 14.4 million of net unrealised capital gains (attributable to shareholfers) from "Changes in assets recognised directly in equity" to the item "consolidated Retained earnings".
2. All rest of these equity instruments are designated as measured at fair value through equity. As this option does not offer the possibility of carrying out value corrections for these financial instruments, existing value corrections have been reversed. This led to an increase in equity, attributable to shareholders, of EUR 73.0 million.
3. Debt securities previously measured at fair value through equity and for which contractual cash flows are not solely payments of principal and interest on the principal amount outstanding have been transferred to "Financial instruments at fair value through profit or loss/Securities portfolio" in the amount of EUR 8.5 million.
4. For financial liabilities, the main change introduced by IFRS 9 relates to debts designated as measured at fair value through profit or loss, with changes in fair value resulting from changes in own credit risk recognised in a separate line in equity and not in profit or loss as previously. In this respect, EUR 3.1 million of accumulated changes (attributable to shareholders) were reclassified as at 1 January 2018 from "consolidated retained earnings" to "Changes in assets and liabilities recognised directly through equity and not available for reclassification to profit or loss".

(h) The reduction of EUR 100.9 million in this item results mainly from the following elements:

1. A portion of the equity instruments previously measured at fair value through equity has been reclassified in "Financial instruments at fair value through profit or loss/Securities portfolio". This classification led to the transfer of EUR 14.4 million of net unrealised capital gains (Group share) from "Changes in assets recognised directly in equity" to "consolidated reserves".
2. The rest of these equity instruments in the amount of EUR 311.9 million are designated as measured at fair value through equity. As this option does not offer the possibility of carrying out value corrections for these financial instruments, existing value corrections have been reversed. This led to a decline of EUR 76.4 million in unrealised gains in "Changes in assets recognised directly through equity and available for reclassification to profit or loss".

3. Debt securities previously measured at fair value through equity and for which contractual cash flows are not solely payments of principal and interest on the principal amount outstanding have been transferred to "Financial instruments at fair value through profit or loss/Securities portfolio" in the amount of EUR -8.5 million.

(i) The amount of EUR 6.6 million comprises:

1. EUR 3.5 million in unrealised capital gains from non-consolidated participating interests measured at fair value through equity previously recognised in the item "Changes in assets recognised directly in equity and available for reclassification to profit and loss";
2. EUR 3.1 million for the recognition of changes in fair value from own credit risk for debts designated as measured at the fair value option through profit or loss , previously included in "consolidated retained earnings".

(j) The amount of EUR -85.9 million corresponds to cancellation of the revaluation reserve for debt securities, measured at fair value through equity under IAS 39 and at amortised cost under IFRS 9.

(k) The amount of EUR 60.5 million for cancellation of the revaluation reserve for debt securities net of taxes, measured at fair value through equity under IAS 39 and at amortised cost under IFRS 9.

On the other hand, the new impairment model of IFRS 9 has led to additional provisions for impairment. The major points are detailed hereinafter:

(l) There was an impact of EUR 88.9 million on "Loans and receivables payable by clients", of which EUR 14.0 million at the Bank level and EUR 74.9 million at Leasing International level.

(m) There was an impact of EUR 20.7 million on BNP Paribas Leasing SPA, which is accounted for by the equity method in the Group accounts.

(n) Additional impairment provisions of EUR 13.4 million were recognised on off-balance sheet commitments.

Reconciliation of impairments under IAS 39 and provisions under IAS 37 and expected losses under IFRS 9

The impact of the new impairment model of IFRS 9 result in additional provision for impairment of financial instruments of EUR 100.5 million before taxes (a reduction of EUR 86 million in "Loans and receivables due from customers" on the asset side, and an increase of EUR 13.4 million on the liabilities side in "Provisions for contingencies and charges" related to financing and guarantee commitments).

In millions of euros	**31 December 2017** *IAS 39*	**From Loans and receivables to Financial assets at fair value through profit or loss**	**Change in impairment calculation method**	**Other impacts**	**1 January 2018** *IFRS 9*
Financial assets at amortised cost	(483.0)	2.9	(90.0)	-	(570.2)
Loans and advances to credit institutions	(0.3)	-	-	-	(0.3)
Loans and advances to customers	(482.7)	2.9	(88.9)[(a)]	-	(568.7)
Debt securities	-	-	(1.2)	-	(1.2)
Financing or guarantee commitments and other items	(7.5)		(13.4)[(b)]	-	(20.9)
TOTA IMPAIRMENTS	**(490.5)**[(C)]	**2.9**	**(103.4)**	**-**	**(591.0)**

(a) There was an impact of EUR 88.9 million on "Loans and receivables due from customers", of which EUR 14.0 million at the Bank level and EUR 74.9 million at Leasing International level.

(b) Additional impairments of EUR 13.4 million were recognised on off-balance sheet commitments.

(c) Are only included items affected by IFRS 9 and not all impairments, which amounted to EUR 495.1 million as at 31 December 2017.

3. NOTES TO THE PROFIT AND LOSS ACCOUNT

Les proft and loss account as at 31 December 2018 includes the new entities included in the scope of consolidation. The comparative financial statements for 2017 have not been restated for this impact.

3.a NET INTEREST MARGIN

The Group includes in "Interest and similar income" and "Interest and similar charges" the income from financial instruments measured at amortised cost (interest, fees and commissions) calculated using the effective interest method, as well as income from financial instruments measured at fair value through equity.

These items also include income from financial instruments not held for trading purposes with characteristics that do not permit recognition at amortised cost or at fair value through equity, as well as financial instruments that the Group has designated as measured at fair value through profit or loss. The change in fair value on these financial instruments at fair value through profit or loss (excluding accrued interest) is recognised under "Net gain or loss 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.

			2018 *IFRS 9 and IFRS 15*			2017 *IAS 39*
In millions of euros	Income	Expense	Net	Income	Expense	Net
Financial instruments at amortised cost	**1,328.2**	**(292.4)**	**1,035.8**	**1,231.8**	**(233.0)**	**998.8**
Deposits. loans and borrowings	515.2	(216.4)	298.8	509.7	(184.7)	325.1
Repurchase agreements	1.1	(4.4)	(3.3)	2.3	(1.4)	0.9
Finance leases	769.8	(59.9)	709.9	708.4	(43.0)	665.4
Debt securities	42.2	-	42.2	11.4	-	11.4
Issued debt securities and subordinated debt	-	(11.8)	(11.8)	-	(3.9)	(3.9)
Financial instruments at fair value through equity	**17.4**	**-**	**17.4**	**49.1**	**-**	**49.1**
Debt securities	17.4	-	17.4	49.1		49.1
Financial instruments at fair value through profit or loss (Trading portfolio excluded)	**9.2**	**(0.5)**	**8.7**	**-**	**(1.6)**	**(1.6)**
Cash flow hedge instruments	**17.0**	**(2.6)**	**14.4**	**22.4**	**(7.0)**	**15.4**
Interest-rate portfolio hedge instruments	**34.3**	**(4.2)**	**30.1**	**33.7**	**(3.3)**	**30.4**
TOTAL INTEREST INCOME (EXPENSE)	**1,406.2**	**(299.7)**	**1,106.5**	**1,337.0**	**(244.9)**	**1,092.1**

For the 2017 financial year, interest from financial instruments at amortised cost included interest income and expense on financial assets held to maturity, transactions with customers, interbank transactions and debts issued by the Group (excluding those issues designated as measured at fair value option through profit or loss by the Group).

For the 2017 financial year, interest from financial instruments at fair value through equity relates to interest on available-for-sale debt securities, of which EUR 1.6 billion were reclassified at amortised cost as at 1 January 2018. This reclassification is the main reason for the change in interest on debt securities included in interest on financial instruments at amortised cost between the two reporting periods.

For the 2017 financial year, interest on financial instruments at fair value through profit or loss relates to interest income and expenses on financial instruments designated as measured at fair value option through profit or loss by the Group. For the 2018 financial year, this account heading also includes interest on financial instruments not held for trading purposes with characteristics that do not permit recognition at amortised cost or at fair value through equity.

3.b COMMISSIONS

In millions of euros	2018 IFRS 9 and IFRS 15			2017 IAS 39		
	Income	Expense	Net	Income	Expense	Net
Credit operations for customers	32.2	(6.5)	25.7	27.5	(10.0)	17.5
Means of payment and account keeping	50.9	(14.1)	36.7	40.3	(11.5)	28.8
Securities, investment funds and UCITS	54.4	(0.1)	54.3	57.1	(2.3)	54.9
Commissions on securities and derivatives transactions	29.5	(3.7)	25.8	37.7	(3.8)	33.9
Insurance activities	25.6	-	25.6	27.8	(1.5)	26.3
Other commissions	29.3	(34.6)	(5.3)	189.1	(193.1)	(4.0)
TOTAL COMMISSIONS FOR THE PERIOD	**221.9**	**(59.0)**	**162.9**	**379.6**	**(222.1)**	**157.5**

The reduction in other fee income and expenses is mainly linked to a change in standards (IFRS 15).

3.c NET GAIN OR LOSS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Net gain on financial instruments measured at fair value through profit or loss includes all profit and loss items relating to financial instruments managed in the trading book, financial instruments that the Group has designated at fair value through profit or loss; non-trading equity instruments that the Group did not choose to measure at fair value through equity as well as debt instruments whose cash flows are not solely payments of principal and interest on the principal or whose business model is not to collect cash flows nor to collect cash flows and sell the assets.

These elements of profit or loss include dividends on these instruments and exclude interest income and expenditure on financial instruments designated at fair value option and on instruments for which cash flows are not solely payments of principal and interest on the principal amount outstanding or for which the business model is not "hold to collect" or "hold to collect and sell", which is presented in the "Net interest margin" (note 3.a).

In millions of euros	2018 IFRS 9 and IFRS 15	2017 IAS 39
Trading book	**56.8**	**23.1**
Interest rate and credit instruments	(1.2)	(5.0)
Equity financial instruments	7.8	(1.8)
Foreign exchange financial instruments	54.0	29.8
Loans and repurchase agreements	(3.7)	0.1
Instruments designated at fair value option[1]	**3.5**	**(2.3)**
Other financial instruments at fair value through profit or loss	**(30.1)**	**-**
Debt instruments	(12.8)	-
Equity instruments	(17.2)	-
Impact of hedge accounting	**(0.1)**	**(0.0)**
Fair value hedging derivatives	21.4	(11.9)
Hedged items in fair value hedge	(21.5)	11.9
TOTAL	**30.1**	**20.8**

[1] From 1 January 2018, the own-credit valuation adjustment (OCA) is recognised in "Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss".

3.d NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH EQUITY AND ON FINANCIAL INSTRUMENTS AT AMORTISED COST

In millions of euros	2018 *IFRS 9 and IFRS 15*	2017 *IAS 39*
Net gain/loss on debt instruments at fair value through equity	**8.1**	**1.4**
Debt securities[1]	8.1	1.4
Net gain/loss on equity instruments at fair value through equity	**54.1**	**18.9**
Dividend income	54.1	6.1
impairment charges	-	3.6
Net disposal gain/loss	-	**9.3**
Net gain on financial instruments at fair value through equity	**62.2**	**20.3**

In the financial year 2018, the net gain on financial instruments at fair value through equity relates to capital gains and losses on debt securities through equity and dividends on equity securities for which the Group applied the fair value through equity option; capital gains and losses on the latter are no longer recognised in profit or loss, but directly in equity.

In the financial year 2017, impairment loss and net capital gains on the disposal of equity instruments related to those recognised under IAS 39 on available-for-sale securities.

3.e INCOME AND EXPENSES FROM OTHER ACTIVITIES

	2018 *IFRS 9 and IFRS 15*			2017 *IAS 39*		
In millions of euros	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Income and expense from investment property	34.5	(10.6)	23.9	29.2	(12.3)	16.9
Income and expense from assets held under operating leases	143.4	(107.8)	35.6	125.9	(90.9)	35.0
Other income and expense	479.8	(453.9)	25.9	228.5	(225.8)	2.7
TOTAL	**657.7**	**(572.3)**	**85.4**	**383.6**	**(329.0)**	**54.6**

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

3.f OTHER OPERATING EXPENSES

In millions of euros	2018 *IFRS 9 and IFRS 15*	2017 *IAS 39*
Taxes and contributions[2]	(34.8)	(32.9)
External services and other operating expenses	(229.6)	(193.0)
TOTAL OTHER OPERATING EXPENSES	**(264.4)**	**(225.9)**

[1] Interest income from debt securities is included in "Net interest margin" (see note 3.a) and impairment losses in potential issuer default are included in "Cost of risk" (see note 3g).

[2] The contributions to the European resolution fund, including exceptional contributions, were EUR -19.1 million for the financial year 2018 versus EUR -14.1 million for the financial year 2017.

3.g COST OF RISK

The general model for impairment assessment used by the Group and described in note 1.e.5 is based on the following two stages:

- an assessment to determine if there has been a significant increase in credit risk since initial recognition, and
- measurement of the impairment provision based on the 12-month expected credit loss or the lifetime expected credit loss (i.e. expected credit loss at maturity).

These two stages should be based on forecast information.

Significant increase in credit risk

The assessment of a significant increase in credit risk is carried out for each instrument individually based on indicators and thresholds that will vary dependent on the nature of the exposure and type of counterparty.

Facilities granted to large corporate clients (including corporate SMEs), financial institutions and sovereign states, and bonds

The indicator used to measure any significant increase in credit risk is the internal credit rating of the counterparty.

The deterioration in credit quality is considered significant and the facility (or bond) is classified as stage 2 if the difference between the counterparty's internal rating at origination and at the reporting date is greater than or equal to three notches, e.g. if the rating changes from 4- to 5-.

The simplified assessment of "low credit risk" authorised by IFRS 9 (whereby bonds with an internal investment grade rating at the reporting date are considered as stage 1, and those with an internal rating of non-investment grade at the reporting date are considered as stage 2) is only used for debt securities for which an internal rating is not available at initial recognition.

Facilities granted to SME and retail customers

For exposures in connection with SMEs, the indicator used to asses any significant increase in credit risk is also the internal credit rating of the counterparty. Given higher volatility in the internal rating scale used, the deterioration is considered significant and the facility classified as stage 2 if the difference between the counterparty's internal rating at origination and on the reporting date is greater than or equal to six notches.

For retail customers, two other indicators of an increase in credit risk may be used.

- Probability of default (PD): the change in probability of default at one year is considered a reasonable approximation of the change in probability of default at maturity. The deterioration in credit risk is considered significant and the facility classified as stage 2 if the ratio (PD at one year from the reporting date/PD at origination) is greater than 4.

In addition, for all portfolios:

- The facility is presumed to be stage 1 when its internal rating is less than 4- (or its PD at one year is less than or equal to 0.25%) at the reporting date, as changes in the PD linked to downgrades for ratings of this magnitude are low and therefore not considered to be "significant".
- When the internal rating is less than or equal to 9+ (or when the PD at one year is below 10%) at the reporting date, given the Group's loan issuance practices, the deterioration is considered significant and the facility is automatically classified in stage 2 (provided that the facility is not impaired).

A significant increase in credit risk since initial recognition is assumed and the asset automatically classified in stage 2 when a payment is more than 30 days overdue.

The model described here-above does not apply to the loans of the Leasing International entities and the newly acquired entity BNP Paribas Wealth Management Luxembourg SA.

Forecast information

The Group takes account of forecast information in its assessment of any significant increase in credit risk and its estimate of expected credit losses (ECL).

In addition to rules based on comparison of the risk parameters at the date of initial recognition and at the reporting date, the assessment of any significant increase in credit risk also relies on forecast information such as macroeconomic parameters for sectors or regions, which may potentially increase the credit risk of certain exposures. This information may lead to a tightening of the criteria for a move into stage 2, and therefore increase the amount of expected credit losses for exposures considered particularly vulnerable as regards these forecast parameters.

For the measurement of expected credit losses, the Group has chosen to use three macroeconomic scenarios covering a broad range of potential future economic conditions:

- a base scenario in line with the scenario used in the budget process;
- an advers scenario corresponding to the scenario used in the quarterly stress tests carried out by the Group;
- a positive scenario to reflect situations when economic performance is better than expected.

The weighting applied to the expected credit losses calculated in each of the scenarios is as follows:

- 50% for the base scenario;
- the weighting of the two alternative scenarios depends on the position in the economic cycle. In the approach adopted, the negative scenario is given a higher weighting at the top of the cycle than at the bottom, in anticipation of a potential downturn in the economy.

In addition, where relevant, the measurement of impairment provisions may take into account potential asset sales.

Description of the macroeconomic scenarios

The three macroeconomic scenarios correspond to:

- a base scenario representing the most likely economic situation over the forecast period. This scenario is updated quarterly. It is defined by the BNP Paribas Group economic research team together with various experts across the BNP Paribas Group. Projections are made for each of the BNP Paribas Group's major markets based on the key macroeconomic variables (GDP and its components, the unemployment rate, the consumer price index, interest rates, exchange rates, the oil price, real estate prices, etc.) that are critical for modelling the risk parameters used in the stress tests;
- an adverse scenario reflecting the impact of the risks threatening the base scenario materialising, resulting in a much less favourable economic situation. The starting point is to apply a shock to GDP. This shock is applied in varying degrees, but simultaneously across the different economies if the crisis under consideration is global. The assumptions used are generally consistent with those proposed by regulators. The other variables (unemployment rate, inflation, interest rates) are defined on the basis of established econometric relationships and expert judgement.
- a favourable scenario reflecting the impact of the upside risks in the economy materialising, resulting in a much more favourable economic situation. In order to arrive at an unbiased estimate for impairments, the favourable scenario is defined in such a way that the probability of occurrence of the shock applied to GDP (on average through the cycle) is equal to the probability of occurrence of the corresponding shock in the negative scenario. The size of the shocks applied is generally 80%-95% of the size of the negative shocks. Other variables (unemployment rate, inflation, interest rates) are defined in the same way as in the adverse scenario.

Link between the economic scenarios and measurement of ECL

The link is mainly established by modelling migration matrices for internal ratings and default probabilities based on the macroeconomic scenarios. The matrices are applied for a one-year time horizon and then combined up to maturity of the instrument in an iterative process.

For each client and regional segment, an average matrix is constructed using historic migration data for internal ratings and credit defaults. This matrix describes the migration behaviour of the internal rating through the cycle (TTC).

These TTC matrices are then adjusted to establish matrices reflecting point in time (PIT) conditions and forward-looking data for each of the three scenarios and each of the three forecast years. This is carried out on the basis of econometric relationships established between default rates and the macroeconomic variables. Beyond the forecast horizon, average TTC matrices are used that are not adjusted for a macroeconomic scenario.

As an exception, regulatory PD are used for portfolios with low default risk (exposure to sovereigns, public sector and financial institutions), given their low historic default levels and model uncertainty.

Cost of risk for the period

Cost of risk for the period

In millions of euros	2018 *IFRS 9 and IFRS 15*	2017 *IAS 39*
Net additions to impairments	(50.9)	(21.6)
Recoveries on loans and receivables previously written off	4.6	5.6
Losses on irrecoverable loans	(14.1)	(19.5)
TOTAL COST OF RISK FOR THE PERIOD	**(60.4)**	**(35.5)**

Cost of risk for the period by accounting category and asset type

In millions of euros	2018 *IFRS 9 and IFRS 15*	2017 *IAS 39*
Financial assets at amortised cost	(66.6)	(38.4)
of which: Loans and receivables	*(68.0)*	*(38.4)*
of which: Debt securities	*1.4*	-
Other assets	0.5	(1.5)
Financing and guarantee commitments and other items	5.7	4.4
TOTAL COST OF RISK FOR THE PERIOD	**(60.4)**	**(35.5)**
Cost of risk on unimpaired assets and commitments	4.4	17.2
of which: Stage 1	*(9.8)*	-
of which: Stage 2	*14.2*	-
Cost of risk on impaired assets and commitments - Stage 3	(64.9)	(52.7)
TOTAL COST OF RISK FOR THE PERIOD	**(60.4)**	**(35.5)**

Credit risk impairment

Changes in impairment for the period by accounting category and asset type

In millions of euros	1 January 2018 *IFRS 9 and IFRS 15*	Net additions to impairments	Impairments used	Changes in the scope of consolidation, exchange rate movements and other movements	31 December 2018 *IFRS 9 and IFRS 15*
Assets impairment					
Financial assets at amotised cost	608.7	57.1	(60.1)	36.5	642.2
of which: Loans and receivables	*607.3*	*58.5*	*(60.1)*	*36.5*	*642.1*
of which: Debt securities	*1.4*	*(1.4)*	*-*	*-*	*0.0*
Other assets	3.0	(0.5)	-	0.3	2.8
TOTAL IMPAIRMENT OF FINANCIAL ASSETS	**611.7**	**56.6**	**(60.1)**	**36.8**	**645.0**
of which: Stage 1	*69.4*	*7.9*	*-*	*1.4*	*78.6*
of which: Stage 2	*96.7*	*(9.3)*	*(0.0)*	*2.5*	*89.9*
of which: Stage 3	*445.6*	*58.0*	*(60.1)*	*33.0*	*476.5*
Provisions recognised as liabilities					
Provisions for financing and guarantee commitments	19.9	(4.2)	(0.2)	0.2	15.8
Other impairments	1.5	(1.5)	-	1.1	1.1
TOTAL PROVISONS RECOGNISED FOR CREDIT COMMITMENTS	**21.4**	**(5.7)**	**(0.2)**	**1.3**	**16.9**
of which: Stage 1	*6.1*	*1.9*	*-*	*0.1*	*8.2*
of which: Stage 2	*7.3*	*(4.9)*	*-*	*0.1*	*2.4*
of which: Stage 3	*8.0*	*(2.7)*	*(0.2)*	*1.1*	*6.3*
TOTAL IMPAIRMENT AND PROVISIONS	**633.2**	**50.9**	**(60.2)**	**38.1**	**661.9**

Changes in impairment for the period for financial assets at amortised cost

In millions of euros	Impairment on assets subject to 12-month Expected Credit Losses (Stage 1)	Impairment on assets subject to lifetime Expected Credit Losses (Stage 2)	Impairment on impaired assets (Stage 3)	TOTAL
At 1 January 2018	69.4	96.7	442.6	**608.7**
Net additions to impairment	7.8	(9.3)	58.5	**57.0**
Financial assets purchased or originated during the period	33.8	4.4	0.2	**38.4**
Financial assets derecognised during the period[1]	(8.7)	(12.6)	(27.9)	**(49.2)**
Transfer to stage 2	(3.5)	57.4	(3.6)	**50.4**
Transfer to stage 3	(0.8)	(2.0)	68.3	**65.6**
Transfer to stage 1	4.8	(33.6)	(2.7)	**(31.6)**
Other additions/reversals without stage transfer[2]	(17.9)	(22.9)	24.2	**(16.6)**
Use of impairments	-	(0.0)	(60.1)	**(60.1)**
Changes in the scope of consolidation, effect of exchange rate movements and other items	1.4	2.5	32.7	**36.5**
At 31 December 2018	78.6	89.9	473.7	**642.2**

[1] Including disposals.
[2] Including amortisation.

3.h SHARE OF EARNINGS OF ASSOCIATES

This net income includes the contribution from leasing activities of EUR 7.1 million (EUR 7.7 million in 2017) and from Cardif Lux Vie of EUR 8.0 million (EUR 15.4 million in 2017). Cardif Lux Vie does not yet apply IFRS 9 given the exemption granted to insurance companies, and therefore continues to apply IAS 39.

3.i NET GAINS ON OTHER FIXED ASSETS

In millions of euros	2018 *IFRS 9 and IFRS 15*	2017 *IAS 39*
Net gain or loss on investment disposals	0.5	0.5
Net gain from disposals of property, plant and equipment	0.1	4.8
TOTAL	**0.6**	**5.3**

3.j CORPORATE INCOME TAX

Reconciliation of the effective tax expense to the theoretical tax expense at standard tax rate in Luxembourg	2018 In millions of euros	Tax rate	2017 In millions of euros	Tax rate
Theoretical income tax expense on pre-tax income[1]				
Tax exempt interest and dividends	26.5	-4.3%	11.6	-1.8%
Income from tax exempt investments	2.7	-0.4%	5.3	-0.8%
Impact of using tax losses for which no deferred tax asset was previously recognised	28.4	-4.6%	3.2	-0.5%
Impact of tax rate adjustment on temporary differences	16.0	-2.6%	16.2	-2.6%
Impact of differently taxed foreign profits	(8.6)	1.4%	(6.2)	1.0%
Other items	(25.3)	4.1%	20.6	-3.3%
Corporate income tax expense	**(124.5)**	**20.0%**	**(122.4)**	**19.4%**
of which:				
Current tax expense for the year to 31 December	*(200.9)*		*(124.5)*	
Deferred tax income (expense) for the year to 31 December (note 6.i)	*76.4*		*2.1*	

[1] Adjusted for share of earnings of associates.

4. SECTOR INFORMATION

The Group is an international financial services provider. 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 BNP Paribas.

The Group's sector information reveals the overall economic contribution from each of the core businesses, with the objective being to attribute all of the items on the balance sheet and in the profit and loss account 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, and Direct Banking and Private Banking activities in Luxembourg, as well as the activities of companies in Luxembourg and the Greater Region. BDEL offers its financial services to individuals and professionals. BDEL offers its financial services to individuals and professionals. The financing activities related to BNP Paribas Lease Group Luxembourg SA is also included in the scope of this business.
- **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 banking networks) to offer businesses and professionals a wide array of leasing solutions ranging from equipment financing to the outsourcing of vehicle fleets.
- **Corporate and Institutional Banking** (CIB) : This core business offers products and services related to the capital and financing markets in Luxembourg to the Bank's corporate and institutional customers.
- **International Financial Services** (IFS) : This core business includes Wealth Management, which provides wealth management services for international private customers. It also includes four months of profit and loss on the business of BNP Paribas Wealth Management Luxembourg SA, which, following its acquisition on 3 September 2018, was merged into the Bank on 1 November 2018. It also includes Cardif Lux Vie S.A., which primarily offers protection products, group insurance, pension savings and life insurance in Luxembourg and abroad.

Other activities include income derived from equity investment, as well as elements related to the support functions that cannot be allocated to a specific business segment as well as activities of certain strategic participating interests. 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 core operational businesses, costs related to major regulatory programmes and contributions to the Single Resolution Fund are included in this sector.

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

Inter-sector transactions are carried out under normal market conditions

ALLOCATION RULES

Sector-based reporting applies balance sheet allocation rules, squaring mechanisms per sector, a fund transfer pricing system, rebilling of support and operations expenses and overhead allocation.

The balance sheet allocation and squaring methodology seek to report sector information reflecting the operating model.

In the operating model, the core businesses do not act as their own treasurer in bearing interest rate risk and foreign exchange risk by funding their own assets with their own liabilities, or by having direct access to the financial markets. This is reflected in the fund transfer pricing system, which transfers interest rate risk and foreign exchange risk from the various sectors to the departments assuming the role of central bankers within the bank by monitoring total 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, Internal Audi, Risk), and financial monitoring. The costs and revenues of these departments are charged to the core businesses on the basis of Rebilling Agreements reflecting the economic consumption with respect to the products and services provided. These agreements ensure that the costs and revenues are fully charged to the Group's commercial activities based on actual usage.

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

Income by core business

In millions of euros						2018 *IFRS 9 and IFRS 15*
	BDEL	Leasing International	Corporate & Institutional Banking	International Financial Services	Others	Total
Revenues	**332.9**	**779.5**	**29.1**	**124.4**	**181.1**	**1.447.0**
Operating expense	(241.0)	(383.9)	(8.9)	(121.4)	(8.7)	**(763.9)**
Cost of risk	5.9	(68.4)	0.6	0.4	1.1	**(60.4)**
Operating income	**97.8**	**327.2**	**20.8**	**3.4**	**173.5**	**622.7**
Non-operating items	0.4	(6.8)	0.0	8.0	0.0	**1.7**
Pre-tax income	**98.2**	**320.4**	**20.8**	**11.5**	**173.5**	**624.3**

In millions of euros						2017 *IAS 39*
	BDEL	Leasing International	Corporate & Institutional Banking	International Financial Services	Others	Total
Revenues	**349.4**	**714.1**	**23.9**	**122.9**	**134.9**	**1.345.3**
Operating expense	(237.4)	(328.6)	(11.8)	(97.5)	(8.3)	**(683.5)**
Cost of risk	12.1	(49.1)	0.0	0.5	0.9	**(35.5)**
Operating income	**124.1**	**336.5**	**12.2**	**25.9**	**127.5**	**626.3**
Non-operating items	4.8	7.6	-	15.4	0.5	**28.3**
Pre-tax income	**128.9**	**344.1**	**12.2**	**41.3**	**128.1**	**654.6**

Assets and liabilities by core business

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*		1 January 2018 *IFRS 9 and IFRS 15*	
	Assets	Liabilities	Assets	Liabilities
BDEL	10,359.8	22,855.5	9,509.9	20,552.7
Leasing International	22,859.1	20,854.0	20,536.2	18,085.0
Corporate & Institutional Banking	564.3	825.7	270.1	913.3
International Financial Services	2,053.6	8,438.0	1,662.5	5,654.4
Others	18,760.4	1,623.9	17,479.3	4,252.6
TOTAL GROUP	**54,597.2**	**54,597.2**	**49,458.0**	**49,458.0**

5. RISK MANAGEMENT AND CAPITAL ADEQUACY

As part of the ongoing implementation of the Basel Accord, and Pillar 3 in particular, which introduces 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 Pillar 3 of Basel 3.

Measures of the risk incurred by the Group through its banking activities comply with the methods approved by the CSSF under Pillar 1. The scope of application (referred to as the prudential scope) is detailed in note 5.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 sub- group of BNP Paribas and whose measurement and management are conducted in the most homogenous manner possible.

In addition to this note, the Group also discloses additional risk information in the Pillar 3 document available on the Bank's website.

5.a RISK FACTORS

This section summarises 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, income and cost of risk for the Group.

The Group's business lines have exposure to changes in financial markets and the operating environment. The Group may 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, income and cost of risk. In 2019, the macroeconomic environment may be subject to various specific risks, including geopolitical tensions and financial market volatility. Measures taken or that may be taken by central banks or regulators could have negative effects on the banking industry possibly bringing margin pressure but not necessarily lending volume growth.

In addition, a change of approach to investment and indebtedness cannot be excluded in an environment of medium and long-term interest rate volatility. These changes may have an impact on the structure of asset and liability management given their sensitivity to interest rate changes. The Group participates in the interbank financial market and as a result, is indirectly exposed to risks affecting other financial institutions.

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, the exit of a country from the eurozone or the persistent uncertainty surrounding the terms of Brexit), the resulting political and financial turbulence could have a significant adverse impact on the creditworthiness of the Group's clients 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, the resurgence of the financial crisis, the sovereign debt crisis 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 operating profits and financial situation.

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

The amount of net interest income earned by the Group over any given period has a significant impact on the overall revenue 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 income from lending activities. In addition, maturity mismatches and increases in interest rates on the Group's shortterm financing may adversely affect profitability.

A long-term low interest rate environment could pose inherent systemic risks.

The persistence of a low interest rate environment could favour excessive risk-taking by some financial market participants, such as increasing the maturities of funding and of assets held, and also increasing the prevalence of leveraged funding. Some of these 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. Low interest rates and the limited supply of available housing could contribute to a significant rise in real estate prices in Luxembourg. These issues in conjunction with high household indebtedness could lead to an increase in potential defaults, which coinciding with a decline in property values as a result of a major surge in supply, would result in a rise in provisions.

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 closely interrelated. As a result, defaults or even rumours or questions about one or more financial services institutions or the financial services industry generally, 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 acquires positions on the financial markets. These positions could be adversely affected by extreme volatility on these markets, i.e. the degree to which prices fluctuate over a particular period on 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 feebased 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 corporate and investment banking revenue, which includes fees charged for these services, is directly related to the number and size of the transactions in which it participates, and is therefore liable to 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 revenue it receives from its asset management and Private Banking businesses. Independently of market changes, under-performance by the undertakings for collective investment of the BNP Paribas Group may result in BNP Paribas experiencing increased withdrawals and reduced inflows, which would reduce the revenue it receives from its asset management business.

Protracted market declines may 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 prolonged asset price volatility, may reduce the level of activity on 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. The value of assets that are not traded on stock exchanges or other regulated markets, such as certain derivative contracts between financial institutions, may be calculated by the Group using models rather than market prices. Monitoring the price movements of assets such as these is difficult and this could lead to significant losses that the Group did not anticipate.

Regulatory risks

Laws and regulations may materially affect 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 aim of these new measures is to prevent the recurrence of the financial crisis, but they also represent a substantial change to 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 internal control and transparency requirements, more stringent governance and ethical conduct requirements, more extensive market abuse regulations, and 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 has adopted the Single Supervisory Mechanism (SSM) under the supervision of the European Central Bank (ECB). Thus, the BNP Paribas Group, as well as other large institutions in the eurozone, is 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 ("SREP") and stress tests, and therefore has associated powers to 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 income and financial situation.

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 25 November 2015 on transparency of securities financing transactions and directive 2010/73/EU;
- the regulation of 15 May 2014 relating to markets in financial instruments (MiFID 2);
- the provisions of IFRS 9 and IFRS 15;
- French banking law and the Volcker rule.
- General Data Protection Regulation 2016/679, which is a benchmark for personal data protection.

These regulations may 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 profits.

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 in each of the jurisdictions in which it operates.

The Group 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, remuneration, capital adequacy and liquidity frameworks and restrictions on activities deemed to be 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 standards;
- changes to methods used to measure and define defaults;
- changes to data protection regulations (GDPR);
- changes in rules and procedures relating to internal controls, risk management and compliance; and
- the expropriation, nationalisation or 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 Group and have an adverse effect on its business, financial situation and income. Some reforms 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 situation and operating income.

The Group is exposed to the risk of non-compliance, 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, failure to comply fully with 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 ever-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, inter alia, proper coordination of business development and marketing efforts, retention of key management personnel, policies for effective recruitment and training, and 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 poor-quality assets and incur greater risks as a result of its acquisitions, particularly in cases in which it was unable to conduct comprehensive due diligence priorto acquisition.

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

The Group's core businesses all operate in a context of 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 income and financial situation.

In connection with its lending activities, the Group regularly establishes provisions for doubtful receivables, 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 doubtful receivables substantially in the future as a result of deteriorating economic conditions or other causes. Any significant increase in provisions for doubtful receivables 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 losses in excess of the related provisions, could have a material adverse effect on the Group's income and financial situation.

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 income and financial situation.

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 value 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 quantified assessments of its risk exposure. The procedures the Group uses to estimate losses linked to its credit exposure or estimate the value of certain assets require complex analyses, including forecasts of economic conditions and assessments of how these economic predictions might impair the ability of its borrowers to repay their loans or affect the value of assets. During periods of market disruption, these analyses may be incapable of accurate estimation and, in turn, affect 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 classed as 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 average. In addition, the Group's quantitative models do 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 do not eradicate all risk of losses.

The Group may incur losses if one of the instruments or strategies it uses to hedge its exposure to different types of risk is not effective. Many of its strategies are based on historical trading patterns and correlations. Its hedging 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 Group's securities portfolio and derivatives as well as the Group's debt could have an effect on net income and shareholders' equity.

The carrying value of the Group's securities portfolio and derivatives, 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 at fair value are recorded for a given financial year does not mean that further adjustments will not be needed for subsequent periods.

The 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) amends and supplements the rules for the classification and measurement of financial instruments. It incorporates a new model for the impairment of financial assets based on expected credit losses, as well as new rules for the accounting treatment of hedging instruments. The new approach could result in greater volatility in additional and significant provisions for impairment for the Group and therefore increased volatility in terms 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 income.

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 inappropriate behaviour on the part of an employee, 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 reputational risks have nowadays 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 income and financial situation.

Any interruption in or breach of the Group's information systems may result in material losses.

Like the majority of its competitors, the Group relies heavily on communications and information systems to conduct its business. Any failure, 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 to, interrupt, degrade the quality of, steal confidential data from or sabotage information systems change frequently, and it is often impossible to identify them prior to an attack. The Group may therefore be unable to anticipate these techniques or to implement effective and efficient countermeasures in a timely manner. Any failures or interruptions of this nature are liable to have an adverse effect on the Group's reputation, financial situation and income.

Unforeseen external events may disrupt the Group'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 may relate to property, financial assets, trading positions or 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).

5.b RISK MANAGEMENT

5.b.1 Organisation of the risk function

Risk management is an integral part of banking, and this constitutes one of the fundamental pillars on which the Group's operations are based. 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 Executive Committee. The Risk function is responsible 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..

The RISK department is responsible for ensuring that the risks taken by the Group are compatible with its risk policies, as approved by the Central Credit Committee, Executive Committee or Operational Risk Management Committee. 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 team. Risk reports regularly to the Risk Committee (specialised committee of the Board of Directors) on its main findings, as well as on the methods used to measure these risks and consolidate them on a Group-wide basis. Compliance takes the same approach, particularly regarding issues concerning compliance and reputational 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 risk policies; analysing the loan portfolio on a forward-looking basis; approving the most significant individual decisions taken with regard to loans; setting and monitoring limits with regard to counterparties and market risk; defining or validating risk management measures; and producing comprehensive and reliable risk reporting data for the Operational Risk Management Committee and the Executive Committee. Lastly, it is also responsible for ensuring that all risk implications when new businesses or new products are launched have been adequately evaluated. These evaluations are performed in conjunction with the relevant 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 reputational risks.

5.b.2 Risks categories

The risk categories identified by the Group evolve in keeping with regulatory requirements and changes in the external environment. These risk categories are reviewed annually in order to establish consistent and uniform risk mapping. In this context, the Group has adopted an analysis of nine generic risks: strategic risk and risk related to the business and competitive environment, credit and counterparty risk, market risk, asset and liability management risk, compliance and reputational risk, risk, information and communications technology risk, operational risk, modelling risk and structure 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 risk and the associated reputational risk, IT systems security risk, modelling risk and strategic risk.

Strategic risk and risk related to the business and competitive environment

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, balance sheet structure risks 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 in view of commitments given), resulting from a change in the creditworthiness of its debtors, which may 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 creditworthiness assessment.

Credit risk at the portfolio level implies correlations between the values of the loans therein and a risk of contagion for related debtors.

Counterparty risk is the manifestation of credit risk during market operations, investments or payment transactions, when the Group is exposed to potential counterparty default: it is a bilateral risk with respect to a third party with which one or more market transactions have been concluded. The amount of this risk may vary over time in line with changes in market parameters that affect 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 prices are listed directly or obtained by reference to a similar asset), prices of derivatives on an organised market, prices of other goods, and any other parameters that can be directly inferred from market listings, such as interest rates, credit spreads, volatilities and implied correlations or other similar parameters.

Unobservable 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 nature between assets and liabilities. 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 sequence.

Internal processes giving rise to operational risk may involve employees and/or IT systems. External events include, but are not limited to, floods, fires, 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 reputational and compliance risks.

Compliance and reputational risk

Compliance risk is the risk of legal, administrative or disciplinary sanctions, together with the significant financial loss that may result from a 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 an institution's reputation. For this reason, the Group treats compliance risk separately.

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

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

Information and communications technology risk (ICT)

Information and communications technology risk relates to all of the Group's IT systems with regards to their availability and continuity, internal and external security, change management procedures, data integrity and measures related to systems outsourcing. By definition, this risk is a sub-category of operational risk.

Modelling risk

Modelling risk is the potential risk linked to the inadequacy of the model compared to the reality that it is intended to estimate. The weaknesses in risk modelling, insofar as models are a tool to support the Group's analyses, could generate decision biases.

Structure risk (mainly property/pensions risks)

Property/pensions risk mainly relates to any potential fall in the value of property assets held by the Group and, in the case of specific pension risk, any potential shortfall in the reserves required to cover future payments in relation to the defined benefits pension plan.

5.c CREDIT AND COUNTERPARTY RISK

5.c.1 Exposure to credit risK

The accompanying table shows the exposure relating to all financial assets and off-balance sheet items with potential credit risk in accordance with EBA Guidelines of 14 December 2016.

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

Exposure *In millions of euros*	**31 December 2018** *IFRS 9 and IFRS 15*	**31 December 2017** *IAS 39*
Central governments and central banks	3,785.1	5,769.6
Institutions[1]	7,863.1	8,835.0
Corporates	8,726.0	8,238.9
of which: Specialised financing	*1,885.1*	*1,576.0*
of which: SMEs	*1,120.0*	*1,077.0*
Retail	7,469.4	6,970.0
of which: Secured by mortgages on real estate property	5,597.3	5,346.6
of which: SMEs	*206.6*	*262.5*
of which: Non-SMEs	*5,390.7*	*5.084.1*
of which: Other retail	1,872.1	1,623.4
of which: SMEs	*511.1*	*378.3*
of which: Non-SMEs	*1,361.0*	*1,245.1*
Other items[2]	101.6	118.4
Total IRB approach	**27,945.2**	**29,931.9**
Central governments and central banks	558.1	249.6
Regional governments or local authorities	224.7	165.2
Public sector entities	126.2	108.3
Multilateral developement banks	3.6	-
Institutions[1]	2,326.4	2,654.0
Corporates	7,209.7	6,142.3
of which: SMEs	*2,065.7*	*1,630.2*
Retail	13,375.4	11,495.2
of which: SMEs	*13,341.5*	*11,450.5*
Secured by mortgages on real estate property	234.6	315.2
of which: SMEs	*88.0*	*106.4*
Exposures in default	666.7	532.0
Equities	-	18.2
Other items[2]	1,045.3	1,073.8
Total standardised approach	**25,770.7**	**22,753.8**
TOTAL	**53,715.9**	**52,685.7**

The table above shows the gross exposure amounts for all assets exposed to credit risk based on the IRBA and the Standardised approach. Deferred taxes resulting from timing differences and significant participating interests in financial sector entities weighted at 250% are excluded from this table.
It shows the entire prudential scope based on the categories defined in Directive 2013/36/EU (CRD IV), transposed in the Law of 23 July 2015, and Regulation (EU) No. 575/2013.
IRBA: Internal Ratings-Based Approach.

[1] The "Institutions" exposure class includes credit institutions and investment firms (including recognised third-country investment firms) that are classified as credit institutions.
[2] Other risky assets include tangible assets and accrued income.

5.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 of BGL BNP Paribas, whose role is to define the strategy and the major risk policies. These guidelines include the Group's requirements in terms of ethics, the allocation of responsibilities, compliance with procedures and the thorough analysis of risk. This general approach is set out in the form of specific policies tailored to each type of business or counterparty.

Decision-making procedures

The decision-making procedure applied to lending is based on a series of delegations to the business lines, whereby all lending decisions must be approved by Risk, following the criteria set out and defined in the delegations of power and the lending procedures. Approvals are always issued in writing, either by means of a signed approval form or by holding a formal Credit Committee meeting. 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, applicable laws and regulations.

Monitoring procedures

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

Impairment procedures

Assets classified as doubtful 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 customers being identified as being in default. The simulations are based on the parameters of the internal rating system.

Internal rating system

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

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

For counterparties subject to individual rating, there are 12 counterparty rating levels: 10 levels for customers who are not in default with credit assessments ranging from "excellent" to "very concerning", and 2 levels for customers classified as in default, identified using the regulatory criteria. This internal scale also includes an approximate equivalence with the scales used by major rating agencies. This equivalence is based on the one-year probability of default 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.

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 robustess. An approach based on the definition of homogenous risk classes and particularly on statistical analysis is implemented for retail loans and loans to very small enterprises ("retail" customers as defined under Basel III). 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 after 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 so as to reflect the collateral and other security received.

The Group uses internal models for determining the exposure at default, 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 ex-post each year and, as far as the information available allows, compared with external references (benchmarking) in order to check the system's performance for each of the Group's business sectors. 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 Group's rating system. Analyses of 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 accordance with regulatory recommendations. As such, apart from calculating capital requirements, they are used notably to determine the level of authority an individual should have when making loan decisions, to determine collective impairment, and for internal and external reports to monitor risk.

5.c.3 Credit risk diversification

Pledged securities diversification

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 equity, nor its ongoing earning capacity.

At the request of BGL BNP Paribas, the CSSF has confirmed the total exemption of the risks taken on the BNP Paribas Group from the calculation of the major risk lim- its, in accordance with Directive 2013/36/ EU (CRD IV), enacted in the Law of 23 July 2015, and Regulation (EU) No. 575/2013.

Pledged securities diversification

Diversification is assessed on the basis of concentration levels for pledged securities, both for individual transactions and for the Bank's transactions taken as a whole, which enables adequate management of the risk of contagion between the borrower and the issuer of the securities. This diversification is monitored on a regular basis.

Sector diversification

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

Breakdown of credit risk by business sector

					31 December 201 *FRS 9 and IFRS 15*				
Exposure *In millions of euros*	Agriculture, Food, Tobacco	Building & public works	Distribution	Equipment including IT electronic	Finance and Insurance	Real Estate	Minerals, Metals & Materials including cement, packaging, etc.	Wholesale trade	Private Individual
Central governments and central banks	-	-	-	-	1,332.5	229.5	-	-	-
Institutions	-	-	-	-	7,793.0	-	-	0.0	-
Corporates	218.2	379.4	225.8	341.8	449.6	2.475.5	176.0	294.5	1,196.7
Retail	80.3	133.0	116.8	67.6	54.4	215.6	7.5	62.6	5,939.7
Other items	1.8	10.0	5.4	1.6	0.3	14.5	1.2	8.8	14.9
Total IRB approach	**300.4**	**522.4**	**348.0**	**411.0**	**9,629.7**	**2,935.1**	**184.8**	**365.9**	**7,151.2**
Central governments and central banks	-	-	-	-	322.0	-	-	-	-
Regional governments or local authorities	-	-	-	-	-	0.0	-	-	-
Public sector entities	-	-	0.0	0.0	37.2	0.1	-	-	-
Institutions	0.0	-	-	3.4	2.244.6	0.0	-	27.4	14.2
Corporates	719.2	289.0	426.7	1.482.0	175.3	164.9	161.5	970.5	78.6
Retail	7,169.7	598.7	205.0	18.1	0.4	0.5	1.2	47.5	3.743.1
Secured by mortgages on real estate property	1.0	0.0	0.4	1.5	0.0	199.5	1.3	0.7	2.4
Exposures in default	279.4	26.8	14.1	30.9	3.2	35.6	9.3	25.9	140.3
Equities	-	-	-	-	-	-	-	-	-
Other items	71.9	2.0	8.1	96.8	91.4	100.7	0.7	45.5	480.2
Total standardised approach	**8,241.3**	**916.5**	**654.2**	**1,632.8**	**2,877.8**	**501.4**	**174.1**	**1,117.4**	**4,458.9**
TOTAL	**8,541.7**	**1,438.9**	**1,002.3**	**2,043.8**	**12,507.5**	**3,436.6**	**358.8**	**1,483.3**	**11,610.1**

					31 December 201 *FRS 9 and IFRS 15*			
Exposure *In millions of euros*	Healthcare, Pharmaceuticals & Chemicals	Services to Public Authorities (Electricity, gas, water, etc.)	Business services	Communication Services	Sovereign	Transportation & Storage	Others	Total
Central governments and central banks	-	0.0	-	-	2,223.1	-	0.0	**3,785.1**
Institutions	-	0.3	-	-	69.8	-	-	**7,863.1**
Corporates	234.7	319.8	835.7	530.5	0.0	576.6	471.1	**8,726.0**
Retail	190.4	11.2	334.7	2.3	-	29.2	223.9	**7,469.4**
Other items	2.4	3.5	5.0	0.0	0.0	27.3	4.8	**101.6**
Total IRB approach	**427.5**	**334.9**	**1.175.4**	**532.9**	**2,293.0**	**633.1**	**699.8**	**27,945.2**
Central governments and central banks	-	-	(0.1)	-	236.0	-	0.2	**558.1**
Regional governments or local authorities	-	0.0	1.6	-	217.0	0.1	5.9	**224.7**
Public sector entities	15.6	2.0	0.6	1.1	13.0	2.3	54.2	**126.2**
Institutions	-	-	31.5	-	5.4	-	0.0	**2,326.4**
Corporates	184.9	89.0	1.086.3	73.3	4.2	883.9	420.3	**7,209.7**
Retail	398.7	0.3	866.0	0.0	-	317.4	8.7	**13,375.4**
Secured by mortgages on real estate property	7.7	0.0	12.2	0.0	-	1.6	6.2	**234.6**
Exposures in default	3.2	1.3	27.7	0.4	0.3	26.2	42.2	**666.7**
Equities	-	-	-	-	-	-	-	**-**
Other items	0.4	0.3	47.3	0.8	33.7	63.8	1.7	**1,045.3**
Total standardised approach	**610.5**	**92.9**	**2,073.2**	**75.5**	**509.6**	**1,295.4**	**539.4**	**25,770.7**
TOTAL	**1,038.0**	**427.7**	**3,248.6**	**608.4**	**2,802.6**	**1,928.5**	**1,239.2**	**53,715.9**

Exposure *In millions of euros*	Agriculture, Food, Tobacco	Building & public works	Distribution	Equipment including IT electronic	Finance and Insurance	Real Estate	Minerals, Metals & Materials including cement, packaging, etc.	Wholesale trade	Private Individual
									31 December 2017 *IAS 39*
Central governments and central banks	-	-	-	-	1,861.0	229.5	-	-	-
Institutions	-	-	-	-	8,834.5	-	-	0.0	-
Corporates	202.1	353.1	197.1	274.2	687.5	2.222.7	211.0	275.6	*1,023.5*
Retail	81.3	131.3	124.4	50.8	50.1	209.7	7.1	58.9	*5,490.6*
Other items	2.2	10.2	5.5	1.8	0.4	22.2	1.3	8.9	*13.6*
Total IRB approach	**285.6**	**494.6**	**327.1**	**326.8**	**11,433.6**	**2,684.2**	**219.4**	**343.4**	**6,527.7**
Central governments and central banks	69.0	-	2.7	3.6	106.7	-	-	1.8	17.3
Regional governments or local authorities	-	-	-	-	-	0.1	-	-	-
Public sector entities	-	-	-	0.0	19.6	0.1	-	-	-
Institutions	7.3	-	-	-	2,575.7	1.3	-	23.5	26.9
Corporates	1,338.7	232.2	400.9	515.3	261.2	69.4	155.4	698.7	6.5
Retail	6,455.8	527.5	163.5	1.6	1.7	2.0	1.8	59.3	2,741.9
Secured by mortgages on real estate property	1.5	0.0	2.3	5.5	5.1	254.1	1.6	0.0	1.8
Exposures in default	223.1	31.1	10.3	11.1	9.4	40.8	4.6	17.9	74.1
Equities	-	-	-	-	-	-	-	-	-
Other items	105.4	3.0	0.4	105.0	67.2	112.6	0.2	3.2	475.9
Total standardised approach	**8,200.7**	**793.8**	**580.1**	**642.1**	**3,046.5**	**480.4**	**163.6**	**804.3**	**3,344.4**
TOTAL	**8,486.3**	**1,288.4**	**907.2**	**968.9**	**14,480.2**	**3,164.6**	**383.0**	**1.147.7**	**9,872.0**

Exposure *In millions of euros*	Healthcare, Pharma-ceuticals & Chemicals	Services to Public Authorities (Electricity, gas, water, etc.)	Business services	Communication Services	Sovereign	Transportation & Storage	Others	Total
								31 December 2017 *IAS 39*
Central governments and central banks	0.0	-	0.0	-	3.679.0	-	0.0	**5,769.6**
Institutions	-	0.4	-	-	0.0	-	0.0	**8,835.0**
Corporates	234.4	320.6	748.1	484.8	87.8	467.7	448.8	**8,238.9**
Retail	187.9	3.7	313.2	4.6	-	26.0	230.2	**6,970.0**
Other items	2.4	2.3	7.2	0.0	0.0	28.3	12.2	**118.4**
Total IRB approach	**424.7**	**327.0**	**1,068.5**	**489.4**	**3,766.8**	**522.1**	**691.3**	**29,931.9**
Central governments and central banks	-	-	22.8	-	17.1	8.7	0.0	**249.6**
Regional governments or local authorities	-	0.0	-	-	162.8	0.1	2.2	**165.2**
Public sector entities	26.0	1.8	0.4	-	8.8	0.9	50.7	**108.3**
Institutions	-	-	-	-	19.2	-	0.2	**2,654.0**
Corporates	157.1	133.9	1.058.0	42.8	6.4	658.5	407.2	**6,142.3**
Retail	336.5	0.3	898.7	0.0	-	288.8	15.8	**11,495.2**
Secured by mortgages on real estate property	14.5	0.0	15.5	0.0	-	3.1	10.2	**315.2**
Exposures in default	6.4	1.1	34.5	1.2	1.8	21.0	43.8	**532.0**
Equities	-	-	-	-	-	-	18.2	**18.2**
Other items	0.3	0.4	91.3	0.2	44.3	63.0	1.2	**1,073.8**
Total standardised approach	**540.8**	**137.5**	**2,121.3**	**44.2**	**260.3**	**1,044.1**	**549.5**	**22,753.8**
TOTAL	**965.6**	**464.4**	**3,189.7**	**533.6**	**4,027.1**	**1,566.2**	**1,240.8**	**52,685.7**

The table shows the gross exposure amounts for all assets exposed to credit risk based on the IRBA and the Standardised approach. Deferred taxes resulting from timing differences and significant participating interests in financial sector entities weighted at 250% are excluded from this table.

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 in which the counterparty conducts its principal business activities, without taking into account the location of its parent company. Accordingly, exposure to the UK subsidiary or branch of a Luxembourg company is classified in the United Kingdom.

Geographical breakdown of credit risk

Exposure *In millions of euros*	Total Europe	France	Belgium	Luxembourg	Italy	United-Kingdom	Germany	The Netherlands	Other European countries
	31 December 2018 *FRS 9 and IFRS 15*								
	Europe*								
Central governments and central banks	3,785.1	508.9	104.9	1,786.9	243.3	0.1	735.8	245.6	159.5
Institutions	7,854.9	3,196.9	4,195.8	141.7	48.2	1.1	149.5	18.4	103.3
Corporates	8,296.7	419.5	536.3	6,144.7	82.9	292.5	568.2	19.2	233.4
Retail	7,445.4	426.6	243.8	6,607.2	2.6	7.6	141.9	3.5	12.3
Other items	101.6	-	58.4	43.2	-	-	0.0	-	0.0
Total IRB approach	**27,483.7**	**4,551.9**	**5,139.2**	**14,723.7**	**377.0**	**301.3**	**1,595.4**	**286.7**	**508.6**
Central governments and central banks	558.1	430.5	4.0	18.5	72.5	1.8	0.7	5.1	24.9
Regional governments or local authorities	224.3	140.5	2.7	0.9	7.0	12.7	46.6	6.5	7.5
Public sector entities	126.2	69.0	13.6	0.0	0.3	4.3	18.3	1.5	19.3
Multilateral development banks	3.6	-	-	3.6	-	-	-	-	-
Institutions	2,192.6	1,131.4	516.2	20.3	436.0	8.3	18.0	17.7	44.7
Corporates	6,959.0	2,376.4	308.4	100.9	1,100.6	974.5	1,339.6	321.9	436.7
Retail	12,894.1	3,843.3	360.0	3.0	2,276.8	1,825.0	2,136.2	639.2	1,810.8
Secured by mortgages on real estate property	234.6	231.8	0.1	2.7	0.0	0.0	0.0	0.0	0.0
Exposures in default	636.9	326.7	26.3	3.8	69.0	48.6	83.0	7.0	72.5
Equities	-	-	-	-	-	-	-	-	-
Other items	1,039.6	215.7	102.5	525.1	17.6	86.1	12.6	47.1	33.0
Total standardised approach	**24,869.0**	**8,765.2**	**1,333.6**	**678.8**	**3,979.8**	**2.961.1**	**3,654.9**	**1,046.2**	**2,449.3**
TOTAL	**52,352.6**	**13,317.1**	**6,472.8**	**15,402.5**	**4,356.8**	**3.262.5**	**5,250.3**	**1,332.9**	**2,957.9**

Exposure *In millions of euros*	North America	Asia Pacific	Rest of the World	Total
				31 December 2018 *FRS 9 and IFRS 15*
Central governments and central banks	-	-	-	**3,785.1**
Institutions	3.0	1.3	4.0	**7,863.1**
Corporates	42.2	27.0	360.0	**8,726.0**
Retail	8.8	3.8	11.5	**7,469.4**
Other items	-	-	-	**101.6**
Total IRB approach	**54.0**	**32.1**	**375.5**	**27,945.2**
Central governments and central banks	0.0	0.0	0.0	**558.1**
Regional governments or local authorities	-	-	0.4	**224.7**
Public sector entities	-	-	-	**126.2**
Multilateral development banks	-	-	-	**3.6**
Institutions	0.1	6.5	127.3	**2,326.4**
Corporates	0.0	11.9	238.8	**7,209.7**
Retail	0.0	0.0	481.2	**13,375.4**
Secured by mortgages on real estate property	0.0	0.0	0.0	**234.6**
Exposures in default	-	-	29.8	**666.7**
Equities	-	-	-	**-**
Other items	0.0	0.0	5.7	**1,045.3**
Total standardised approach	**0.2**	**18.4**	**883.2**	**25,770.7**
TOTAL	**54.2**	**50.5**	**1,258.6**	**53,715.9**

** Based on the European Free Trade Association (EFTA).*

Exposure *In millions of euros*	31 December 2017 *IAS 39* Europe* Total Europe	France	Belgium	Luxembourg	Italy	United-Kingdom	Germany	The Netherlands	Other European countries
Central governments and central banks	5,735.7	544.0	391.9	2,653.2	252.9	0.1	729.6	251.7	912.4
Institutions	8,829.7	3,630.4	4,817.6	68.5	53.4	102.4	12.1	17.0	128.3
Corporates	7,848.1	446.2	595.2	5,641.6	29.9	312.3	556.1	22.8	244.0
Retail	6,951.8	425.3	238.0	6,126.9	1.0	11.5	133.8	2.3	13.0
Other items	118.4	-	77.3	41.1	-	-	-	-	-
Total IRB approach	**29,483.7**	**5,045.9**	**6,120.1**	**14,531.3**	**337.2**	**426.2**	**1,431.6**	**293.7**	**1,297.6**
Central governments and central banks	249.6	45.2	3.3	13.8	70.8	0.2	0.2	2.7	113.4
Regional governments or local authorities	165.2	126.6	2.4	2.7	2.0	6.6	15.4	5.9	3.5
Public sector entities	108.3	74.8	15.3	-	0.2	4.2	9.7	1.9	2.2
Institutions	2,560.6	1,480.9	587.2	45.7	346.7	14.3	12.7	37.4	35.6
Corporates	6,011.7	2,083.8	185.5	272.4	776.4	784.2	1,263.8	261.7	384.0
Retail	10,882.9	3,175.8	306.5	2.0	1,982.6	1,620.4	1,976.3	569.2	1,250.1
Secured by mortgages on real estate property	315.2	313.1	0.1	2.0	0.0	0.0	0.0	0.0	0.0
Exposures in default	510.0	287.7	24.9	0.1	49.0	26.7	60.1	8.4	53.2
Equities	18.2	0.0	0.1	18.1	-	-	-	-	-
Other items	1,065.4	239.5	105.6	537.6	16.6	102.3	17.7	15.6	30.5
Total standardised approach	**21,887.1**	**7,827.4**	**1,231.0**	**894.4**	**3,244.3**	**2,558.8**	**3,355.9**	**902.8**	**1,872.6**
TOTAL	**51,370.8**	**12,873.2**	**7,351.0**	**15,425.7**	**3,581.5**	**2,985.0**	**4,787.5**	**1,196.5**	**3,170.2**

Exposure *In millions of euros*	North America	Asia Pacific	Rest of the World	31 December 2017 *IAS 39* Total
Central governments and central banks				**5,769.6**
Institutions	2.9	1.0	1.5	**8,835.0**
Corporates	56.9	16.7	317.3	**8,238.9**
Retail	4.5	3.4	10.3	**6,970.0**
Other items	-	-	-	**118.3**
Total IRB approach	**98.0**	**21.1**	**329.0**	**29,931.9**
Central governments and central banks	0.0	0.0	-	**249.6**
Regional governments or local authorities	-	-	-	**165.2**
Public sector entities	-	-	-	**108.3**
Institutions	0.3	13.6	79.5	**2,654.0**
Corporates	-	-	130.6	**6,142.3**
Retail	0.0	0.0	612.2	**11,495.2**
Secured by mortgages on real estate property	0.0	0.0	0.0	**315.2**
Exposures in default	-	-	22.0	**532.0**
Equities	-	-	-	**18.2**
Other items	-	-	8.4	**1,073.8**
Total standardised approach	**0.4**	**13.7**	**852.7**	**22,753.8**
TOTAL	**98.4**	**34.7**	**1,181.8**	**52,685.7**

** Based on the European Free Trade Association (EFTA).*

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

5.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 that has been approved and validated by the Risk teams and relies primarily on the analysis of the Group's historical data. This methodology is applied by using statistical tools in the decision-making process, in order to ensure consistent application.

When determining counterparty ratings, the opinion of an expert complements the assessments derived from the statistical models, in accordance with 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

System applicable to retail customers

For all activities related to retail customers, characterised by a high degree of granularity, small unit volumes and a standard risk profile, the Group applies an approach based on "homogenous risk classes". This approach notably adheres to the following constraints:

- use of discerning and clear models;
- quantification of risk parameters on the basis of historical observations covering a minimum of five years, and in-depth and representative sampling;
- 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 to homogenous classes, based on the most recent information, in terms of risk of default and in terms of loss in the event of default. The estimated exposure at default, derived from the CCF parameter, or from internal systems, depends on the transaction type.

5.c.5 Credit risk mitigation techniques

Techniques to reduce credit risk are used in accordance with the Basel 3 regulation in terms of the Advanced IRB approach. Their effectiveness is primarily evaluated in the event 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 made by a third party to take the place of the primary debtor if the latter is unable to meet their commitments. By extension, credit insurance and credit derivatives (purchase 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 banking intermediation portfolio.

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, guarantees must meet the following conditions:

- their value must not be strongly correlated to the risk of the debtor;
- the pledge must be documented;
- the Group must be able to assess the value of assets pledged in the event of an economic slowdown;
- the Group must have obtained reasonable assurance as to the feasibility of the appropriation and realisation of the asset.

A guarantee is only 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 rating policy, personal and real guarantees are accounted for at their economic value and are only accepted as a principal source of repayment in exceptional cases; the repayment capacity of the borrower must be assessed on the basis of 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.

Equity risk

As part of the regulations implemented within the Basel III context, non-consolidated equity interests not deducted from equity, acquired before the end of 2007, are weighted using the Standardised approach, based on a temporary provision for exposures in the form of equities (equity grandfathering clause). Those acquired after the end of 2007 are weighted based on 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% and are excluded from the credit risk.

5.c.6 Counterparty risk

Transactions carried out as part of its market activities result in BGL BNP Paribas having exposure to the risk of a potential default by one of its counterparties. BGL BNP Paribas mitigates 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. BGL BNP Paribas 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.

BGL BNP Paribas 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 with 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 BGL BNP Paribas and the counterparty.

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 most frequentlyused 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 IV), enacted in the Law of 23 July 2015, and Regulation (EU) No. 575/2013). The exposure at default related to repurchase and reverse 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 (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, the downgrading of credit- worthiness and estimated recovery rates.

5.d MARKET RISK

5.d.1 Market risk related to transactions involving 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. It results not only from changes affecting the prices and volatility of commodities them- selves, but also changes in the price of commodities indices;
- Credit spread risk arises from a change in an issuer's creditworthiness, 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 on 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-taking 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 the 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 the market.

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, submitted to members of the Executive 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 relevant procedures are outlined below.

Transaction accounting controls

Operations (Middle/Back-Office) is responsible for this control. However, Risk counter-checks the process for more complex transactions. Comprehensive 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 valuation 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.

BGL BNP Paribas calculates its capital requirements for market risk using the Standardised approach. In its day- to-day 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 portfoliounder normal market conditions over one tradingday, 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 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, BGL BNP Paribas 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 BGL BNP Paribas' equity. The assumptions, content and conclusion of these analyses are updated each quarter and sent to the Executive Committee and the Internal Control and Risk Committee.

To monitor the market risk in the event of extreme variations in the market, the programme 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 Executive 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 daily losses in excess of the VaR are expected two or three times per year.

5.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 Luxembourg, and equity reinvestment activities. They also result from transactions by specialised financing subsidiaries and transactions by the CIB financing busi- ness lines. These risks are managed at 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) to oversee 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.

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 net earnings in currencies other than the euro. The policy of the Group, which matches that of 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 currencies

The Group's currency position on investments in foreign currencies 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 foreign exchange risk. Such borrowings are documented as investment hedges.

Interest rate risk (Pillar 2)

Organisation of BGL BNP Paribas's 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 is in charge of managing the interest rate risks associated with these transactions.

The main management decisions regarding interest rate 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 committee 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 consists of interest rate or currency hedges; they involve swaps, options and forward foreign exchange transactions in particular.

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 pursues an economic hedge policy, notably for exchange risk, and then for the hedging of structured issues.

Overall interest rate risk

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 off- set 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. Currency hedging is applied by BNP Paribas Leasing Solutions to cover its equity position in subsidiaries using a foreign currency.

Hedging of financial instruments recognised on 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 value of these instruments to changes in interest rates.

The identified hedges of assets or liabilities via Micro Fair Value Hedging primarily concern available-forsale 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 items is split into maturity bands and a separate amount is designated for each band. The maturity split is determined based on historical observations of client behaviour.

Demand deposits, which do not bear interest at contractual rights, are qualified as fixed rate mediumterm financial liabilities. Consequently, the value of these 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 derivatives.

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.

In 2018 and 2017, no hedges (established in accordance with IFRS standards) were disqualified.

Usage of the fair value option

The usage of the fair value option 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 profit and loss statement.

The European Medium Term Notes (EMTN) issued by BGL BNP Paribas are, to a large extent, qualified and traded at fair value option. 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 limit- ing the volatility of the latter through profit or loss.

Cash flow hedge

In terms of interest rate risk, the Group uses derivatives to hedge fluctuations in income and expenses arising

on revisable-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 part of the exposure to interest-rate risk resulting from these adjustable-rate instruments.

The following table concerns the scope of the Group's medium and long-term transactions and shows the amount (broken down 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 2018 *IFRS 9 and IFRS 15*				1 January 2018 *IFRS 9 and IFRS 15*			
	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	375.0	1.275.0	200.0	**1,850.0**	917.0	1,000.0	200.0	**2,117.0**

In 2018, two cash flow hedge relationships with a nominal total of EUR 110 million were eliminated due to the entry into force of IFRS 9. Restatements of the hedging and hedged instruments are now recognised in profit and loss. No cash flow hedge relationships (established under IFRS) were disqualified in 2017.

However, for comparison purposes, the two cash flow hedge relationships mentioned above were also removed from the IFRS 9 view on 1 January 2018.

5.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 an assets and liability management and structural interest-rate risk management policy, the Group also holds a portfolio of assets that includes sovereign debt, with interest rate characteristics that contribute towards its hedging strategies.

Banking and trading books' sovereign exposures by geographical breakdown

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	31 December 2017 *IAS 39*
Banking book[1]		
Eurozone		
Austria	-	550.0
Belgium	80.0	350.0
France	308.0	308.0
Italy	240.0	240.0
Lithuania	-	10.0
Luxembourg	193.0	193.0
The Netherlands	225.0	225.0
Portugal	50.0	145.0
TOTAL EUROZONE	**1,096.0**	**2,021.0**
Other countries of the European Economic Area		
The Czech Republic	-	60.0
TOTAL OTHER EEA	**-**	**60.0**
TOTAL BANKING BOOK	**1,096.0**	**2,081.0**

[1] Nominal value

5.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 standards and indicators and regulatory ratios.

5.f.1 Liquidity risk management policy

Policy objectives

The Group's liquidity policy aims 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 strategy pursued and for the liquidity risk management policy of the Group as developed by the Executive Committtee. 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 monitor the Group's liquidity risk.

The ALCO committee at BGL BNP Paribas is the Group's Management Committee, directed by the Executive Committtee to deliberate on all ALM and Treasury matters, within the framework of limits and rules as approved by ALM-Treasury at 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 stakeholders.

5.f.2 Liquidity risk management and supervision

In its daily management, liquidity is managed based on a complete range of standards and internal indicator.

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 on medium and long-term analyses. These include the analysis of available medium and long-term liabilities in order to finance assets 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 customer behaviour or conventions. Moreover, stress tests of liquidity crises are carried out on a regular basis, taking into account general market factors or those that are specific to the Group and that are likely to weaken its liquidity position. 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 cash position by the sale of financial instruments on the repo market or by pledging them as collateral to the Central Bank of Luxembourg. BGL BNP Paribas has a Liquidity Contingency Plan, which is included in its liquidity policy. In particular, this plan details 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 mitigation of liquidity risk.

Debt securities

The total amount of the Group's medium and longterm outstanding bonds stood at EUR 0.46 billion at the end of 2018, compared with a stock of EUR 0.55 billion at the end of 2017. The Group also continued to fund itself through its commercial paper programmes. The total volume amounted to EUR 0.73 billion at the end of 2018, compared with EUR 1.10 billion as at 31 December 2017.

Netting agreements and intra-group limits

In 2011, the Bank entered into global netting 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.

5.g OPERATIONAL RISK AND INTERNAL CONTROL

5.g.1 Internal control

The Internal Control system

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

The fundamental rules

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

- Managing risks and attaining the stated strategic objectives are first and foremost the responsibility of Operational Staff.

Indeed, each Operational staff member, at his/her own level, has a duty to ensure effective monitoring of the activities placed under his/her responsibility."Operational Staff " includes, in general terms, all employees of the business lines and functions, irrespective of their responsibilities or level of seniority. This control duty is also a core aspect of the Management's responsibilities.

The Permanent Control system must therefore be widely integrated into the operational structure of The business lines and functions. It includes at least a check by the Operational staff member of the operations, trans- actions and activities for which he/she is responsible, and a check by line managers as part of their managerial responsibility.

- Internal Control is everyone's business, regardless of seniority or responsibilities.

As such, each employee is not only responsible for monitoring the activities placed under his/her responsibility, but is also required to raise the alarm in the event of any malfunction or failing that may come to his/her attention.

- Internal Control is exhaustive.

It applies to all kind of risks and to all Group business lines and functions, without exception and according to the same standards. 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 consolidation scope.

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

This segregation applies to the various phases of a trans- action, from initiation and execution, to recording, settlement and control. It also results in specialised control functions being set up, as well as a clear distinction being made between Permanent Control and Periodic Control.

- Risk management is proportional to the intensity of the risks; it may require a "second look".

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

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

The business lines and Permanent Control functions must determine provisions for resolving disputes that could arise between them as part of this "second look". The principle that is normally applied is to "escalate" disputes, i.e. forward them to a more senior level in the organisation (ultimately to the Management), so that they can be resolved or arbitrated. In certain cases, the independent Permanent Control function may issue a blocking opinion.

- 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 (Executive Committee, 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 management requires the implementation of thefollowing action principles:

- identification of risks;
- assessment and measurement of such risks;
- the effective implementation of controls proportionate to the risks to be managed;
- risk management: calculated risk-taking or risk reduction;
- risk reporting;
- the monitoring of risks, in the form of follow-ups and checks, consolidations and summaries.

The Permanent Control functions' contributions to risk management are based on judgements and actions made independently.

The Internal Control organisation

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

Permanent Control

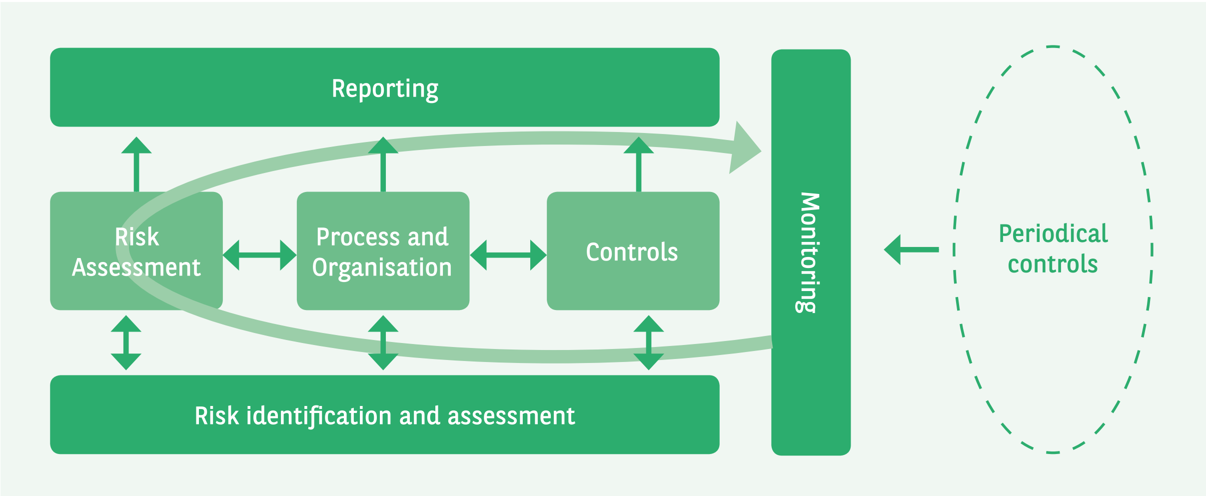
Permanent Control is an overall system that implements action on an ongoing basis to manage risk and monitor the implementation of strategic action. It is based on control policies, procedures, processes and plans.

It is provided in the first instance by Operational Staff (Control level 1) and secondly by independent Permanent Control functions, within the Group (Control level 2).

The coherence of the Permanent Control systems of the business lines and functions at the various levels of the organisation, 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 more senior levels in the organisation, and then their consolidation or summary;
- the organisational levels on which the steering is provided.

The following diagram displays how the various parts of Permanent Control are connected.



Control level 1

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

Operational Staff – primarily the operational management structure – 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 form 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 Internal Audit (Control level 3).

The general Internal Control structure can be summarised in the following manner :

INTERNAL CONTROL

Permanent Control	Level 1 controls	■ Controls carried out by the Operational staff on their operations / transactions ■ Controls carried out by other Operational staff members (Middle Office, Back Office, cross-controls...) ■ Controls carried out by the hierarchy
Permanent Control	Level 2 controls	■ Controls carried out by the independent Permanent Control Functions integrated into BGL BNP Paribas ■ Controls carried out by the Group's Independent Functions
Periodic Control	Level 3 controls	■ Controls carried out by the Luxembourg Hub Internal Audit unit and the BNP Paribas Group Internal Audit

Internal Control governance

The Group's Internal Control system is based on a separation of 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 the flow of information 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 Executive Committee. 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 are created out of the Board of Directors (meeting frequency: 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 Approved Independent Auditor, inform these committees of their efforts.

The Coordination and Internal Control Platform

The Coordination and Internal Control Platform ('P2Ci") meets every two months and it brings together those responsible for the functions that make up the second and third Internal Control levels with the Chairman of the BGL BNP Paribas Executive Committee. The purpose of this platform is to ensure proper risk management on a day- to-day basis.

The BGL BNP Paribas Permanent Control Committee

Every six months, the Permanent Control Committee brings together the members of the Executive Committee, 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.

5.g.2 Operationnel risk management

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 Permanent Control team in Luxembourg (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 twice yearly Internal Control Committee meetings. The director of the Oversight of Permanent Control team (RISK-ORC) team in Luxembourg have standing invitations to attend the Risk Operational Risk Monitoring Committee (CoPilOR), which meets every two months. The operational risk status is presented during these two meetings.

The operational risk management policy aims to:

- mobilise all stakeholders in the Bank, with regard to risk management;
- reduce the probability of events occurring involving operational risk that would compromise
  - the reputation of the Group or of BNP Paribas;
  - the trust shown by our customers, shareholders and employees;
  - the quality of services and products marketed;
  - the profitability of our activities;
  - the efficiency of the processes managed.;
- 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:

- renhance 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 operationa 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 Permanent Control (RISK-ORC) team in Luxembourg also assists permanent control officers in the exercise of operational risk mapping. The aims of operational risk mapping (Risk & Control Self Assessment : RCSA) are to:

- have a first global view of the major areas of risk of an entity, by 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 pro- file of the entities;
- define actions for the prevention and correction of risks and monitor their implementation.

The RCSA review is carried out at least once a year and may also be triggered by certain events such as a major incident, the launch of a new business, or the production of new software.

The Risk ORC function has an independent role challenging risk mapping (supervising the second line of defence over the first line).

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 prompt action to manage the risk.

The operational risks resulting from this mapping are analysed by describing and quantifying potential incidents.

Potential incidents represent specific operational risks, characterised 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
    - The Business Line Legal Affairs Committee (CAJM)
    - The 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 frame- work 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 created and is accessible to all employees;
- dashboards already in existence within the Luxembourg Legal Department:
  - 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 cases in excess of EUR 500,000 and cases that involve 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 banking, 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 22 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 delegation 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. FG is obliged to consult with the 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 customers 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 procedures for calling on an external tax advisor;
- 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 procedures for controlling the delivery of tax-related opinions and advice.

With regard to Luxembourg, the Luxembourg Tax Department (AFL) is in charge of monitoring the application of these principles for Group entities.

AFL reports hierarchically to the CAO responsible for AFLs, and functionally to the Group Tax Department managers.

Management and control of the risks inherent in the preparation of financial information

The Finance Department is responsible for preparing and processing accounting and financial information and therefore carries out independent controls.

The aim of these controls is to ensure management of the risk related to accounting and financial information in order to:

- guarantee published financial information that is consistent and fairly presented;
- provide the General Management with a tool for steering the Group's business.

In order to manage this risk, in particular, the Finance Department must ensure that:

- there is a prescriptive framework defining the accounting policies and standards as well as the management principles and standards;
- procedures for the preparation of accounting and management data function properly, both at the systems level and with regards to the operational teams;
- accounting and financial information is subject to stringent and permanent controls.

Information systems security

Information is a key commodity for the activities of banks. Digitalisation of the banking business, 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, particularly API, for companies and institutions – are constantly increas- ing 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. In addition, cyber-attacks seen across the world in 2017 have led to a significant strengthening of infrastructure security.

The rules governing information security in the Group are set out in a group of reference documents, in several categories: a general cyber 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 cyber security 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 pol- icy. 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 improvement approach to information security. In addition to significant investments in protecting its information system assets and information resources, the security level implemented is supervised and controlled continuously. This enables swift adjustment of the security efforts to new dangers created by threat actors such as organised cyber criminals. One of the effects of this continuous improvement approach is that investments are made to develop platforms' technical administration, the combatting of leaks, advanced methods to detect malware, and the performance of intrusion tests on IT systems. sOur 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 continuity 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 capabilitiesand the system robustness, in keeping with its values of operational excellence, in response to tighter regulations and extreme stress scenarios (natural disasters or other catastrophes, health crises, etc.); its efforts in this area are consistent with the general business continuity plan. We focus specifically on cyber resilience, i.e. the Bank's ability to detect, contain and respond to a wide-scale cyber-attack.

The Group seeks to minimise information security risk and optimise resources by:

- deploying the Group's security policy and governance, and organising 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 using innovative formats such as serious games;
- 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 L-CSIRT (Local Computer Security Incident Response Team) continues its development and is in very regular contact with the global CSIRT of the BNP Paribas Group. They have common tools and reporting systems;
- defining a multi-year security strategy with regular reviews, to prioritise security action plans based on the levels of exposure to risks of external fraud (cybercrime) and internal fraud. The roll-out of this multi- year security strategy (Cybersecurity Program) began in 2016;
- The Bank is strengthening its IT risk control system, managed by a special team (IT Risk Management) as a first line of defence and another special team (RISK ORC ICT) as a second line of defence.

5.g.3 Approach and scope

The principles of operational risk measurement and management are defined by RISK-ORC Group. The operational risk system implemented by the BNP Paribas Group is scaled to be proportionate to the risks 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.

As at 31 December 2018, 81% of BGL BNP Paribas' consolidated NBI is covered by the advanced measurement approach, with the remainder under the standard or basic approach.

Advanced Measurement Approach (AMA)

The Advanced Measurement Approach (AMA) for calculating capital requires the development of an internal model to quantify required capital for operational risk, based on internal loss data (potential and historical), external loss data, scenario analysis, and business environment 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 preponderance of prospective data, since it can 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 itself;
- The capital calculations are made prudently: in this context, there is a thorough review of the input data, and any additional data is included if 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 cate- gory. 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.

5.g.4 Risk mitigation through insurance policies

Risks incurred by the Group are insured against with the dual aim of protecting its balance sheet and profit and loss statement.

This involves an in-depth identification of risks, via 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 complete 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 andadjusted on a regular basis in light of new standards and regulations.

5.h NON-COMPLIANCE AND REPUTATIONAL 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 information distributed, ethical professional behaviour, the prevention of conflicts of interest, the protection of clients' interests and the integrity of the markets, anti-money laundering procedures, combating corruption and terrorist financing, as well as respecting international sanctions and financial embargoes, data protection, tax compliance, banking laws and finally the Volcker Rule.

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 Chairman of the Executive Committee, it has direct and independent access to the Chairman of the Board of Directors, the Bank's Internal Control Committee 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 institution. It consequently focuses on compliance risks: these risks can, as the case may be, have a financial, operational, legal or ethical impact on the Group's activities.

Management of compliance and reputational risks is based on a system of Permanent Controls, focusing on five areas:

- 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 abuse);;
- 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 Group. It requires permanent revisions to the risk management policy in line with developments in the external environment. Hence, the international climate, the growing number of unlawful practices and regulatory tightening in a number of countries have led the Group to strengthen 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, professional ethics and data are protected, and that tax compliance, banking laws and the Volcker Rule are adhered to.

5.i CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

5.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 2018, 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 consolidated in the accounting scope in whenever the percentage of ownership requires it).

The accounting consolidation principles and the scope of consolidation are described in notes 1.b and 9.b.

5.i.2 Capital ratios

In millions of euros	31 December 2018 IFRS 9 and IFRS 15 Phased in	31 December 2018 IFRS 9 and IFRS 15 Transitional arrangements*	31 December 2017 IAS 39 Phased in	31 December 2017 IAS 39 Transitional arrangements*
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**6,367.2**	**-**	**6.308.8**	
COmmon Equity Tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments (negative amount)	(3.1)	-	(3.7)	-
Intangible assets (net of related tax liability) (negative amount)	(221.7)	-	(158.2)	-
Deferred tax assets depending on future profitability excluding those arising from temporary differences net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	(22.3)	-	(3.7)	-
Fair value reserves related to gains or losses on cash flow hedges	(31.0)	-	(33.1)	-
Negative amounts resulting from the calculation of expected loss amounts	(23.8)	-	(40.1)	-
Any increase in equity that results from securitised assets (negative amount)	-	-	-	-
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(5.6)	-	(8.2)	-
Defined-benefit pension fund assets (negative amount)	(4.6)	-	(3.2)	-
Exposure amount of the following items which qualify for a RW of 1,250%, where the institution opts for the deduction alternative	-	-	(3.2)	-
of which : Securitisation positions (negative amount)	-	-	*(3.2)*	-
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	(116.9)	-	(122.1)	-
Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-	-	(234.7)	227.2
of which: Unrealised gains (phase out)	-	-	*(158.7)*	*158.7*
Unrealised losses (phase out)	-	-	*1.9*	*(9.4)*
Unrealised gains linked to exposures to central governments (phase out)	-	-	*(78.0)*	*78.0*
Unrealised losses linked to exposures to central governments (phase out)	-	-	-	-
Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	(29.1)	-	-	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(458.0)**	**-**	**(610.4)**	**227.2**
COMMON EQUITY TIER 1 (CET1) CAPITAL	**5,909.3**	**-**	**5,698.4**	**227.2**

**Amount subject to pre-regulation treatment or prescribed residual amount according to Regulation (EU) no. 575/2013, in accordance with eligibility rules for grandfathered instruments for Additional Tier 1 capital and Tier 2 capital applicable in 2019.*

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15* Phased in	 Transitional arrangements*	31 December 2017 *IAS 39* Phased in	 Transitional arrangements*
Tier 1 capital (T1) (T1=CET1+AT1)	**5,909.3**	**-**	**5,698.4**	**227.2**
Tier 2 (T2) capital: instruments and provisions				
Capital instruments and the related share premium accounts	34.3	-	46.3	-
Tier 2 (T2) capital before regulatory adjustments	**34.3**	**-**	**46.3**	**-**
Tier 2 (T2) capital : regulatory adjustments				
Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	(63.4)	-	(34.4)	-
Total regulatory adjustments to Tier 2 (T2) capital	**(34.3)**	**-**	**(34.4)**	**-**
Tier 2 (T2) capital	**-**	**-**	**11.9**	**-**
Total capital (TC=T1+T2)	**5,909.3**	**-**	**5,710.3**	**227.2**
Credit risk	23,754.6		22,336.5	
Counterparty risk	69.1		104.9	
Banking book securitisation positions	35.2		8.9	
Market risk	0.2		2.1	
Operational risk	1,864.5		1,551.9	
Amounts below the thresholds for deduction (subject to 250% risk weight)	484.3		594.7	
Total risk-weighted assets	**26,208.0**		**24,599.1**	
Capital ratio				
Common Equity Tier 1 capital (as a percentage of risk exposure amount))	22. %	-	23.2%	-
Tier 1 capital (as a percentage of risk exposure amount)	22.5%	-	23.2%	-
Total capital (as a percentage of risk exposure amount))	22.5%	-	23.2%	-
Amounts below the thresholds for deduction (before risk weighting)				
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	324.7		306.3	
Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	123.7		181.2	
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)	108.8		88.9	

**Amount subject to pre-regulation treatment or prescribed residual amount according to Regulation (EU) no. 575/2013, in accordance with eligibility rules for grandfathered instruments for Additional Tier 1 capital and Tier 2 capital applicable in 2019.*

With phased Common Equity Tier 1 (CET1) & Tier 1 ratios of 22.55% as at 31 December 2018 (following application of CSSF circular – 14/599 of 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 III ratios have been in application since 2014.

5.i.3 Capital

The Group is required to comply with the Luxembourg prudential regulation that transposes European Directives on "Access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms" into Luxembourg law.

In the various countries where the Group operates, it is also subject 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.

Common Equity Tier 1 capital

Common Equity Tier 1 capital is based on:

- the Group's book 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 recognised 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 provisions

The CRR Regulation allows the gradual introduction of new methods of calculation. The CSSF communication (CSSF Regulation No. 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 provisions are restatements of unrealised 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 in the "available for sale" (AFS) category. 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.

These transitional measures expired on 1 January 2018. CSSF regulation 18-03 repealing the aforementioned CSSF regulation 14-01 stipulates the calculation methods and rules to be followed after expiry of the transitional measures.

As at 31 December 2018 and 31 December 2017, none of the thresholds that require deduction from capital had been reached.

5.i.4 Capital requirements and risk-weighted assets

Capital requirements and risk-weighted assets under Pillar 1.

In millions of euros	Risk-weighted assets		Capital requirements	
	31 December 2018 *IFRS 9 and IFRS 15*	31 December 2017 *IAS 39*	31 December 2018 *IFRS 9 and IFRS 15*	31 December 2017 *IAS 39*
Credit risk	**23,754.6**	**22,336.5**	**1,900.37**	**1,786.92**
of which: Standardised approach	*15,303.8*	*13,934.4*	*1,224.30*	*1,114.75*
of which: Advanced IRB approach	*7,157.9*	*7,079.2*	*572.63*	*566.34*
of which: Equity positions under the simple risk-weighted approach	*1,292.9*	*1,322.9*	*103.43*	*105.83*
Counterparty credit risk	**69.1**	**104.9**	**5.53**	**8.39**
of which: Mark-to-market	*67.0*	*101.6*	*5.36*	*8.13*
of which: CVA	*2.1*	*3.3*	*0.17*	*0.26*
Banking book securitisation positions	**35.2**	**8.9**	**2.82**	**0.71**
Of which: IRB approach	*35.2*	*8.9*	*2.82*	*0.71*
Market risk	**0.2**	**2.1**	**0.02**	**0.17**
of which: Standardised approach	*0.2*	*2.1*	*0.02*	*0.17*
Operational risk	**1,864.5**	**1,551.9**	**149.16**	**124.15**
of which: Basic indicator approach	*112.4*	*64.2*	*8.99*	*5.13*
of which: Standardised approach	*240.1*	*193.5*	*19.21*	*15.48*
of which: Advanced Measurement Approach (AMA)	*1,512.1*	*1,294.3*	*120.96*	*103.54*
Amounts below the thresholds for deduction (subject to 250% risk-weight)	**484.3**	**594.7**	**38.75**	**47.58**
TOTAL	**26,208.0**	**24,599.1**	**2,096.64**	**1,967.93**

5.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 institutions 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 is supported by 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 2018, 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 0.3750% (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), 0.054% as a counter- cyclical 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 6 November 2018. This O-SII cushion is to be taken into account progressively over four 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.

5.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 ratio s are reviewed by the Executive 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 provisions, 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 themes: risk review and capital planning.

The risk review is a comprehensive review of management policies and internal control rules applicable to Pillar 1 risks as stated in the Basel regulations and Pillar 2 risks 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. This data is used to project future capital requirements, in particular by factoring in the Group's aim 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 IV/CRR, Pillar 1 risks are covered by regulatory capital, calculated on the basis of the methods defined in the current regulation. Pillar 2 risks are addressed 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 have been updated in the EBA's "Revised Guidelines on SREP" published on 19 July 2018. This revision consists in strengthening the common procedures and methodologies for the supervisory review and evaluation process and supervisory stress testing. 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 2018 financial adequacy of internal capital demonstrated that the Group is adequately capitalised and has a large surplus of internal capital.

6. NOTES TO THE BALANCE SHEET

6.a FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities at fair value through profit or loss (excluding derivatives)

Financial assets and liabilities at fair value through profit or loss (excluding derivatives) consist mainly of issues for the Group's own account made to fulfil client demand, transactions negotiated for trading, instruments that the Group is not permitted to classify as hedging instruments under accounting regulations, and instruments not held for trading purposes with characteristics that do not permit recognition at amortised cost or at fair value through equity.

	31 December 2018 *IFRS 9 and IFRS 15*			
In millions of euros	**Trading book**	**Financial instruments designated at fair value option**	**Other financial assets at fair value through profit or loss**	**Total**
Securities portfolio	355.1	-	613.1	968.3
Debt securities	-	-	*562.4*	*562.4*
Equity instruments	*355.1*		*50.7*	*405.8*
Loans and repurchase agreements	59.2	-	54.0	113.1
Financial assets at fair value through profit or loss	**414.3**	**-**	**667.1**	**1,081.4**
Deposits and repurchase agreements	102.5	-		102.5
Issued debt securities ((note 6.h)	-	131.7	-	131.7
of which: Subordinated debt		*83.6*		*83.6*
of which: Unsubordinated debt		*48.1*		*48.1*
Financial liabilities at fair value through profit or loss	**102.5**	**131.7**	**-**	**234.2**

	1 January 2018 *IFRS 9 and IFRS 15*			
In millions of euros	**Trading book**	**Financial instruments designated at fair value option**	**Other financial assets at fair value through profit or loss**	**Total**
Securities portfolio	86.6	-	643.6	730.2
Debt securities	-	-	*565.3*	*565.3*
Equity instruments	*86.6*	-	*78.3*	*164.9*
Loans and repurchase agreements	23.1	5.5	34.0	62.6
Financial assets at fair value through profit or loss	**109.7**	**5.5**	**677.6**	**792.7**
Deposits and repurchase agreements	118.9	-	-	118.9
Issued debt securities ((note 6.h)	-	182.5	-	182.5
of which: Subordinated debt	-	*88.5*	-	*88.5*
of which: Unsubordinated debt	-	*94.0*	-	*93.9*
Financial liabilities at fair value through profit or loss	**118.9**	**182.5**	**-**	**301.3**

The details of these headings are presented in note 6.d.

Financial liabilities at fair value option

Financial liabilities at fair value option through profit or loss consist mainly of issues created and structured on behalf of clients, where the risk exposure is managed alongside the hedging strategy. These types of issues contain significant embedded derivatives, whose changes in value are likely to be offset by changes in the value of economic hedging derivatives.

The redemption value of debts measured at fair value option through profit or loss amounted to EUR 129.9 million as at 31 December 2018 versus EUR 171.3 million as at 1 January 2018.

Other financial assets measured at fair value through profit or loss

Other financial assets at fair value through profit or loss are financial assets not held for trading purposes:

- Debt instruments which do not fulfil the criteria of IFRS 9 for classification as instruments at fair value through equity or at amortised cost.their business model is not "hold to collect" or "hold to collect and sell"; and/or
  - their cash flows do not relate solely to payments of principal and interest on the principal amount outstanding.
  - their cash flows are not solely repayments of principal and interest on the principal amount
- Equity instruments that the Group did not choose to classify as at "fair value through equity".

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 book relate to transactions initiated by investment management activities. They may result from market-making or arbitrage activities.

The positive or negative fair value of derivatives 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).

	31 December 2018 *IFRS 9 and IFRS 15*		1 January 2018 *IFRS 9 and IFRS 15*	
In millions of euros	**Positive fair value**	**Negative fair value**	**Positive fair value**	**Negative fair value**
Interest rates derivatives				
Foreign exchange derivatives	19.3	13.2	33.1	28.1
Equity derivatives	141.4	20.8	8.6	10.4
Derivatives	**191.4**	**57.2**	**68.9**	**52.8**

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.

	31 December 2018 *IFRS 9 and IFRS 15*			1 January 2018 *IFRS 9 and IFRS 15*		
In millions of euros	Exchange-traded	Over-the counter	Total	Exchange-traded	Over-the counter	Total
Interest rates derivatives	-	6,653.3	6,653.3	-	4,695.7	4,695.7
Foreign exchange derivatives	-	4,816.8	4,816.8	-	4,692.0	4,692.0
Equity derivatives	344.1	556.1	900.2	86.6	71.9	158.5
Trading derivatives	**344.1**	**12,026.2**	**12,370.3**	**86.6**	**9,459.6**	**9,546.2**

6.b DERIVATIVES USED FOR HEDGING PURPOSES

The table below shows the notional amounts and market values of derivatives used for hedging purposes.

	31 December 2018 *IFRS 9 and IFRS 15*			1 January 2018 *IFRS 9 and IFRS 15*		
n millions of euros	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value
Fair value hedges	**4,005.0**	**73.2**	**7.4**	**5,555.0**	**68.9**	**29.2**
Interest rate derivatives	4,005.0	73.2	7.4	5,555.0	68.9	29.2
Cash flow hedges	**1,850.0**	**42.7**	**1.0**	**2,226.8**	**47.4**	**2.2**
Interest rate derivatives	1,850.0	42.7	1.0	2,226.8	47.4	2.2
Derivatives used for hedging purposes	**5,855.0**	**115.9**	**8.5**	**7,781.8**	**116.4**	**31.4**

The table below shows the list of hedging relationships for identified instruments, and the list of portfolios of financial instruments still hedged as at 31 December 2018:

				Hedging instruments
In millions of euros, at 31 December 2018	Notional amounts of hedging instruments	Positive market value	Negative market value	Changes in fair value of hedging instruments used as the basis for recognising hedge ineffectiveness for the period
Fair value hedges of identified instruments	**525**	**-**	**6**	**(4)**
Interest-rate derivatives hedging the interest rate risk related to	525	-	6	(4)
Securities	525	-	6	(4)
Interest rate risk hedged portfolios	**3,480**	**73**	**2**	**60**
Interest-rate derivatives hedging the interest rate risk related to	3,480	73	2	60
Deposits	3,480	73	2	60
TOTAL FAIR VALUE HEDGE	**4,005**	**73**	**7**	**56**

				Hedged instruments		
In millions of euros, at 31 December 2018	Carrying amount of hedged instrument – asset	Carrying amount of hedged instrument– liability	Cumulated amount of hedged instruments revaluation-asset	Cumulated amount of hedged instruments revaluation-liability	Changes in fair value of hedged instruments used a the basis for recognising hedge ineffectiveness	Ineffectiveness recognised in profit or loss
Fair value hedges of identified instruments	**561**	**-**	**4**	**-**	4	()
Interest-rate derivatives hedging the interest rate risk related to	561	-	4	-	4	()
Securities	561	-	4	-	4	()
Interest rate risk hedged portfolios	**-**	**3,390**	**-**	**60**	(60)	()
Interest-rate derivatives hedging the interest rate risk related to	-	3,390	-	60	(60)	()
Deposits	-	3,390	-	60	(60)	()
TOTAL FAIR VALUE HEDGE	**561**	**3,390**	**4**	**60**	(56)	()

The total notional amount of derivatives used to hedge future income was EUR 1.850 billion as at 31 December 2018. Total changes in value recognised directly in equity amounted to EUR 38 million. Inefficiencies linked to hedging of future income being recognised in profit and loss are negligible for 2018.

The table below shows the breakdown of the notional amounts of derivatives used for hedging, by date of maturity:

			Maturity date
In millions of euros, at 31 December 2018	Less than 1 year	Between 1 and 5 years	More than 5 years
Fair value hedges	**600.0**	**2,175.0**	**1,230.0**
Interest rate derivatives	600.0	2,175.0	1,230.0
Cash flow hedges	**375.0**	**1.275.0**	**200.0**
Interest rate derivatives	375.0	1,275.0	200.0

6.c FINANCIAL ASSETS AT FAIR VALUE THROUGHT EQUITY

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15* Fair value	of which changes in value taken directly to equity	1 January 2018 *IFRS 9 and IFRS 15* Fair value	of which changes in value taken directly to equity
Debt securities	**1,165.9**	**32.3**	**2,256.1**	**54.8**
Government	414.7	29.3	1,007.0	39.6
Other public administrations	473.9	6.3	1,064.6	18.2
Credit institutions	274.6	(3.3)	180.2	(2.9)
Others	2.8	(0.0)	4.3	(0.1)
Equity securities	**315.6**	**14.2**	**311.9**	**8.1**
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**1,481.6**	**46.5**	**2,568.0**	**62.9**

The option to recognise certain equity instruments at fair value through equity was retained for equity securities held primarily within the framework of strategic partnerships and securities required to carry out certain activities and for which the Group has no intention to sell at a short and medium term.

Changes in value taken directly to equity are included in equity as follows:

	31 December 2018 *IFRS 9 and IFRS 15*			1 January 2018 *IFRS 9 and IFRS 15*		
In millions of euros	Debt securities	Equity securities	Total	Debt securities	Equity securities	Total
Unhedged changes in value of securities recognised in "Financial assets at fair value through equity"	**32.3**	**14.2**	**46.5**	**54.8**	**8.1**	**62.9**
Deferred tax linked to these changes in value	(8.5)	15.1	6.6	(14.4)	(2.2)	(16.6)
Share of changes in value of financial assets at fair value through equity owned by associates, net of deferred tax	-	1.3	1.3	-	-	-
Changes in value of assets taken directly to equity under the heading "Financial assets at fair value through equity"	**23.8**	**30.6**	**54.4**	**40.4**	**5.9**	**46.3**
Attributable to equity shareholders	23.9	(8.4)	15.5	40.5	2.5	43.0
Attributable to minority interests	(0.1)	39.0	38.9	(0.1)	3.4	3.3

6.d MEASUREMENT OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation process

The Group has chosen to implement the fundamental principle that it should have a unique and integrated processing chain for producing and con- trolling the valuations of financial instruments that are used for the purpose of daily risk management and financial reporting. This process is based on a single 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 that does not take account of: the direction of the transaction or its impact on the existing risks in the portfolio; the nature of the counterparties; the aversion of a market participant to particular risks inherent in the instrument; the market on which the instrument is traded; or the risk management strategy.

Additional valuation adjustments take into account the valuation uncertainties and market and credit risk premiums to reflect the costs that could lead to withdrawal from 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 mid-market 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 is generally equal to 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 used by the Group for determining fair values are as follows:

Bid/offer adjustments : the bid/offer range reflects the marginal exit cost for a price taker (potential customer). 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, or offer price, 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 – CVA): the CVA applies to valuations and market listings whereby the creditworthiness 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 financial intermediary market. However, the observability of the CVA is a matter of judgement owing to:

- the possible absence or lack of price information on the financial intermediary market;
- the influence of the regulatory landscape regarding counterparty risk on the market participants' pricing behaviour; and
- the absence of a dominant business model for managing counterparty risk.

The CVA model used to establish the value adjustment for counterparty risk is based on the same exposures as those used for regulatory calculation 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 purposess.

Own-credit valuation adjustment for debts (OCA) and for derivatives (debit valuation adjustment – DVA): OCA and DVA are adjustments reflecting the effect of creditworthiness 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. Own credit risk is inferred from the market-based observation of the relevant bond issuance conditions.

Thus, the carrying value of liabilities designated at fair value fell by EUR 7.5 million as at 31 December 2018, compared with a reduction in value of EUR 4.1 million as at 1 January 2018.

The change in fair value of derivatives recorded in liabilities in respect of own credit risk instruments was not significant as at 31 December 2018.

Funding Valuation Adjustment (FVA): In the context of non-collateralised or imperfectly collateralised derivatives, this valuation method contains an explicit adjustment in relation to the interbank 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 significant as at 31 December 2018.

Instrument classes and classification within the hierarchy for assets and liabilities measured at fair value

As explained in the summary of accounting principles (note 1.e.9), financial instruments measured at fair value are classified in a 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 risk. Derivatives used for hedging purposes are mainly interest rate derivatives.

In millions of euros												**31 December 2018** *IFRS 9 and IFRS 15*
	Trading book				**Financial instruments at fair value through profit or loss not held for trading**				**Financial assets at fair value through equitys**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities	-	355.1	-	**355.1**	12.2	523.1	77.9	**614.1**	1,278.4	2.8	200.3	**1,481.5**
Governments	-	-	-	**-**	-	246.0	-	**246.0**	414.7	-	-	**414.7**
Asset Backed Securities	-	-	-	**-**	-	42.7	-	**42.7**	-	-	-	**-**
Other debt securities	-	-	-	**-**	-	210.7	63.0	**274.6**	748.4	2.8	-	**751.2**
Equities and other equity securities	-	355.1	-	**355.1**	12.2	23.7	14.9	**50.8**	115.3	-	200.3	**315.6**
Loans and repurchase agreements	-	59.2	-	**59.2**	-	-	54.0	**54.0**	-	-	-	**-**
Loans	-	-	-	**-**	-	-	54.0	**54.0**	-	-	-	**-**
Repurchase agreements	-	59.2	-	**59.2**	-	-	-	**-**				
Financial assets at fair value	**-**	**414.3**	**-**	**414.3**	**12.2**	**523.1**	**131.9**	**668.0**	**1,278.4**	**2.8**	**200.3**	**1,481.6**
Deposits and repurchase agreements	-	102.5	-	**102.5**	-	-	-	**-**	-	-	-	-
Borrowings	-	-	-	**-**	-	-	-	**-**	-	-	-	-
Repurchase agreements	-	102.5	-	**102.5**	-	-	-	**-**	-	-	-	-
Issued debt securities (note 6.h)	-	-	-	**-**	-	131.7	-	**131.7**	-	-	-	-
Subordinated debt (note 6.h)	-	-	-	**-**	-	83.6	-	**83.6**	-	-	-	-
Non subordinated debt (note 6.h)	-	-	-	**-**	-	48.1	-	**48.1**	-	-	-	-
Financial liabilities at fair value	**-**	**102.5**	**-**	**102.5**	**-**	**131.7**	**-**	131.7	**-**	**-**	**-**	**-**

In millions of euros												**1 January 2018** *IFRS 9 and IFRS 15*
	Trading book				**Financial instruments at fair value through profit or loss not held for trading**				**Financial assets at fair value through equity**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities	-	86.6	-	**86.6**	30.2	552.1	60.8	**643.1**	2,252.5	4.3	311.2	**2,568.0**
Governments	-	-	-	**-**	-	252.9	-	**252.9**	1,007.0	-	-	**1,007.0**
Asset Backed Securities	-	-	-	**-**	-	63.9	-	**63.9**	-	-	-	**-**
Other debt securities	-	-	-	**-**	-	212.1	36.3	**235.3**	1,244.8	4.3	-	**1,249.1**
Equities and other equity securities	-	86.6	-	**86.6**	30.2	23.2	24.5	**77.9**	0.7	-	311.2	**311.9**
Loans and repurchase agreements	-	23.1	-	**23.1**	-	5.5	34.0	**39.5**	-	-	-	**-**
Loans	-	-	-	**-**	-	5.5	34.0	**39.5**	-	-	-	**-**
Repurchase agreements	-	23.1	-	**23.1**	-	-	-	**-**	-	-	-	**-**
Financial assets at fair value	**-**	**109.7**	**-**	**109.7**	**30.2**	**557.6**	**94.8**	**682.6**	**2,252.5**	**4.3**	**311.2**	**2,568.0**
Deposits and repurchase agreements	-	118.9	-	**118.9**	-	-	-	**-**	-	-	-	-
Borrowings	-	-	-	**-**	-	-	-	**-**	-	-	-	-
Repurchase agreements	-	118.9	-	**118.9**	-	-	-	**-**	-	-	-	-
Issued debt securities (note 6.h)	-	-	-	**-**	-	182.5	-	**182.4**	-	-	-	-
Subordinated debt (note 6.h)	-	-	-	**-**	-	88.5	-	**88.5**	-	-	-	-
Non subordinated debt (note 6.h)	-	-	-	**-**	-	94.0	-	**93.9**	-	-	-	-
Financial liabilities at fair value	**-**	**118.9**	**-**	**118.9**	**-**	**182.5**	**-**	182.4	**-**	**-**	**-**	**-**

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*				1 January 2018 *IFRS 9 et IFRS 15*			
	Level 1	Level 2	Level 3	TOTAL	Level 1	Level 2	Level 3	TOTAL
POSITIVE FAIR VALUE								
Foreign exchange derivatives	-	19.3	-	19.3	-	33.1	-	33.1
Interest rate derivatives	-	30.7	-	30.7	-	27.2	-	27.2
Equity derivatives	-	141.4	-	141.4	-	8.6	-	8.6
Positive fair value of derivatives (not used for hedging purposes)	**-**	**191.4**	**-**	**191.4**	**-**	**68.9**	**-**	**68.9**
Positive fair value of derivatives used for hedging purposes	**-**	**115.9**	**-**	**115.9**	**-**	**114.3**	**-**	**114.3**
NEGATIVE FAIR VALUE								
Foreign exchange derivatives	-	13.2	-	13.2	-	28.1	-	28.1
Interest rate derivatives	-	23.1	-	23.1	-	14.3	-	14.3
Equity derivatives	-	20.8	-	20.8	-	10.4	-	10.4
Negative fair value of derivatives (not used for hedging purposes)	**-**	**57.1**	**-**	**57.2**	**-**	**52.8**	**-**	**52.8**
Negative fair value of derivatives used for hedging purposes	**-**	**8.5**	**-**	**8.5**	**-**	**31.2**	**-**	**31.2**

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. Transfers are recognised as if they had taken place at the end of the period.

During the financial year 2018, there were no transfers between levels.

Description of main instruments in each level

This section provides a description of the classification criteria for each level in the hierarchy, and the main instruments classified in therein. It describes notably instruments classified in Level 3 and the associated valuation methods.

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, short selling of these instruments, derivatives traded on organised markets (e.g. futures) and fund units and UCITS, for which the net asset value is calculated on a daily basis.

Level 2

Level 2 securities are composed of securities that are less liquid than the Level 1 bonds. They are predominantly government bonds, corporate debt securities, Asset Backed Securities (ABS) and Student Loans, Mortgage Backed Securities (MBS) not using a cash flow modelling method, 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, but these prices do not represent directly tradable prices. This comprises, amongst others, consensus pricing services with a reasonable number of contributors that are active market makers as well as indicative prices from active brokers and/or dealers. Other sources such as the 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 at fair value 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 derivatives, 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 list- ings 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 determined on the basis of more complex or proprietary valuation techniques but is directly ver- ified through regular comparison with external market parameters.

Determining whether an over-the-counter (OTC) derivative is eligible for Level 2 classification is a matter of 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 therefore follows that the Level 2 classification criteria involve multiple analysis axes within an "observation zone" whose limits are determined by a predefined list of product categories and 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 mainly comprise units of funds and unlisted equities.

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 which are classified in the Level 1 of the valuation hierarchy.

Equities and other unlisted variable-income securities classified in Level 3 are measured using one of the following methods: share of revalued net assets, multiples from comparable companies, discounted cash flow, multi-criteria approach.

Repurchase agreements, mainly long term on corporate bonds: the valuation of these transactions requires internal methodologies given their specificity and lack of activity and unavailability of price information in the long-term repo market.

Debts issued designated at fair value 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 instruments or 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 rate hybrids and equity hybrids), credit correlation products, products sensitive to early repayment, some options on baskets of stocks, and some interest rate options.

Changes in Level 3 financial instruments

For Level 3 financial instruments, there was no movement between 1 January and 31 December 2018.

Financial assets

In millions of euros	Financial instruments at fair value through profit or loss held for trading	Financial instruments at fair value through profit or loss not held for trading	Financial instruments at fair value through equity	TOTAL
			Financial assets	
At 1 January 2018	-	94.8	311.2	**406.0**
Puchases	-	49.7	-	**49.7**
Sales	-	(2.7)	(3.4)	**(6.2)**
Settlements	-	(0.2)	-	**(0.2)**
Reclassification	-	(3.8)	(2.6)	**(6.3)**
Transfer to level 3	-	2.0	-	**2.0**
Transfer from level 3	-	(4.8)	(42.7)	**(47.5)**
Others		1.1	-	**1.1**
Gains (or losses) recognised in profit or loss with respect to transactions expired or terminated during the period	-	(1.3)	-	**(1.3)**
Gains (or losses) recognised in profit or loss with respect to unexpired instruments at the end of the period	-	(3.0)	-	**(3.0)**
Changes in fair value of assets and liabilities recognised in equity	-	-	(62.1)	**(62.1)**
At 31 December 2018	-	131.9	200.3	**332.2**

Transfers have been reflected as if they had taken place at the start of the 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.

6.e FINANCIAL ASSETS AT AMORTISED COSTS

Detail of loans and receivables by nature

	31 December 2018 IFRS 9 and IFRS 15			1 January 2018 IFRS 9 and IFRS 15		
In millions of euros	Gross value before impairment	Impairment (note 3.g)	Carrying amount	Gross value before impairment	Impairment (note 3.g)	Carrying amount
Loans and receivables due from credit institutions	**15,559.8**	**(0.3)**	**15,559.5**	**12,962.4**	**(0.5)**	**12,961.8**
Demand accounts	1,471.5	(0.2)	1,471.3	984.1	(0.3)	983.8
Loans[1)]	6,789.1	(0.1)	6,789.0	8,438.7	(0.2)	8,438.5
Repurchase agreements	7,299.2	-	7,299.2	3,539.6	-	3,539.6
Loans and receivables due from customers	**32,349.2**	**(641.8)**	**31,707.4**	**29,008.8**	**(606.7)**	**28,402.1**
Ordinary debit accounts	1,013.3	(74.1)	939.2	962.1	(73.6)	888.5
Loans to customers	17,055.6	(192.1)	16,863.5	15,387.6	(182.8)	15,204.8
Finance leases	14,280.3	(375.6)	13,904.7	12,659.1	(350.3)	12,308.8
TOTAL LOANS AND RECEIVABLES AT AMORTISED COST	**47,909.0**	**(642.1)**	**47,266.9**	**41,971.2**	**(607.2)**	**41,363.9**

Detail of debt securities

	31 December 2018 IFRS 9 and IFRS 15			1 January 2018 IFRS 9 and IFRS 15		
In millions of euros	Gross value before impairment	Impairment (note 3.g)	Carrying amount	Gross value before impairment	Impairment (note 3.g)	Carrying amount
Governments	496.5	-	496.5	944.6	(0.8)	943.8
Other public administrations	763.4	-	763.4	792.5	-	792.5
Credit institutions	238.1	-	238.1	190.6	-	190.6
Others	13.7	-	13.7	60.1	(0.6)	59.5
TOTAL DEBT SECURITIES AT AMORTISED COST	**1,511.7**	**-**	**1,511.7**	**1,987.8**	**(1.4)**	**1,986.4**

[1)] Loans and advances to credit institutions include term deposits made with central banks

Detail of loans and receivables and debt securities by stage

In millions of euros	31 December 2018 IFRS 9 and IFRS 15			1 January 2018 IFRS 9 and IFRS 15		
	Gross value before impairment	Impairment (note 3.g)	Carrying amount	Gross value before impairment	Impairment (note 3.g)	Carrying amount
Loans and receivables due from credit institutions	**15,559.8**	**(0.3)**	**15,559.5**	**12,962.3**	**(0.5)**	**12,961.8**
Stage 1	15,558.5	(0.1)	15,558.4	12,962.1	(0.2)	12,961.9
Stage 2	0.1	-	0.1	(0.1)	-	(0.1)
Stage 3	1.2	(0.2)	1.1	0.3	(0.3)	-
Loans and receivables due from customers	**32,349.2**	**(641.8)**	**31,707.4**	**29,008.9**	**(606.8)**	**28,402.1**
Stage 1	28,795.3	(78.4)	28,716.8	25,614.6	(69.2)	25,545.4
Stage 2	2,649.0	(89.9)	2,559.1	2,601.4	(95.3)	2,506.1
Stage 3	904.9	(473.5)	431.4	792.9	(442.3)	350.7
Debt securities	**1,511.8**	**-**	**1,511.7**	**1,987.8**	**(1.4)**	**1,986.4**
Stage 1	1,511.8	-	1,511.7	1,795.6	-	1,795.6
Stage 2	-	-	-	192.2	(1.4)	190.8

Breakdown of finance leases

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018 *IFRS 9 and IFRS 15*
Gross investment	**15,009.0**	**14,966.8**
Receivable within 1 year	*5,008.9*	*5,534.9*
Receivable after 1 year but within 5 years	*9,439.5*	*8,951.6*
Receivable beyond 5 years	*560.6*	*480.3*
Unearned interest income	(728.8)	(2,307.9)
Net investment before impairment	**14,280.2**	**12,659.0**
Receivable within 1 year	*4,707.1*	*4,675.8*
Receivable after 1 year but within 5 years	*9,061.8*	*7,593.0*
Receivable beyond 5 years	*511.2*	*390.1*
Impairments	(375.6)	(350.3)
Net investment after impairment	**13,904.5**	**12,308.6**

6.f IMPAIRED FINANCIAL ASSETS (STAGE 3)

The following tables present the carrying amounts of impaired financial assets as well as related collateral and other guarantees.

The amounts shown for collateral and other guarantees correspond to the lower of the value of the collateral or other guarantee and the value of the secured assets.

	31 December 2018 *IFRS 9 and IFRS 15*			
	Stage 3 assets			
In millions of euros	Gross value	Impairment	Net	Collateral received
Loans and receivables due from credit institutions (note 6.e)	1.2	(0.2)	1.0	-
Loans and receivables due from customers (note 6.e)	904.9	(473.5)	431.4	347.6
Total amortised-cost impaired assets (stage 3)	**906.1**	**(473.7)**	**432.4**	**347.6**
Financing commitments given	14.8	(0.7)	14.1	4.2
Guarantee commitments given	6.2	(4.5)	1.7	1.3
Total off-balance sheet impaired commitments (stage 3)	**21.0**	**(5.2)**	**15.8**	**5.5**
TOTAL	**927.1**	**(478.9)**	**448.2**	**353.1**

	1 January 2018 *IFRS 9 and IFRS 15*			
	Stage 3 assets			
In millions of euros	Gross value	Impairment	Net	Collateral received
Loans and receivables due from credit institutions (note 6.e)	0.4	(0.3)	0.1	-
Loans and receivables due from customers (note 6.e)	792.9	(442.3)	350.6	295.0
Total amortised-cost impaired assets (stage 3)	**793.3**	**(442.6)**	**350.7**	**295.0**
Financing commitments given	2.4	(0.6)	1.8	0.2
Guarantee commitments given	9.3	(5.9)	3.4	1.7
Total off-balance sheet impaired commitments (stage 3)	**11.7**	**(6.5)**	**5.2**	**1.9**
TOTAL	**805.0**	**(449.1)**	**355.9**	**296.9**

6.g LIABILITIES AT AMORTISED COST DUE TO CREDIT INSTITUTIONS AND CUSTOMERS

Due to customers and due to credit institutions

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018 *IFRS 9 and IFRS 15*
Due to credit institutions	**12,026.0**	**11,661.0**
Demand accounts	707.2	723.1
Interbank borrowings[1)]	11,318.8	10,472.0
Repurchase agreements	-	465.8
Due to customers	**31,287.1**	**26,238.4**
Ordinary credit accounts	18,028.1	15,152.9
Savings accounts	6,407.0	6,449.0
Term and similar accounts	6,852.0	4,636.5
TOTAL	**43,313.1**	**37,899.4**

[1)] Interbank borrowings from credit institutions include term deposits from central banks

6.h DEBT SECURITIES AND SUBORDINATED DEBT

This note covers all debt securities and subordinated debt measured at an amortised cost and at fair value option through profit or loss.

Debts measured at fair value though profit or loss (note 6.a)

In millions of euros	1 January 2018 *IFRS 9 and IFRS 15*	Issues	Redemptions	Movements in exchange rates and other movements	31 December 2018 *IFRS 9 and IFRS 15*
Debt with a maturity of more than 1 year on issue					
Negociable debt securities	86.4	2.8	(44.7)	(3.9)	40.5
Bond issues	7.6	-	-	(0.0)	7.6
Debt securities	**93.9**	**2.8**	**(44.7)**	**(3.9)**	**48.1**
Redeemable subordinated debt	88.5	-	-	(4.9)	83.6
Subordinated debt	**88.5**	**-**	**-**	**(4.9)**	**83.6**

Debts measured at amortised cost

In millions of euros	1 January 2018 *IFRS 9 and IFRS 15*	Entry into scope of consolidation	Issues	Redemptions	Movements in exchange rates and other movements	31 December 2018 *IFRS 9 and IFRS 15*
Debt with a maturity of less than 1 year on issue						
Negociable debt securities	1,104.8		2,294.2	(2,683.5)	16.9	732.3
Debt with a maturity of more than 1 year on issue						
Negociable debt securities	368.4		-	(42.9)	(0.3)	325.2
Bond issues	-	58.0		(10.4)	(0.1)	47.5
Debt securities	**1,473.2**	**58.0**	**2,294.2**	**(2,736.8)**	**16.5**	**1,105.0**
Redeemable subordinated debt	-	120.8	-	(9.7)	0.0	111.1
Undated subordinated debt	-	5.0	-	-	(5.0)	-
Subordinated debt	**-**	**125.8**	**-**	**(9.7)**	**(5.0)**	**111.1**

6.i CURRENT AND DEFERRED TAXES

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018 *IFRS 9 and IFRS 15*
Current taxes	47.8	18.0
Deferred taxes	131.1	109.3
Current and deferred tax assets	**178.9**	**127.3**
Current taxes	127.7	49.0
Deferred taxes	325.0	404.3
Current and deferred tax liabilities	**452.7**	**453.3**

Change in deferred tax by nature over the period

In millions of euros	1 January 2018 *IFRS 9 and IFRS 15*	Changes recognised in profit or loss	Changes recognised in recyclable equity	Changes recognised in non recyclable equity	Changes in the consolidation scope, exchange rates and other movements	31 December 2018 *IFRS 9 and IFRS 15*
Financial instruments	(65.0)	20.8	6.1	15.7	2.7	(19.7)
Provisions for employee benefit obligations	14.9	5.9	-	(5.0)	(0.3)	15.5
Unrealised finance lease reserve	(193.9)	46.3	-	-	(1.6)	(149.2)
Provisions for credit risk	57.4	(3.9)	-	-	(0.7)	52.9
Loss carried forward	15.1	21.6	-	-	6.1	42.7
Property, plant, equipment	(32.0)	1.4	-	-	(0.4)	(31.0)
Lump-sum provision	(41.6)	(4.5)	-	-	-	(46.1)
Provisions for the contribution to the resolution and deposit guarantee schemes	(23.7)	5.0	-	-	(1.7)	(20.5)
Earnings on capital gains to be immunized according to art.54 LIR	(48.3)	0.5	-	-	(6.3)	(54.1)
Other items	22.2	(16.7)	-	-	10.2	15.6
TOTAL NET DEFERRED TAXES	**(295.0)**	**76.4**	**6.1**	**10.7**	**8.0**	**(193.9)**
of which: Deferred tax assets	*109.3*	-	-	-	-	*131.1*
of which: Deferred tax liabilities	*(404.3)*	-	-	-	-	*(325.0)*

6.j ACCRUED INCOME/EXPENSE AND OTHER ASSETS/LIABILITIES

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018 *IFRS 9 and IFRS 15*
Guarantee deposits and bank guarantees paid	16.6	0.2
Collection accounts	44.6	71.0
Accrued income and prepaid expenses	118.3	99.1
Other debtors and miscellaneous assets	602.8	491.4
TOTAL ACCRUED INCOME AND OTHER ASSETS	**782.2**	**661.7**
Guarantee deposits received	91.3	69.6
Collection accounts	38.7	70.8
Accrued expense and deferred income	292.6	238.4
Other creditors and miscellaneous liabilities	826.7	732.6
TOTAL ACCRUED EXPENSE AND OTHER LIABILITIES	**1,249.3**	**1,111.4**

6.k INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Group's investments in associates are all accounted for using the equity method. As at 31 December 2018, the Group had no joint ventures.

The main associates of the Group are identified below.

Investments in equity associates

In millions of euros	Country	Activity	% interest	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018 *IFRS 9 and IFRS 15*
Associates					
Cardif Lux Vie SA	Luxembourg	Inurance	33.33%	113.2	124.5
BNP Paribas Leasing Solutions SPA	Italy	Leasing	13.09%	36.2	22.1

The cumulative financial data relating to associates is detailed in the table below:

	2018			31 December 2018 *IFRS 9 and IFRS 15*
In millions of euros	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]	**1.1**	**(8.9)**	**(7.8)**	**152.8**
Cardif Lux Vie SA	8.0	(10.5)	(2.5)	113.2
BNP Paribas Leasing Solutions SPA	(7.1)	0.3	(6.8)	36.2
Others	0.1	1.3	1.4	3.4
TOTAL ASSOCIATES	**1.1**	**(8.9)**	**(7.8)**	**152.8**

	2017			1 January 2018 *IFRS 9 and IFRS 15*
In millions of euros	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]	**23.1**	**7.2**	**15.8**	**165.7**
Cardif Lux Vie SA	15.4	(0.8)	14.6	124.5
BNP Paribas Leasing Solutions SPA	(5.5)	0.1	(5.4)	22.1
Others	13.2	(6.5)	6.6	19.1
TOTAL ASSOCIATES	**23.1**	**(7.2)**	**15.8**	**165.7**

The Group does not believe that it holds significant joint ventures or associates within the meaning of IFRS 12. The increased 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.

[1] Including controlled but non material entities consolidated under the equity method (see note 1.b).

6.1 PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

	31 December 2018 IFRS 9 and IFRS 15			1 January 2018 IFRS 9 and IFRS 15		
In millions of euros	Gross value	Accumulated depreciation or amortisation and impairment losses	Carrying amount	Gross value	Accumulated depreciation or amortisation and impairment losses	Carrying amount
Investment property	**341.5**	**(149.2)**	**192.3**	**305.6**	**(139.2)**	**166.4**
Land and buildings	390.8	(148.8)	242.0	399.9	(142.9)	257.0
Equipment, furniture and fixtures	326.9	(245.3)	81.6	327.6	(236.0)	91.6
Plant and equipment leased as lessor under operating leases	638.1	(307.0)	331.0	623.0	(292.7)	330.3
Other property, plant and equipment	88.1	(68.5)	19.6	84.5	(64.6)	19.9
Property, plant and equipment	**1,443.8**	**(769.6)**	**674.2**	**1.435.0**	**(736.2)**	**698.8**
Purchased software	149.2	(139.0)	10.2	139.8	(130.2)	9.6
Internally developped software	10.4	(5.2)	5.2	8.8	(3.2)	5.6
Other intangible assets	35.1	(16.8)	18.4	17.2	(6.5)	10.7
Intangible assets	**194.7**	**(161.0)**	**33.7**	**165.7**	**(139.8)**	**25.9**

Investment property

Investment property includes residential and commercial buildings, as well as mixed-use buildings and are recorded in the balance sheet for EUR 192.3 million compared with EUR 166.4 million in 2017.

The estimated fair value, using internal models (Level 3) of these investment properties amounted to EUR 260.8 million compared with EUR 217.8 million as at 1 January 2018.

Most investment properties are periodically assessed by an independent expert. The assessment is based primarily on:

- Indications in the market based on unit prices of similar properties. In this case, account is taken of all market parameters available at the valuation date (loca- tion, market conditions, nature of the construction, maintenance status, assignment, etc.);
- The capitalisation 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:

En millions d'euros	31 December 2018 IFRS 9 and IFRS 15	1 January 2018 IFRS 9 and IFRS 15
Payments receivable within 1 year	61.0	95.6
Payments receivable after 1 year but within 5 years	33.5	232.5
Payments receivable beyond 5 years	14.9	32.3
Future minimum lease payments receivable under non-cancellable leases	**109.4**	**360.4**

Future minimum lease payments receivable 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 5.7 million (EUR 3.6 million as at 1 January 2018).

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 2018 amounted to EUR 37.4 million versus EUR 35.3 million in 2017.

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 2018 as it was in 2017.

6.m GOODWILL

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018 *IFRS 9 and IFRS 15*
Carrying amount at start of period	**132.6**	**133.8**
Acquisitions	56.6	-
Goodwill	(1.0)	(1.2)
Other movements	(0.1)	-
Carrying amount at and of period	**188.1**	**132.6**
of which:		
Gross value	*188.8*	*133.2*
Accumulated impairment recognised at the end of period	*(0.6)*	*(0.6)*

EUR 39.2 million of goodwill was recognised at BGL BNP Paribas in 2018 following the acquisition of BNP Paribas Wealth Management Luxembourg SA. Furthermore, Leasing International recognised goodwill of EUR 17.4 million following the acquisition of BNPP Leasing Solution AS. The remaining goodwill is related to the past integration of leasing activities, applying the business combinations under common control method. It is therefore equivalent to the goodwill previously recognised by the BNP Paribas Group in these companies.

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) («discounted cash flow method» - 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 five-year forecast period are based on a perpetuity growth rate and are normalised when the short-term environment does not reflect the normal conditions of the economic cycle.

The key parameters that are sensitive to the assumptions made are the cost/income ratio, the cost of capital and the perpetuity growth rate.

Cost of capital is determined on the basis of a riskfree 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.

The cost/income ratio is calculated as the relationship between management fees and income. Allocated capital is determined for each homogeneous group of businesses based on the Common Equity Tier One regulatory requirements for the legal entity to which the homogeneous group of businesses belongs, with a minimum of 8.5%.

The perpetuity growth rate used is 2% for mature economies.

The following table shows the sensitivity of the valuations of the cash generating unit, Leasing Solutions, to changes in the value of parameters used in the DCF method: the cost of capital, the cost/income ratio, and the perpetuity growth rate.

Sensitivity of the valuation of UGT Leasing Solutions 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 perpetuity growth rate

In millions of euros at 31 December 2018	Leasing Solutions
Cost of capital	**8.7%**
Adverse change of +10 basis points	(71.9)
Positive change of -10 basis points	74.2
Cost/income ratio[1)]	**41.9% - 48.4%**
Adverse change of +1%	(112.2)
Positive change of -1%	112.2
Growth rate to perpetuity	**2.0%**
Adverse change of -50 basis points	(187.9)
Positive change of +50 basis points	218.3

Even when retaining the three worst changes in the table for the impairment test, there would be no need to depreciate the goodwill of the cash generating unit Leasing Solutions..

The goodwill valuation test concerning the acquisition of BNP Paribas Wealth Management Luxembourg SA will be carried out for the first time on 31 December 2019 by the cash generating unit Wealth Management.

[1)] As from 2018

6.n PROVISIONS FOR CONTINGENCIES AND CHARGES

Changes in provisions by type

In millions of euros	1 January 2018 *IFRS 9 and IFRS 15*	Net additions to provisions	Provisions used	Changes in value recognised directly in equity	Exchange rate movements and other movements	31 December 2018 *IFRS 9 and IFRS 15*
Provisions for employee benefits	92.0	22.9	(19.8)	(19.1)	5.2	81.2
of which: Post-employment benefits (note 8.b)	*37.1*	*9.2*	*(6.2)*	*(19.1)*	*2.5*	*23.5*
of which: Provision for other long-term benefits (note 8.c)	*38.0*	*5.0*	*(5.4)*	-	*1.8*	*39.4*
of which: Provision for early retirement plans and headcount adaptation plan (note 8.d)	*15.1*	*8.9*	*(7.3)*	-	-	*16.7*
of which: Provision for share-based payments	*1.8*	*(0.2)*	*(0.9)*	-	*0.9*	*1.6*
Provisions for credit commitments (note 3.g)	21.4	-	(0.2)	-	(4.3)	16.9
Provisions for litigations	25.3	10.9	(4.6)	-	1.1	32.7
Other provisions for contingencies and charges	22.8	(1.9)	(1.0)	-	7.9	27.8
TOTAL PROVISIONS FOR CONTINGENCIES AND CHARGES	**161.5**	**31.9**	**(25.6)**	**(19.1)**	**9.9**	**158.6**

6.o 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 the event of the 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 the event of the 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 2018 IFRS 9 and IFRS 15	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						
Financial instruments at fair value through profit or loss						
Securities	969.2	-	969.2		-	969.2
Loans and repurchase agreements	263.0	(149.9)	113.1	(32.4)	(26.4)	54.3
Derivatives (including derivatives used for hedging purposes)	307.2	-	307.2	(55.2)	(48.9)	203.1
Financial assets at amortised cost	48,778.6	-	48,778.6	-	(7,243.8)	41,534.8
of which: Repurchase agreements	*7,299.2*	-	*7,299.2*	-	*(7,243.8)*	*55.4*
Accrued income and other assets	782.2	-	782.2	-	-	782.2
of which: Guarantee deposits given	*16.6*	-	*16.6*	-	-	*16.6*
Other assets not subject to offsetting	3,646.8	-	3,646.8	-	-	3,646.8
TOTAL ASSETS	**54,747.1**	**(149.9)**	**54,597.2**	**(87.6)**	**(7,319.1)**	**47,190.5**

In millions of euros, at 31 December 2018 IFRS 9 and IFRS 15	Gross amounts of financial liabilities	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						
Deposits and repurchase agreements	252.5	(149.9)	102.5	(32.4)	(70.1)	-
Issued debt securities	131.7	-	131.7	-	-	131.7
Derivatives (including derivatives used for hedging purposes)	65.6	-	65.6	(55.2)	-	10.4
Financial liabilities at amortised cost	43,313.1	-	43,313.1	-	-	43,313.1
Accrued expense and other liabilities	1,249.6	-	1,249.6	-	(48.9)	1,200.7
of which: Guarantee deposits received	*91.3*	-	*91.3*	-	*(48.9)*	*42.4*
Other liabilities not subject to offsetting	1,887.9	-	1,887.9	-	-	1,887.9
TOTAL LIABILITIES	**46,900.3**	**(149.9)**	**46,750.4**	**(87.6)**	**(119.0)**	**46,543.8**

In millions of euros, at 1 January 2018 IFRS 9 and IFRS 15	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						
Financial instruments at fair value through profit or loss						
Securities	730.2	-	730.2	-	-	730.2
Loans and repurchase agreements	396.1	(333.4)	62.6	(22.8)	-	39.8
Derivatives (including derivatives used for hedging purposes	198.2	(15.0)	183.2	(34.2)	(9.6)	139.4
Financial assets at amortised cost	43,560.1	(209.8)	43,350.3	(465.8)	(3,068.9)	39,815.6
of which: Repurchase agreements	*3,539.6*	-	*3,539.6*	*(465.8)*	*(3,068.9)*	*4.9*
Accrued income and other assets	661.7	-	661.7	-	-	661.7
of which: Guarantee deposits given	*0.2*	-	*0.2*	-	-	*0.2*
Other assets not subject to offsetting	4,470.1	-	4.470.1	-	-	4.470.1
TOTAL ASSETS	**50,016.3**	**(558.3)**	**49,458.0**	**(522.8)**	**(3,078.5)**	**45,856.7**

In millions of euros, at 1 January 2018 IFRS 9 and IFRS 15	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						
Deposits and repurchase agreements	452.4	(333.4)	118.9	(22.8)	(96.1)	0.0
Issued debt securities	93.9	-	93.9	-	-	93.9
Derivatives (including derivatives used for hedging purposes)	99.0	(15.0)	84.0	(34.2)	-	49.8
Financial liabilities at amortised cost	38,109.3	(209.8)	37,899.5	(465.8)	-	37,433.7
of which: Repurchase agreements	*465.8*	-	*465.8*	*(465.8)*	-	-
Accrued expenses and other liabilities	1,111.4	-	1,111.4	-	(9.6)	1,101.8
of which: Guarantee deposits received	*69.6*	-	*69.6*	-	*(9.6)*	*60.0*
Other liabilities not subject to offsetting	2,226.6	-	2,226.6	-	-	2,226.6
TOTAL LIABILITIES	**42,092.7**	**(558.3)**	**41,534.4**	**(522.8)**	**(105.7)**	**40,905.9**

6.p TRANFER OF FINANCIAL ASSETS

There was no transfer of financial assets in 2018.

In 2017, 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".

	31 December 2018 IFRS 9 and IFRS 15		1 January 2018 IFRS 9 and IFRS 15	
In millions of euros	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**	**Carrying amount oftransferred assets**	**Carrying amount of associated liabilities**
Repurchase agreements				
Securities at fair value through profit or loss	-	-	86.1	82.7
Available-for-sale financial assets	-	-	465.5	465.8
TOTAL	**-**	**-**	**551.6**	**548.5**

In 2018, as in 2017, 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.

6.q SHARE CAPITAL AND RELATED RESERVES

As at 31 December 2018 and as at 1 January 2018 the subscribed and paid-up capital amounted to EUR 713.1 million, represented by 27,976,574 shares. BGL BNP Paribas does not hold any own shares.(See note 8.a).

As at 31 December 2018 and as at 1 January 2018, the additional paid-in capital was EUR 2,761.6 million.

7. FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS

7.a FINANCING COMMITMENTS GIVEN OR RECEIVED

Contractual value of financing commitments given and received by the Group

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018* *IFRS 9 and IFRS 15*
Financing commitments given		
to credit institutions	**11.4**	**25.5**
to customers	**4,516.2**	**4,383.9**
Opening of confirmed credits	4,414.3	4,290.4
Other commitments given to customers	101.9	93.6
TOTAL FINANCING COMMITMENTS GIVEN	**4,527.5**	**4,409.5**
of which: Stage 1	*4,371.8*	*4,181.8*
of which: Stage 2	*140.8*	*225.3*
of which: Stage 3	*14.8*	*2.4*
Financing commitments received		
from credit institutions	1,587.3	2,785.8
TOTAL FINANCING COMMITMENTS RECEIVED	**1,587.3**	**2,785.8**

** revised presentation taking into account the reclassifications under IFRS 9*

This table includes all financing commitments given or received, with the exception of those whose underlying is recognised in MFVPL now, but not as at 31 December 2017. Financing commitments given to clients have also been reclassified at the level of guarantee commitments given in note 7.b.

7.b GUARANTEE COMMITMENTS GIVEN BY SIGNATURE

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018* *IFRS 9 and IFRS 15*
Guarantee commitments given:		
to credit institutions	546.6	570.9
to customers	1,327.9	1,511.1
- Sureties provided to administrative and tax authorities, other sureties	*1,248.7*	*1,257.6*
- Other guarantees to customers	*79.2*	*253.5*
TOTAL GUARANTEE COMMITMENTS GIVEN	**1,874.4**	**2,082.0**
of which: Stage 1	*1,754.3*	*1,934.4*
of which: Stage 2	*113.9*	*138.3*
of which: Stage 3	*6.2*	*9.3*

** revised presentation taking into account the reclassifications under IFRS 9.*

7.c OTHER GUARANTEE COMMITMENTS

Financial instruments given as collateral

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018 *IFRS 9 and IFRS 15*
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	**1,357.0**	**2,406.9**
used as collateral with central banks	-	-
available for refinancing transactions	1,357.0	2,406.9
Securities sold under repurchase agreements	**101.9**	**582.7**
Other financial assets pledged as collateral for transactions with credit institutions et financial customers	**22.3**	**23.4**

Financial instruments given by the Group as collateral and which the beneficiary is authorised to sell or reuse as collateral amounted to EUR 120.1 million as at 31 December 2018 (versus EUR 605.9 million as at 1 January 2018).

Financial instruments received as collateral

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018 *IFRS 9 and IFRS 15*
Financial instruments received as collateral (excluding repurchase agreements)	**2,229.8**	**1,782.3**
of which : Instruments that the Group is authorised to sell and reuse as collateral	*126.7*	*79.7*
Securities received under repurchase agreements	**7,270.2**	**3,453.7**

8. SALARIES AND EMPLOYEE BENEFITS

8.a STAFF COSTS

In millions of euros	2018	2017
Fixed and variable remuneration, incentive bonuses and profit-sharing	(352.9)	(330.0)
Retirement bonuses, pension costs and other social security taxes	(105.1)	(88.3)
Payroll taxes	(4.0)	(4.1)
TOTAL STAFF COSTS	**(462.0)**	**(422.4)**

8.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.

Main 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 S.A. has set up a funded pension scheme. 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 3.9 million for 2018, versus EUR 3.6 million for 2017.

Main 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 obligations	Fair value of plan assets	Fair value of reimbursement rights	Net obligation	*of which asset recognised in the balance sheet for defined-benefit planss*	*of which obligation recognised in the balance sheet for defined-benefit plans*
31 December 2018						
France	24.2	(19.0)	-	5.2	-	*5.2*
Luxembourg	67.2	(60.3)	(0.9)	6.0	*(0.9)*	*6.9*
United-Kingdom	87.3	(91.2)	-	(3.9)	*(4.6)*	*0.7*
Others	20.4	(9.7)	(2.9)	7.8	*(2.9)*	*10.7*
TOTAL	**199.1**	**(180.2)**	**(3.8)**	**15.1**	***(8.4)***	***23.5***
1 January 2018						
France	24.3	(18.9)	-	5.4	-	*5.4*
Luxembourg	86.9	(70.5)	(1.0)	15.4	*(1.0)*	*16.4*
United-Kingdom	101.5	(99.4)	-	2.1	*(3.0)*	*5.1*
Others	20.3	(10.0)	(2.7)	7.6	*(2.7)*	*10.3*
TOTAL	**233.0**	**(198.8)**	**(3.7)**	**30.5**	***(6.7)***	***37.2***

Change in the present value of the defined-benefit obligation

In millions of euros	2018	2017
Present value of obligations at start of period	**233.0**	**277.0**
Current service cost	4.9	8.4
Interest cost	3.8	3.9
Actuarial losses (gains) on change in demographic assumptions	(3.9)	0.1
Actuarial losses (gains) on change in financial assumptions	(13.9)	3.6
Actuarial losses (gains) on experience gaps	(7.9)	(1.9)
Benefits paid directly by employer	(0.6)	(0.7)
Benefits paid from assets/reimbursement rights	(19.4)	(16.9)
Effect of changes in exchange rates	(0.9)	(3.9)
Effect of changes in the consolidation scope	(0.4)	-
Reclassification based on nature of plan	-	(38.4)
Other changes	4.4	1.8
Present value of obligations at end of period	**199.1**	**233.0**

Change in the fair value of plan assets

In millions of euros	2018	2017
Fair value of plan assets at start of period	**198.8**	**245.2**
Interest income on assets	2.8	3.0
Actuarial gains or losses over the period	(5.4)	2.1
Contributions by the Group	4.5	7.7
Benefits paid from plan assets	(19.3)	(16.8)
Effect of changes in exchange rates	(1.0)	(3.9)
Effect of changes in the consolidation scope	(0.4)	-
Reclassification based on nature of plan	-	(38.4)
Other changes	0.2	(0.1)
Fair value of plan assets at end of period	**180.2**	**198.8**

Change in the fair value of reimbursement rights

In millions of euros	2018	2017
Fair value of reimbursement rights at start of period	**3.7**	**3.6**
Interest income on assets	0.1	-
Actuarial gains on assets	0.1	-
Contributions by the Group	0.1	0.1
Benefits paid from assets	(0.1)	(0.1)
Other changes	(0.1)	0.1
Fair value of reimbursement rights at end of period	**3.8**	**3.7**

Components of the cost of defined-benefit plans

In millions of euros	2018	2017
Service costs	**8.7**	**8.4**
Current service cost	4.9	8.4
Past service cost	3.8	-
Net financial expense	**0.9**	**0.9**
Interest cost	3.8	3.9
Interest income on plan assets	(2.8)	(3.0)
Interest income on reimbursement rights	(0.1)	-
TOTAL RECORDED IN « STAFF COSTS »	**9.6**	**9.3**

Other items recognised directly in equity

In millions of euros	2018	2017
Other items recognised directly in equity	**20.4**	**0.4**
Actuarial (losses)/gains on plan assets and reimbursement rights	(5.3)	2.2
Actuarial (losses)/gains of demographic assumptions on the present value of obligations	3.9	(0.1)
Actuarial (losses)/gains of financial assumptions on the present value of obligations	13.9	(3.6)
Experience (losses)/gains on obligations	7.9	1.9

Main actuarial assumptions used to calculate obligations at end of period

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:

	31 December 2018		1 January 2018	
In percentage	**Discount rate**	**Future salary growth rate** [1]	**Discount rate**	**Future salary growth rate** [1]
France	1.60%	2.05%-3.30%	1.30%	2.15%-3.40%
Luxembourg	1.10 %-1.80%	2.55%-4.80%	0.80%-1.80%	1.00%-3.50%
United-Kingdom	2.80%	3.55%	2.40%	4.70%

[1] Including price increases (inflation).

The impact of a 100 bp change in discount rates on the present value of post-employment benefit obligations is as follows:

	31 December 2018		1 January 2018	
In millions of euros	Discount rate -100bp	Discount rate +100bp	Discount rate -100bp	Discount rate +100bp
France	3.0	(2.5)	3.0	(2.5)
Luxembourg	7.1	(5.6)	8.7	(8.1)
United-Kingdom	17.3	(13.4)	20.2	(15.4)

Actual rate of return on plan assets and reimbursement rights over the period

In percentage [1]	2018	2017
France	3.55%	3.65%
Luxembourg	-2.10% / 2.32%	1.30% / 3.10%
United-Kingdom	-1.90% / -1.30%	2.30% / 4.70%

Breakdown of plan assets

	31 December 2018					
In percentage	Shares	Government bonds	Non-government bonds	Real estate	Deposit accounts	Others
France	7%	67%	18%	8%	0%	0%
Luxembourg	16%	20%	58%	0%	5%	1%
United-Kingdom	12%	49%	31%	0%	4%	4%
Others	0%	0%	0%	0%	0%	100%
TOTAL	**12%**	**38%**	**36%**	**1%**	**4%**	**9%**

	1 January 2018					
In percentage	Shares	Government bonds	Non-government bonds	Real estate	Deposit accounts	Others
France	6%	68%	18%	8%	0%	0%
Luxembourg	13%	29%	48%	0%	8%	1%
United-Kingdom	16%	68%	16%	0%	1%	0%
Others	0%	0%	0%	0%	0%	100%
TOTAL	**13%**	**50%**	**27%**	**1%**	**3%**	**7%**

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 every three years for plans with assets in excess of EUR 100 million and frequently for plans with assets of between EUR 20 and EUR 100 million.

[1] Range of values. reflecting the existence of several plans in the same country.

8.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 2018, the provisions existing within the Group relative to other long-term benefits amounted to EUR 40.7 million (EUR 39.8 million at 1 January 2018).

8.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.

In 2018, the Bank set aside a EUR 9 million provision for the introduction of a new voluntary early retirement plan.

On 31 December 2018, the existing provisions within the Group for the voluntary redundancy and early retirement plans amounted to EUR 15.1 miillion (EUR 13.6 million at 1 January 2018).

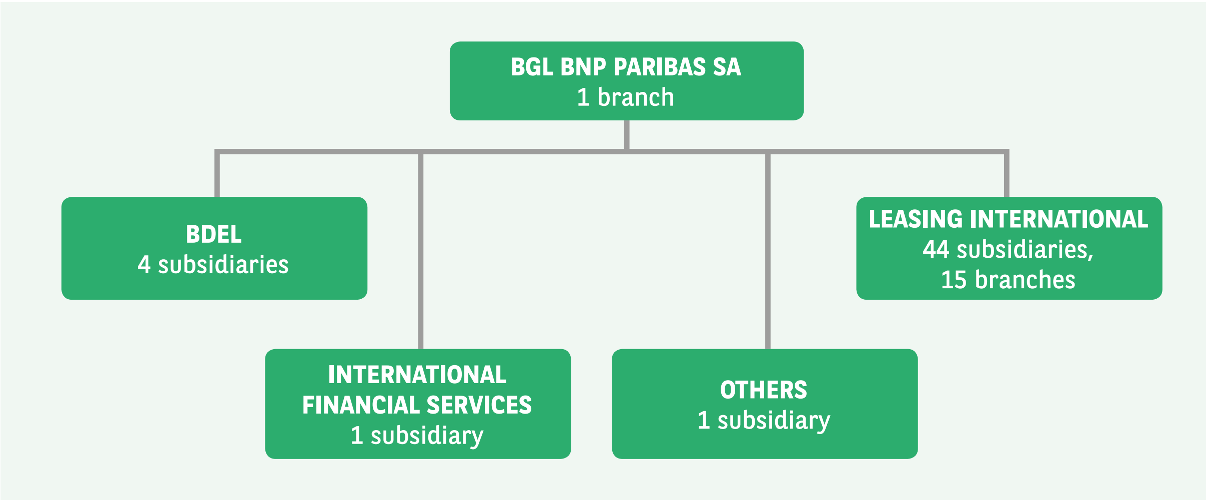
9. ADDITIONAL INFORMATION

9.a CHANGES IN SHARE CAPITAL

BGL BNP Paribas did not perform any share capital transactions in 2018.

9.b SCOPE OF CONSOLIDATION

Simplified structure of the Group by core business



List of subsidiaries and branches consolidated in the Group

			31 December 2018			31 December 2017		
Name	**Country**	**Activity**	**Consolidation method**	**Group ownership interest**	**Ref.**[1)]	**Consolidation method**	**Group ownership interest**	**Réf.**[1)]
CONSOLIDATING COMPANY								
BGL BNP Paribas SA	Luxembourg	Bank						
BGL BNP Paribas (German branch)	Germany	Bank	IG	100.00%		IG	100.00%	
BDEL								
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%	
Europay Luxembourg SC	Luxembourg	Financial Services	ME	0.34%	S3	--	--	--
FS B SARL	Luxembourg	Real estate interest	ME	28.49%	S4	--	--	--
Visalux SC	Luxembourg	Financial Services	ME	23.86%	E3	--	--	--
Structured entities								
Elimmo SARL	Luxembourg	Real estate interest	IG	66.67%	E3	--	--	--
LEASING INTERNATIONAL								
Albury Asset Rentals Ltd	United-Kingdom	Leasing	IG	50.00%	S1	IG	50.00%	
All In One Vermietungsgesellschaft für Telekommunikationsanlagen mbH	Germany	Leasing	--	--	--	--	--	S3
All In One Vermietung GmbH	Austria	Leasing	IG	50.00%	E3	--	--	

Name	Country	Activity	31 December 2018			31 December 2017		
			Consolidation method	Group ownership interest	Ref.[1)]	Consolidation method	Group ownership interest	Réf.[1)]
Aprolis Finance SA	France	Leasing	IG	25.50%		IG	25.50%	
Arius SA	France	Leasing	IG	50.00%		IG	50.00%	
BNPP Rental Solutions Ltd (Anc. Artegy Ltd)	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	D1
Artegy SA	France	Leasing	IG	50.00%		IG	50.00%	
BNPP B Institutional II - Treasury 17	Belgium	Asset Management	IG	100.00%	S4	IG	100.00%	E1
BNP Paribas Finansal Kiralama A.S.	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%	
BNPP Lease Group GmbH & Co KG	Austria	Leasing	IG	50.00%	E3	--	--	--
BNP Paribas Lease Groupe (German branch)	Germany	Leasing	IG	50.0%		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 Leasing Solutions IFN	Romania	Leasing	IG	49.97%		IG	49.97%	D1
BNP Paribas Lease Group Kft	Hungary	Leasing	--	--		--	--	S3
BNP Paribas Lease Group Lizing RT	Hungary	Leasing	--	--		--	--	S3
BNP Paribas Lease Group Sp.z o.o.	Poland	Leasing	IG	50.00%		IG	50.00%	D1
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 AS	Norway	Leasing	IG	50.00%	E2	--	--	--
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 S.A.	Switzerland	Leasing	IG	50.00%	D1	ME*	50.00%	
Claas Financial Services Ltd	United-Kingdom	Leasing	IG	25.50%		IG	25.50%	
Claas Financial Services SA	France	Leasing	IG	25.50%		IG	25.50%	V2
Claas Financial Services (German branch)	Germany	Leasing	IG	25.50%		IG	25.50%	V2
Claas Financial Services (Spanish branch)	Spain	Leasing	IG	25.50%		IG	25.50%	V2
Claas Financial Services (Polish branch)	Poland	Leasing	IG	25.50%		IG	25.50%	V2
Class Financial Services (talian branch)	Italy	Leasing	IG	25.50%		IG	25.50%	V2
CMV Mediforce	France	Leasing	IG	49.99%	E2	--	--	--
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%	

Name	Country	Activity	31 December 2018			31 December 2017		
			Consolidation method	Group ownership interest	Ref.[1]	Consolida-tion method	Group ownership interest	Réf.[1]
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%	
Folea Grundstucksverwaltungs und Vermietungs Gmbh & Co	Germany	Leasing	IG	3.00%	D1	ME	3.00%	E3
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	IG	50.00%		IG	50.00%	D1
Fortis Lease Iberia SA	Spain	Leasing	IG	39.31%		IG	39.31%	D1
Fortis Lease Portugal SA	Portugal	Leasing	IG	50.00%		IG	50.00%	D1
Fortis Lease UK Ltd	United-Kingdom	Leasing	IG	50.00%	D1	ME*	50.00%	
Fortis Lease Zeebrugge SA	Belgium	Leasing	IG	37.50%	D1	ME	37.50%	E3
Fortis Vastgoed Lease BV	The Netherlands	Leasing	IG	50.00%	D1	ME*	50.00%	
Heffiq Heftruck Verhuur BV	The Netherlands	Leasing	IG	25.02%	E3	--	--	--
Humberclyde Commercial Inv. Ltd	United-Kingdom	Leasing	IG	50.00%	S1	IG	50.00%	
JCB Finance Holdings Ltd	United-Kingdom	Leasing	IG	25.05%		IG	25.05%	
JCB Finance S.A.	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 %	
BNPP Rental Solutions SPA (Anc. Locatrice Italiana SPA)	Italy	Leasing	IG	50.00%	D1	ME*	50.00%	
Manitou Finance Ltd	United-Kingdom	Leasing	IG	25.50%		IG	25.50%	
MFF SAS	France	Leasing	IG	25.50%		IG	25.50%	
RD Leasing IFN SA	Romania	Leasing	IG	49.99%	E2	--	--	--
RD Portofoliu SRL	Romania	Leasing	--	--		--	--	S3
Same Deutz Fahr Finance Ltd	United-Kingdom	Leasing	IG	50.00%	S1	IG	50.00%	
Same Deutz Fahr Finance SA	France	Leasing	IG	50.00%		IG	50.00%	
INTERNATIONAL FINANCIAL SERVICES								
Cardif Lux Vie SA	Luxembourg	Insurance	ME	33.33%		ME	33.33%	
OTHER ACTIVITIES								
Plagefin SA	Luxembourg	Equity management	IG	100.00%		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
3 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 thresholds defined by the Group
S4 Assignment outside the Group, loss of control or loss of significant influence

Change in percentage holding (V)
V1 Additional acquisition
V2 Partial disposal
Others (D)
D1 Change in consolidation method linked to consolidation thresholds

ME* Controlled Entities consolidated under the equity method due to their immateriality (see Note 1.b))

9.c BUSINESS COMBINATIONS

Operations in 2018

ABN AMRO Bank (Luxembourg) SA

On 3 September 2018, BGL BNP Paribas acquired a 100% stake in ABN AMRO Bank (Luxembourg) SA (Private Banking business) and its subsidiary ABN AMRO Life SA (Insurance business) for EUR 276.2 million. This price could potentially be revised nine months after the purchase date, depending on the performance of assets under management, as stated in the sale and purchase agreement.

Immediately after being acquired, ABN AMRO Life SA was sold on to Cardif Lux Vie for an amount equivalent to its purchase price (EUR 25.7 million).

The banking entity was renamed BNP Paribas Wealth Management Luxembourg SA on 3 September 2018.

Applying IFRS3R, assets and liabilities were re-measured at their fair value on the date of acquisition, leading to EUR 4.2 million of adjustments relative to the assets recognised in the books of ABN AMRO Bank (Luxembourg) SA.

Client goodwill was valued at EUR 0.9 million.

The goodwill resulting from this deal amounted to EUR 39.2 million and will be subject to an annual impairment test, as described in Note 6.m Goodwill.

Additional value identified under IFRS3R

In millions of euros	Impacts
ASSETS	
Financial assets at amortised cost	(1.8)
Loans and receivables due from customers	(1.8)
Current and deferred tax assets	2.0
Accrued income and other assets	(0.2)
Property, plant and equipment and investment property	(0.0)
Intangible assets	0.4
TOTAL ASSETS	**0.3**
LIABILITIES	
Financial liabilities at amortised cost	0.1
Due to customers	0.1
Current and deferred tax liabilities	1.2
Accrued expenses and other liabilities	0.8
Provisions for contingencies and charges	2.4
TOTAL LIABILITIES	**4.5**
CONSOLIDATED EQUITY	**(4.2)**
Share capital and additional paid-in capital	(4.2)
TOTAL CONSOLIDATED EQUITY	**(4.2)**
TOTAL LIABILITIES AND EQUITY	**0.3**

This acquisition also increased the BGL BNP Paribas Group's balance sheet by EUR 1.1 billion on the acquisition date. The two main changes to the balance sheet were in loans and receivables due from clients, and client deposits, for EUR 422 million and EUR 2.1 billion respectively.

BNP Paribas Wealth Management Luxembourg SA was merged into the Bank on 1 November 2018.

9.d MINORITY INTERETS

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 wholly owned.

BPLS itself holds many international leasing subsidiaries (see Note 9.b), 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 2018 *IFRS 9 and IFRS 15*	1 January 2018 *IFRS 9 and IFRS 15*
Shareholders'equity - Minority interests	1,140.7	1,356.8
Dividends paid to minority shareholders	(127.1)	(73.1)
Interim dividend payments to minority shareholders	(60.0)	-

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	31 December 2017 *IAS 39*
Net income attributable to minority interests	160.9	166.5

Contribution of BNP Paribas Leasing Solutions and its subsidiaries (before elimination of intercompany transactions)

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	1 January 2018 *IFRS 9 et IFRS 15*
Total balance sheet	22,859.1	20,536.2

In millions of euros	31 December 2018 *IFRS 9 and IFRS 15*	31 December 2017 *IAS 39*
Revenues	779.5	714.1
Net income	281.0	286.5
Net income and changes in assets and liabilities recognised directly in equity, attributable to minority shareholders	183.7	254.2

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 the share of minority shareholders in the equity and reserves

During the financial year 2018 the Group did not perform any acquisitions of additional interests or partial sales of interests leading to changes in the share of minority shareholders in the equity and reserves.

During the financial year 2017, the partial sale of Class Financial Services by BNPP Lease Group SA increased the share of minority shareholders in the equity and reserves by EUR 11.6 million.

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 for a specific price .

The total value of these commitments, which are recorded as a reduction of shareholders' equity, was EUR 7.6 million at 31 December 2018 compared with EUR 5.9 million at 1 January 2018

9.e 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 2018 and 2017, 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 notes 7.c and 6.p.

Significant restrictions related to liquidity reserves

The amount of mandatory deposits with central banks and other regulators amounted to EUR 406.4 million at 31 December 2018 (EUR 456.0 million at 1 January 2018).

9.f STRUCTURED ENTITES

The Group considers that it has 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..

9.f.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.

9.f.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 relating 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 customers. 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.

Others: on behalf of its customers, the Group may also structure entities that 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 2018 IFRS 9 and IFRS 15					
	Securitisation	Funds	Assets financing	Real estate structure	Others	Total
INTERESTS ON THE GROUP BALANCE SHEET						
Assets						
Financial assets at amortised cost	-	-	-	0.5	-	0.5
TOTAL ASSETS	**-**	**-**	**-**	**0.5**	**-**	**0.5**
Liabilities						
Financial liabilities carried at amortised cost	-	-	0.0	8.5	-	8.5
TOTAL LIABILITIES	**-**	**-**	**0.0**	**8.5**	**-**	**8.5**
Maximum exposure to loss	**-**	**-**	**-**	**229.5**	**-**	**229.5**
SIZE OF STRUCTURED ENTITIES	**N/A**	**-**	**2.5**	**369.4**	**-**	**371.9**

In millions of euros	31 December 2017 IFRS 9 and IFRS 15					
	Securitisation	Funds	Assets financing	Real estate structure	Others	Total
INTERESTS ON THE GROUP BALANCE SHEET						
Assets						
Financial assets at amortised cost	-	-	-	34.6	-	34.6
TOTAL ASSETS	**-**	**-**	**-**	**34.6**	**-**	**34.6**
Liabilities						
Financial liabilities carried at amortised cost	-	-	0.0	4.9	2.4	7.2
TOTAL LIABILITIES	**-**	**-**	**0.0**	**4.9**	**2.4**	**7.2**
Maximum exposure to loss	**-**	**-**	**-**	**263.6**	**-**	**263.6**
SIZE OF STRUCTURED ENTITIES	**N/A**	**-**	**1.7**	**325.2**	**-**	**326.9**

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 financial assets at fair value through equity, changes in value recognised directly in 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 sponsoreddiffers 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 relating 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, etc.) mainly by issuing bonds backed by these assets and the repayment of these assets is linked to their performance.

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 20.0 million at 31 December 2018 and at 1 January 2018.

9.g COMPENSATION AND BENEFITS AWARDED TO MEMBERS OF THE BOARD AND KEY CORPORATE OFFICERS

In 2018, the remuneration paid to the Group's key officers amounted to EUR 9.3 million (including EUR 0.5 million of pension expenses) (2017: EUR 8.8 million including EUR 0.7 million of pension expenses).

The remuneration paid in 2018, relative to 2017, to the members of the BGL BNP Paribas Board of Directors amounted to EUR 1.2 million (2017: EUR 1.1 million).

During the financial year 2018, the key officers were allocated EUR 0.8 million under the retention scheme (2017: EUR 0.7 million).

At 31 December 2018, the loans granted to members of the Board of Directors were equal to EUR 1.6 million (31 December 2017: EUR 2.1 million); the loans granted to key officers were equal to EUR 10.1 million (2017: EUR 7.2 million).

At 31 December 2018, the credit lines granted to members of the Board of Directors amounted to EUR 2.2 million (2017: EUR 3.8 million); the credit lines granted to key officers amounted to EUR 11.9 million (2017: EUR 11.7 million).

9.h RELATED PARTIES

The related parties of the Group are associates, joint ventures, pension funds, members of the Board of Directors and key officers of the Group, immediate family members of the aforementioned persons, entities controlled or appreciably influenced by any of the aforementioned persons, as well as any other related entities.

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:

- Associates;
- Parent companies: BNP Paribas SA, BNP Paribas Fortis SA and their branches;
- Other BNP Paribas Group companies not held by the Group.

Relationships with members of the Board of Directors and the Group's key officers are covered in part 9.g.

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 49.3 million from BGL BNP Paribas SA in 2018. 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 2018 *IFRS 9 and IFRS 15* Associates	Parent companies	Other BNP Paribas entities	1 January 2018 *IFRS 9 and IFRS 15* Associates	Parent companies	Other BNP Paribas entities
ASSETS						
Financial instruments at fair value through profit or loss	63.9	164.1	34.3	34.9	36.8	47.8
Derivatives used for hedging purposes	-	115.9	-	-	114.3	-
Financial assets at fair value through equity	-	-	199.8	-	-	262.6
Financial assets at amortised cost	265.2	15,114.2	438.4	361.7	12,610.0	432.9
Accrued income and other assets	5.5	23.1	125.6	8.3	12.8	97.7
TOTAL	**334.7**	**15,417.2**	**798.1**	**404.9**	**12,773.9**	**841.0**
LIABILITIES						
Financial instruments at fair value through profit or loss	-	47.4	106.4	-	-	50.2
Derivatives used for hedging purposes	-	8.5	-	-	31.2	-
Financial liabilities at amortised cost	84.4	10.470.4	289.9	113.5	9,974.0	352.8
Accrued expenses and other liabilities	40.4	68.9	11.6	34.5	52.6	5.7
TOTAL	**124.8**	**10.595.2**	**407.9**	**148.0**	**10,057.8**	**408.7**

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 2018 *IFRS 9 and IFRS 15* Associates	Parent companies	Other BNP Paribas entities	1 January 2018 *IFRS 9 and IFRS 15* Associates	Parent companies	Other BNP Paribas entities
FINANCING AND GUARANTEE COMMITMENTS						
Financing commitments given	-	10.2	-	-	25.4	-
Financing commitments received	-	223.1	7.2	-	371.8	7.2
Guarantee commitments given	3.1	202.1	310.2	99.4	316.3	206.6
Guarantee commitments received	0.0	49.2	22.7	0.0	88.0	31.0

As at 1 January 2018, guarantees given included EUR 100 million in guarantees given to Cardif Lux Vie SA, following the merger of Fortis Luxembourg Vie SA and Cardif Lux International SA.. This guarantee ended on 31 December 2018.

The Bank had global netting agreements with BNP Paribas Fortis S.A. and BNP Paribas S.A. (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

Related-party profit and loss items:

In millions of euros	2018 Associates	2018 Parent companies	2018 Other BNP Paribas entities	2017 Associates	2017 Parent companies	2017 Other BNP Paribas entities
Interest and similar income	4.2	170.5	18.5	4.5	153.5	10.3
Interest and similar expense	-	(125.9)	(8.4)	-	(131.9)	(3.9)
Commission (income)	9.5	9.3	18.9	10.8	9.1	30.0
Commission (expense)	(5.1)	(5.1)	(5.7)	(4.6)	(4.5)	(7.4)
Gains (losses) on financial instruments at fair value through profit or loss	-	129.0	1.2	-	(4.1)	5.8
Income (expense) from other activities	(23.1)	0.0	40.9	(18.6)	0.0	46.4
TOTAL	**(14.5)**	**177.8**	**65.4**	**(7.9)**	**22.1**	**81.1**

9.i 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

In millions of euros	Revenues	Income before tax	Current taxes	Deferred taxes	Income tax expense 2018*	Financial staff** at 31 December 2018 *IFRS 9 and IFRS 15*
Member states of the European Union						
Germany	88.4	38.3	(13.0)	0.1	(12.9)	298
Austria	5.5	1.7	(0.8)	0.2	(0.6)	21
Belgium	29.4	15.3	(4.6)	1.7	(2.9)	137
Spain	26.7	11.3	(0.4)	(1.5)	(1.8)	95
France	265.4	88.9	(29.9)	18.2	(11.8)	1.379
Italy[1]	108.5	46.7	(12.5)	(0.3)	(12.9)	-
Luxembourg	685.6	309.7	(129.9)	70.7	(59.1)	2,235
The Netherlands	33.7	18.4	(3.7)	(0.6)	(4.3)	81
Poland	12.6	4.5	(2.5)	1.7	(0.9)	191
Portugal	7.2	3.3	(0.9)	(0.2)	(1.0)	35
Romania	9.0	2.0	-	(0.1)	(0.1)	38
United Kingdom	132.8	63.7	(2.5)	(10.0)	(12.5)	455
Other European countries						
Norway	3.5	1.4	(0.2)	(0.0)	(0.3)	16
Switzerland	0.4	(2.3)	(0.0)	0.0	0.0	10
Africa and Mediterranean region						
Turkey	38.2	20.4	-	(3.5)	(3.5)	134
TOTAL GROUP	**1,447.0**	**623.3**	**(200.9)**	**76.6**	**(124.3)**	**5.125**

** The financial data correspond to the contribution to the consolidated profit and loss of fully consolidated entities under exclusive control.*
*** Financial staff: the full-time equivalent (FTE) workforce as at 31 December 2018 of the fully consolidated entities under exclusive control.*

The Group did not receive any government grants during 2018.

In millions of euros	Revenues	Income before tax	Current taxes	Deferred taxes	Income tax expense 2017*	Financial staff** at 31 December 2017 *IAS 39*
Member states of the european union						
Germany	92.5	37.9	(11.2)	0.7	(10.5)	299
Austria[2]	2.4	1.7	(0.5)	0.0	(0.5)	-
Belgium	32.2	20.9	(6.0)	(2.1)	(8.1)	133
Spain	23.9	12.8	(1.1)	(2.9)	(4.0)	87
France	249.6	97.6	(15.1)	12.1	(3.0)	1,291
Italy[2]	89.5	44.3	(13.7)	(0.7)	(14.4)	-
Luxembourg	651.1	314.3	(63.3)	0.8	(62.5)	2,235
The Netherlands	27.1	13.2	(3.5)	0.3	(3.3)	76
Poland	8.2	2.8	(1.4)	0.7	(0.7)	185
Portugal	6.8	1.4	(0.4)	(0.1)	(0.4)	30
Romania	5.0	0.6	0.2	(0.2)	(0.0)	38
United-Kingdom	118.3	62.5	(8.5)	(3.8)	(12.3)	429
Africa and Mediterranean region						
Turkey	38.7	21.5	-	(2.7)	(2.7)	133
TOTAL GROUP	**1,345.3**	**631.5**	**(124.5)**	**2.1**	**(122.3)**	**4,936**

** The financial data correspond to the contribution to the consolidated profit and loss of fully consolidated entities under exclusive control.*
*** Financial staff: the full-time equivalent (FTE) workforce as at 31 December 2018 of the fully consolidated entities under exclusive control.*

[1] The staff are located in an Italian entity, consolidated using the equity method, and are therefore not included in this note.
[2] The staff are located in an Austrian entity, consolidated using the equity method, and are therefore not included in this note.

9.j 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 is deemed to be "undetermined" insofar as these instruments are intended to be sold or redeemed before their contractual maturity dates.

The maturities of financial assets at fair value through equity, 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 2018 *IFRS 9 and IFRS 15* *In millions of euros*	Not determined	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	-	745.2	-	-	-	-	-	**745.2**
Financial instruments at fair value through profit or loss	1,160.6	-	59.4	2.2	11.0	31.0	9.6	**1,273.7**
Derivatives used for hedging purposes	115.9	-	-	-	-	-	-	**115.9**
Financial assets at fair value through equity	315.6	-	-	-	336.9	606.7	222.4	**1,481.5**
Loans and receivables due from credit institutions	(0.0)	1,478.8	7,400.2	166.5	1,306.5	5,008.6	198.9	**15,559.5**
Loans and receivables due from customers	-	330.8	837.3	2,462.5	6,085.2	15,739.5	6,252.2	**31,707.4**
Debt securities	-	-	-	228.4	141.0	552.8	589.4	**1,511.7**
Financial assets by maturity	**2,481.8**	**2,583.3**	**8,712.8**	**3,071.9**	**8,405.0**	**23,295.3**	**7,811.3**	**56,361.3**
Financial instruments at fair value through profit or loss	57.2	-	109.2	8.4	5.6	89.4	21.7	**291.4**
Derivatives used for hedging purposes	8.5	-	-	-	-	-	-	**8.5**
Due to credit institutions	-	579.6	827.5	1,359.2	3,383.9	5,048.5	827.3	**12,026.0**
Due to customers	-	24,047.9	1,928.1	2,587.9	1,933.8	674.7	114.6	**31,287.1**
Issued debt securities	-	0.1	100.0	327.2	605.3	72.3	-	**1,105.0**
Subordinated debt	-	-	-	-	-	111.1	-	**111.1**
Financial liabilities by maturity	**65.7**	**24,627.7**	**2,964.8**	**4,282.7**	**5,928.7**	**5,995.9**	**963.6**	**44,829.1**

1 January 2018 *IFRS 9 and IFRS 15* *In millions of euros*	Not determined	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	-	585.5	-	-	-	-	-	**585.5**
Financial instruments at fair value through profit or loss	799.1	-	23.1	-	6.1	21.4	11.9	**861.7**
Derivatives used for hedging purposes	114.3	-	-	-	-	-	-	**114.3**
Financial assets at fair value through equity	311.9	-	-	-	304.9	1,679.8	271.4	**2,568.0**
Loans and receivables due from credit institutions	-	159.5	5,543.4	661.5	663.8	5,513.2	420.4	**12,961.8**
Loans and receivables due from customers	-	287.4	803.7	2,338.8	5,674.5	13,664.8	5,632.8	**28,402.1**
Debt securities	45.0	-	-	291.9	296.7	664.6	688.2	**1,986.4**
Financial assets by maturity	**1,270.3**	**1,032.5**	**6.370.3**	**3,292.2**	**6,946.0**	**21,543.8**	**7,024.7**	**47,479.8**
Financial instruments at fair value through profit or loss	171.5	-	5.8	2.2	42.6	107.6	24.2	**354.0**
Derivatives used for hedging purposes	31.4	-	-	-	-	-	-	**31.4**
Due to credit institutions	-	723.2	1,078.9	(536.6)	2,925.7	5,916.2	1,553.6	**11,661.0**
Due to customers	-	21,586.4	327.6	1,095.1	1,822.1	1,215.3	191.9	**26,238.5**
Issued debt securities	-	-	483.0	500.5	164.6	325.0	-	**1,473.2**
Remeasurement adjustment on the interest-rate-risk hedged portfolios	50.1	-	-	-	-	-	-	**50.1**
Financial liabilities by maturity	**253.0**	**22,309.7**	**1,895.4**	**1,061.3**	**4,955.0**	**7,564.1**	**1,769.7**	**39,808.1**

9.k FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT AMORTIZED 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 2018. 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 real- ised 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 modelling 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 eposit 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 2018	Estimated fair value				Balance sheet value
	Level 1	Level 2	Level 3	Total	
FINANCIAL ASSETS					
Loans and receivables[1]	-	15,941.9	17,573.4	33,515.3	33,362.2
Debt securities at amortised cost (note 6.e)	1,373.1	210.5	-	1,583.6	1,511.7
FINANCIAL LIABILITIES					
Deposits and borrowings	-	43,317.0	-	43,317.0	43,313.1
Issued debt securities (note 6.h)	-	1,105.7	-	1,105.7	1,105.0
Subordinated debt (note 6.h)	-	111.1	-	111.1	111.1

In millions of euros, at 1 January 2018	Estimated fair value				Balance sheet value
	Level 1	Level 2	Level 3	Total	
FINANCIAL ASSETS					
Loans and receivables[1]	-	14,199.7	14,942.5	29,142.2	29,055.1
Debt securities at amortised cost (note 6.e)	1,911.1	155.5	45.0	2,111.7	1,986.4
FINANCIAL LIABILITIES					
Deposits and borrowings	-	38,332.3	-	38,332.3	37,899.5
Issued debt securities (note 6.h)	-	1,476.2	-	1,476.2	1,473.2
Subordinated debt (note 6.h)	-	-	-	-	-

[1] Excluding 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.

9.l 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.n "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.

9.m 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 EUR 100,000.

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.

The target of 0.8% has been reached on 31 December 2018. In accordance with Article 163(8) of the Law, credit institutions and investment firms will contribute from now on 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 2018, the Bank took into account the tranche relating to the 2018 financial year for an amount of EUR 9.8 million (versus EUR 8.0 million in 2017). The Bank paid a contribution to the LDGF for an amount of EUR 12.4 million in 2018 (versus EUR 10.6 million in 2017).

9.n FEES PAID TO THE STATUTORY AUDITORS

Year to 31 December 2018 *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	*742*	*72%*	*43*	*3%*	*587*	*24%*	*1,372*	*29%*
- Consolidated subsidiaries	*18*	*2%*	*369*	*34%*	*1,826*	*72%*	*2,213*	*48%*
Other due diligence reviews and services directly related to the corporate auditor's scope, of which:								
- Consolidating entity	*235*	*23%*	*688*	*63%*	*108*	*4%*	*1,031*	*22%*
- Consolidated subsidiaries	*-*	*0%*	*-*	*0%*	*-*	*0%*	*-*	*0%*
AUDIT TOTAL	**995**	**97%**	**1,100**	**100%**	**2,521**	**100%**	**4,616**	**99%**
Other services provided by the networks								
Legal, tax, social	-	0%	-	0%	-	0%	-	0%
Other	34	3%	-	0%	-	0%	34	1%
OTHER SERVICES TOTAL	**34**	**3%**	**-**	**0%**	**-**	**0%**	**34**	**1%**
TOTAL FEES	**1,029**	**100%**	**1,100**	**100%**	**2,521**	**100%**	**4,650**	**100%**

Year to 31 December 2017 *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%*	*740*	*63%*	*575*	*28%*	*1,315*	*40%*
- Consolidated subsidiaries	*7*	*32%*	*308*	*26%*	*1,399*	*67%*	*1,714*	*53%*
Other due diligence reviews and services directly related to the corporate auditor's scope, of which:								
- Consolidating entity	*-*	*0%*	*113*	*10%*	*-*	*0%*	*113*	*3%*
- Consolidated subsidiaries	*-*	*0%*	*-*	*0%*	*-*	*0%*	*-*	*0%*
AUDIT TOTAL	**7**	**32%**	**1,161**	**99%**	**1,974**	**95%**	**3,142**	**96%**
Other services provided by the networks								
Legal, tax, social	-	0%	-	0%	-	0%	-	0%
Other	15	68%	7	1%	102	5%	124	4%
OTHER SERVICES TOTAL	**15**	**68%**	**7**	**1%**	**102**	**5%**	**124**	**4%**
TOTAL FEES	**22**	**100%**	**1,168**	**100%**	**2,076**	**100%**	**3,266**	**100%**

9.o SUBSEQUENT EVENTS

There were no other significant events after the reporting date.

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UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

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 Law of 17 June 1992, as amended, 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 trade and companies where these documents are available.

The approved auditor delivered an unqualified certification of the unconsolidated annual accounts of BGL BNP Paribas SA as at 31 December 2018.

UNCONSOLIDATED BALANCE SHEET

In millions of euros	31 December 2018	31 December 2017
ASSETS		
Cash, credit notes with central banks and post office banks	**428.5**	**481.2**
Receivables from credit institutions	**15,486.2**	**12,041.5**
a) demand	7,784.2	1,634.3
b) other receivables	7,702.0	10,407.2
Receivables due from customers	**21,072.2**	**18,932.1**
Bonds and other fixed income securities	**3,256.4**	**4,889.7**
a) from public issuers	2,529.1	4,109.2
b) other issuers	727.4	780.5
Equities and other variable income securities	**344.7**	**131.5**
Investments in subsidiaries	**9.3**	**11.3**
Affiliates	**1,569.3**	**1,341.4**
Intangible fixed assets	**69.0**	**9.6**
Tangible fixed assets	**321.4**	**337.4**
Other assets	**11.3**	**33.9**
Accrued income	**362.7**	**254.4**
TOTAL ASSETS	**42,931.0**	**38,464.1**

UNCONSOLIDATED BALANCE SHEET (CONTINUATION)

In millions of euros	31 December 2018	31 December 2017
LIABILITIES		
Due to credit institutions	**3,396.9**	**3,667.4**
a) demand	1,349.7	779.5
b) forward or with notice	2,047.2	2,887.9
Due to customers	**30,723.5**	**25,849.8**
a) savings deposits	6,471.0	6,514.0
b) other debts	24,252.5	19,335.8
- demand	18,005.9	15,009.4
- forward or with notice	6,246.6	4,326.4
Debt securities	**1,104.1**	**1,565.9**
a) bills and outstanding bonds	389.9	478.7
b) other	714.2	1,087.2
Other liabilities	**240.4**	**659.6**
Accrued income	**152.6**	**133.7**
Provisions	**330.8**	**270.1**
a) provisions for taxes	70.2	28.8
b) other provisions	260.6	241.3
Subordinated liabilities	**80.0**	**80.0**
Special items with a share of the reserves	**205.5**	**183.5**
Fund for general banking risks	**1,064.4**	**484.4**
Share capital	**713.1**	**713.1**
Additional paid-in capital	**2,770.1**	**2,770.1**
Retained earnings	**1,940.3**	**1,940.3**
Profit or loss brought forward	**0.1**	**0.4**
Profit or loss for the fiscal year	**209.2**	**145.8**
TOTAL LIABILITIES	**42,931.0**	**38,464.1**

Off-balance sheet

In millions of euros	31 December 2018	31 December 2017
Contingent liabilities	**1,982.9**	**2,263.8**
of which: surety bonds and assets given in guarantee	*462.5*	*554.8*
Commitments	**3,127.0**	**3,120.1**
Fiduciary operations	**1,152.8**	**1,148.1**

UNCONSOLIDATED PROFIT AND LOSS ACCOUNT

In millions of euros	2018	2017
Interest and similar income	**604.7**	**621.4**
of which : On fixed-revenue marketable securities	*95.9*	*136.0*
Interest and similar expense	**(167.8)**	**(166.2)**
Income on equities and other variable instruments	**231.7**	**66.9**
a) earnings from equities, shares and other variable instruments	1.4	2.9
b) earnings from holdings	0.9	1.7
c) earnings from affiliates	229.4	62.3
Commissions earned	**173.7**	**174.0**
Commissions paid	**(47.1)**	**(40.7)**
Earnings on financial operations	**20.1**	**20.3**
Other operating income	**64.0**	**71.4**
Administrative overhead costs	**(352.6)**	**(345.9)**
a) staff costs	(234.0)	(231.2)
including: wages and salaries	*(198.3)*	*(195.4)*
social charges	*(27.9)*	*(28.3)*
including social charges applying to pensions	*(21.6)*	*(21.4)*
b) other administrative costs	(118.6)	(114.7)
Value corrections on intangible fixed assets and on tangible fixed assets	**(26.7)**	**(24.4)**
Other operating expenses	**(23.0)**	**(3.1)**
Additions/reversals for value creations on receivables and provisions for possible debts and commitments	**(17.7)**	**(30.2)**
Additions/reversals for value creations on marketable securities described as financial fixed assets, on investments in subsidiaries and shares in subsidiaries and affiliates	**437.4**	**(1.0)**
Proceeds resulting from the dissolution of the "special items with a share of the reserves"	**2.0**	**2.0**
Allocations to Fund for general banking risks	**(580.0)**	**(144.0)**
Income tax applicable to ordinary activities	**(108.8)**	**(53.9)**
PROCEEDS RESULTING FROM ORDINARY ACTIVITIES, AFTER TAX	**209.8**	**146.7**
Other taxes not included in the above items	**(0.7)**	**(0.9)**
PROFIT OR LOSS FOR THE FISCAL YEAR	**209.2**	**145.8**

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APPROPRIATION OF PROFIT

Net profit for the period[1]	209,178,359.00
Profit brought forward	98,212.37
TOTAL AMOUNT FOR APPROPRIATION	**209,276,571.37**

Statutory allocations	1,272,016.02
Dividend[2]	207,865,944.82
Retained earnings	138,610.53
TOTAL	**209,276,571.37**

[1] Figures not consolidated under Luxembourg GAAP - in euro.
[2] Gross dividend per share of EUR 7.43 (net: EUR 6.3155) payable from 8 April 2019.

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BRANCH NETWORK

LUXEMBOURG/BONNEVOIE
101-103, rue de Bonnevoie
L-1261 Luxembourg

LUXEMBOURG/CLOCHE D'OR
8-10, rue Charles Darwin
L-1433 Luxembourg

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

Corporate Business Center Luxembourg
Tel.: (+352) 42 42-83 84

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

LUXEMBOURG/BOULEVARD ROYAL (Villa)
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

Corporate Business Center Terres Rouges
Tel.: (+352) 42 42-67 90

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 42-64 68
Fax: (+352) 42 42-59 56

Corporate Business Center Nordstad
Tel: (+352) 42 42-47 67

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
43, 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

TÉTANGE/KÄLDALL
149, rue Principale
L-3770 Tétange

VIANDEN
4, Grand'Rue
L-9410 Vianden

WASSERBILLIG
36, Grand'Rue
L-6630 Wasserbillig

Corporate Business Center Moselle
Tel.: (+352) 42 42-88 93

WEISWAMPACH
33, Gruuss-Strooss
L-9991 Weiswampach

Corporate 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

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SUBSIDIARIES/BRANCH, PARTICIPATING INTERESTS, BUSINESS CENTERS
AND OTHER COMPANIES OF THE GROUP IN LUXEMBOURG

HEAD OFFICE

BGL BNP PARIBAS SA
50, avenue J.F. Kennedy
L-2951 Luxembourg
Tel.: (+352) 42 42-1
Fax: (+352) 42 42-25 79
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
leasing@bgl.lu

GLOBAL GENERAL PARTNER SA
50, avenue J.F. Kennedy
L-2951 Luxembourg
Tel.: (+352) 42 42-75 72
Fax: (+352) 42 42-81 37

BRANCH

BGL BNP PARIBAS GERMAN BRANCH
Herzogenbuscher Str. 10
D-54292 Trèves
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 ASSET MANAGEMENT LUXEMBOURG
10, rue Edward Steichen
L-2540 Luxembourg
Tel.: (+352) 26 46-30 01
Fax: (+352) 26 46-91 70
www.bnpparibas-am.lu

BNP PARIBAS REAL ESTATE INVESTMENT MANAGEMENT LUXEMBOURG SA
Kronos building - 3rd floor
10, rue Edward Steichen
L- 2540 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
Kronos building – ground floor
10, rue Edward Steichen
L- 2540 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
http://securities.bnpparibas.com

BGL BNP PARIBAS S.A.
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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