2017
ANNUAL REPORT

BGL
BNP PARIBAS

The bank
for a changing
world

ANNUAL REPORT 2017

BGL
BNP PARIBAS

CONTENTS

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

01 CONSOLIDATED KEY FIGURES

CONSOLIDATED KEY FIGURES

In millions of euro	2017	2016	2015
Profit and loss account			
Revenues	1,345.3	1,352.2	1,373.5
Operating expenses	(683.5)	(664.7)	(673.1)
Cost of risk	(35.5)	(52.6)	(48.8)
Net profit attributable to equity holders of the parent	365.8	403.2	357.9
Balance sheet			
Balance sheet total	49,630.9	44,980.2	43,214.8
Loans and receivables due from customers	28,553.8	26,580.9	25,626.9
Due to customers and debt securities	27,711.7	24,960.5	22,572.5

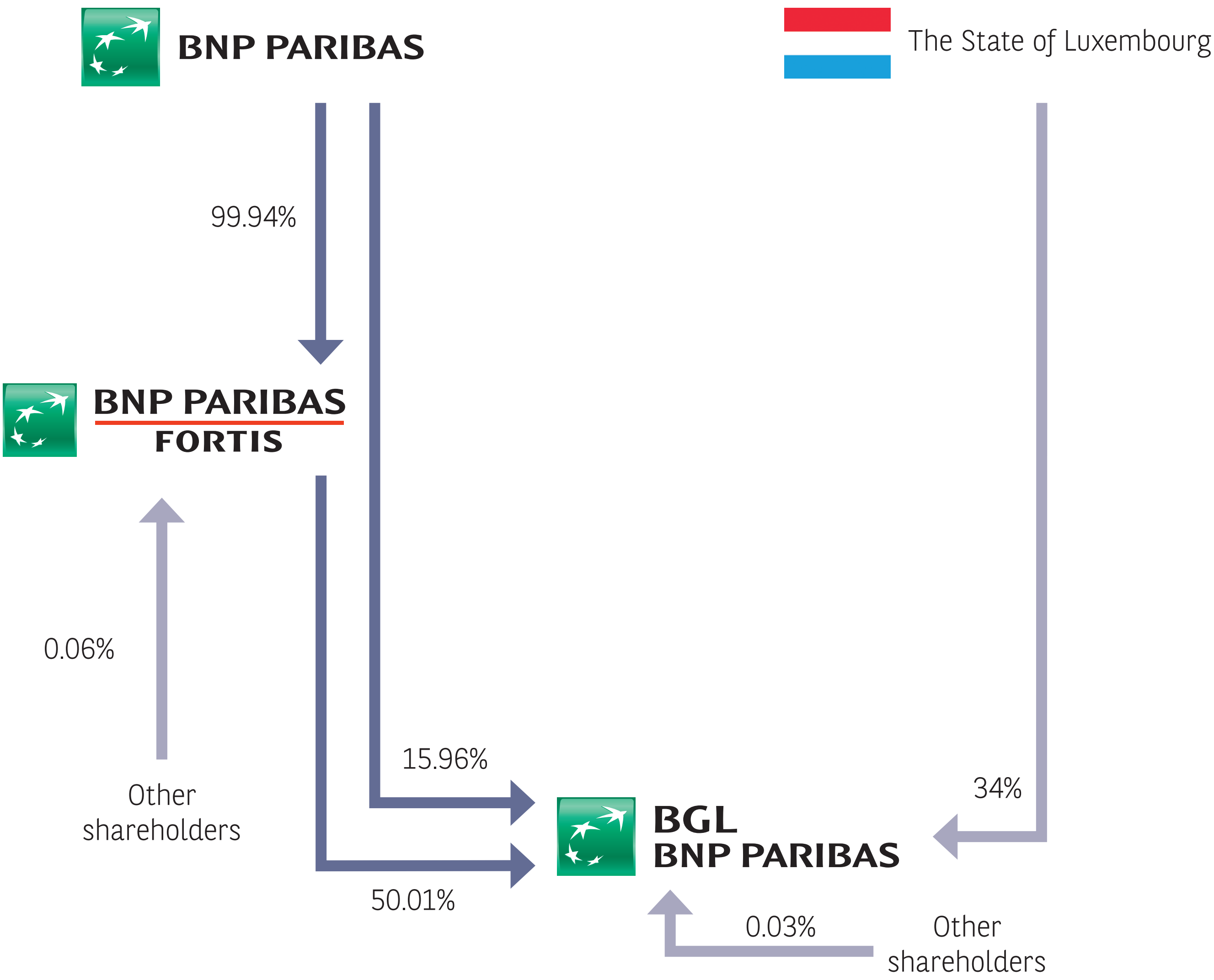
	2017 Basel 3 (phased in)	2016 Basel 3 (phased in)	2015 Basel 3 (phased in)
Regulatory capital	5,710.3	5,485.5	5,339.5
Risk-weighted assets	24,599.1	23,663.2	23,801.5
Solvency ratio	23.2 %	23.2 %	22.4 %
Statutory ratio applying the Basel 1 capital conservation buffer	22.5 %	-	-

Ratings (March 2018)	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

BGL BNP PARIBAS AND ITS SHAREHOLDERS

(as at 31 December 2017)



03 THE BNP PARIBAS GROUP IN LUXEMBOURG

With some 3,700 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 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 bancassurance, plus specialised services for professionals and companies, such as leasing.

  Its commercial network comprises 41 branches, 6 Private Banking sites for high-net-worth residents of the Grand Duchy and 7 business centres that provide services exclusively to professional clients.

  It also has one the country's most extensive ATM network.

- 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 exclusively to 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 offers a range of products and services through three complementary business lines: international Wealth Management; Retail insurance via the BGL BNP Paribas branch network; and Corporate insurance.

- Real estate services:

  BNP Paribas Real Estate draws on the expertise of six real estate business lines – Property Management, Valuation, Consulting, Transactions, Property Development and Investment Management – in order to provide clients with tailored solutions.

CORPORATE & 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 Luxembourg comprises three main businesses:

- Correspondent Banking, which consists of meeting 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 underpin these activities.

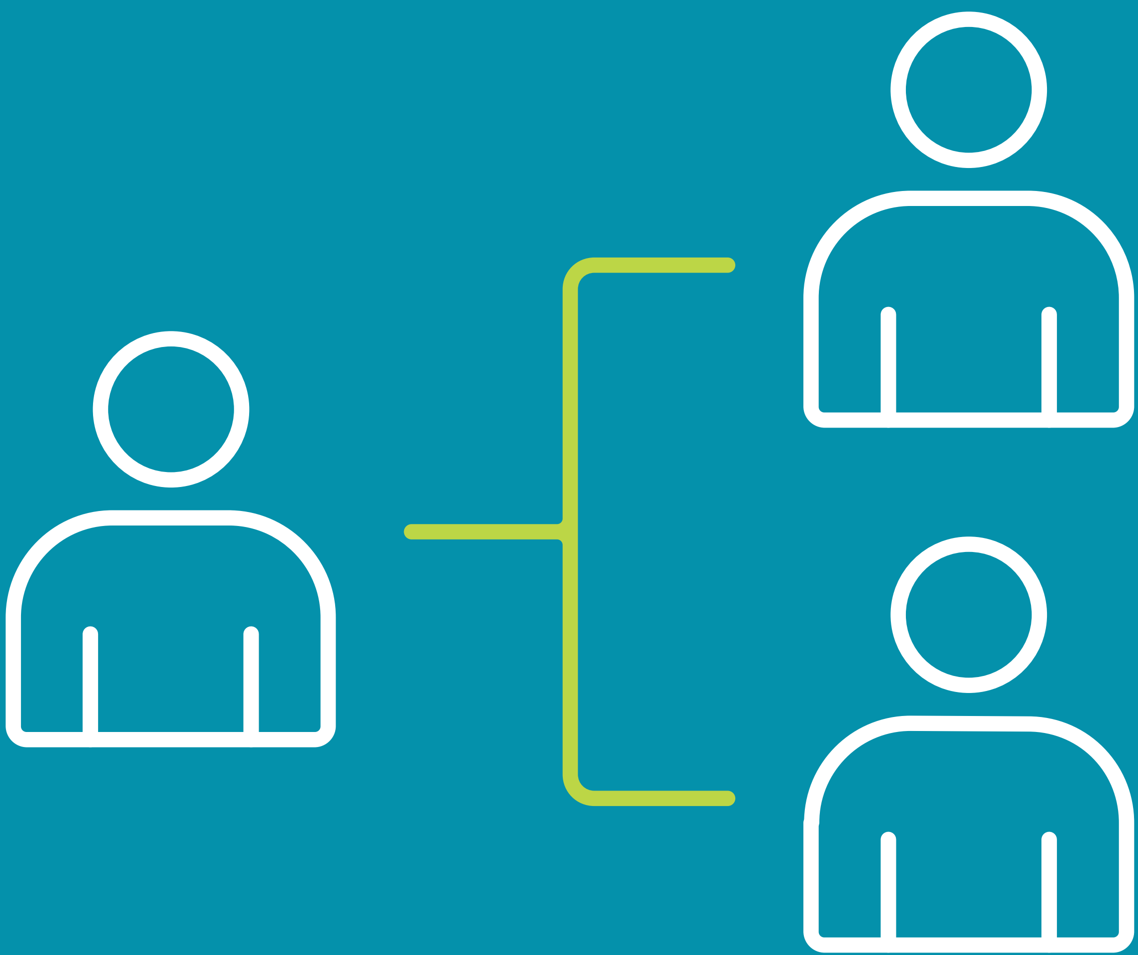
04

HISTORY
OF BGL BNP PARIBAS

HISTORY OF BGL BNP PARIBAS

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

05 DIRECTORS AND OFFICERS



Étienne Reuter
Chairman of the Board of Directors

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

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

CAMILLE FOHL
Advisor to the Executive Committee
of BNP Paribas, Paris
Director
(until 12 July 2017)

JEAN-PAUL FRIEDRICH
Staff Representative,
Dudelange
Director
(since 1st July 2017)

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

CORINNE LUDES
Staff Representative,
Dudelange
Director
(until 30 June 2017)

ERIC MARTIN
Corporate Director, Paris
Director
(since 12 July 2017)

JEAN MEYER
Doctor of law, Attorney,
Oberanven
Director

BAUDOUIN PROT
Corporate Director,
Paris
Director

DENISE STEINHÄUSER
Staff Representative,
Junglinster
Director

CARLO THELEN
Economist,
Luxembourg
Director

TOM THEVES
First Advisor to the
Government,
Luxembourg
Director

CARLO THILL
Chairman of the Management
Board,
Leudelange
Director

MICHEL WURTH
Economist,
Sandweiler
Director

HONORARY CHAIRMAN

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

HONORARY VICE CHAIRMAN

XAVIER MALOU
Honorary Director of Generale Bank Brussels

BUREAU OF THE BOARD OF DIRECTORS

ÉTIENNE REUTER
Chairman of the Board of Directors
Chairman

THIERRY LABORDE
Vice-Chairman of the Board of Directors
Member

CARLO THILL
Chairman of the Management Board
Member

RISK COMMITTEE

JEAN CLAMON
Director
Chairman

DIDIER BEAUVOIS
Director
Member

JEAN MEYER
Director
Member

ÉTIENNE REUTER
Chairman of the Board of Directors
Member

AUDIT COMMITTEE

JEAN CLAMON
Director
Chairman

DIDIER BEAUVOIS
Director
Member

JEAN MEYER
Director
Member

TOM THEVES
Director
Member

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

MANAGEMENT BOARD

CARLO THILL
Chairman

FABRICE CUCCHI
Compliance
Member

FRANCOIS DACQUIN
Wealth Management
Member
(since 1st April 2017)

CARLO LESSEL
Finance
Member

LAURE MORSY
Chief Operating Officer,
Corporate & Institutional Banking
Member

HUBERT MUSSEAU
Wealth Management
Member
(until 31 March 2017)

THIERRY SCHUMAN
Retail and Corporate Banking
Member

DOMINIQUE GOULEM
Capital Markets
Member

PATRICK GREGORIUS
Human Resources
Member

LUC HENRARD
Risk
Member

MARC LENERT
ITP & Operations
Member

CORPORATE SECRETARIAT

MATHILDE JAHAN
Corporate Secretary

REMUNERATION AND NOMINATION COMMITTEE

THIERRY LABORDE
Vice-Chairman of the Board of Directors
Chairman

CORINNE LUDES
Director
Member
(for remuneration issues)
(until 30 June 2017)

DENISE STEINHÄUSER
Director
Member
(for remuneration issues)
(since 1st July 2017)

ÉTIENNE REUTER
Chairman of the Board of Directors
Member

MICHEL WURTH
Director
Member

EXTERNAL AUDITOR

PRICEWATERHOUSECOOPERS SOCIÉTÉ COOPÉRATIVE
Réviseurs d'entreprises

INTERNAL AUDITOR

ERIC DORLENCOURT
(Until 30 June 2017)

STÉPHANE JOUSSET
(since 1st July until 30 November 2017)

OLIVIER THIRY
(since 1st December 2017)

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

06 STATEMENT OF THE BOARD OF DIRECTORS

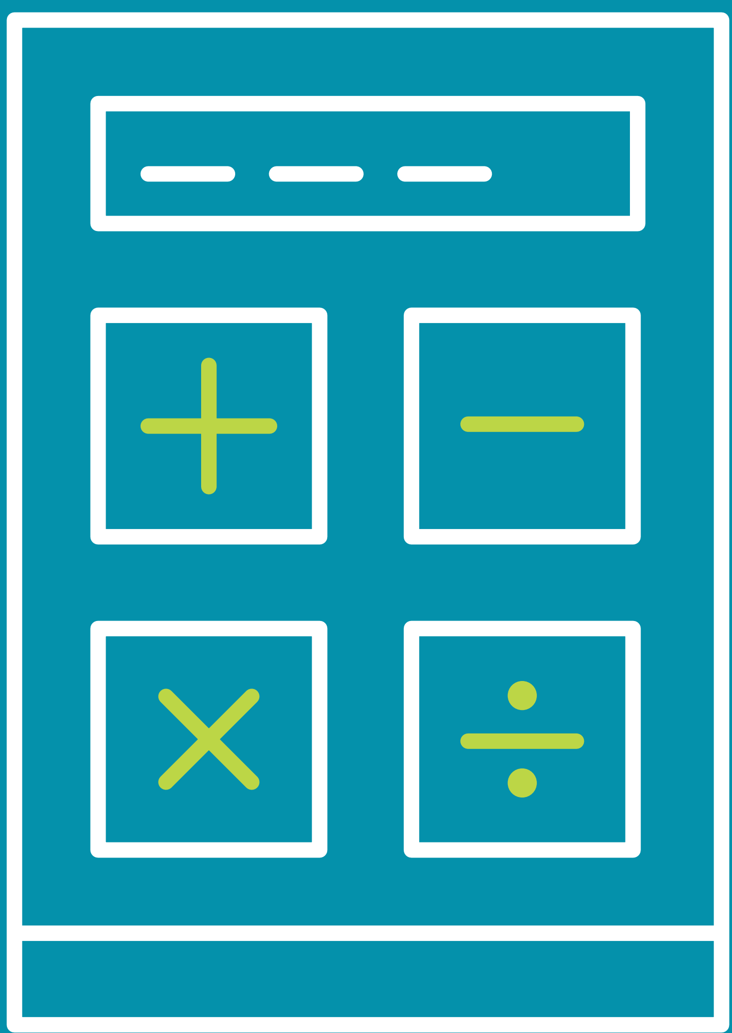
STATEMENT OF THE BOARD OF DIRECTORS

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

The Board of Directors declares that, to the best of its knowledge, the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, 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 2017, and the management report presents fairly the evolution, the earnings and the position of BGL BNP Paribas SA and the companies included in the scope of the consolidation, as well as a description of the principal risks and uncertainties that they face.

Luxembourg, 13 March 2018

07 MANAGEMENT REPORT OF THE BOARD OF DIRECTORS



PREAMBLE

2017 was characterised by accelerating global economic growth. In Europe in particular, the widespread fears and uncertainties prevailing at the start of the year, pecifically on political issues, gave way to confidence and optimism. Eurozone growth therefore came in at around 2.3% in 2017, a half percentage point higher than in 2016. Growth also accelerated in the US and Japan in 2017. Similarly, many emerging economies saw a clear improvement in economic performance in 2017 after several difficult years. This global acceleration in economic growth was accompanied by sharp rises in stock markets across the world.

The economic sentiment indicator for the eurozone hit its highest level since 2000 and growth is increasingly synchronised, both between countries and between different economic sectors. The strong performance of the eurozone also contributed to the appreciation of the euro. During 2017, the euro strengthened by close to 14% against the US dollar and by over 6% versus a basket of international currencies. In addition, European growth no longer depends solely on domestic demand.

While this remains robust, exports have also accelerated, despite the appreciation of the euro. While unemployment in the eurozone continued to decline, falling to under 9% in September 2017, wage growth remained relatively modest. Nevertheless, if the employment market continues to improve, we should expect wage growth to gain momentum over the coming months and years, leading to a gradual rise in inflation. This favourable environment enabled the European Central Bank (ECB) to reduce the extent of its asset purchase programme and to envisage a gradual winding down of the unconventional monetary policies adopted in recent years. In April 2017, the ECB therefore reduced its monthly asset purchases from EUR 80 billion to EUR 60 billion. A further reduction to EUR 30 billion then occurred in January 2018.

In the United States, fears present at the start of the year concerning the introduction of protectionist measures did not materialise, and the year closed with the adoption of a wide-reaching package of tax reforms featuring a major reduction in corporate and personal tax. The employment market continued to perform well in this environment, with the unemployment rate reaching a level of close to 4%. Expecting a gradual rise in inflation in the coming years, the US Federal Reserve raised rates three times in 2017.

It also initiated the process of gradually reducing its balance sheet size in October. The Fed announced that initial reductions would amount to USD 10 billion per month, with this rhythm then accelerating gradually to reach USD 50 billion per month by the end of 2018.

Growth in Luxembourg remains stronger than in neighbouring countries despite a GDP downgrade in the national accounts. After growth of 3.1% in 2016, Statec anticipates GDP growth of 3.4% in 2017. Meanwhile employment showed average growth of close to 3.3% in 2017 and the unemployment rate continued to decline, falling to below 6% at year-end. There was a clear uptick in inflation in 2017, with an average inflation rate of 1.7% versus 0.3% in 2016. Wages rose in January 2017 as a result of a wage indexation tranche.

CONSOLIDATED MANAGEMENT REPORT

The consolidated results for the 2017 financial year were affected by a lowering of the consolidation thresholds in accordance with CRD IV 1). This translated into:

- On the one side, the consolidation of three new entities attached to the Leasing International business line;
- On the other side, a change in the consolidation method used for sixentities also attached to the Leasing International business line, which are now fully consolidated but were accounted for by the equity method in 2016.

In the profit and loss account, the main consequences were a rise in revenues of EUR 10.2 million (+1%) and increased costs of EUR 6.5 million (+1%).

There was no material impact on net income (attributable to equity holders of the parent).

The balance sheet total rose by EUR 512.4 million, or 1%, as a result of the change in consolidation scope.

Consolidated results

Profit and loss account *In millions of euros*	2017	2016	Changes Value	 %
Revenues	**1,345.3**	**1,352.2**	**(6.9)**	**-1%**
Operating expenses	(683.5)	(664.7)	(18.8)	3%
Gross operating income	**661.8**	**687.5**	**(25.7)**	**-4%**
Cost of risk	(35.5)	(52.6)	17.1	-33%
Operating income	**626.3**	**634.8**	**(8.6)**	**-1%**
Share of earnings of associates	23.1	22.7	0.4	2%
of which: Leasing	*7.7*	*7.1*	*0.5*	*7%*
Net gains on other fixed assets	5.3	23.6	(18.3)	-78%
Pre-tax income	**654.6**	**681.1**	**(26.5)**	**-4%**
Corporate income tax	(122.4)	(126.5)	4.1	-3%
Net income	532.2	554.6	(22.4)	-4%
of which: Net income attributable to equity holders of the parent	365.8	403.2	(37.4)	-9%

Analysis of the profit and loss account and balance sheet

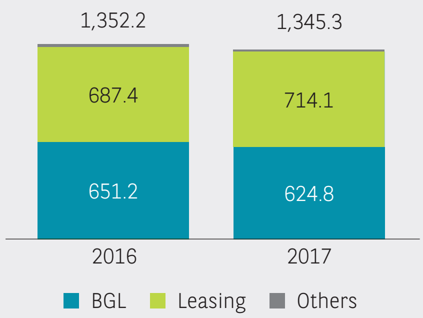
Revenues as at 31 December 2017 were **EUR 1,345.3 billion**, i.e. 1% lower than in the previous financial year.

Net interest margin stood at EUR 1,092.2 billion as at 31 December 2017 versus EUR 1,103.4 billion as at 31 December 2016 (a decline of EUR 11.2 million or 1%).

For banking activities, net interest margin declined by EUR 28.2 million or 6%. The activities of the ALM Treasury business line continue to be penalised by an environment of low, or indeed negative, interest rates

Revenues

In millions of euros



[1] CRD IV : Capital Requirements Directive N°575/2013

and profits are down as a result. On the other hand, net interest income for client-related activities rose by EUR 6.7 million or 2%, with the growth in outstanding loans and the strong increase in deposits offsetting the reduction in margins.

Net interest income for Leasing International activities rose by EUR 20.4 million or 3%. Restated for changes to the consolidation scope and exchange rate differences there was a rise of EUR 32.5 million or 5%, thanks to continued commercial expansion in all geographic regions, despite severe margin pressure. Finally, the disposal of SADE SA in June 2016 and discontinuation of the factoring activities of BNP Paribas FACTOR SA in December 2016 led to a fall in net interest income of EUR 7.8 million.

Net commission income was stable versus the previous year at EUR 157.5 million for 2017. The Bank saw fee income from clients rise in 2017, in particular transaction fees,as a result of strong momentum in the commercial business lines. In contrast, fee income in the Corporate and Institutional Banking business line fell following a downturn in business volume.

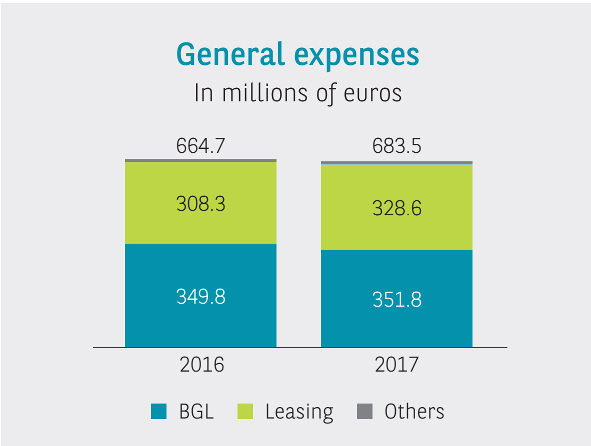
Net gains or losses on financial instruments at fair value through profit or loss fell from EUR 23.0 million in 2016 to EUR 20.7 million in 2017. This decline was primarily due to a EUR 1.3 million revaluation of the option linked to Leasing International's participating interest in Srei Infrastructure Finance Limited (SIFL) in India.

Net gains or losses on available-for-sale financial assets showed a gain of EUR 20.3 million in 2017 versus EUR 23.9 million in 2016. Bank-level income for 2017 was mainly bolstered by capital gains on the partial disposal of participating interests in Visalux S.C. and Europay Luxembourg S.C. for EUR 8.7 million. The Bank also realised net capital gains of EUR 1.4 million on the disposal of sovereign and banking securities. At the Leasing International level, results were affected by an increase in income from non-consolidated participating interests of EUR 3.2 million including, in particular, income on the partial disposal of Srei Infrastructure Finance Limited (SIFL) securities for EUR 1.2 million. In 2016, the Bank received a dividend of EUR 14.9 million from BIP Investment Partners S.A. and also realised capital gains of EUR 4.7 million on the disposal of its participating interests in BIP Investment Partners SA and Foyer Finance SA in the fourth quarter of the year.

Net Income and expenses from other activities amounted to net income of EUR 54.6 million, versus EUR 44.4 million in 2016. 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. The rise at Bank level reflects rental income from the letting of part of the new premises at the Luxembourg-Kirchberg site, together with the release of provisions for operational risks.

General exepenses were EUR 683.5 million as at 31 December 2017 versus EUR 664.7 million at the end of the previous financial year, which represents an increase of EUR 18.8 million or 3%.

For banking activities, operating expenses rose by EUR 1.9 million or 1%. Staff costs declined by EUR 3.1 million or 1%. The continued reduction in the workforce and the provision of services to other Luxembourg entities in the BNP Paribas Group offset payroll expansion, including the impact of the new 2017 wages indexation rise. Other overheads rose by EUR 5.1 million or 4%. This is mainly due to costs related to implementation of the 2020 restructuring plan (rise of EUR 8.0 million) and contributions to the Single Resolution Fund and the Deposit Guarantee Fund (increase of EUR 2.0 million or 20%). Depreciation, amortisation and impairment of property, plant and equipment and intangible assets also rose by EUR 4.4 million or 24% as a result of depreciation on the new buildings at the Luxembourg-Kirchberg site from the second half of 2016.



Management Report of the Board of Directors

Excluding costs related to implementation of the 2020 transformation plan and contributions to the Single Resolution Fund and the Deposit Guarantee Fund, general expenses fell by 2% (EUR 8.1 million).

Overheads for Leasing International activities rose by EUR 20.2 million or 7%. Restated for the change in consolidation scope, exchange rate differences and costs related to implementation of the 2020 transformation plan, costs increased by EUR 9.7 million or 3%.

Gross operating income was EUR 661.8 million, down EUR 25.7 million or 4%.

Cost of risk amounted to EUR -35.5 million versus EUR -52.6 million in 2016. This strong improvement was at the level of the Bank, where there was a provision release of EUR 13.4 million versus a charge of EUR 3.9 million in the previous year. Within Leasing International, cost of risk remained at a limited level and was stable compared to the previous year.

Share of earnings of associates stood at EUR 23.1 million versus EUR 22.7 million in 2016.

Leasing International's contribution rose by EUR 0.5 million from EUR 7.1 million in 2016 to EUR 7.7 million in 2017 following an improvement in cost of risk, particularly in the Netherlands and Switzerland.

The contribution from life insurance in Luxembourg (Cardif Lux Vie SA in which the Bank holds 33%) was EUR 15.4 million (i.e. at a stable level compared to 2016).

Net gains on fixed assets stood at EUR 5.3 million as at31 December 2017. This was mainly owing to the disposal of a property within Cofhylux SA, which generated capital gains of EUR 4.7 million.

This item stood at EUR 23.6 million as at 31 December 2016. There was a capital gain of EUR 44.2 million on the disposalof Societe Immobiliere de Monterey SA, which was partly offset by losses of EUR 6.7 million in connection with transactions involving participating interests within Leasing International and by the EUR 12.0 million loss on the disposal of SADE SA.

The income tax charge declined by EUR 4.1 million or 3% to EUR 122.4 million in 2017 versus EUR 126.5 million in 2016. There were a number of major releases of tax provisions influencing this item in both 2016 and 2017, as a result of falls in tax rates in both Luxembourg and other European countries, beginning in 2016 and continuing into 2017.

Lastly, after the deduction of net income attributable to minority interests, **Net income attributable to equity shareholders** for the 2017 financial year was EUR 365.8 million versus EUR 403.2 million in 2016, which is a fall of EUR 37.4 million or 9%.

Balance sheet

At 31 December 2017, the balance sheet total stood at EUR 49.6 billion versus EUR 45.0 billion as at 31 December 2016, which was an increase of 10%.

On the **assets** side, **Cash and amounts due from central banks** stood at EUR 0.6 billion versus EUR 1.5 billion as at 31 December 2016. This item consists mainly of shortterm deposits with the Central Bank of Luxembourg.

Financial instruments at fair value through profit or loss fell by 22% from EUR 234 million to EUR 182million, primarily as a result of a reduction of EUR 22 million in the equities portfolio within the Corporate and Institutional Banking – Prime Solutions & Financing activity. There was an additional EUR 25 million fall in the positive fair value of derivatives and a EUR 5 million decline in reverse repurchase agreements.

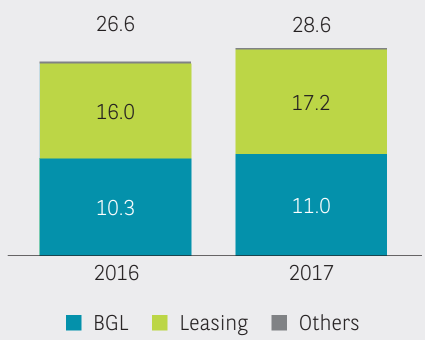
Available-for-sale financial assets stood at EUR 4.7 billion versus EUR 5.5 billion as at 31 December 2016. This item consists mainly of the bond portfolio held by the Bank, composed mostly of sovereign and supranational securities and bank bonds. The fall in the bond portfolio in 2017 was mainly due to the disposal of sovereign and bank bonds for an amount of EUR 526 million, together with EUR 94 million of government and bank bonds reaching maturity, which was partly offset by the purchase of sovereign and bank securities in the amount of EUR 321 million .

Note that the Leasing International contribution to this item in 2017 was EUR 80 million versus EUR 406 million in the previous year. This is because a SICAV investment made at the end of 2016 was redeemed in the first quarter of 2017.

Loans and receivables due from credit institutions rose by EUR 4.5 billion to EUR 13.2 billion at 31 December 2017. This is due to the conclusion of reverse repurchase agreements by BGL BNP Paribas with BNP Paribas Group for EUR 3.5 billion. The deposits and bank loans of BGL BNP Paribas and Leasing International with other BNP Paribas Group entities also rose by EUR 1.1 billion.

Loans and receivables due from customers

In billions of euros



Loans and receivables due from customers rose by EUR 2.0 billion to EUR 28.6 billion. For banking activities, the outstanding amount rose by EUR 0.7 billion or 7% versus 31 December 2016. This growth was mainly in mortgages and corporate investment loans. Retail Banking loans rose by 8%. Meanwhile, Corporate Banking loans grew by 14% and Wealth Management saw a 14% increase. On the other hand, this item also included a portfolio of securities showing a EUR 108 million or 28% decline in value as a result of redemptions.

For leasing activities, outstanding loans grew by EUR 1.3 billion or 8% in the 2017 financial year. Excluding changes in the consolidation scope, there was an increase of EUR 0.8 billion or 5% as a result of continued commercial expansion in strategic regions.

Investments in associates stood at EUR 186.4 million, a decline of 23% versus the previous year. Excluding changes in the consolidation scope, the decline was just 1%.

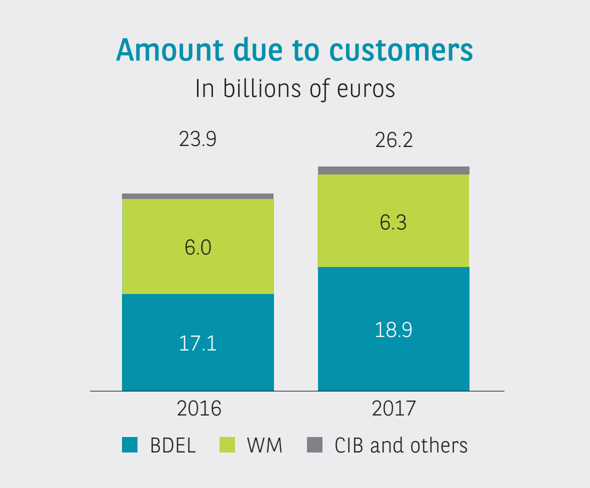
Investment property fell by EUR 11.7 million from EUR 178.0 million at 31 December 2016 to EUR 166.4 million at 31 December 2017 due to depreciation on the new buildings at the Luxembourg-Kirchberg site. **Property, plant and equipment** rose by EUR 45.5 million or 7% due to changes in the consolidation scope. However, excluding this effect, this item fell by EUR 3.5 million or 1%.

On the **liabilities** side, **Financial instruments at fair value through profit or loss** stood at EUR 354.0 million, which represents a rise of 21% versus the previous year. This rise results in particular from new repurchase agreements entered into in 2017. This was partly offset by a fall in EMTN (Euro Medium Term Notes) issues at fair value.

Amount due to credit institutions rose by EUR 1.7 billion to EUR 11.7 billion at 31 December 2017. This increase was due to a rise in the Bank's interbank borrowings with other BNP Paribas Group entities in the amount of EUR 1.2 billion and repurchase agreements with BNP Paribas SA for EUR 0.5 billion. Leasing International's financing with entities outside of the BGL BNP Paribas Group stood at EUR 8.6 billion, i.e. at a stable level compared to 31 December 2016.

Amount due to customers grew by 10% from EUR 23.9 billion at 31 December 2016 to EUR 26.2 billion as at 31 December 2017. This growth was seen across all of the Bank's business lines.

Corporate Banking in Luxembourg saw strong growth in deposits over the period; these rose by EUR 1.4 billion or 15% compared with the situation as at 31 December 2016. Meanwhile, deposits in Retail Banking rose by EUR 0.3 billion or 4% over the period. Wealth Management saw deposits increase by EUR 0.2 billion or 4% in 2017.



Finally, Corporate and Institutional Banking deposits grew by EUR 0.4 billion.

Debt securities went from EUR 1.1 billion at 31 December 2016 to EUR 1.5 billion at 31 December 2017 (a rise of 33%) following increased demand from investors for short-term paper (European Commercial Paper) denominated in GBP and EUR.

Capital

At 31 December 2017, excluding income for the current period and after deductions in accordance with prudential rules, **regulatory capital** in accordance with Basel 3 stood at EUR 5.7 billion and the **solvency ratio** was 22.5%.

Risk management within the Bank

The Bank's risk management policy is explained in more detail in Note 4 to the consolidated financial statements as at 31 December 2017. 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 Coordination ofInternal Control Platform meeting every two months and the half-yearly Internal Control Committee. Dependent on the subject, the Risk Committee or the Audit Committee, which are bodies established by the Board of Directors, receive a summarypresentation of all risks managed by the specific committees cited above. The Bank has thus implemented robust risk management systems consistent with the requirements of the regulatory authorities.

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/fr/banque/pages/a-propos-de-bgl-bnp-paribas/nous-connaitre/donnees-financieres-and-juridiques/resultats-financiers.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, and 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.

The Retail and Corporate Banking division is firmly committed to a strategy of prioritising client service by ensuring continuous improvements in service quality in order to provide clients with a smooth, straightforward and efficient experience.

In 2017, *Retail Banking* (BDL) continued to develop its multi-channel model, notably via the completion of its branch refurbishment project, focussing on making clients feel welcome and combining a local presence with remote services and cutting-edge technology.

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

Finally, to ensure a high level of expertise among its advisors, the Bank has set up a *Retail Banking School* to provide its advisors with an internal training scheme to ensure that they are up to speed with regulatory developments in the sector, market changes and client requirements.

Digitalisation and innovation

BDEL's multi-channel strategy faithfully translates the ATAWAD distribution model into daily life. ATAWAD: anytime, anywhere, any device. This trend, based on clients accessing their accounts, information or product ranges anytime, anywhere and using any device (in a branch, via a mobile device, telephone, tablet or PC, etc.), promotes 24/7 access to most services and information. Moreover, major investments have been made and will be made to make the client experience as smooth and efficient as possible. To that end, a new version of Web Banking has been launched, with successive versions gradually introducing new features.

In addition, cooperation with innovative start-ups and Fintechs – particularly in the context of Lux Future Lab and the BNPP Hackathon, which is the largest financial hackathon in the world – will enable the Bank to add high value-added services to its range in areas such as the provision of financial information, account aggregation and financial planning.

Corporate Banking (BEL) focuses on professional clients and combines coverage, trade, cash management, forex and real estate services.

In 2017, the Bank continued to develop its partnership with the European Investment Bank (EIB) for small, medium and intermediate-sized enterprises, in order to facilitate their development and continue to take an active role in supporting the financing of the Luxembourg economy.

Private Banking Luxembourg (BPL) provides integrated and tailored financial and wealth management solutions for clients who live in Luxembourg, as well as day-to-day banking services, via 6 private banking sites es within the branch network and the prestigious Villa on the Boulevard Royal in Luxembourg City.

For *Private Banking Luxembourg*, 2017 was characterized by the growth of activities run in cooperation with the professional Business Centres, highlighting the importance given to entrepreneurs' professional and personal development.

Private Banking Luxembourg also continued to offer the Crystal range of personalised discretionary asset management mandates and advisory management services to clients, in addition to the A2 (Asset Advisory) range, which enables clients to communicate with an investment manager on their investments and management of their portfolios.

BGL BNP Paribas Best Bank in Luxembourg for the second year in a row

Internationally renowned financial magazine Euromoney named BGL BNP Paribas Best Bank in Luxembourg for the second consecutive year in 2017.

When the prizes were announced, Euromoney highlighted BGL BNP Paribas' strong financial results as well as its growth in client deposits and loan outstanding. Euromoney also cited the Bank's work with microlux as well as its agreement with the European Investment Fund to facilitate access to funding for innovative small and medium-sized enterprises in Luxembourg.

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.

In 2017, assets under management grew across all segments as regards net capital inflows, with the greatest contribution made by the Ultra High Net Worth Individuals segment, which represents over half of the overall business capital of the Wealth Management business line. At the regional level, the European markets together with the Middle East and Latin America showed the highest net capital inflows.

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 2017. The range of advisory management solutions for clients seeking personalised portfolio management support and discretionary management solutions also showed good growth.

BNP Paribas Wealth Management also actively followed its ambitious programme based on a client experience perspective and aimed at devising digital services to meet clients' needs throughout the course of their relationship with the Bank. In 2017, the specially designed BIG Factory space continued to welcome teams using agile and collaborative methods inspired by those used by start-ups to develop prototypes for clients. After the launch in 2016 of the secure e-vault, mySafePlace, and the biometrics based authentication key, myBioPass, two additional digital innovations were introduced in 2017: myFeedback, an application focused on gathering client feedback, and myEagleVision, a consolidation tool providing clients with an overview of their financial and non-financial assets.

Digitalisation: launch of a new version of Web Banking

As the bank for a changing world, BGL BNP Paribas responds to the constantly evolving needs and habits of its increasingly connected clients by continuously adapting and developing the various channels of interaction it offers them.

In 2017, the Bank continued to expand its digital and mobile offering in accordance with its multichannel approach, enabling clients, wherever they are, to interact with the Bank via the channel that suits them best.

As part of this approach, the Bank has continu ed to develop its online activity with the roll-out of a new version of Web Banking, which allows clients to carry out their day-to-day banking transactions, consult their investment portfolios and place stock market orders. It is now also possible for clients to raise their credit card limit themselves with one click in Web Banking or on the mobile app.

Corporate and Institutional Banking Luxembourg (CIB)

The Corporate and Institutional Banking Luxembourg (CIB) business line offers products and services related to the capital and financing markets in Luxembourg to the Bank's corporate and institutional clients via its three main activities: Financing Solutions, Prime Solutions and Financing and Correspondent Banking.

In 2017, the Financing business performed in line with expectations thanks to extremely strong momentum in Financing Solutions, which once again confirmed its status as a privileged and recognised partner for the financing of tangible assets in the Luxembourg financial market. The capital markets environment was also favourable for Prime Solutions and Financing, which specializes in collateralised investment solutions for institutional clients.

Correspondent Banking, which involves fulfilling the day-to-day account-related needs of institutional clients benefited from growth linked to the emergence of a number of new financial players in the Luxembourg market. Correspondent Banking further expanded its products and services range by drawing on the resources of the BNP Paribas Group.

2017 results were therefore well ahead of forecasts.

Alongside these three activities, the Financial Institutions Coverage division, which assists business lines in their client relationships, continued to ensure that the products and services offered by BNP Paribas Group were properly marketed.

BNP Paribas Leasing Solutions

As part of close cooperation with the Bank, the various leasing entities of BNP Paribas Group, including BNP Paribas Lease Group Luxembourg, a 100% subsidiary of the Bank, operate under the BNP Paribas Leasing Solutions banner to offer a range of leasing solutions for corporate and professional clients via a number of channels: direct sales, sales via referrals, sales via partnerships and banking networks.

In order to offer the best possible service to its clients, BNP Paribas Leasing Solutions is organised into specialised market divisions with dedicated sales teams: Equipment & Logistics Solutions, Technology Solutions and Bank Leasing Services.

With operational capabilities in 22 countries and close to 3,000 employees, BNP Paribas Leasing Solutions is one of the European leaders in leasing.

In 2017, BNP Paribas Leasing Solutions was elected European Lessor of the Year for the fourth year on the run by the magazine Leasing Life. The judging panel highlighted the positive results achieved in a difficult economic context dominated by regulatory constraints.

2017 was an extremely innovative year. Alongside the launch of new value-enhancing services for clients, BNP Paribas Leasing Solutions continued to invest in new working methods. Lastly, with a view to supporting employees through the digital transformation process, BNP Paribas Leasing Solutions launched a series of webinars in 2017 focused on this issue, and aimed at promoting and supporting the implementation of new working methods and new ways for its employees to make use of digital.

BNP Paribas Group in Luxembourg certified Top Employer for the second time

At the beginning of 2017, BNP Paribas Group in Luxembourg received the prestigious Top Employer in Luxembourg 2017 award for the second consecutive year, reflecting the excellent working conditions provided for its employees.

Being the bank for a changing world means looking to the future, facing up to the challenges of tomorrow and acting as a source of innovation. To that end, the BNP Paribas Group in Luxembourg aims to provide its employees with a top-quality working environment that is open and inspirational and allows everyone to be an agent of this change.

Human Resources

Fully aware that its human capital is its main advantage in realising its ambitions for 2020, BGL BNP Paribas established a 2020 HR strategy in 2017. Based on an employee experience that has been reinvented to focus on client satisfaction, the aim is to strengthen the commitment and performance level of employees, whilst ensuring that the necessary skills are available to achieve this aim.

BGL BNP Paribas is looking to offer its employees more personalised and integrated career paths from the day they sign their contract. To this end, a new Onboarding procedure was set up for new recruits in November 2017. An application called the Wëllkom App now guides new employees through every step of the integration process. The new procedure includes participation in a seminar called Cultural Days focused on the corporate values and behaviour expected at BGL BNP Paribas.

The Bank also aims to seize the opportunities offered by digitalisation and data exploitation when managing its human resources. To this end, a new human resources portal called About Me was rolled out to all personnel in 2017. This portal was designed to help employees manage their career development and offers a smooth new digital human resources experience. Employees are invited to provide details about their skills and aspirations on About Me. They then receive personal suggestions on potential moves and training. BGL BNP Paribas aims to use this information to align the expectations of its employees with the Bank's requirements in the coming years, by anticipating future skills requirements and implementing the necessary training, mobility and recruitment initiatives.

BGL BNP Paribas also aims to strengthen its client culture and provide support for the cultural changes necessary for its transformation. Several initiatives were introduced in 2017, at all levels of the organisation. A communication campaign was launched targeting all personnel, to raise awareness of the importance of their telephone manner. In addition, to underpin its digital transformation, in 2017 the Bank also launched its Digital Campus offering various training courses for its employees.

To successfully introduce these changes, BGL BNP Paribas continues to provide support for managers via the Managers as agents of change programme that was launched in 2016.

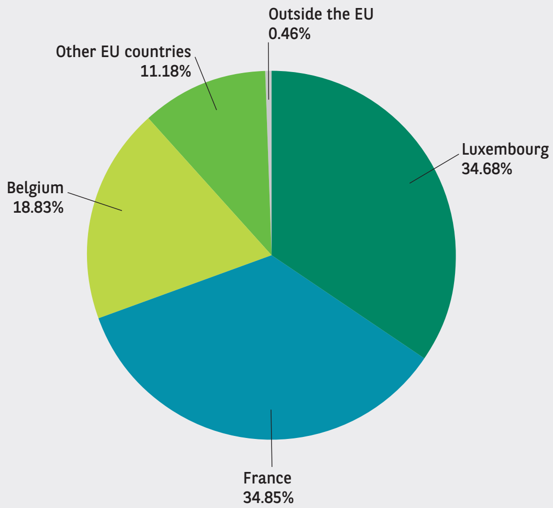
As a responsible and inclusive employer, in 2017 the Bank devoted a full week to promoting diversity and combatting all types of discrimination. The Bank is also constantly looking for ways to improve its employees' well-being and 2017 saw the opening of two new spaces where employees can relax and unwind. In the same vein, a day devoted to well-being, sport and health was organised in September 2017. These initiatives are motivated by the Bank's desire to continue to create a Good place to work where employees can give their best.

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 2017. It also wishes to highlight the quality of the 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

On 31 December 2017, the total number of Bank employees in Luxembourg was 2,379, including 1,163 women (48.89%) and 1,216 men (51.11%). In 2017, the Bank hired 74 new employees (24 fixed term contracts and 50 permanent contracts). The percentage of employees working part time was 26.02%.

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



OUTLOOK FOR 2018

Following on from the work undertaken to implement its #BGL2020 strategic plan, the Bank will continue to roll out the initiatives driven by its employees with a view to becoming the most highly recommended bank by its clients by 2020.

In this context, the Bank should benefit from an improving economic outlook in Luxembourg, with the basic trend remaining favourable for the country's major economic indicators in 2018. In addition, the significant acceleration in economic momentum within the Eurozone should provide better external support.

The business lines and functions will continue to carry out their activities, respecting any new regulations coming into force, notably the Markets in Financial Instruments Directive (MiFID II), the revised Payment Services Directive (PSD2) and the General Data Protection Regulation (GDPR).

More than ever, innovation, digitalisation and operational excellence shall be the cornerstones of the transformation undertaken by the Bank. With a focus on cross-selling, the Bank will also continue to cooperate with other BNP Paribas Group entities with a presence in Luxembourg, in order to ensure that we fully reflect our clients' requirements and expectations, and deliver complete client satisfaction. Finally, as a responsible employer, the Bank will continue to support its employees, making them the true agents of the Bank's transformation.

On 20 February 2018, the Bank and ABN AMRO Bank NV signed an agreement for the acquisition by BGL BNP Paribas of all shares issued by ABN AMRO Bank (Luxembourg) SA and its 100% subsidiary ABN AMRO Life SA. Within the framework of this agreement, the activities of ABN AMRO Life SA will be taken over by Cardif Lux Vie. This acquisition seeks to reinforce the key positions that the BNP Paribas Group in Luxembourg holds in the private banking and insurance markets. The Bank strives to play an active and responsible role in the consolidation process that is currently taking place in these sectors. The proposed deal is subject to agreement from the competent regulatory authorities and should be finalised during the third quarter of 2018.

Luxembourg, 13 March 2018
The Board of Directors

08 CONSOLIDATED FINANCIAL STATEMENTS TO 31 DECEMBER 2017

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 2017 and 2016, in compliance with the IFRS standards adopted by the European Union.

AUDIT REPORT

To the Board of Directors
of BGL BNP Paribas SA

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of BGL BNP Paribas S.A. (the "Bank") and its subsidiaries (the "Group") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated profit and loss account for the year then ended;
- the consolidated statement of net income and changes in assets and liabilities recognised directly in the consolidated equity for the year then ended;
- the consolidated statement of changes in the shareholders' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the EU Regulation No 537/2014, the Law of 23 July 2016 on the audit profession (Law of 23 July 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are 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. We have fulfilled our other ethical responsibilities under those ethical requirements.

To the best of our knowledge and belief, we declare that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014.

The non-audit services that we have provided to the Group, for the period from 1 January 2017 to 31 December 2017, are disclosed in Note 8.m to the consolidated financial statements.

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, and include the most significant assessed risks of material misstatement (whether or not due to fraud). These matters were addressed in the context of our 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 matter

Valuation of loans and advances to customers

Loans and advances to customers amount to EUR 28.6 billion and represent 57.5% of the total assets, which is one of the most significant caption of the consolidated balance sheet.

Regarding the Bank's activities, these loans and advances are mainly granted to retail customers and to corporate entities from Luxembourg. The Group is therefore highly exposed to the Luxembourgish market and more specifically to the real estate sector.

Moreover, the Group is also exposed to the French, English, German and Italian markets via the activities related to the leasing business.

Notwithstanding the significance of the loans and advances to customers, it is important to underline that the evaluation is carried out based on the credit risk of the borrower and the guarantees given, which implies judgement from the Management of the Group.

How our audit addressed the Key audit matter

Firstly, we observed and assessed the Group's internal control system relating to the analysis of the credit risk assessment on loans and advances to customers.

We tested and evaluated the relevant controls relating to the valuation of loans and advances to customers using sampling method:

- Controls on the monitoring of non-performing loans;
- Controls on the monitoring of the valuation of guarantees;
- Controls on the monitoring of most risky files.

We carried out several tests of details relating to the valuation of loans and advances to customers. The main criteria taken into consideration in our selection are:

- Outstanding amount;
- Level of risk;
- The existence of value adjustments.

When the value adjustment on loans and advances is based on an estimate, we tested the assumptions as well as the valuation methods used by the Group.

Key audit matter

Information technology infrastructure

The Group is dependent on its IT infrastructure for the production of reliable financial data.

The Group has a complex IT environment and operates on a large number of IT applications through its various activities.

How our audit addressed the Key audit matter

Firstly, we observed and evaluated the Group's IT system through its IT infrastructure.

We have ensured that production systems operate in line with Management objectives, and that processing issues are identified and resolved to maintain the integrity of financial data.

We ensured that major changes to the programs and the related infrastructure were authorized, executed and tested prior to their implementation.

We tested the accesses to computer applications that have an impact on the production of financial data, mainly:

- Operational systems for which, some information flows in the Group's accounting system;
- Group's accounting system.

We also tested the controls on the reconciliation performed by the Group between the operational and the accounting systems.

Other information

The Board of Directors is responsible for the other information.

The other information comprises the information stated in the Annual report including the Management report and the Corporate Governance Statement but does not include the consolidated financial statements and our audit report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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 that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the 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.

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 an audit report 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 No 537/2014, the Law of 23 July 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 No 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism 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 the 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 audit report 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 audit report. 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 audit report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

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

The Corporate Governance Statement is included in the consolidated Management report. 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, which is included in the Corporate Governance Statement, is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

We have been appointed as "Réviseur d'Entreprises Agréé" of the Group by the Board of Directors on 12 February 2015 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 9 years.

Other matter

The Corporate Governance Statement includes the information required by Article 70bis Paragraph (1) 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.

PricewaterhouseCoopers,
Société coopérative
Luxembourg, 15 March 2018
Represented by
Philippe Sergiel
Olivier Delbrouck

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

CONSOLIDATED PROFIT AND LOSS ACCOUNT 2017

In millions of euros	*Note*	2017	2016
Interest and similar income	*2.b*	1,339.8	1,336.3
Interest and similar expense	*2.b*	(247.6)	(232.9)
Commission (income)	*2.c*	379.6	371.6
Commission (expense)	*2.c*	(222.1)	(214.1)
Net gain / loss on financial instruments at fair value through profit or loss	*2.d*	20.7	23.0
Net gain / loss on financial assets available for sale	*2.e*	20.3	23.9
Income from other activities	*2.f*	383.6	338.4
Expense on other activities	*2.f*	(329.0)	(294.0)
Revenues		**1,345.3**	**1,352.2**
Staff costs	*7.a*	(422.4)	(423.5)
Other operating expense	*2.g*	(225.9)	(210.8)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	*5.n*	(35.2)	(30.4)
Gross operating income		**661.8**	**687.5**
Cost of risk	*2.h*	(35.5)	(52.6)
Operating income		**626.3**	**634.8**
Share of earnings of associates	*2.i*	23.1	22.7
Net gain on other fixed assets	*2.j*	5.3	23.6
Pre-tax income		**654.6**	**681.1**
Corporate income tax	*2.k*	(122.4)	(126.5)
Net income		**532.2**	**554.6**
Minority interests		166.5	151.4
Net income attributable to equity holders of the parent		**365.8**	**403.2**

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

In millions of euros	2017	2016
Net income	**532.2**	**554.6**
Changes in assets and liabilities recognised directly in equity	**(68.9)**	**(18.4)**
Items transferable in income	**(68.6)**	**(3.5)**
Items related to exchange rate movements	(33.4)	(59.4)
Changes in fair value of available-for-sale financial assets and of securities reclassified as loans and receivables	(2.7)	32.3
Changes in fair value of available-for-sale assets, reported to net income for the period	(11.5)	(0.3)
Changes in fair value of hedging instruments	(13.9)	10.8
Changes in items related to equity associates	(7.2)	13.1
Items non transferable to profit or loss	**(0.2)**	**(14.9)**
Remeasurement gains or losses related to post-employment benefits	(0.2)	(14.8)
Changes of value related to equity associates	(0.0)	(0.0)
Total	463.3	536.2
Attributable to equity shareholders of the parent	314.5	416.7
Attributable to minority interests	148.9	119.5

CONSOLIDATED BALANCE SHEET

In millions of euros	*Note*	31 December 2017	31 December 2016*
ASSETS			
Cash and amounts due from central banks		585.5	1,454.3
Financial instruments at fair value through profit or loss			
Trading securities	*5.a*	86.6	108.3
Loans and repurchase agreements	*5.a*	23.1	27.7
Instruments designated under the fair value option	*5.a*	5.5	5.5
Derivatives	*5.a*	66.8	92.3
Derivatives used for hedging purposes	*5.b*	116.4	170.3
Available-for-sale financial assets	*5.c*	4,708.2	5,476.0
Loans and receivables due from credit institutions	*5.f*	13,211.3	8,709.4
Loans and receivables due from customers	*5.g*	28,553.8	26,580.9
Held-to-maturity financial assets	*5.j*	290.4	293.8
Current and deferred tax assets	*5.k*	110.3	132.6
Accrued income and other assets	*5.l*	663.0	695.1
Investments in associates	*5.m*	186.4	241.4
Investment property	*5.n*	166.4	169.8
Property, plant and equipment	*5.n*	698.8	661.5
Intangible assets	*5.n*	25.9	27.7
Goodwill	*5.o*	132.6	133.8
Total assets		49,630.9	44,980.2
LIABILITIES			
Financial instruments at fair value through profit or loss			
Borrowings and repurchase agreements	*5.a*	118.9	-
Instruments designated under the fair value option	*5.a*	182.5	218.0
Derivatives	*5.a*	52.6	73.6
Derivatives used for hedging purposes	*5.b*	31.4	58.1
Due to credit institutions	*5.f*	11,661.0	9,970.7
Due to customers	*5.g*	26,238.5	23,852.8
Debt securities	*5.i*	1,473.2	1,107.7
Remeasurement adjustment on interest-rate risk hedged portfolios		50.1	86.9
Current and deferred tax liabilities	*5.k*	486.8	510.4
Accrued expenses and other liabilities	*5.l*	1,092.4	1,070.8
Provisions for contingencies and charges	*5.p*	165.7	174.1
Total liabilities		41,553.0	37,123.2
CONSOLIDATED EQUITY			
Share capital and additional paid-in capital	*5.s*	*6,125.8*	*5.903.6*
Net income for the period, attibutable to shareholders		*365.8*	*403.2*
Total capital, retained earnings and net income for the period, attibutable to shareholders		**6,491.6**	**6,306.8**
Changes in assets and liabilities recognised directly in equity		183.0	235.2
Total consolidated equity		**6,674.5**	**6,542.1**
Retained earnings and net income for the period attributable to minority interests		1,482.9	1,378.0
Changes in assets and liabilities recognised directly in equity		(79.4)	(63.1)
Total minority interests		**1,403.5**	**1,314.9**
Total consolidated equity		8,078.0	7,857.0
Total liabilities and equity		49,630.9	44,980.2

** Voir Note 5.n*

STATEMENT OF CHANGES IN THE CONSOLIDATED SHAREHOLDERS' EQUITY

Attributable to shareholders

In millions of euros	Capital and retained earnings			Change in assets and liabilities recognised directly in equity*			Total equity attributable to equity holders of the parent
	Capital and additional paid-in capital	Undistributed reserves	Total capital and retained earnings	Exchange rates	Available-for-sale financial assets	Derivatives used for hedging purposes	
As at 31 December 2015	**3,474.9**	**2,590.1**	**6,065.1**	**(37.1)**	**213.6**	**35.9**	**6,277.5**
Reduction of capital	(0.3)	(0.2)	**(0.5)**	-	-	-	**(0.5)**
Dividends	-	(151.4)	**(151.4)**	-	-	-	**(151.4)**
Commitment to repurchase minority shareholders' interests	-	(2.2)	**(2.2)**	-	-	-	**(2.2)**
Other movements	-	2.0	**2.0**	-	-	-	**2.0**
Change in assets and liabilities recognised directly in equity	-	(9.3)	**(9.3)**	(24.4)	36.2	11.0	**13.5**
Net income for 2016	-	403.2	**403.2**	-	-	-	**403.2**
As at 31 December 2016	**3,474.6**	**2,832.2**	**6,306.8**	**(61.4)**	**249.8**	**46.9**	**6,542.1**
Dividends	-	(184.1)	**(184.1)**	-	-	-	**(184.1)**
Changes in the scope of consolidation	-	2.1	**2.1**	-	-	-	**2.1**
Other movements	-	0.0	**0.0**	-	-	-	**0.0**
Change in assets and liabilities recognised directly in equity	-	1.0	**1.0**	(15.8)	(22.8)	(13.8)	**(51.3)**
Net income for 2017	-	365.8	**365.8**	-	-	-	**365.8**
As at 31 December 2017	**3,474.6**	**3,016.9**	**6,491.6**	**(77.2)**	**227.0**	**33.1**	**6,674.5**

** Including items related to equity associates.*

At 31 December 2017, undistributed reserves included reserves not available for distribution according to Luxembourg regulation for a net amount of EUR 182.8 million (compared with EUR 167.8 million at 31 December 2016 and EUR 161.4 million at 31 December 2015).

MINORITY INTERESTS

In millions euros	Retained earnings	Change in assets and liabilities recognised directly in equity *	Total minority interests
As at 31 December 2015	**1,356.9**	**(36.8)**	**1,320.1**
Capital increase and issues	0.0	-	0.0
Dividends	(106.1)	-	(106.1)
Interim dividend payments	(25.1)	-	(25.1)
Commitment to repurchase minority shareholders' interests	4.5	-	4.5
Other movements	2.0	-	2.0
Change in assets and liabilities recognised directly in equity	(5.6)	(26.3)	(31.9)
Net income for 2016	151.4		151.4
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
Change in assets and liabilities recognised directly in equity	(1.2)	(16.3)	(17.6)
Net income for 2017	166.5	-	166.5
As at 31 December 2017	**1,482.9**	**(79.4)**	**1,403.5**

** Including items related to equity associates.*

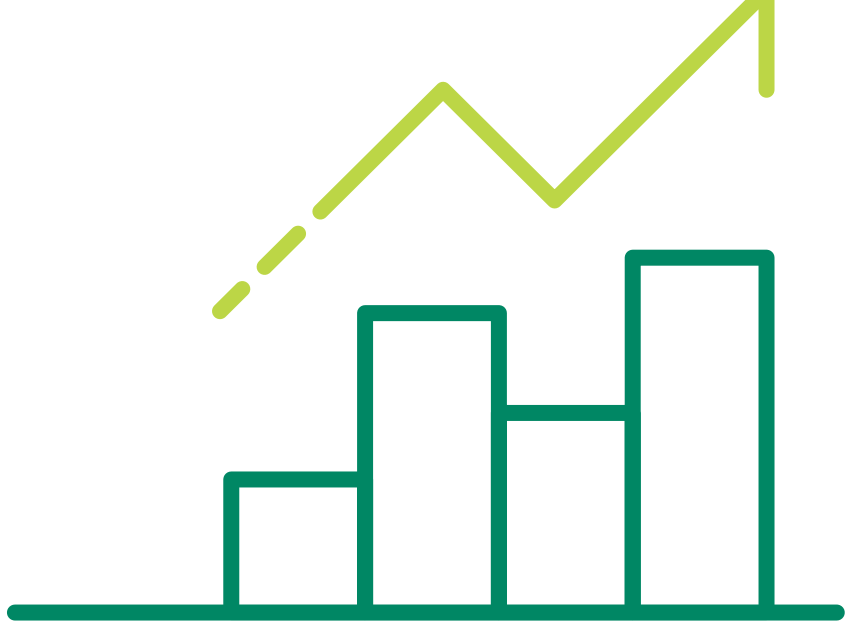
CONSOLIDATED CASH FLOW STATEMENT

In millions of euros	2017	2016
Pre-tax income	**654.6**	**681.1**
Non-monetary items included in pre-tax net income and other adjustments	**224.6**	**(3.3)**
Net depreciation/amortisation expense on property, plant and equipment and intangible assets	104.1	98.8
Impairment of goodwill and other fixed assets	(5.3)	(9.0)
Net addition to provisions	9.1	(9.0)
Share of earnings of associates	(23.1)	(22.7)
Net income from investing activities	(5.5)	(24.0)
Net income from financing activities	0.2	-
Other movements	145.0	(37.4)
Net increase/decrease in cash related to assets and liabilities generated by operating activities	**(1,723.9)**	**29.8**
Net increase (decrease) in cash related to transactions with credit institutions	(3,235.9)	(1,150.2)
Net increase (decrease) in cash related to transactions with customers	871.8	450.0
Net increase (decrease) in cash related to transactions involving other financial assets and liabilities	786.1	965.8
Net increase (decrease) in cash related to transactions involving non-financial assets and liabilities	(64.8)	(49.1)
Taxes paid	(101.2)	(186.7)
Net increase (decrease) in cash and cash equivalents generated by operating activities	(864.7)	707.5
Net increase related to financial assets and particpating interests	3.5	254.2
Net decrease related to property, plant and equipment and intangible assets	(7.6)	(85.9)
Net increase (decrease) in cash and cash equivalents related to investing activities	(4.1)	168.3
Decrease in cash and cash equivalents related to transactions with shareholders	(240.2)	(202.1)
Net decrease in cash and cash equivalents related to financing activities	(240.2)	(202.1)
Effect of movement in exchange rates	(0.1)	(2.1)
Net changes in cash and cash equivalents	(1,109.1)	671.6
Balance of cash and cash equivalent accounts at the start of the period	**1,953.8**	**1,282.2**
Balance of cash and cash equivalent accounts at the end of the period	**844.8**	**1,953.8**

ADDITIONAL INFORMATION

In millions of euros	*Note*	2017	2016
Composition of cash and cash equivalents		**844.8**	**1,953.8**
Cash and amounts due from central banks		585.5	1,454.3
Demand deposits with credit institutions	*5.f*	982.8	1,053.9
Demand loans from credit institutions	*5.f*	(723.1)	(554.0)
Deduction of receivables and accrued interest on cash and cash equivalents		(0.4)	(0.5)

In millions of euros	2017	2016
Additional Information		
Interests paid	(251.2)	(263.3)
Interests received	1,349.4	1,358.8
Dividends paid	(257.2)	(257.5)
Dividends received	36.6	73.8



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.

1. SUMMARY OF ACCOUNTING PRINCIPLES APPLIED BY THE GROUP

1.a ACCOUNTING STANDARDS

1.a.1 Applicable accounting standards

BGL BNP Paribas Group's consolidated financial statements have been prepared in accordance with international accounting standards (International Financial Reporting Standards – IFRS) as adopted by the European Union1). Accordingly, certain provisions of IAS 39 on hedge accounting have been excluded, and certain recent texts have not yet undergone the approval process.

The entry into force of the modified standards, which became mandatory on 1 January, had no effect on the consolidated accounts as at 31 December 2017.

The Group chose not to pursue the early adoption of the new standards, amendments and interpretations adopted by the European Union, when such application in 2017 was given as an option.

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

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments published by the IASB in July 2014, will replace 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, credit risk impairment on debt instruments recognised at amortised cost or at fair value through shareholders' equity, financing commitments and financial guarantees granted, lease receivables and contract assets, and general hedge accounting (or micro hedging).

[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

IFRS 9 was adopted by the European Union on 22 November 2016 and will enter into force on a mandatory basis for financial years beginning on or after 1 January 2018.

Amendment to IFRS 9

On 12 October 2017, the IASB published an amendment to IFRS 9, Prepayment Features with Negative Compensation, which clarifies the classification of financial assets including a prepayment clause at the borrower's initiative that may lead to the recognition of compensation by the borrower.

This amendment will enter into force on a mandatory basis for financial years beginning on or after 1 January 2019, with early adoption possible. The Group will adopt this amendment from 1 January 2018.

Classification and measurement

Under IFRS 9, the classification and measurement of financial assets will depend on the businessmodel and contractual characteristics of the instruments. Financial assets are initially measured at amortised cost, fair value through shareholders'equity (in a separate line) or fair value through profit or loss.

Derivatives embedded in financial assets can no longer be accounted for separately from the host contract.

Application of the criteria relating to the business model and the contractual characteristics of the instruments will lead to different classification and measurement of financial assets from those selected under IAS 39.

Debt instruments (loans, receivables or securities) will be classified at amortised cost, fair value through shareholders'equity (in a separate line) or fair value through profit or loss.

- They will be classified at amortised cost if the business model consists in holding the instrument in order to collect the contractual cash flows and if the cash flows consist solely of payments relating to principal and interest on the principal.

- They will be classified at fair value through shareholders'equity if the business model consists in holding the instrument in order to collect the contractual cash flows and to sell the assets and if the cash flows consist solely of payments relating to principal and interest on the principal. Upon disposal of the securities, unrealised gains or losses previously recognised under equity will be transferred to profit or loss.

- All debt instruments not eligible for classification at amortised cost or at fair value through shareholders'equity will be classified at fair value through profit or loss.

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

Investments in equity instruments such as shares will be classified as instruments at fair value through profit or loss or, as an option, as instruments at fair value through shareholders' equity (in a separate line). In the latter case, upon disposal of the securities, unrealised gains or losses previously recognised through shareholders'equity will never be recognised though profit or loss. Only dividends will be recognised in profit and loss.

With respect to financial liabilities, the main change introduced by IFRS 9 relates to recognition of changes in fair value attributable to changes in the credit risk of the liabilities designated as at fair value through profit or loss (fair value option), which will be recognised on a separate line in shareholders'equity and no longer through profit or loss.

The provisions of IAS 39 relating to the derecognition of financial assets and liabilities are taken over without change in IFRS 9. In addition, IFRS 9 clarifies the treatment of modified assets dependent on whether they are derecognised or not.

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

- Loans and receivables due from credit institutions and from customers, and reverse repurchase agreements recognised in Loans and receivables under IAS 39 are eligible to be accounted for at amortised cost under IFRS 9, with the exception of those items that do not respect the contractual characteristics criteria and those held for sale;

- Available-for-sale financial assets under IAS 39in the following categories:

  — Dependent on the business model treasury bills, government bonds and other fixed-income securities will be recognised at amortised cost in the amount of EUR 1.5 billion, with the remainder recognised at fair value through other shareholders' equity. As an exception, those items not respecting the contractual characteristics criteria will be recognised at fair value through profit or loss;

  — Investments in equity instruments will be classified as instruments at fair value through profit or loss in the amount of EUR 524 million and at fair value through shareholders' equity income for the remainder.

- Financial assets classified at Fair value through profit or loss under IAS 39 should remain in this category under IFRS 9.

Subject to the verification and validation work currently underway the classification and measurement of financial assets under IFRS 9 should have a negative pre-tax impact on opening shareholders' equity as at 1 January 2018 of around EUR 82 million.

Impairment

IFRS 9 introduces a new model for credit risk impairment based on expected losses.

This model will apply to loans and debt instruments measured at amortised cost or at fair value through shareholders'equity.(on a separate line), to loan commitments and financial guarantees not recognised at fair value, as well as to lease receivables.

As part of the IAS 39 impairment model based on incurred losses, recognition of impairment is conditional on an objective indication of a loss of value. Counterparties that are not individually impaired are risk-assessed based on similar portfolios, and groups of counterparties for which there is an objective indication of a loss of value based on events arising since the credits were granted, are subject to a portfolio impairment charge. In addition, the Group may create additional collective impairment relating to a particular economic sector or geographical area affected by exceptional economic events.

The new IFRS 9 impairment model will require accounting for 12-month expected credit losses (that result from the risk of default in the next 12 months) on the financial instruments issued or acquired, as of the date of initial recognition on the balance sheet.

Credit losses expected at maturity (resulting from the risk of default over the residual life of the instrument) will be recognised if the credit risk has increased significantly since initial recognition.

New financial assets and those for which there has been no significant increase in credit risk since initial recognition will be subject to an estimated provision based on the expected credit loss in 12 months and will constitute "stage 1" in the impairment model. Interest income will be calculated using the effective interest rate method applied to the gross book value of the financial asset before impairment.

Financial assets for which there has been a significant increase in the credit risk since initial recognition will constitute "stage 2" in the impairment model. Interest income will be calculated using the effective interest rate method applied to the gross book value of the financial asset before impairment.

The significant increase in credit risk will 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 risk of loss for the financial instrument at the reporting date with the risk of loss for the financial instrument on the date of initial recognition.

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

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

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

Financial assets for which there is an objective indication of loss of value related to an event occurring after the loan was put in place or the asset acquired will be considered to be impaired and classified as "stage 3". The criteria for identifying impaired assets are similar to those prevailing under IAS 39. Interest income will be calculated using the effective interest rate method applied to the net book value (after impairment) of the financial asset.

Calculation of the expected level of losses is based on three main parameters: the probability of default (PD), loss given default (LGD) and exposure at default (EAD) in light of amortisation profiles. The expected losses are calculated as the PD multiplied by the LGD and EAD.

The methodology developed by the Group for implementing IFRS 9 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.

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

The new impairment model will result in an increase in impairment for credit risk, since all financial assets will be subject to a 12-monthexpected credit loss calculation and forecast scenarios will be included when measuring expected credit losses. In addition, the scope of assets subject to a significant increase in credit risk will be different to the scope of assets subject to a portfolio provision under IAS 39.

The principles for recognising restructurings due to financial difficulties should remain similar to those under IAS 39.

The level of impairments for credit risk under IFRS 9 as at 1 January 2018 is estimated at EUR 590 million versus EUR 491 million of impairment under IAS 39 as at 31 December 2017.

Hedge accounting

As regards hedge accounting, the Group will choose the option permitted by the standard of maintaining the hedge accounting principles under IAS 39 until the new macro hedging standard comes into force. The additional information required by IFRS 7 as amended by IFRS 9 concerning risk management and the impacts of hedge accounting on the financial statements will be presented in the notes.

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

Transition

The IFRS 9 classification and measurement provisions and the new impairment model are applicable retrospectively as at 1 January 2018 and the standard offers the possibility of not restating comparative figures for prior financial years. The Group will take advantage of this option.

IFRS 9 allows for the early adoption of the requirements relating to the credit risk of financial liabilities designated at fair value through profit or loss fair value option). However, the Group has decided not to apply this approach before 1 January 2018.

Expected overall impact of the first-time application of IFRS 9

Subject to the verification and validation work currently underway, application of IFRS 9 should have a negative after-tax impact on opening shareholders' equity as at 1 January 2018 estimated at EUR 153 million.

The solvency ratio is estimated to decline by 50 bps.

Application of IFRS 9 to the insurance activities

On 12 September 2016, the IASB published amendments to IFRS 4 Insurance Contracts entitled Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. These amendments apply to financial years beginning on or after 1 January 2018.

These amendments to IFRS 4 aim to address the temporary accounting consequences arising as a result of the delay between the date IFRS 9 comes into force and the date the new standard relating to insurance contracts (IFRS 17) and replacing IFRS 4 comes into force on 1January 2021.

These amendments allow entities with mainly insurance activities to postpone application of IFRS 9 to 1 January 2021. This postponement allows the relevant entities to continue to present their financial statements under IAS 39.

This temporary exemption from applying IFRS 9 that was limited to groups with activities predominantly connected to insurance in the IASB amendments, was extended to insurance entities within financial conglomerates when the European Union adopted these amendments on 3 November 2017. This exemption is conditional upon there being no internal disposals of financial instruments between the insurance entities and other entities within the conglomerate (apart from financial instruments recognised at fair value through profit or loss).

The Group will apply the amendments as adopted by the European Union to all of its insurance entities, which will therefore apply IAS 39 Financial Instruments: Recognition and Measurement until 31 December 2020.

Internal governance controls have been set up to ensure that there are no internal disposals of financial instruments between the insurance entities and other entities within the conglomerate.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from Contracts with Customers, issued in May 2014, will supersede a number of standards and interpretations on revenue recognition (in particular IAS 18 Revenue and IAS 11 Construction Contracts). Revenue from lease contracts, insurance contracts or financial instruments are excluded from the scope of this standard.

Adopted by the European Union on 22 September 2016, IFRS 15 will enter into force on a mandatory basis for financial years beginning on or after 1 January 2018.

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.

Net banking income revenue falling within the scope of application includes in particular fees received for the provision of banking and similar services (except those arising from the effective interest rate), revenue from property development and revenue from services provided in connection with lease contracts.

Transition

IFRS 15 will be applied retrospectively as at 1 January 2018 and the standard offers the possibility of not restating comparative figures for prior financial years. The Group will take advantage of this option.

The Group has not identified any significant impact linked to the implementation of IFRS 15.

IFRS 16 Leases

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. The Group began analysing the standard and its potential impact following its publication. In 2017, work was initiated to identify the contracts affected as part of a joint project between the finance teams and the teams responsible for managing the contracts.

1.b CONSOLIDATION PRINCIPLES

1.b.1 Scope of consolidation

In accordance with CRD IV[1)], 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

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 other agreements altering the power of these voting rights.

Structured entities are defined by IFRS 12 as entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. For these entities, the control analysis encompasses the purpose and design of the entity, the risks to which the entity is 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.

[1)] CRD IV : Capital Requirements Directive N°575/2013

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.

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 structure or where the partners have rights to the assets and obligations for the liabilities of the jointly controlled activity, the Group recognises its share of the assets, liabilities, revenue and expenses in accordance with the applicable IFRS.

Companies over which the Group exercises significant influence, referred to as 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 over the entity. Significant influence is presumed to exist if the Group directly or indirectly holds 20% or more of an entity's vot ing rights.

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

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

If the Group's share in the losses in a associate equals or exceeds its investment in the company, the Group stops recognising its share of further losses. The investment is then reported at nil value. Provisions to cover additional losses by the associate are only created when the Group has a legal or implied obligation to do so, or when it has made payments on behalf of the company.

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

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

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

1.b.3 Consolidation procedures

The consolidated financial statements are prepared using uniform accounting methods with respect to transactions and other events in similar circumstances.

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 available-for-sale assets are maintained in the financial statements at Group level.

Translation of financial statements expressed in foreign currencies

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

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

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

In the event of the liquidation or disposal of part or all of a participating interest held in a foreign company, the proportionate share of the cumulative exchange difference recognised in equity is re-attributed to the profit and loss account.

In the event of a change in the percentage interest held by the Group in a company accounted for by the equity method, the proportionate share of the cumulative exchange difference relating to the participating interest that has been sold shall be recorded in profit and loss.

1.b.4 Business combinations and measurement of goodwill

Business combinations

Business combinations are accounted for using the purchase method. Under this method, the acquiree's identifiable assets, liabilities and contingent liabilities that meet the IFRS recognition criteria are measured at fair value or its equivalent on the acquisition date, except for non-current assets classified as assets held for sale, which are accounted for at the lower of the book value and the 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 is only prospective, business combinations completed prior to 1 January 2010 have not been restated to reflect the 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.

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

Measurement of goodwill

BGL BNP Paribas 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, which involve ensuring that the goodwill allocated to each cash-generating unit has not been significantly impaired, 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 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

1.c.1 Loans

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

Loans and receivables are initially recognised at fair value or its equivalent, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees received that are regarded as an adjustment to the effective interest rate on the loan.

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

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

Particular loans that include a derivative are recognised at fair value through profit or loss, as per the option in IAS 39 (paragraph 1.c.9).

1.c.2 Securities

Categories of securities

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

Financial assets at fair value through profit or loss

Aside from derivatives, the category "Financial assets at fair value through profit or loss"comprises:

- financial assets held for trading purposes;

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

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

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

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

Loans and receivables

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

Held-to-maturity financial assets

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

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

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

Should such a situation arise, the Group's entire portfolio of "Held-to-maturity financial assets" would have to be reclassified under "Available-for-sale financial assets". The Group would then not have the option of using the "Held-to-maturity financial assets" category for the next two financial years.

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

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

Available-for-sale financial assets

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

Securities in this category are initially recognised at fair value plus transaction costs, when the latter are significant. On the reporting date, they are measured at fair value and any variations thereto, excluding accrued income, are shown on a separate line in the equity section. Upon disposal of these securities, these unrealised gains or losses are transferred from equity to the profit or loss account, where they are shown under "Net gain/ (loss) on available-for-sale financial assets". The same applies in the case of impairment.

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

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 under the appropriate "Debts" heading, with the exception of repurchase agreements contracted for the Group's trading purposes, where the corresponding liability is classified under "Financial liabilities at fair value through profit or loss".

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

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

Date of recognition for securities transactions

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

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

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

1.c.3 Foreign currency transactions

The method used to account for and 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 under equity.

Non-monetary assets expressed in foreign currencies

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

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

1.c.4 Impairment and restructuring of financial assets

Doubtful assets

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

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

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

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 three months past due;
- 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 outstanding;
- concessions with regard to credit terms that would not have been granted had the borrower not been experiencing financial difficulties.

The impairment is measured as the difference between the carrying amount before impairment and the present value, discounted at the original effective interest rate of the asset, of those components (principal, interest, collateral, etc.) considered to be recoverable.

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

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

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

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

Based on the expert judgement of the business lines or the Risk Department, the Group may create additional collective provisions relating to a particular economic sector or geographical area affected by exceptional economic events. This may be the case when the consequences of these events cannot be measured with sufficient accuracy to adjust the parameters used to determine the collective provision applicable to affected portfolios with similar characteristics.

Impairment of available-for-sale financial assets

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

As regards variable income securities listed on an active market, the control system allows for the identification of securities that may be impaired on a long term basis, using the following two criteria: a significant decline in quoted price below the acquisition cost or the duration over which an unrealised capital loss is noted. An additional individual qualitative analysis may then be carried out. This may lead to the recognition of an impairment loss calculated on the basis of the quoted price.

In addition to the identification criteria, the Group has defined three impairment criteria, one being a significant decline in price, defined as a fall of more than 50% in the acquisition price; another being the observation of an unrealised capital loss over 24 consecutive months prior to the reporting date, and the final one being when there is an unrealised capital loss of at least 30% over an average period of one year. A period of two years is considered by the Group as the period required for a moderate price fall below the purchase cost to be considered as a long-term phenomenon justifying an impairment rather than simply the effect of the random volatility inherent in the stock markets or a cyclical change in such markets over a period of several years.

A similar method is applied in relation to variable income securities that are not listed on an active market. Any impairment loss is calculated on the basis of the model value.

As regards fixed income securities, the impairment criteria are the same as those that apply to impairments on loans and receivables at an individual level. For securities listed on an active market, impairment is calculated on the basis of the quoted price; for others, impairment is calculated on the basis of the model value.

Impairment losses on variable income securities are recognised as a component of Revenues under "Net gain/ (loss) on available-for-sale financial assets" and cannot be recognised in the profit and loss account until the securities are sold (where applicable). Moreover, any subsequent decline of the fair value constitutes an additional impairment loss that is recognised through profit or loss.

Impairment losses on fixed income securities are recognised under "Cost of risk" and may be recognised in the profit and loss account in the event of an increase in fair value that relates objectively to an event occurring after the last impairment was recognised.

Restructuring of assets classified under "loans and receivables"

The restructuring of an asset classified under "loans and receivables" 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, with the result that the borrower's contractual obligation to the Group, measured at present value, is reduced compared to the original terms.

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

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

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

1.c.5 Reclassification of financial assets

The authorised reclassifications of financial assets are as follows:

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

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

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

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

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

1.c.6 Issuance of debt securities

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

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

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

1.c.7 Derivatives and hedge accounting

All derivatives are recognised on the balance sheet on the trade date at the transaction price, and are remeasured at fair value on the reporting date.

Derivatives held for trading purposes

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

Derivatives and hedge accounting

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.

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

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

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

In a fair value hedging relationship, derivatives are 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 straight-line 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 cash flow hedging relationship, derivatives are revalued at fair value on the balance sheet, with changes recorded in equity under "Changes in assets and liabilities 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 "Net interest income" 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 accountt.

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/(loss) on financial instruments at fair value through profit or loss".

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

Embedded derivatives

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

1.c.8 Determination of fair value

Fair value is the price that would be received 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 measurement of the portfolio as a whole is possible when certain conditions are met. Accordingly, the Group makes use of this exception when a group of financial assets and liabilities 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 prices.

- 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.c.9 Financial assets and liabilities recognised at fair value through profit or loss, as per the IAS 39 option

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

- when they are hybrid financial instruments containing one or more embedded derivatives that otherwise would have been separated and recognised separately;

- when using this option allows for the elimination of, or a significant reduction in, an inconsistency in the valuation and recognition of assets and liabilities that would result from their classification in separate accounting categories;

- when a group of financial assets and/or liabilities is managed and assessed on the basis of its fair value, in compliance with a duly documented management and investment strategy.

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

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

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

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 balance sheet. The effective interest rate calculation takes into account all fees received or paid that are an integral part of the effective interest rate of the contract, transaction costs, and premiums and discounts.

In the profit or loss account, the Group recognises income and expenses arising from service provision fees on the basis of the nature of the services to which they relate. Fees considered as an additional component of interest are included in the effective interest rate and are recognised in the profit and loss account under "Income and expenses on interest and similar items". Fees payable on execution of a significant transaction are recognised in full under "Fees" in the profit and loss account when the transaction is completed, as are fees payable for recurring services, over the term of the service.

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

1.c.11 Cost of risk

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

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

The Group derecognises all or part of a financial asset when the contractual rights to the asset's cash flows expire or when the Group transfers the contractual rights to the cash flows from the financial asset and 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.

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

1.c.13 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 traded through clearing houses, whose principles of operation meet both criteria required by the standard, are offset on the balance sheet.

1.d PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE 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.

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; any changes in fair value are posted to the profit and loss account.

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

Software is amortised over 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 creation 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.

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 non-current assets".

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

1.e LEASES

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

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

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

Finance leases

In a finance lease, the lessor transfers substantially all 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, whether individual or portfolio provisions, follow the same rules as described for other loans and receivables.

Operating leases

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

The asset is recognised under property, plant and equipment on the lessor's balance sheet and appreciated on a straight-line basis over the lease term. The depreciable amount excludes the residual value of the asset, whereas 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.e.2 A Group company is the 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.f NON-CURRENT ASSETS HELD FOR SALE, LIABILITIES LINKED TO NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

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

Such assets are no longer depreciated. If an asset or group of assets and liabilities becomes impaired, an impairment loss is recognised in the profit and loss 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 sold or shut down, and subsidiaries acquired exclusively with a view to resale.

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

To ensure that financial years may be compared, the reference year is also subject to a reclassification of the income from discontinued operations, on the line "Net income on discontinued operations".

1.g EMPLOYEE BENEFITS

Short-term benefits

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

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

Long-term benefits

Long-term benefits are all benefits that are not short-term 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 employee benefits payable as a result of the termination of an employment contract under an early-retirement plan based on voluntary departures, when the employee concerned meets the relevant criteria.

Post-employment benefits

In keeping with generally accepted principles, the Group makes a distinction between 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 benefit liability or asset).

1.h SHARE-BASED PAYMENTS

Share-based payments are payments based on shares issued by BNP Paribas, settled by the award of shares or an amount of cash that depends on the development 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.

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

1.i PROVISIONS

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.

1.j CURRENT AND DEFERRED TAXES

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

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

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

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

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

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

Changes in cash and cash equivalents 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 and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders.

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

Preparing the Group's consolidated financial statements requires managers of business lines and functions to make assumptions and estimates that are reflected in the measurement of income and expense in the profit and loss 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 those responsible to exercise their judgement and to make use of information available at the date on which the consolidated 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 consolidated financial statements.

This applies in particular to the following:

- impairment losses recognised to cover credit risks inherent to banking activities;
- use of internal models to measure positions in financial instruments that are not listed on organised markets;
- calculations of the fair value of unlisted financial instruments classified in "Available-for-sale financial assets", "Financial assets at fair value through profit or loss" or "Financial liabilities at fair value through profit or loss", and more generally calculations of the fair value of financial instruments subject to a fair value disclosure requirement within the consolidated financial statements;
- whether a market is active or inactive for the purposes of using a valuation technique;
- impairment losses on variable income financial assets classified as "available for sale";
- impairment tests performed on intangible assets;
- 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;
- assumptions and parameters used in the valuation of defined benefit pension plans;
- measurement of provisions for contingencies and charges;
- recognition of development costs in accordance with the definition of fixed assets;
- recognition of deferred tax assets.

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. NOTES TO THE PROFIT AND LOSS ACCOUNT

2.a GENERAL REMARKS

Return on assets is the ratio of net income to total balance sheet assets. It stood at 107 basis points in 2017 compared to 121 basis points in 2016 (pursuant to Article 38-4 of the Law of 5 April 1993 as amended by the Law of 23 July 2015).

2.b NET INTEREST MARGIN

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

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

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

In millions of euros			2017			2016
	Income	Expense	Net	Income	Expense	Net
Customer items	**1,081.4**	**(83.8)**	**997.6**	**1,075.5**	**(76.0)**	**999.5**
Deposits. loans and borrowings	373.0	(40.8)	332.2	365.1	(40.7)	324.4
Finance leases	708.4	(43.0)	665.4	710.4	(35.3)	675.1
Interbank items	**139.0**	**(145.3)**	**(6.3)**	**127.4**	**(138.1)**	**(10.7)**
Deposits. loans and borrowings	136.7	(143.9)	(7.2)	127.0	(138.0)	(11.0)
Repurchase agreements	2.3	(1.4)	0.9	0.5	(0.1)	0.3
Debt securities issued	**-**	**(3.9)**	**(3.9)**	**-**	**(4.6)**	**(4.6)**
Cash flow hedge instruments	**22.4**	**(7.0)**	**15.4**	**21.0**	**(11.2)**	**9.9**
Interest rate portfolio hedge instruments	**33.7**	**(3.3)**	**30.4**	**29.5**	**(1.1)**	**28.4**
Trading book	**2.8**	**(4.4)**	**(1.5)**	**0.6**	**(1.9)**	**(1.3)**
Fixed-income securities	2.3	-	2.3	0.5	-	0.5
Repurchase agreements	0.5	(0.3)	0.2	0.1	(0.4)	(0.3)
Loans/borrowings	0.0	(2.5)	(2.5)	0.0	(0.6)	(0.6)
Debt securities	-	(1.6)	(1.6)	-	(0.9)	(0.9)
Available-for-sale financial assets	**49.1**	**-**	**49.1**	**70.6**	**-**	**70.6**
Held-to-maturity financial assets	**11.4**	**-**	**11.4**	**11.5**	**-**	**11.5**
Total interest income/ (expense)	1,339.8	(247.6)	1,092.2	1,336.3	(232.9)	1,103.4

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2.c COMMISSIONS

In millions of euros	2017	2016
Credit operations for customers	17.5	16.1
Means of payment and account keeping	28.8	27.4
Securities, investment funds and UCITS	54.9	53.2
Securities transactions for customers account	33.9	34.2
Insurance activities	26.3	22.4
Other commissions	(4.0)	4.3
Total commissions for the period	157.5	157.5

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

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

In millions of euros	2017	2016
Trading portfolio	**(6.8)**	**(2.8)**
Interest rate instruments	(5.0)	(2.5)
Equity financial instruments	(1.8)	(0.3)
Instruments designated under the fair value option	**(2.3)**	**(1.6)**
Impact of hedge accounting	**(0.0)**	**0.3**
Fair value hedges	(11.9)	17.4
Hedged items in fair value hedge	11.9	(17.1)
Exchange rate result	**29.8**	**27.1**
Total	20.7	23.0

Instruments valued using the fair value option include the revaluation of the Group's own credit risk amounting to EUR -7.0 million (EUR -1.9 million in 2016).

Net gains or losses on the trading book include a non-material amount for 2017 and 2016 related to the ineffective portion of cash flow hedges.

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

2.f INCOME AND EXPENSES FROM OTHER ACTIVITIES

In millions of euros	2017	2016
Loans and receivables, fixed-income securities [1)]	**1.4**	**(1.4)**
Gains and losses on disposal	1.4	(1.4)
Equities and other variable-income securities	**18.9**	**25.3**
Dividend income	6.1	17.4
Additions and reversals on impairments	3.6	(11.6)
Gains and losses on disposal	9.2	19.5
Total	20.3	23.9

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

In millions of euros	2017			2016		
	Income	Expense	Net	Income	Expense	Net
Income and expense from investment property	29.2	(12.3)	16.9	26.9	(13.6)	13.3
Income and expense from assets held under operating leases	125.9	(90.9)	35.0	123.9	(90.7)	33.2
Other income and expense	228.5	(225.8)	2.7	187.6	(189.7)	(2.1)
Total	383.6	(329.0)	54.6	338.4	(294.0)	44.4

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

2.g OTHER OPERATING EXPENSES

In millions of euros	2017	2016
Taxes [1)]	(32.9)	(27.7)
External services and other operating expenses	(193.0)	(183.1)
Total other operating expenses	(225.9)	(210.8)

[1)] *Taxes include, interalia, the contribution to the Deposit Guarantee Fund and to the Single Resolution Fund which amounts to EUR -14.1 million in 2017 compared with EUR -11.5 million in 2016.*

2.h COST OF RISK

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

Cost of risk for the period

Cost of risk for the period

In millions of euros	2017	2016
Net additions to impairments	(21.6)	(46.0)
Recoveries on loans and receivables previously written off	5.6	7.6
Irrecoverable loans and receivables not covered by impairments	(19.5)	(14.3)
Total cost of risk for the period	(35.5)	(52.6)

Cost of risk for the period by asset type

In millions of euros	2017	2016
Loans and receivables due from credit institutions	0.0	0.1
Loans and receivables due from customers	(38.4)	(56.0)
Financial instruments on trading activities	-	0.0
Other assets	(1.5)	1.8
Off-balance sheet commitments and other items	4.4	1.5
Total cost of risk for the period	(35.5)	(52.6)

Credit risk impairment

Change in impairment over the period

In millions of euros	2017	2016
Total impairments at start of period	527.0	574.2
Net additions to impairments	21.6	46.0
Use of impairments	(72.5)	(79.4)
Removal from the scope of consolidation	-	(6.7)
Entry into scope of consolidation	24.0	-
Movements in exchange rates and other items	(5.0)	(7.1)
Total impairments at end of period	495.1	527.0

Impairment by asset type

In millions of euros	31 December 2017	31 December 2016
Impairment of assets		
Loans and receivables due from credit institutions (note 5.f)	0.3	0.3
Loans and receivables due from customers (note 5.g)	482.7	510.9
Other assets	3.0	1.8
Total impairments against financial assets	486.1	513.0
of which: Specific impairments	*407.6*	*430.6*
Collective impairments	*78.5*	*82.4*
Provisions recognised as liabilities		
Provisions on commitments		
to credit institutions	0.2	0.2
to customers	8.8	13.8
Total provisions recognised as liabilities	9.0	14.0
of which: Specific impairments	*8.0*	*11.9*
Collective impairments	*1.0*	*2.0*
Total impairments and provisions	495.1	527.0

2.i SHARE OF EARNINGS OF ASSOCIATES

This net income includes the contribution from leasing activities of EUR 7.7 million (EUR 7.1 million in 2016) and from Cardif Lux Vie of EUR 15.4 million (EUR 15.6 million in 2016).

2.j NET GAIN ON OTHER FIXED ASSETS

In millions of euros	2017	2016
Net gain or loss on investment disposals	0.5	23.4
Net gain from disposals of property, plant and equipment	4.8	0.2
Total	5.3	23.6

2.k CORPORATE INCOME TAX

Reconciliation of the effective tax expense to the theoretical tax expense at standard tax rate in Luxembourg	2017		2016	
	In millions of euros	Tax rate	In millions of euros	Tax rate
Theoretical income tax expense on pre-tax income [1]	**(173.0)**	**27.4 %**	**(194.5)**	**29.5 %**
Tax exempt interest and dividends	11.6	-1.8 %	21.9	-3.3 %
Income from tax exempt investments	5.3	-0.8 %	(1.8)	0.3 %
Impact of using tax losses for which no deferred tax asset was previously recognised	3.2	-0.5 %	3.9	-0.6 %
Impact of tax rate adjustment on temporary differences [2]	16.2	-2.6 %	37.6	-5.7 %
Differential effect in tax rates applicable to foreign entities	(6.2)	1.0 %	1.2	-0.2 %
Other items	20.6	-3.3 %	5.2	-0.8 %
Corporate income tax expense	**(122.4)**	**19.4 %**	**(126.5)**	**19.2 %**
of which: Current tax expense for the year to 31 December	*(124.5)*		*(164.7)*	
Deferred tax income (expense) for the year to 31 December (note 5.k))	*2.1*		*38.2*	

[1] Adjusted for share of earnings of associates.

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

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3. 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. Related financing activities are also included in this scope (BNP Paribas Lease Group Luxembourg SA, BGL BNP Paribas Factor SA; the latter was merged with BGL BNP Paribas on 16 December 2016).

- **Leasing International:** this core business includes the leasing activities of the BNP Paribas Group held by the Luxembourg holding company BNP Paribas Leasing Solutions SA. These activities mainly consist of international financial leasing services. BNP Paribas Leasing Solutions uses multiple channels (direct sales, sales via referrals, sales via partnerships and 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, as well as 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. 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. Finally, income from Société Alsacienne de Développement et d'Expansion (SADE) SA, sold to BNP Paribas SA in the second quarter of 2016, as well as income related to the sale of SPV Société Immobilière de Monterey are also allocated to the "Other activities".

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	BDEL	Leasing International	Corporate & Institu-tional Banking	Inter-national Financial Services	Others	2017 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**

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

Assets and liabilities by core business

In millions of euros	31 December 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
BDEL	9,526.2	20,548.4	8,708.5	18,182.7
Leasing International	20,615.4	18,082.4	19,468.3	17,081.3
Corporate & Institutional Banking	354.1	913.3	401.5	496.7
International Financial Services	1,663.1	5,654.3	1,493.5	6,044.6
Others	17,472.1	4,432.5	14,908.4	3,175.0
Total Group	**49,630.9**	**49,630.9**	**44,980.2**	**44,980.2**

4. 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 4.i "Capital management and capital adequacy".

The information presented in this note reflects all the risks borne by the Group, directly or indirectly as a 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.

4.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 has been and may continue to be confronted with a significant deterioration in market and economic conditions resulting, among other things, from crises affecting sovereign debt, the capital markets, credit or liquidity, regional or global recessions, sharp fluctuations in commodity prices, currency exchange rates or interest rates, volatility in prices of financial derivatives, inflation or deflation, restructurings or defaults, corporate or sovereign debt rating downgrades or adverse political and geopolitical events (such as natural disasters, societal unrest, acts of terrorism and military conflicts). Such disruptions, which can develop suddenly and hence whose effects cannot be fully hedged, could affect the operating environment in which financial institutions operate for short or extended periods and have a material adverse effect on the Group's financial position, income and cost of risk. In 2018, 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 or the exit of a country from the eurozone), the resulting political and financial turbulence could have a significant adverse impact on the creditworthiness of the Group's customers and financial institution counterparties, on market parameters such as interest rates, currency exchange rates and stock market indices, as well as on the Group's liquidity and ability to raise financing on acceptable terms.

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

If such adverse credit market conditions were to reappear in the event of prolonged stagnation, 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 short-term 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 fee-based businesses may be generated during market downturns.

Financial and economic conditions affect the number and size of transactions for which the Group provides securities underwriting, financial advisory and other investment banking services. The Bank's 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 in relation to particular businesses, more stringent governance and ethical conduct requirements, modifications stemming from IFRS 9, 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 4 July 2012 on OTC derivatives, central counterparties and trade repositories ("EMIR");

— 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.

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

IFRS 9 Financial Instruments issued by the International Accounting Standards Board (IASB) will replace IAS 39 with effect from 1 January 2018. This standard 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, whereas the current model is based on the losses incurred, as well as new rules for the accounting treatment of hedging instruments. The new approach could result 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).

4.b RISK MANAGEMENT

4.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 Management Board. 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.

Risk is responsible for ensuring that the risks taken by the Group are compatible with its risk policies, as approved by the Central Credit Committee or the Management Board. In addition, major risk policies are presented to the Board of Directors. Risk and Compliance provide permanent and generally ex-ante control that is fundamentally different from the periodic ex-post examinations of the Internal Audit team. Risk reports regularly to the Audit Committee and Risk Committee (specialised committees 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 Management Board. 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 over- sees 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.

4.b.2 Risk 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 risk, operational risk, information and communications technology risk, modelling risk and property/pensions 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-to-day operations.

Reputation 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.

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.

4.c CREDIT AND COUNTERPARTY RISK

4.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 2017	31 december 2016 Proforma*
Central governments and central banks	5,769.6	7,303.8
Institutions [1]	8,835.0	7,894.6
Corporates	8,238.9	7,763.8
of which: Specialised financing	1,576.0	1,159.3
SMEs	1,077.0	828.8
Retail	6,970.0	6,361.5
of which: Secured by mortgages on real estate property	5,346.6	5,003.5
SMEs	262.5	246.7
Non-SMEs	5,084.1	4,756.8
of which: Other retail	1,623.4	1,358.0
SMEs	378.3	162.2
Non-SMEs	1,245.1	1,195.8
Other items [2]	118.4	138.3
Total IRB approach	**29,931.9**	**29,462.0**
Central governments and central banks	249.6	367.9
Regional governments or local authorities	165.2	200.2
Public sector entities	108.3	136.2
Institutions [1]	2,654.0	2,845.5
Corporates	6,142.3	5,643.3
of which: SMEs	1.630.2	1,285.2
Retail	11,495.2	10,426.9
of which: SMEs	11,450.5	10,412.1
Secured by mortgages on real estate property	315.2	418.5
of which: SMEs	106.4	143.0
Exposures in default	532.0	613.4
Equities	18.2	23.2
Other items [2]	1,073.8	1,056.5
Total standardised approach	**22,753.8**	**21,731.8**
Total	**52,685.7**	**51,193.7**

** 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.*

IRBA: Internal Ratings-Based Approach.

The above table 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.

[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.

4.c.2 Credit risk management policy

General credit policy and control and provisioning procedures

The lending activities of the Group are governed by the general credit policies defined by the BNP Paribas Group as well as the policies and standards defined by the Board of Directors and by the Management Board 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-based 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 counter- party 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.

4.c.3 Credit risk diversification

Diversification by counterparty

Diversification is a key component of the Group's policy and is assessed by taking account of all exposure to a single business group. Diversification of the portfolio by counterparty is monitored on a regular basis. The risk concentration ratio ensures that the total amount of risks incurred on a counterparty exceeds neither 10% of the Group's net consolidated 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

Exposure

In millions of euros	31 December 2017																	
	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	Healthcare, Pharmaceu-ticals & Chemicals	Services to Public Authorities (Electricity, gas, water, etc.)	Business services	Communication Services	Sovereign	Transportation & Storage	Others	**Total**
Central governments and central banks	-	-	-	-	1,861.0	229.5	-	-	-	0.0	-	0.0	-	3,679.0	-	0.0	5,769.6
Institutions	-	-	-	-	8,834.5	-	-	0.0	-	-	0.4	-	-	0.0	-	0.0	8,835.0
Corporates	202.1	353.1	197.1	274.2	687.5	2,222.7	211.0	275.6	1,023.5	234.4	320.6	748.1	484.8	87.8	467.7	448.8	8,238.9
Retail	81.3	131.3	124.4	50.8	50.1	209.7	7.1	58.9	5,490.6	187.9	3.7	313.2	4.6	-	26.0	230.2	6,970.0
Other items	2.2	10.2	5.5	1.8	0.4	22.2	1.3	8.9	13.6	2.4	2.3	7.2	0.0	0.0	28.3	12.2	118.4
Total IRB approach	**285.6**	**494.6**	**327.1**	**326.8**	**11,433.6**	**2,684.2**	**219.4**	**343.4**	**6,527.7**	**424.7**	**327.0**	**1,068.5**	**489.4**	**3,766.8**	**522.1**	**691.3**	**29,931.9**
Central governments and central banks	69.0	-	2.7	3.6	106.7	-	-	1.8	17.3	-	-	22.8	-	17.1	8.7	0.0	249.6
Regional governments or local authorities	-	-	-	-	-	0.1	-	-	-	-	0.0	-	-	162.8	0.1	2.2	165.2
Public sector entities	-	-	-	0.0	19.6	0.1	-	-	-	26.0	1.8	0.4	-	8.8	0.9	50.7	108.3
Institutions	7.3	-	-	-	2,575.7	1.3	-	23.5	26.9	-	-	-	-	19.2	-	0.2	2,654.0
Corporates	1,338.7	232.2	400.9	515.3	261.2	69.4	155.4	698.7	6.5	157.1	133.9	1,058.0	42.8	6.4	658.5	407.2	6,142.3
Retail	6,455.8	527.5	163.5	1.6	1.7	2.0	1.8	59.3	2,741.9	336.5	0.3	898.7	0.0	-	288.8	15.8	11,495.2
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	14.5	0.0	15.5	0.0	-	3.1	10.2	315.2
Exposures in default	223.1	31.1	10.3	11.1	9.4	40.8	4.6	17.9	74.1	6.4	1.1	34.5	1.2	1.8	21.0	43.8	532.0
Equities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18.2	18.2
Other items	105.4	3.0	0.4	105.0	67.2	112.6	0.2	3.2	475.9	0.3	0.4	91.3	0.2	44.3	63.0	1.2	1,073.8
Total standardised approach	**8,200.7**	**793.8**	**580.1**	**642.1**	**3,046.5**	**480.4**	**163.6**	**804.3**	**3,344.4**	**540.8**	**137.5**	**2,121.3**	**44.2**	**260.3**	**1,044.1**	**549.5**	**22,753.8**
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**	**965.6**	**464.4**	**3,189.7**	**533.6**	**4,027.1**	**1,566.2**	**1,240.8**	**52,685.7**

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	Healthcare, Pharmaceu-ticals & Chemicals	Services to Public Authorities (Electricity, gas, water, etc.)	Business services	Communication Services	Sovereign	Transportation & Storage	Others	Total
	31 December 2016 Proforma*																
Central governments and central banks	-	-	-	-	2,574.9	12.1	-	-	-	20.9	-	-	-	4,672.0	-	23.9	7,303.8
Institutions	-	-	-	-	7,869.4	-	-	0.2	-	-	0.5	-	-	24.5	-	-	7,894.6
Corporates	185.9	312.0	253.6	242.0	912.9	1,814.1	178.3	229.4	1,166.4	228.0	328.8	680.3	297.6	9.8	455.7	469.1	7,763.8
Retail	8.2	45.8	37.7	10.9	8.2	94.4	2.5	24.3	6,026.6	2.3	0.6	37.8	0.4	-	14.0	47.7	6,361.5
Equities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other items	1.5	9.4	5.4	1.6	0.4	38.9	1.7	9.9	13.6	2.0	1.2	9.8	0.0	0.0	29.7	13.2	138.3
Total IRB approach	**195.6**	**367.2**	**296.7**	**254.6**	**11,365.9**	**1,959.5**	**182.6**	**263.7**	**7,206.6**	**253.2**	**331.1**	**727.9**	**298.0**	**4,706.2**	**499.3**	**553.9**	**29,462.0**
Central governments and central banks	103.3	-	-	2.1	158.9	0.2	-	4.4	19.8	-	-	65.8	-	11.6	1.4	0.5	367.9
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	194.9	-	5.2	200.2
Public sector entities	-	-	-	-	48.7	-	-	-	-	22.1	1.5	-	0.0	6.7	0.7	56.5	136.2
Institutions	3.5	-	-	-	2,780.3	-	-	28.7	18.3	-	-	9.4	-	1.2	-	4.1	2,845.5
Entreprises	1,011.9	203.8	381.9	597.5	286.9	69.8	150.8	636.2	2.1	177.2	69.1	1,082.4	40.6	1.4	565.4	366.1	5,643.3
Retail	6,035.3	464.3	289.7	4.1	2.3	7.6	1.6	27.3	2,225.1	318.8	1.0	820.5	-	-	219.6	9.6	10,426.9
Secured by mortgages on real estate property	1.9	-	5.0	9.1	5.4	347.1	3.7	0.1	-	7.7	-	24.3	-	-	7.0	7.2	418.5
Exposures in default	251.3	30.6	10.3	20.6	2.8	57.9	4.4	26.5	78.7	17.7	3.2	46.5	2.2	1.3	16.2	43.2	613.4
Equities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23.2	23.2
Other items	128.4	1.2	0.9	106.1	117.2	115.3	0.3	12.0	363.6	0.3	0.5	38.6	0.6	142.8	27.0	1.9	1,056.5
Total standardised approach	**7,535.5**	**699.8**	**687.8**	**739.5**	**3,402.4**	**598.0**	**160.9**	**735.2**	**2,707.6**	**543.8**	**75.5**	**2,087.7**	**43.3**	**360.0**	**837.4**	**517.5**	**21,731.8**
Total	**7,731.1**	**1,067.0**	**984.5**	**994.0**	**14,768.3**	**2,557.5**	**343.5**	**998.9**	**9,914.2**	**797.0**	**406.5**	**2,815.6**	**341.3**	**5,066.3**	**1,336.6**	**1,071.4**	**51,193.7**

** 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	Europe* Total Europe	France	Belgium	Luxembourg	Italy	United-Kingdom	Germany	The Netherlands	Other European countries	North America	Asia Pacific	Rest of the World	Total 31 December 2017
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	33.8	-	-	5,769.6
Institutions	8,829.7	3,630.4	4,817.6	68.5	53.4	102.4	12.1	17.0	128.3	2.9	1.0	1.5	8,835.0
Corporates	7,848.1	446.2	595.2	5,641.6	29.9	312.3	556.1	22.8	244.0	56.9	16.7	317.3	8,238.9
Retail	6,951.8	425.3	238.0	6,126.9	1.0	11.5	133.8	2.3	13.0	4.5	3.4	10.3	6,970.0
Other items	118.4	-	77.3	41.1	-	-	-	-	-	-	-	-	118.4
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**	**98.0**	**21.1**	**329.0**	**29,931.9**
Central governments and central banks	249.6	45.2	3.3	13.8	70.8	0.2	0.2	2.7	113.4	0.0	0.0	-	249.6
Regional governments or local authorities	165.2	126.6	2.4	2.7	2.0	6.6	15.4	5.9	3.5	-	-	-	165.2
Public sector entities	108.3	74.8	15.3	-	0.2	4.2	9.7	1.9	2.2	-	-	-	108.3
Institutions	2,560.6	1,480.9	587.2	45.7	346.7	14.3	12.7	37.4	35.6	0.3	13.6	79.5	2,654.0
Corporates	6,011.7	2,083.8	185.5	272.4	776.4	784.2	1,263.8	261.7	384.0	-	-	130.6	6,142.3
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	0.0	0.0	612.2	11,495.2
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	0.0	0.0	0.0	315.2
Exposures in default	510.0	287.7	24.9	0.1	49.0	26.7	60.1	8.4	53.2	-	-	22.0	532.0
Equities	18.2	0.0	0.1	18.1	-	-	-	-	-	-	-	-	18.2
Other items	1,065.4	239.5	105.6	537.6	16.6	102.3	17.7	15.6	30.5	-	-	8.4	1,073.8
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**	**0.4**	**13.7**	**852.7**	**22,753.8**
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**	**98.4**	**34.7**	**1,181.8**	**52,685.7**

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

Exposure

In millions of euros	31 December 2016 Proforma*												
	Europe**												
	Total Europe	France	Belgium	Luxembourg	Italy	United-Kingdom	Germany	The Netherlands	Other European countries	North America	Asia Pacific	Rest of the World	Total
Central governments and central banks	7,259.1	559.6	405.0	3,609.8	255.6		680.5	573.0	1,175.6	39.8	4.9	-	7,303.8
Institutions	7,891.4	4,378.3	3,125.4	77.6	7.4	2.1	25.5	96.9	178.2	0.1	0.9	2.0	7,894.6
Corporates	7,393.1	331.9	694.3	4,925.9	34.4	320.3	540.9	23.8	521.6	112.3	5.5	253.0	7,763.8
Retail	6,331.8	444.6	229.6	5,492.7	1.0	11.4	140.2	2.5	9.8	3.6	3.1	23.0	6,361.5
Other items	138.3	-	99.8	38.4	-	-	0.1	-	-	-	-	-	138.3
Total IRB approach	**29,013.7**	**5,714.3**	**4,554.1**	**14,144.5**	**298.5**	**333.7**	**1,387.2**	**696.2**	**1,885.2**	**155.8**	**14.4**	**278.1**	**29,462.0**
Central governments and central banks	367.9	75.9	4.3	8.1	109.5	0.3	0.2	3.5	166.1	-	-	-	367.9
Regional governments or local authorities	200.2	149.0	5.0	5.5	1.6	9.5	19.1	6.4	4.2	-	-	-	200.2
Public sector entities	136.2	88.8	17.0	0.1	0.3	5.4	7.1	2.2	15.4	-	-	-	136.2
Institutions	2,782.3	1,529.3	722.6	83.6	398.1	14.5	10.0	14.5	9.7	0.2	2.1	60.9	2,845.5
Corporates	5,517.8	2,144.1	177.3	352.6	604.0	790.1	1,094.8	201.1	153.8	-	-	125.5	5,643.3
Retail	9,739.6	3,024.2	273.0	5.1	1,674.9	1,592.6	1,902.9	488.1	778.9	-	-	687.3	10,426.9
Secured by mortgages on real estate property	418.5	417.0	-	1.6	-	-	-	-	-	-	-	-	418.5
Exposures in default	573.9	325.7	33.1	15.7	71.6	23.2	65.3	10.4	28.9	-	-	39.5	613.4
Equities	23.2	0.0	0.1	23.1	-	-	-	-	-	-	-	-	23.2
Other items	1,043.6	226.3	110.6	570.7	14.2	73.1	13.2	13.6	21.9	-	0.0	12.9	1,056.5
Total standardised approach	**20,803.3**	**7,980.3**	**1,342.9**	**1,066.0**	**2,874.1**	**2,508.7**	**3,112.7**	**739.6**	**1,179.0**	**0.2**	**2.1**	**926.1**	**21,731.8**
Total	**49,817.0**	**13,694.6**	**5,897.1**	**15,210.5**	**3,172.6**	**2,842.4**	**4,499.9**	**1,435.8**	**3,064.1**	**156.0**	**16.5**	**1,204.2**	**51,193.7**

* *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.*
** *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.

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

Model applicable to counterparties such as central governments and central banks, companies and institutions

For each of the regulated portfolios, the determination of risk parameters according to the advanced internal risk approach follows a methodology 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.

4.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.

4.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 frequently used 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.

4.d MARKET RISK

4.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 Management Board 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 portfolio under nor- mal market conditions over one trading day, based on changes in the market over the previous 260 days, with a confidence level of 99%. The internal model has been approved by the banking supervisory authorities and it takes into account all of the usual risk factors (interest rates, credit spreads, exchange rates, equity prices, commodity prices and associated volatilities), as well as the correlation between these factors in order to include the effects of diversification. It also takes 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 Management Board 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 Management Board 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.

4.d.2 Market risk related to banking activities

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

The market risk is calculated using the standard method

Interest rate and foreign exchange risks related to banking intermediation activities and investments mainly concern Retail and Commercial Banking, the savings management transactions of Wealth Management 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-for-sale securities. Carved-out Macro Fair Value Hedges were used to cover financial liabilities, namely customer demand deposits.

To identify the hedged amount, the residual balance of the hedged 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 medium-term 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 2017 and 2016, 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 2017				31 December 2016			
	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	916.8	1,110.0	200.0	2,226.8	1,365.0	1,746.0	300.0	3,411.0

In 2016 and 2017, no cash flow hedge relationships (established in accordance with IFRS standards) were disqualified.

4.e SOVEREIGN RISK

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

The Group holds sovereign bonds as part of its liquidity management process. This is based on holding securities eligible as collateral for refinancing by central banks, and includes a high proportion of debt securities with a high rating, issued by governments representing a low level of risk. Moreover, as part of 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 2017	31 December 2016
Banking book [1)]		
Eurozone		
Austria	550.0	700.0
Belgium	350.0	350.0
France	308.0	308.0
Italy	240.0	240.0
Lithuania	10.0	10.0
Luxembourg	193.0	183.0
The Netherlands	225.0	525.0
Portugal	145.0	235.0
Total eurozone	**2,021.0**	**2,551.0**
Other countries of the European Economic Area		
The Czech Republic	60.0	60.0
Total other EEA	**60.0**	**60.0**
Total banking book	**2,081.0**	**2,611.0**

1) Nominal value.

4.f LIQUIDITY AND REFINANCING RISK

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

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

4.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 Management Board. 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 Management Board 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 Management Board, 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.

4.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 long-term outstanding bonds stood at EUR 0.55 billion at the end of 2017, compared with a stock of EUR 0.59 billion at the end of 2016. The Group also continued to fund itself through its commercial paper programmes. The total volume amounted to EUR 1.10 billion at the end of 2017, compared with EUR 0.73 billion as at 31 December 2016.

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.

4.g OPERATIONAL RISK AND INTERNAL CONTROL

4.g.1 Internal Control

The Internal Control system

The Group's Internal Control system is based on rules, action principles and 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 (Management Board, Board of Directors and its committees) and to the BNP Paribas Group (divisions and central functions, General Management, Board of Directors and its committees) must be traceable.

Action principles

Risk management requires the implementation of the following 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

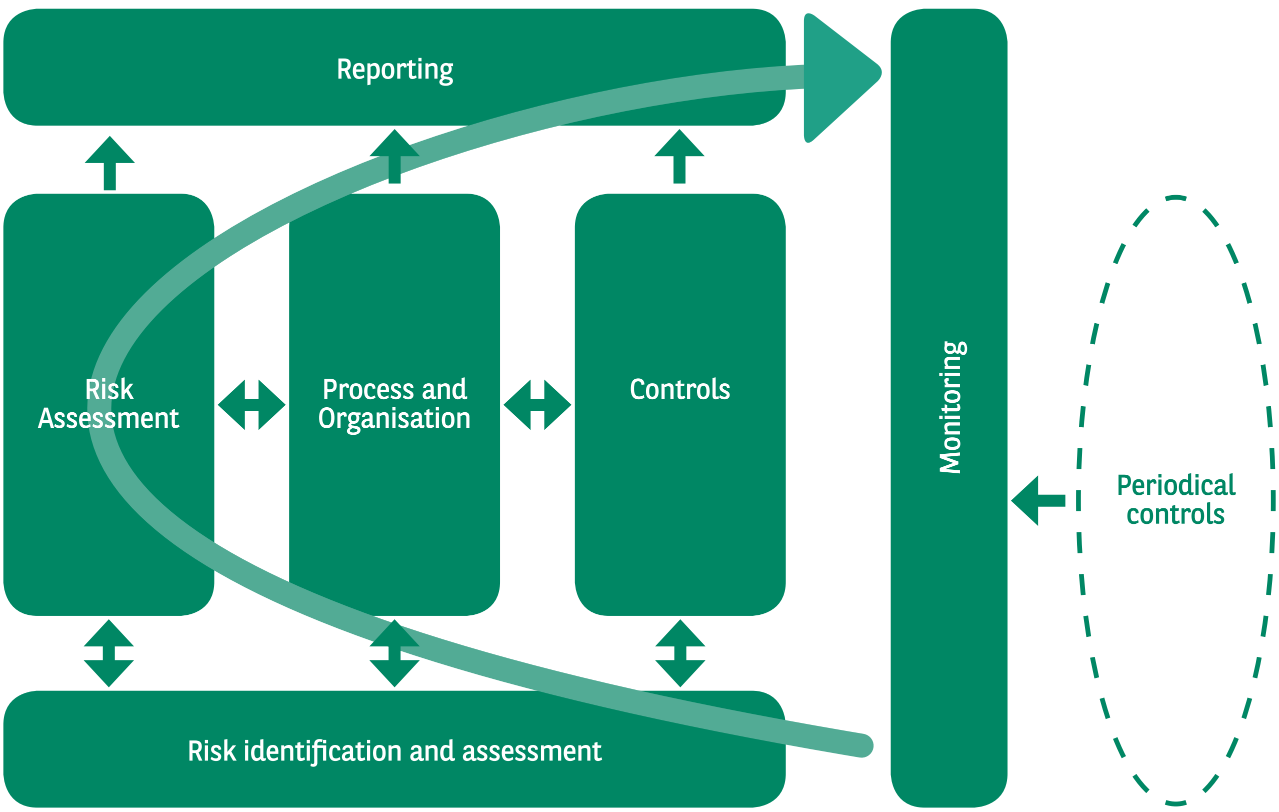
Permanent Control is an overall system that implements action on an ongoing basis to manage risk and monitor the implementation of strategic action. It is based on control policies, procedures, processes and plans.

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 rungs.

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 per- form 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;

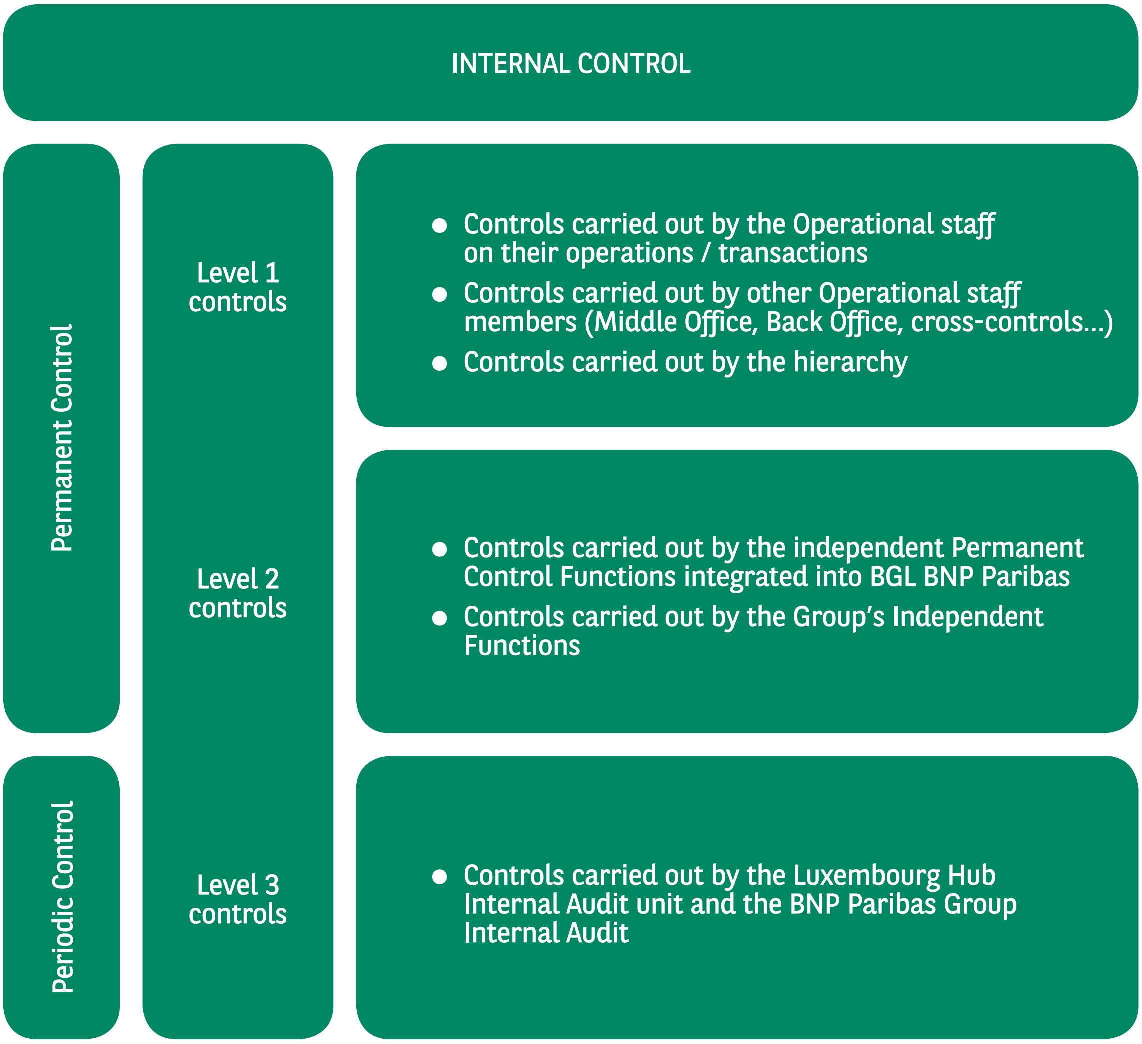
- the controls carried out by the independent Permanent Control functions of the BNP Paribas Group.

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 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 Management Board. As such, this overall framework is monitored and managed by the specific committees presented below.

The Audit Committee and Risk Committee

The Audit Committee and Risk Committee 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 Management Board. 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 Management Board, the RISK Group, BNP Paribas Fortis RISK, and the managers of the various business lines and of the main functions of BGL BNP Paribas. The objective is to review the status of the Permanent Control system as well as current and planned actions, which aim to improve it.

4.g.2 Operational risk 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 Permanent Control Committee meetings. The director of the Oversight of Permanent Control team (RISK-ORC) team in Luxembourg also participates in the Coordination and Internal Control Platform (P2Ci), which meets every two months. The operational risk status is presented during these two meetings.

The 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:

- enhance the quality of data;

- ensure its completeness by relying on cross-checks from other sources.

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

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

The Oversight of 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 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 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 18 countries;
- a qualitative data reporting system in order to manage tax risks and to assess compliance with local tax laws;
- regular reporting to the General Management on the 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 Territory Director and to the COO 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 investments to upgrade the management of privileged accounts, the significant step-up in processing speed for any potential weaknesses and non-compliance situations, heightened protection against certain types of IT attacks targeting infrastructure (DDoS) and the performance of intrusion tests on the information systems. Our efforts to impose surveillance over the most sensitive systems continue, and new applications are added regularly to the scope of surveillance.

The availability of information systems is vital in order to ensure the 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 capabilities and 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 Corporate 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 began in 2016;
- the IT department has restructured its human and governance system around security and continuity by creating an IT Risk Management team that is responsible for steering the level of risk in the area of IT.

4.g.3 Approach and scope

The principles of 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.

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.

4.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 and adjusted on a regular basis in light of new standards and regulations.

4.h 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 Management Board, 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 BNP Paribas Group. It requires permanent revisions to the risk management policy in line with developments in the external environment. Hence, the international cli- mate, the growing number of unlawful practices and regulatory tightening in a number of countries have led the BNP Paribas 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.

4.i CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

4.i.1 Scope of application

The prudential scope of application as defined in Regulation (EU) no. 575/2013 on capital requirements is not the same as the accounting scope of consolidation whose composition concerns the application of IFRS as adopted by the European Union.

Prudential scope

In accordance with banking regulations, the Group has defined a prudential scope to monitor capital ratios calculated on consolidated data.

As at 31 December 2017, 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 8.b.

4.i.2 Capital ratios

In millions of euros	31 December 2017		31 December 2016*	
	Phased in	Transitional arrangements*	Phased in	Transitional arrangements*
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**6,308.8**	**-**	**6,138.9**	**-**
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
Additional value adjustments (negative amount)	(3.7)	-	-	-
Intangible assets (net of related tax liability) (negative amount)	(158.2)	-	(161.2)	-
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)	(3.7)	-	(5.5)	-
Fair value reserves related to gains or losses on cash flow hedges	(33.1)	-	(46.9)	-
Negative amounts resulting from the calculation of expected loss amounts	(40.1)	-	(53.2)	-
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	(8.2)	-	(9.6)	-
Defined-benefit pension fund assets (negative amount)	(3.2)	-	(12.4)	-
Exposure amount of the following items which qualify for a risk weight 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	(122.1)	-	(127.6)	-
Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	(234.7)	227.2	(260.9)	249.9
of which: Unrealised gains (phase out)	(158.7)	158.7	(155.9)	155.9
Unrealised losses (phase out)	1.9	(9.4)	7.3	(18.4)
Unrealised gains linked to exposures to central governments (phase out)	(78.0)	78.0	(112.4)	112.4
Unrealised losses linked to exposures to central governments (phase out)				
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(610.4)**	**227.2**	**(677.3)**	**249.9**
Common Equity Tier 1 (CET1) capital	5,698.4	227.2	5,461.6	249.9

** 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.*

In millions of euros	31 December 2017 Phased in	31 December 2017 Transitional arrangements*	31 December 2016 Phased in	31 December 2016 Transitional arrangements*
Tier 1 capital (T1) capital (T1=CET1+AT1)	5,698.4	227.2	5,461.6	249.9
Tier 2 (T2) capital: instruments and provisions				
Capital instruments and the related share premium accounts	46.3	-	58.3	-
Tier 2 (T2) capital before regulatory adjustments	**46.3**	**-**	**58.3**	**-**
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)	(34.4)	-	(34.4)	-
Total regulatory adjustments to Tier 2 (T2) capital	**(34.4)**	**-**	**(34.4)**	**-**
Tier 2 (T2) capital	11.9	-	23.9	-
Total capital (TC=T1+T2)	5,710.3	227.2	5,485.5	249.9
Credit risk	22,336.5	-	21,287.7	-
Counterparty risk	104.9	-	151.0	-
Banking book securitisation positions	8.9	-	56.0	-
Market risk	2.1	-	8.7	-
Operational risk	1,551.9	-	1,413.3	-
Amounts below the thresholds for deduction (subject to 250% risk weight)	594.7	-	746.5	-
Total risk-weighted assets	24,599.1	-	23,663.2	-
Capital ratio				
Common Equity Tier 1 capital (as a percentage of risk exposure amount)	23.2%		23.1%	
Tier 1 capital (as a percentage of risk exposure amount)	23.2%		23.1%	
Total capital (as a percentage of risk exposure amount)	23.2%		23.2%	
Regulatory ratio according to Basel 1 threshold	22.5%		-	
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)	306.3		275.8	
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)	181.2		238.3	
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)	88.9		98.8	

* *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 23.2% as at 31 December 2017 (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.

4.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. These items are subject to transitional provisions.

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.

As at 31 December 2017 and 31 December 2016, none of the thresholds that require deduction from capital had been reached.

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

Capital requirements and risk-weighted assets under Pillar 1

In millions of euros	Risk-weighted assets		Capital requirements	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Credit risk	**22,336.5**	**21,287.7**	**1,786.92**	**1,703.02**
of which: Standardised approach	13,934.4	13,172.9	1,114.75	1,053.83
Advanced IRB approach	7,079.2	6,937.7	566.34	555.02
Equity positions under the simple risk-weighted approach	1,322.9	1,177.1	105.83	94.17
Counterparty credit risk	**104.9**	**151.0**	**8.39**	**12.08**
of which: Mark-to-market	101.6	146.3	8.13	11.71
CVA	3.3	4.7	0.26	0.37
Banking book securitisation positions	**8.9**	**56.0**	**0.71**	**4.48**
Of which: IRB approach	8.9	56.0	0.71	4.48
Market risk	**2.1**	**8.7**	**0.17**	**0.70**
of which: Standardised approach	2.1	8.7	0.17	0.70
Operational risk	**1,551.9**	**1,413.3**	**124.15**	**113.06**
of which: Basic indicator approach	64.2	25.7	5.13	2.06
Standardised approach	193.5	186.7	15.48	14.94
Advanced Measurement Approach (AMA)	1,294.3	1,200.8	103.54	96.07
Amounts below the thresholds for deduction (subject to 250% risk weight)	**594.7**	**746.5**	**47.58**	**59.72**
Total	**24,599.1**	**23,663.2**	**1,967.93**	**1,893.06**

4.i.5 Capital adequacy

Single Supervisory Mechanism

The Single Supervisory Mechanism (SSM) is the banking supervision system for the eurozone. The SSM is one of the three pillars of the Banking Union, a process initiated in June 2012 by the European 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 2017, the BGL 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 0.250% (transitional) O-SII buffer (a capital reserve to prevent or mitigate systemic or macro-prudential non-cyclical risks that might have a negative impact on the real economy), 0% as a 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 18 October 2017. 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.

4.i.6 Capital management and planning

The Group manages its solvency ratios prospectively, combining prudential objectives, profitability and growth. The Group maintains a balance sheet structure to enable it to finance the development of its activities in the best conditions, taking into account, in particular, a high quality credit rating.

Changes in ratios are reviewed by the Management Board 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 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 2017 financial adequacy of internal capital demonstrated that the Group is adequately capitalised and has a large surplus of internal capital.

5. NOTES TO THE BALANCE SHEET

5.a ASSETS, LIABILITIES AND DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities at fair value option through profit or loss consist mainly of issues for the Group's own account made to fulfil client demand, transactions negotiated for trading, and instruments that the Group is not permitted to classify as hedging instruments under accounting regulations.

In millions of euros	31 December 2017		31 December 2016	
	Trading book	Portfolio designated under the fair value option	Trading book	Portfolio designated under the fair value option
Securities portfolio	86.6	-	108.3	-
Loans and repurchase agreements	23.1	5.5	27.7	5.5
Financial assets at fair value through profit or loss	**109.8**	**5.5**	**135.9**	**5.5**
Borrowing and repurchase agreements	118.9	-	-	-
Debt securities (note 5.i)	-	93.9	-	133.3
Subordinated debt (note 5.i)	-	88.5	-	84.7
Financial liabilities at fair value through profit or loss	**118.9**	**182.5**	**-**	**218.0**

The details of these headings are presented in note 5.d.

Financial assets

The financial assets in the trading book notably consist of securities transactions that the Group carried out on its own behalf, repurchase agreements as well as some derivatives. Assets designated at fair value option through profit or loss include assets with embedded derivatives that have not been separated from the host contract.

Financial liabilities

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

The redemption value of liabilities at fair value option through profit or loss amounted to EUR 171.3 million as at 31 December 2017, compared with EUR 209.1 million as at 31 December 2016.

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)

.

In millions of euros	31 December 2017		31 December 2016	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Currency derivatives	33.1	28.1	47.8	43.6
Interest rates derivatives	25.2	14.1	32.8	18.9
Equity derivatives	8.6	10.4	11.7	11.1
Financial derivatives	**66.8**	**52.6**	**92.3**	**73.6**

The table below shows the total notional amount of trading derivatives. The notional amounts of derivatives are merely an indication of the volume of the Group's activities and financial instrument markets, and do not reflect the market risks associated with such instruments.

In millions of euros	31 December 2017	31 December 2016
Currency derivatives	4,692.0	5,155.2
Interest rates derivatives	4,585.7	2,401.0
Equity derivatives	158.5	221.3
Transaction derivatives	**9,436.2**	**7,777.5**

5.b DERIVATIVES USED FOR HEDGING PURPOSES

The table below shows the market values of derivatives for hedging purposes.

In millions of euros	31 December 2017			31 December 2016		
	Notional amount	Positive fair value	Negative fair value	Notional amount	Positive fair value	Negative fair value
Fair value hedges	**5,555.0**	**68.9**	**29.2**	**5,105.0**	**102.5**	**53.2**
Interest rate derivatives	5,555.0	68.9	29.2	5,105.0	102.5	53.2
Cash flow hedges	**2,226.8**	**47.4**	**2.2**	**3,414.7**	**67.8**	**4.9**
Interest rate derivatives	2,226.8	47.4	2.2	3,414.7	67.8	4.9
Derivatives used for hedging purposes	**7,781.8**	**116.4**	**31.4**	**8,519.7**	**170.3**	**58.1**

Derivatives used for hedging purposes are exclusively contracted on over-the-counter markets.

5.c AVAILABLE-FOR-SALE FINANCIAL ASSETS

In millions of euros	31 December 2017			31 December 2016		
	Net	of which impairments	of which changes in value recognised directly to equity	Net	of which impairments	of which changes in value recognised directly to equity
Fixed-income securities	**4,318.4**	**-**	**156.8**	**4,784.0**	**-**	**223.5**
Government Bonds	1,959.2	-	90.2	2,539.6	-	134.7
Other Bonds	2,359.2	-	66.5	2,244.3	-	88.7
Equities and other variable-income securities	**389.8**	**(240.6)**	**129.1**	**692.0**	**(240.3)**	**94.1**
Listed securities	30.3	-	10.4	26.8	-	4.6
Non-listed securities	359.5	(240.6)	118.7	665.2	(240.3)	89.5
Total available-for-sale financial assets	**4,708.2**	**(240.6)**	**285.9**	**5,476.0**	**(240.3)**	**317.6**

Changes in value recognised directly in equity are included in equity as follows:

In millions of euros	31 December 2017			31 December 2016		
	Fixed - income securities	Equities and other variable - income securities	Total	Fixed - income securities	Equities and other variable - income securities	Total
Unhedged changes in value of securities recognised in "available-for-sale financial assets	**156.8**	**129.1**	**285.9**	**223.5**	**94.1**	**317.6**
Deferred tax linked to these changes in value	(39.1)	(27.2)	(66.3)	(54.2)	(20.3)	(74.5)
Share of changes in value of available-for-sale securities owned by associates, net of deferred tax	25.3	1.7	26.9	27.2	5.9	33.1
Unamortised changes in value of available-for-sale securities reclassified as loans and receivables	(8.4)	-	(8.4)	(17.5)	-	(17.5)
Changes in value of assets recognised directly to equity under the heading "Available-for-sale financial assets"	**134.6**	**103.6**	**238.2**	**179.0**	**79.7**	**258.7**
Attributable to equity shareholders	134.6	92.4	227.0	179.0	70.7	249.8
Attributable to minority interests	-	11.1	11.1	-	8.9	8.9

5.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 if the Group holds the asset, or offer price if there is a short position, unless there is evidence that another point in the bid/offer range would provide a more representative exit price.

Value adjustment for counterparty risk (Credit Valuation Adjustment – 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 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 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 4.1 million as at 31 December 2017, compared with a reduction in value of EUR 11.2 million as at 31 December 2016.

The change in the result is largely correlated to changes in the level of spreads: the average level of senior spread applied as at 31 December 2017 was 6 basis points compared with 23 basis points applied as at 31 December 2016.

The change in fair value of derivatives recorded in liabilities in respect of own credit risk instruments was not significant as at 31 December 2017 or 31 December 2016.

Funding Valuation Adjustment (FVA): this adjustment was implemented at the end of the Q3 2015 within BGL BNP Paribas. 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 2017 or 31 December 2016.

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.c.8), 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.

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 2017, there were no transfers between levels.

In millions of euros	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS								
Trading book	86.6	23.1	-	109.8	108.3	27.7	-	135.9
Securities portfolio	**86.6**	**-**	**-**	**86.6**	**108.3**	**-**	**-**	**108.3**
Equities and other variable-income securities	86.6	-	-	86.6	108.3	-	-	108.3
Loans and repurchase agreements	**-**	**23.1**	**-**	**23.1**	**-**	**27.7**	**-**	**27.7**
Repurchase agreements	-	23.1	-	23.1	-	27.7	-	27.7
Portfolio designated under the fair value option	-	5.5	-	5.5	-	5.5	-	5.5
Loans and repurchase agreements	**-**	**5.5**	**-**	**5.5**	**-**	**5.5**	**-**	**5.5**
Loans	-	5.5	-	5.5	-	5.5	-	5.5
Available-for-sale assets	3,729.1	641.5	337.6	4,708.2	4,282.7	884.1	309.2	5,476.0
Government bonds	1,706.4	252.9	-	1,959.2	2,223.2	316.5	-	2,539.6
Other fixed-income securities	1,991.7	367.5	-	2,359.2	2,032.2	212.1	-	2,244.3
Equities and other variable-income securities	31.0	21.2	337.6	389.8	27.3	355.6	309.2	692.0
FINANCIAL LIABILITIES								
Trading book	-	118.9	-	118.9	-	0.0	-	0.0
Securities portfolio	**-**	**-**	**-**	**-**	**-**	**0.0**	**-**	**0.0**
Other fixed-income securities	-	-	-	-	-	0.0	-	0.0
Borrowings and repurchase agreements	**-**	**118.9**	**-**	**118.9**	**-**	**-**	**-**	**-**
Repurchase agreements	-	118.9	-	118.9	-	-	-	-
Portfolio designated under the fair value option	-	182.5	-	182.5	-	218.0	-	218.0
Debt securities	-	93.9	-	93.9	-	133.3	-	133.3
Subordinated debts	-	88.5	-	88.5	-	84.7	-	84.7

In millions of euros	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
POSITIVE FAIR VALUE								
Foreign exchange derivatives	-	33.1	-	33.1	-	47.8	-	47.8
Interest rate derivatives	-	25.2	-	25.2	-	32.8	-	32.8
Equity derivatives	0.0	8.6	-	8.6	-	11.7	-	11.7
Positive fair value of derivatives (not used for hedging purposes)	0.0	66.8	-	66.8	-	92.3	-	92.3
Positive fair value of derivatives used for hedging purposes	-	116.4	-	116.4	-	170.3	-	170.3
NEGATIVE FAIR VALUE								
Foreign exchange derivatives	-	28.1	-	28.1	-	43.6	-	43.6
Interest rate derivatives	-	14.1	-	14.1	-	18.9	-	18.9
Equity derivatives	0.0	10.4	-	10.4	0.0	11.1	-	11.1
Negative fair value of derivatives (not used for hedging purposes)	0.0	52.6	-	52.6	0.0	73.6	-	73.6
Negative fair value of derivatives used for hedging purposes	-	31.4	-	31.4	-	58.1	-	58.1

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 pro- vided 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 shares of funds 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 of the trading book designated at fair value through profit or loss or classified as available for sale comprise units of funds and unlisted equities.

Fair value is determined using a methodology that takes into consideration both the available external indicative prices as well as discounted expected cash flows.

The Discounted Expected Cash flow approach for CDOs takes into consideration both an internal and an external independent set of hypotheses to derive expectations about the underlying cash flow payments.

Fund units relate to real estate funds for which the valuation of the underlying investments is not frequent, as well as hedge funds for which the observation of the net asset value is not frequent.

Unlisted private equities are systematically classified as Level 3, with the exception of UCITS with a daily net asset value, presented as unlisted securities in note 5.c, but which are classified in the Level 1 of the valuation hierarchy.

The portfolio of available-for-sale financial assets classified as Level 3 mainly contains assets controlled by BNP Paribas. The value of most of these securities corresponds to the net book value. The value of the stake in BNP Paribas Asset Management is determined using the discounted expected cash flow method. This method is based on a multi-year financial plan for the first five years, then extrapolated on a perpetuity growth rate to determine a final value. The test uses a cost of capital in line with market practices. The other parameters are the coefficient of cost/income and the sustainable growth rate of costs and revenues; these parameters are specific to the industry.

Repurchase agreements, mainly long term on corporate bonds: the valuation of these transactions requires internal methodologies given the lack of activity and unavail- ability 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 markets such as tranches on old credit index series or emerging mar- kets 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, the following movements occurred between 1 January and 31 December 2017.

Financial assets

In millions of euros	31 December 2017			31 December 2016		
	Financial instruments at fair value through profit or loss (fair value option)	Available-for-sale financial assets	Total	Financial instruments at fair value through profit or loss (fair value option)	Available-for-sale financial assets	Total
Start of period	**-**	**309.2**	**309.2**	**0.1**	**323.6**	**323.7**
Purchases	-	0.8	0.8	-	0.8	0.8
Sales	-	(11.3)	(11.3)	-	(23.4)	(23.4)
Settlements	-	(0.0)	(0.0)	(0.1)	0.2	0.1
Others	-	1.5	1.5	-	6.9	6.9
Gains (or losses) recognised in profit or loss	-	(0.2)	(0.2)	-	(11.7)	(11.7)
Changes in assets and liabilities recognised directly in equity	-	37.4	37.4	-	12.8	12.8
Items related to exchange rate movements	-	-	-	-		-
Changes in assets and liabilities recognised in equity	-	37.4	37.4	-	12.8	12.8
End of period	**-**	**337.6**	**337.6**	**-**	**309.2**	**309.2**

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.

5.e RECLASSIFICATION OF FINANCIAL INSTRUMENTS INITIALLY ACCOUNTED FOR AS AVAILABLE-FOR-SALE ASSETS

The amendments to IAS 39 and IFRS 7 adopted by the European Union on 15 October 2008 permit the reclassification of instruments initially held for trading or avail- able-for-sale, within the customer loan portfolios or as avail- able-for-sale securities.

The Group has twice reclassified assets that were initially recorded as available-for-sale assets as loans and receivables:

- In 2009, the Group reclassified structured transactions with a net value of EUR 669.7 million;
- In 2011, the Group reclassified Portuguese debt securities with a net value of EUR 299.8 million.

The variation in the net carrying amount of securities reclassified in 2009 as loans and receivables is due to repayments, partially offset by the amortisation of the reclassification discount.

The variation in the net carrying amount of sovereign debt, reclassified in 2011 as loans and receivables is due to sales of securities and repayments partially offset by the amortisation of the reclassification discount.

The following table summarises the securities reclassified as loans and receivables:

In millions of euros		31 December 2017		31 December 2016	
	Reclassification date	Carrying value	Fair value or model	Carrying value	Fair value or model
Sovereign securities from portfolio of available-for-sale assets		122.7	134.0	205.7	230.6
of which : Portuguese sovereign securities	*30 June 2011*	*122.7*	*134.0*	*205.7*	*230.6*
Stuctured transactions and other fixed-income securities from portfolio of available-for-sale assets	*30 June 2009*	77.5	81.8	96.4	98.1

Without these reclassifications, there would have been a difference in equity of EUR -1.4 mil- lion in 2017, compared with a difference of EUR9.1 million currently recognised (EUR -4.9 million and EUR 11.0 million respectively for 2016). In 2016 and 2017, the reclassifications had no impact on the Group's net income.

5.f INTERBANK TRANSACTIONS, LOANS AND RECEIVABLES DUE FROM/TO CREDIT INSTITUTIONS

Loans and receivables due from credit institutions

En millions d'euros	31 December 2017	31 December 2016
On demand accounts	982.8	1,053.9
Loans	8,689.2	7,655.9
Repurchase agreements	3,539.6	-
Total loans and receivables due from credit institutions before impairment	13,211.6	8,709.8
of which: Doubtful loans	*0.3*	*0.4*
Impairments (note 2.h)	**(0.3)**	**(0.3)**
Specific impairments	*(0.3)*	*(0.3)*
Collective impairments	*(0.0)*	*(0.0)*
Total loans and receivables due from credit institutions, net of impairment	13,211.3	8,709.4

Due to credit institutions

In millions of euros	31 December 2017	31 December 2016
On demand accounts	723.1	554.0
Borrowings	10,472.0	9,416.7
Repurchase agreements	465.8	-
Total due to credit institutions	11,661.0	9,970.7

5.g LOANS AND RECEIVABLES DUE FROM/TO CUSTOMERS

Loans and receivables due from customers

In millions of euros	31 December 2017	31 December 2016
Ordinary debitory accounts	960.0	979.0
Loans to customers	15,446.1	14,148.7
Finance leases	12,630.5	11,964.0
Total loans granted and receivables due from customers before impairment	29,036.5	27,091.8
of which: Doubtful loans	*755.0*	*883.1*
Impairments (note 2.h)	**(482.7)**	**(510.9)**
Specific impairments	(404.2)	(428.5)
Collective impairments	(78.4)	(82.4)
Total loans and receivables due from customers, net of impairment	28,553.8	26,580.9

Breakdown of finance leases

In millions of euros	31 December 2017	31 December 2016
Gross investment	15,017.7	14,023.4
Receivable within 1 year	*5,541.6*	*5,345.2*
Receivable after 1 year but within 5 years	*8,981.0*	*8,190.2*
Receivable beyond 5 years	*495.1*	*488.0*
Unearned interest income	(2,387.4)	(2,059.4)
Net investment before impairment	12,630.5	11,964.0
Receivable within 1 year	*4,679.3*	*4,635.2*
Receivable after 1 year but within 5 years	*7,549.6*	*6,940.4*
Receivable beyond 5 years	*401.4*	*388.4*
Impairments	(261.5)	(283.1)
Net investment after impairment	12,369.0	11,680.9

Due to customers

In millions of euros	31 December 2017	31 December 2016
Demand deposits	15,153.2	13,844.8
Term accounts	4,614.5	4,011.5
Savings accounts	6,448.8	5,971.9
Regulated saving accounts	22.0	24.6
Total due to customers	26,238.5	23,852.8

5.h PAST-DUE AND DOUBTFUL LOANS AND RESTRUCTURED RECEIVABLES

The tables below present the carrying amounts of financial assets that are past due but not impaired (by order of delinquency), impaired doubtful assets and related collateral or other guarantees and finally the carrying value of restructured loans.

The amounts shown in these tables are stated before any provision on a portfolio basis.

The reported amount for collateral and other guarantees received is the lower of the value of the guarantee and the value of the secured asset.

Past-due but not impaired loans

In millions of euros	31 December 2017					
	< 90 days	> 90 days < 180 days	> 180 days < 1 year	> 1 year	Total	Collateral received
Loans and receivables due from credit institutions	0.1	-	-	-	0.1	0.1
Loans and receivables due from customers	1,146.1	31.0	18.3	17.2	1,212.5	896.3
Total past-due but not impaired loans	**1,146.2**	**31.0**	**18.3**	**17.2**	**1,212.6**	**896.4**

In millions of euros	31 December 2016					
	< 90 days	> 90 days < 180 days	> 180 days < 1 year	> 1 year	Total	Collateral received
Loans and receivables due from credit institutions	0.2	0.0	-	-	0.3	0.3
Loans and receivables due from customers	926.8	24.6	9.0	5.1	965.5	717.5
Total past-due but not impaired loans	**927.1**	**24.6**	**9.0**	**5.1**	**965.8**	**717.8**

Doubtful assets

In millions of euros	31 December 2017			
	Gross value	Impairment	Net	Collateral received
Loans and receivables due from credit institutions (note 5.f)	0.3	(0.3)	(0.0)	0.0
Loans and receivables due from customers (note 5.g)	755.0	(404.2)	350.7	297.2
Doubtful assets	**755.3**	**(404.6)**	**350.7**	**297.2**
Financing commitments given	4.3	(0.6)	3.7	1.8
Guarantee commitments given	9.3	(5.9)	3.3	-
Off-balance sheet doubtful commitments	**13.5**	**(6.5)**	**7.0**	**1.8**
Total	**768.8**	**(411.1)**	**357.7**	**299.0**

In millions of euros	31 December 2016			
	Gross value	Im-pairment	Net	Collateral received
Loans and receivables due from credit institutions (note 5.f)	0.4	(0.3)	0.0	-
Loans and receivables due from customers (note 5.g)	883.1	(428.5)	454.6	393.2
Doubtful assets	883.5	(428.8)	454.6	393.2
Financing commitments given	8.6	(0.2)	8.4	4.3
Guarantee commitments given	10.9	(6.7)	4.2	-
Off-balance sheet doubtful commitments	19.4	(6.9)	12.6	4.3
Total	902.9	(435.7)	467.2	397.5

Restructured receivables

In millions of euros	31 December 2017					
				Of which: Doubtul loans		
	Gross amount	Impairment	Net amount	Gross amount	Dépréciations	Net amount
Loans and receivables	156.5	(29.3)	127.2	86.7	(28.7)	58.0
Central governments and central banks	0.0	-	0.0	-	-	-
Corporates	115.7	(24.4)	91.3	60.3	(24.0)	36.3
Institutions	1.1	(0.4)	0.7	1.1	(0.4)	0.7
Retail	39.6	(4.4)	35.2	25.3	(4.3)	21.0
Off-balance sheet commitments	0.9	0.0	0.9	0.9	0.0	0.9
Total	157.4	(29.2)	128.2	87.7	(28.7)	58.9

In millions of euros	31 December 2016					
				Of which: Doubtul loans		
	Gross amount	Impairment	Net amount	Gross amount	Dépréciations	Net amount
Loans and receivables	218.4	(34.9)	183.4	110.7	(33.6)	77.1
Central governments and central banks	0.2	-	0.2	-	-	-
Corporates	167.2	(29.3)	137.9	76.1	(28.0)	48.1
Institutions	-	-	-	-	-	-
Retail	50.9	(5.6)	45.3	34.5	(5.6)	29.0
Off-balance sheet commitments	0.1	-	0.1	0.1	-	0.1
Total	218.4	(34.9)	183.5	110.7	(33.6)	77.2

5.i DEBT SECURITIES AND SUBORDINATED DEBT

This note covers all debt securities and subordinated debt measured at an amortised cost and at fair value through profit or loss.

Debts measured at fair value though profit or loss (note 5.a)

In millions of euros	31 December 2016	Issues	Redemp-tions	Movements in ex-change rates and other movements	31 December 2017
Debt with a maturity of more than 1 year on issue					
Negociable debt securities	125.3	2.1	(37.0)	(4.1)	86.4
Bond issues	8.0	-	-	(0.4)	7.6
Debt securities	**133.3**	**2.1**	**(37.0)**	**(4.5)**	93.9
Redeemable subordinated debt	84.7	-	-	3.8	88.5
Subordinated debt	84.7	-	-	3.8	88.5

In millions of euros	31 December 2015	Issues	Redemp-tions	Movements in ex-change rates and other movements	31 December 2016
Debt with a maturity of more than 1 year on issue					
Negociable debt securities	223.4	4.1	(99.6)	(2.5)	125.3
Bond issues	8.2	-	-	(0.2)	8.0
Debt securities	**231.6**	**4.1**	**(99.6)**	**(2.7)**	133.3
Redeemable subordinated debt	83.1	-	-	1.6	84.7
Subordinated debt	83.1	-	-	1.6	84.7

Debts measured at amortised cost

In millions of euros	31 December 2016	Issues	Redemp-tions	Movements in ex-change rates and other movements	31 December 2017
Debt with a maturity of less than 1 year on issue					
Negociable debt securities	729.4	3,541.7	(3,135.7)	(30.6)	1,104.8
Debt with a maturity of more than 1 year on issue					
Negociable debt securities	378.3	-	(10.0)	0.2	368.4
Debt securities	1,107.7	3,541.7	(3,145.7)	(30.5)	1,473.2

In millions of euros	31 December 2015	Issues	Redemp-tions	Movements in ex-change rates and other movements	31 December 2016
Debt with a maturity of less than 1 year on issue					
Negociable debt securities	981.3	1,595.4	(1,835.5)	(11.8)	729.4
Debt with a maturity of more than 1 year on issue					
Negociable debt securities	440.6	0.2	(61.9)	(0.6)	378.3
Debt securities	1,421.9	1,595.6	(1,897.5)	(12.3)	1,107.7

5.j HELD-TO-MATURITY FINANCIAL ASSETS

In millions of euros	31 December 2017	31 December 2016
Bonds	**290.4**	**293.8**
Government bonds	158.4	173.5
Other bonds	132.0	120.2
Total held-to-maturity financial assets	290.4	293.8

As at 31 December 2017, just as at 31 December 2016, no impairment was recognised on held-to-maturity financial assets.

5.k CURRENT AND DEFERRED TAXES

In millions of euros	31 December 2017	31 December 2016
Current taxes	17.8	28.3
Deferred taxes	92.5	104.3
Current and deferred tax assets	110.3	132.6
Current taxes	48.8	45.1
Deferred taxes	437.9	465.3
Current and deferred tax liabilities	486.8	510.4

Changes in deferred taxes over the period

In millions of euros	2017	2016
Net deferred taxes at start of period	(361.0)	(395.3)
Deferred tax income	2.1	38.2
Changes in deferred taxes linked to remeasurement and reversal through profit or loss of available-for-sale financial assets including those reclassified as loans and receivables	8.2	3.1
Changes in deferred taxes linked to remeasurement and reversal through or loss on hedging derivatives	5.0	(1.6)
Changes in deferred taxes linked to items recognised directly in equity that may not be reclassified to profit and loss	(0.6)	3.8
Entry in the scope of consolidation	4.4	-
Exit from scope of consolidation	-	0.7
Exchange rate movements and other movements	(3.5)	(9.8)
Net deferred taxes at end of period	(345.4)	(361.0)

Breakdown of deferred tax assets and liabilities by origin

In millions of euros	31 December 2017	31 December 2016
Available-for-sale financial assets	(76.8)	(89.8)
Finance leases	(194.9)	(224.1)
Provisions for employee benefit obligations	14.8	15.7
Provisions for credit risk	32.3	50.6
Earnings on capital gains to be immunized according to art.54 LIR	(48.3)	(48.8)
Property, plant, equipment and intangible assets	(31.9)	(37.7)
Provisions for the contribution to the resolution and deposit guarantee schemes	(23.7)	(27.8)
Lump-sum provision	(41.6)	(32.4)
Financial assets at fair value through profit or loss	(12.5)	6.0
Other items	22.1	12.8
Tax loss carryforwards	15.1	14.7
Net deferred taxes	(345.4)	(361.0)
of which: Deferred tax assets	*92.5*	*104.3*
Deferred tax liabilities	*(437.9)*	*(465.3)*

5.l ACCRUED INCOME/EXPENSE AND OTHER ASSETS/LIABILITIES

In millions of euros	31 December 2017	31 December 2016
Guarantee deposits and bank guarantees paid	13.2	10.1
Settlement accounts related to securities transactions	-	5.2
Collection accounts	71.0	42.8
Accrued income and prepaid expenses	100.0	73.2
Other debtors and miscellaneous assets	478.8	563.7
Total accrued income and other assets	663.0	695.1
Guarantee deposits received	38.4	34.1
Settlement accounts related to securities transactions	3.7	12.5
Collection accounts	70.8	70.4
Accrued expenses and deferred income	218.9	167.1
Other creditors and miscellaneous liabilities	760.6	786.6
Total accrued expense and other liabilities	1,092.4	1,070.8

5.m INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Group's investments in associates are all accounted for using the equity method. As at 31 December 2017, the Group had no joint ventures.

The main associates of the Group are identified below.

In millions of euros	Investments in equity associates				
	Country	Activity	% interest	31 December 2017	31 December 2016
Associates					
Cardif Lux Vie SA	Luxembourg	Insurance	33.33%	124.5	118.6
BNP Paribas Leasing Solutions SPA	Italy	Leasing	13.09%	42.5	47.9

The cumulative financial data relating to associates is detailed in the table below:

In millions of euros	2017			31 December 2017
	Share of net income	Share of hanges 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**	**186.4**
Cardif Lux Vie SA	15.4	(0.8)	14.6	124.5
BNP Paribas Leasing Solutions SPA	(5.5)	0.1	(5.4)	42.5
Others	13.2	(6.5)	6.6	19.4
Joint ventures	**-**	**-**	**-**	**-**
SREI Equipment Finance Ltd	-	-	-	-
Total associates	**23.1**	**(7.2)**	**15.8**	**186.4**

[1)] Including controlled but non material entities consolidated under the equity method (see Note 1.b).

In millions of euros			2016	31 December 2016
	Share of net income	Share of hanges in assets and liabilities recognised directly in equity	Share of net income and changes in assets and liabilities recognised directly in equity	Investments in equity associates
Associates [1)]	**22.4**	**13.5**	**35.9**	**241.4**
Cardif Lux Vie SA	15.6	4.4	20.0	118.6
BNP Paribas Leasing Solutions SPA	(3.1)	(0.1)	(3.1)	47.9
Others	9.9	9.1	19.0	74.9
Joint ventures	**0.3**	**(0.4)**	**(0.1)**	**-**
SREI Equipment Finance Ltd	0.3	(0.4)	(0.1)	n/a *
Total associates	22.7	13.1	35.7	241.4

[1)] Including controlled but non material entities consolidated under the equity method (see Note 1.b).

** Investment sold in June 2016.*

The Group does not believe that it holds significant 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.

5.n PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

In millions of euros	31 December 2017			31 December 2016*		
	Gross value	Accumulated depreciation or amortisation and impairment losses	Carrying amount	Gross value	Accumulated depreciation or amortisation and impairment losses	Carrying amount
Investment property	305.6	(139.2)	166.4	294.5	(124.7)	169.8
Land and buildings	399.9	(142.9)	257.0	404.9	(136.7)	268.3
Equipment, furniture and fixtures	327.6	(236.0)	91.6	335.0	(235.2)	99.8
Plant and equipment leased as lessor under operating leases	623.0	(292.7)	330.3	515.6	(242.9)	272.7
Other property, plant and equipment	84.5	(64.6)	19.9	83.5	(62.8)	20.7
Property, plant and equipment	1,435.0	(736.2)	698.8	1,339.0	(677.5)	661.5
Purchased software	139.8	(130.2)	9.6	134.7	(124.7)	10.1
Internally developped software	8.8	(3.2)	5.6	9.4	(3.2)	6.2
Other intangible assets	17.2	(6.5)	10.7	16.4	(5.1)	11.4
Intangible assets	165.7	(139.8)	25.9	160.6	(132.9)	27.7

** In order to ensure comparability with the figures for the year ending 31 December 2017, the figures for the 2016 financial year have been reclassified as follows:*
- *EUR 8.2 million of amortisation on Investment property reclassified as amortisation on Property, plant and equipment.*
- *an adjustment linked to the disposal of the SPV Société Immobilière de Monterey SA in 2016, with no impact on the net balance.*

Investment property

Investment property includes residential and commercial buildings, as well as mixed-use buildings.

The estimated fair value, using internal models (Level 3) of investment properties carried at cost amounted to EUR 217.8 million compared with EUR 209.3 million as at 31 December 2016.

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 mar- ket 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:

In millions of euros	31 December 2017	31 December 2016
Payments receivable within 1 year	102.5	102.0
Payments receivable after 1 year but within 5 years	240.9	204.4
Payments receivable beyond 5 years	35.6	32.4
Future minimum lease payments receivable under non-cancellable leases	**379.1**	**338.8**

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.

Intangible assets

Other intangible assets comprise leasehold rights, goodwill and trademarks required by the Group.

Other fixed assets

Other fixed assets include assets under construction amounting to EUR 3.6 million (EUR 4.0 million as at 31 December 2016).

The value of the asset has been reallocated in both the investment properties and the property, plant and equipment.

Depreciation, amortisation and impairment

Net depreciation and amortisation expense booked in 2017 amounted to EUR 35.3 million versus EUR 30.5 million in 2016.

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 2017 as it was in 2016.

Changes in investment properties

In millions of euros	2017	2016*
Gross value at start of period	294.5	194.6
Acquisitions	1.2	6.6
Disposals	(9.7)	(19.7)
Reclassification	0.6	96.5
Other movements	19.0	16.4
Gross value at end of period	305.6	294.5
Depreciation and amortisation at start of period	(124.7)	(97.8)
Amortisation charges	(18.2)	(17.7)
Amortisation reversal after disposals	4.2	6.9
Depreciations	(1.0)	(0.5)
Depreciation reversals	5.9	9.4
Reclassification	-	(14.2)
Other movements	(5.5)	(10.7)
Depreciation and amortisation at end of period	(139.2)	(124.7)
Carrying amount at end of period	166.4	169.8

** In order to ensure comparability with the figures for the year ending 31 December 2017, EUR 8.2 million of amortisation on Investment property has been reclassified as amortisation on Property, plant and equipment in the year ending 31 December 2016.*

Changes in property, plant and equipment

In millions of euros	2017			
	Lands and buildings	Equipment, furniture and fixtures	Plant and equipment leased as lessor under operating leases	Other fixed assets
Gross value at start of period	404.9	335.0	515.6	83.5
Acquisitions	2.4	8.3	90.6	1.6
Disposals	(7.8)	(16.1)	(74.5)	(2.0)
Reclassifications	0.0	(0.6)	-	-
Entry into the scope of consolidation	0.3	1.1	96.2	1.4
Currency translation adjustments	(0.0)	(0.1)	(4.9)	0.1
Gross value at end of period	399.9	327.6	623.0	84.5
Depreciation and amortisation at start of period	(136.7)	(235.2)	(242.9)	(62.8)
Amortisation charges	(5.6)	(8.7)	(58.9)	(2.8)
Reversal of amortisation after disposals	2.1	14.3	53.0	1.5
Depreciations	-	-	(0.5)	-
Depreciation reversals	0.1	-	0.8	-
Entry into the scope of consolidation	(0.0)	(0.9)	(46.8)	(0.6)
Currency translation adjustments	0.0	(0.0)	2.6	(0.0)
Other movements	(2.8)	(5.5)	-	(0.0)
Depreciation and amortisation at end of period	(142.9)	(236.0)	(292.7)	(64.6)
Carrying amount at end of period	257.0	91.6	330.3	19.9

In millions of euros				2016*
	Lands and buildings	Equipment, furniture and fixtures	Plant and equipment leased as lessor under operating leases	Other fixed assets
Gross value at start of period	**324.7**	**235.6**	**517.4**	**250.9**
Acquisitions	39.4	33.0	74.2	17.1
Disposals	(4.6)	(4.4)	(73.4)	(14.3)
Reclassifications	45.8	27.6	(1.7)	(170.2)
Exit from scope of consolidation [2]	(0.4)	43.4	-	-
Currency translation adjustments	-	(0.1)	(1.0)	-
Other movements	(0.0)	(0.0)	-	-
Gross value at end of period	**404.9**	**335.0**	**515.6**	**83.5**
Depreciation and amortisation at start of period	**(134.5)**	**(202.5)**	**(241.7)**	**(60.4)**
Amortisation charges [1]	(4.8)	(6.6)	(58.9)	(2.8)
Reversal of amortisation after disposals	0.5	4.2	54.5	0.4
Depreciations	-	-	(0.8)	-
Depreciation reversals	0.1	-	0.9	-
Reclassifications	2.1	12.4	2.5	-
Exit from scope of consolidation [2]	0.1	(42.7)	-	-
Currency translation adjustments	-	0.1	0.5	-
Other movements	(0.0)	(0.0)	-	0.0
Depreciation and amortisation at end of period	**(136.7)**	**(235.2)**	**(242.9)**	**(62.8)**
Carrying amount at end of period	**268.3**	**99.8**	**272.7**	**20.7**

** In order to ensure comparability with the figures for the year ending 31 December 2017, the figures for the 2016 financial year have been reclassified as follows:*

[1] EUR 8.2 million of amortisation on Investment property reclassified as amortisation on Property, plant and equipment.

[2] an adjustment linked to the disposal of the SPV Société Immobilière de Monterey SA in 2016, with no impact on the net balance.

5.o GOODWILL

In millions of euros	2017	2016
Carrying amount at start of period	**133.8**	**136.4**
Currency translation adjustments	(1.2)	(6.5)
Other movements	-	3.9
Carrying amount at end of period	**132.6**	**133.8**
of which: Gross value	*133.2*	*134.4*
Accumulated impairments recognised at the end of period	*(0.6)*	*(0.6)*

Goodwill is exclusively related to the integration of leasing activities under the business combination method of common control. It is therefore equivalent to the good- will 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 risk-free rate, an observed market risk premium weighted by a risk factor based on comparables specific to each homogeneous group of businesses. The values of these parameters are obtained from external information sources.

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 2017	Leasing Solutions
Cost of capital	**9.2%**
Adverse change of +10 basis points	(59.7)
Positive change of -10 basis points	61.3
Cost/income ratio [1]	**42.5% - 48.6%**
Adverse change of +1%	(98.7)
Positive change of -1%	98.7
Growth rate to perpetuity	**2.0%**
Adverse change of -50 basis points	(147.2)
Positive change of +50 basis points	169.1

[1] *From 2018*

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.

5.p PROVISIONS FOR CONTINGENCIES AND CHARGES

Changes in provisions by type

In millions of euros	31 December 2016	Net additions to provisions	Provisions used	Changes in value recognised directly in equity	Exchange rate movements and other movements	31 December 2017
Provisions for employee benefits	97.5	9.5	(18.1)	(1.4)	3.0	90.5
Provisions for defined-benefit pension plan (note 7.b)	35.1	1.9	(1.5)	(1.4)	3.0	37.1
Provisions for unindexed deferred bonus cash (note 7.c)	6.8	5.2	(4.6)	-	1.1	8.6
Provision for other long-term benefits (note 7.c)	29.7	2.5	(1.0)	-	-	31.2
Provision for early retirement plans and headcount adaptation plan (note 7.d)	25.9	(0.1)	(11.1)	-	(1.1)	13.6
Provisions for off-balance sheet commitments (note 2.h)	14.0	(4.3)	(0.6)	-	(0.1)	9.0
Provisions for tax litigations and staff-related litigations	6.5	(0.5)	(1.0)	-	1.1	6.1
Provisions for commercial litigations	19.5	(0.9)	(0.0)	-	(0.0)	18.5
Provisions for restructuring	0.6	1.0	-	-	(0.2)	1.4
Provisions on investment securities	6.5	(1.7)	-	-	-	4.8
Provisions for operational risk on buildings under operating leases	12.6	(1.7)	-	-	(0.2)	16.6
Other provisions for contingencies and charges	17.1	3.0	(0.9)	-	(0.4)	18.7
Total provisions for contingencies and charges	**174.1**	**4.4**	**(20.5)**	**(1.4)**	**3.1**	**165.7**

As at 31 December 2017, provisions for commercial disputes were mainly related to guarantees given by the Bank to subsidiaries or former subsidiaries regarding existing disputes within these entities. These disputes are ongoing; the Bank does not expect a resolution in the short term.

5.q OFFSETTING 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 2017	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements and similar agreements	Financial instruments received as collateral	Net amounts
Assets						
Cash and amounts due from central banks	585.5	-	585.5	-	-	585.5
Financial instruments at fair value through profit or loss						
Trading securities portfolio	86.6	-	86.6	-	-	86.6
Loans and repurchase agreements	23.1	-	23.1	(22.8)	-	0.3
Instruments designated under the fair value option	5.5	-	5.5	-	-	5.5
Derivatives (including derivatives used for hedging purposes)	198.2	(15.0)	183.2	(34.2)	(9.6)	139.4
Loans and receivables due from credit institutions and customers	42,308.4	(543.3)	41,765.1	(465.8)	(3,068.9)	38,230.4
Accrued income and other assets	663.0	-	663.0	-	-	663.0
of which: Guarantee deposits given	*13.2*	-	*13.2*	-	-	*13.2*
Other assets not subject to offsetting	6,318.9	-	6,318.9	-	-	6,318.9
Total assets	**50,189.2**	**(558.3)**	**49,630.9**	**(522.8)**	**(3,078.5)**	**46,029.7**

In millions of euros at 31 December 2017	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						
Trading securities porfolio	-	-	-	-	-	-
Borrowings and repurchase agreements	118.9	-	118.9	(22.8)	(96.1)	0.0
Instruments designated under the fair value option	182.5	-	182.5	-	-	182.5
Derivatives (including derivatives used for hedging purposes)	99.0	(15.0)	84.0	(34.2)	(0.2)	49.6
Due to credit institutions and customers	38,442.8	(543.3)	37,899.5	(465.8)	-	37,433.7
Accrued expenses and other liabilities	1,092.4	-	1,092.4	-	-	1,092.4
of which: Guarantee deposits received	*38.4*	-	*38.4*	-	-	*38.4*
Other liabilities not subject to offsetting	2,175.7	-	2,175.7	-	-	2,175.7
Total liabilities	**42,111.2**	**(558.3)**	**41,553.0**	**(522.8)**	**(96.3)**	**40,933.9**

In millions of euros at 31 December 2016	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements and similar agreements	Financial instruments received as collateral	Net amounts
Assets						
Cash and amounts due from central banks	1,454.3	-	1,454.3	-	-	1,454.3
Financial instruments at fair value through profit or loss						
Trading securities portfolio	108.3	-	108.3	-	-	108.3
Loans and repurchase agreements	27.7	-	27.7	-	(23.8)	3.9
Instruments designated under the fair value option	5.5	-	5.5	-	-	5.5
Derivatives (including derivatives used for hedging purposes)	277.6	(15.0)	262.6	(54.4)	(21.7)	186.5
Loans and receivables due from credit institutions and customers	35,860.2	(569.9)	35,290.3	-	-	35,290.3
Accrued income and other assets	695.1	-	695.1	-	-	695.1
of which: Guarantee deposits given	*10.1*	-	*10.1*	-	-	*10.1*
Other assets not subject to offsetting	7,136.5	-	7,136.5	-	-	7,136.5
Total assets	**45,565.1**	**(584.9)**	**44,980.2**	**(54.4)**	**(45.5)**	**44,880.3**

In millions of euros at 31 December 2016	Gross amounts of financial 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						
Trading securities porfolio	0.0	-	0.0	-	-	0.0
Borrowings and repurchase agreements	-	-	-	-	-	-
Instruments designated under the fair value option	218.0	-	218.0	-	-	218.0
Derivatives (including derivatives used for hedging purposes)	146.7	(15.0)	131.7	(54.4)	-	77.3
Due to credit institutions and customers	34,393.5	(569.9)	33,823.6	-	-	33,823.6
Accrued expenses and other liabilities	1,070.8	-	1,070.8	-	-	1,070.8
of which: Guarantee deposits received	*34.1*	-	*34.1*	-	-	*34.1*
Other liabilities not subject to offsetting	1,879.1	-	1,879.1	-	-	1,879.1
Total liabilities	**37,708.1**	**(584.9)**	**37,123.2**	**(54.4)**	**-**	**37,068.8**

5.r TRANSFER OF FINANCIAL ASSETS

There was no transfer of financial assets in 2016.

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".

In 2017, as in 2016, 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.

In millions of euros	31 December 2017		31 December 2016	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements				
Securities at fair value through profit or loss	86.1	82.7	-	-
Available-for-sale financial assets	465.5	465.8	-	-
Total	**551.6**	**548.5**	**-**	**-**

5.s SHARE CAPITAL AND RELATED RESERVES

As at 31 December 2017 the subscribed and paid-up capital amounted to EUR 713.1 million, represented by 27,976,574 shares, unchanged versus 31 December 2016. BGL BNP Paribas does not hold any own shares. (See note 8.a).

As at 31 December 2017, the additional paid-in capital was EUR 2,761.6 million, unchanged versus 31 December 2016.

6. FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS

6.a FINANCING COMMITMENTS GIVEN OR RECEIVED

Contractual value of financing commitments given and received by the Group

In millions of euros	31 December 2017	31 December 2016
Financing commitments given:		
- to credit institutions	**25.4**	**-**
- to customers:	**4,403.1**	**4,242.3**
Confirmed letters of credit	4,290.5	4,100.5
Other commitments given to customers	112.6	141.8
Total financing commitments given	4,428.5	4,242.3
Financing commitments received:		
from the Central Bank of Luxembourg	2,406.9	2,055.7
from credit institutions	379.0	1,220.1
Total financing commitments received	2,785.8	3,275.8

6.b GUARANTEE COMMITMENTS GIVEN BY SIGNATURE

In millions of euros	31 December 2017	31 December 2016
Guarantee commitments given:		
to credit institutions	566.6	543.6
to customers	1,498.3	1,421.5
Total guarantee commitments given	2,064.9	1,965.1

6.c OTHER GUARANTEE COMMITMENTS

Financial instruments given as collateral

In millions of euros	31 December 2017	31 December 2016
Financial instruments (negotiable securities and private receivables) lodged with central banks and eligible for use at any time as collateral for refinancing transactions after haircut	**2,406.9**	**2,055.7**
used as collateral with central banks	-	-
available for refinancing transactions	2,406.9	2,055.7
Securities sold under repurchase agreements	**582.7**	**-**
Other financial assets pledged as collateral for transactions with credit institutions et financial customers	**23.4**	**23.1**

Financial instruments given by the Group as collateral and which the beneficiary is authorised to sell or reuse as collateral amounted to EUR 605.9 million as at 31 December 2017.

As at 31 December 2016, no financial instruments that the beneficiary was authorised to sell or reuse as collateral had been given as collateral by the Group.

Financial instruments received as collateral

In millions of euros	31 December 2017	31 December 2016
Financial instruments received as collateral (excluding repurchase agreements)	**1,782.3**	**1,739.7**
of which : Instruments that the Group is authorised to sell and reuse as collateral	*79.7*	*19.5*
Securities received under repurchase agreements	**3,453.7**	**23.8**

7. SALARIES AND EMPLOYEE BENEFITS

7.a STAFF COSTS

In millions of euros	2017	2016
Fixed and variable remuneration, incentive bonuses and profit-sharing	(330.0)	(330.0)
Retirement bonuses, pension costs and social security taxes	(88.3)	(89.8)
Payroll taxes	(4.1)	(3.8)
Total staff costs	**(422.4)**	**(423.5)**

7.b POST-EMPLOYMENT BENEFITS

IAS 19 distinguishes between two categories of plans, each handled differently depending on the risk incurred by the entity. When the entity is committed to paying a fixed amount, stated as a percentage of the beneficiary's annual salary, for example, to an external entity handling payment of the benefits based on the assets available for each plan member, it is described as a defined-contribution plan. Conversely, when the entity's obligation is to manage the financial assets funded through the collection of contributions from employees and/or the employer and to bear the cost of benefits itself – or to guarantee the final amount subject to future events – it is described as a defined-benefit plan. The same applies if the entity entrusts management of the collection of premiums and payment of benefits to a separate entity, but retains the risk arising from management of the assets and from future changes in the benefits.

Defined-contribution pension plans of the Group

The Group contributes to various nationwide schemes and supplementary retirement plans, outsourced with several pension funds. By means of a company agreement, BGL BNP Paribas 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 3.6 million for 2017, versus EUR 4.5 million for 2016.

Defined benefit pension plans for Group entities

The remaining defined benefit plans are valued by independent firms using actuarial techniques, applying the projected unit credit method, in order to determine the expense arising from rights vested by employees and benefits payable to retired employees. The demographic and financial assumptions used to determine the present value of these obligations and of plan assets take into account economic conditions specific to each country and group company.

For all of the plans involved, uncovered commitments are carried in the balance sheet of the Group.

Commitments relating to defined benefit plans

Assets and liabilities recognised on the balance sheet

In millions of euros	Present value of defined benefit obligation	Fair value of plan assets	Fair value of reimbursement rights	Net obligation	of which asset recognised in the balance sheet for defined benefit planss	of which obligation recognised in the balance sheet for defined-benefit plans
31 December 2017						
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**
31 December 2016						
France	25.3	(18.5)	-	6.8	-	6.8
Luxembourg	127.5	(110.1)	(1.1)	16.3	(1.1)	17.4
United-Kingdom	103.4	(104.8)	-	(1.4)	(3.3)	1.9
Others	20.8	(11.8)	(2.5)	6.5	(2.5)	9.0
Total	**277.0**	**(245.2)**	**(3.6)**	**28.2**	**(6.9)**	**35.1**

Change in the present value of the defined benefit obligation

In millions of euros	31 December 2017	31 December 2016
Present value of obligations at start of period	277.0	252.9
Current service cost	8.4	8.1
Interest cost	3.9	5.3
Past service cost	-	1.5
Actuarial losses (gains) on change in demographic assumptions	0.1	0.6
Actuarial losses (gains) on change in financial assumptions	3.6	28.1
Actuarial losses (gains) on experience gaps	(1.9)	0.6
Benefits paid directly by employer	(0.7)	(0.5)
Benefits paid from assets/reimbursement rights	(16.9)	(17.5)
Change in exchange rates	(3.9)	(15.3)
Reclassification based on nature of plan	(38.4)	-
Other changes	1.8	13.2
Present value of obligations at end of period	233.0	277.0

Change in the fair value of plan assets

In millions of euros	31 December 2017	31 December 2016
Fair value of plan assets at start of period	245.2	239.1
Interest income on assets	3.0	4.8
Actuarial gains over the period	2.1	10.7
Contributions by the Group	7.7	8.6
Benefits paid from plan assets	(16.8)	(16.6)
Change of exchange rates	(3.9)	(16.4)
Reclassification based on nature of plan	(38.4)	-
Other changes	(0.1)	15.0
Fair value of plan assets at end of period	198.8	245.2

Change in the fair value of reimbursement rights

In million of euros	31 December 2017	31 December 2016
Fair value of reimbursement rights at start of period	3.6	3.1
Interest income on assets	-	0.1
Contributions by the Group	0.1	0.1
Benefits paid from plan assets	(0.1)	(0.9)
(Gains)/losses on obligation related to changes in the consolidation scope	-	1.2
Other changes	0.1	-
Fair value of reimbursement rights at end of period	3.7	3.6

Components of the cost of defined benefit plans

In million of euros	2017	2016
Service costs	**8.4**	**9.6**
Current service cost	8.4	8.1
Past service cost	-	1.5
Net financial expense	**0.9**	**0.4**
Interest cost	3.9	5.3
Interest income on plan assets	(3.0)	(4.8)
Interest income on reimbursement rights	-	(0.1)
Total recorded in «Staff costs»	9.3	10.0

Other items recognised directly in equity

In million of euros	2017	2016
Other items recognised directly in equity	**0.4**	**(18.6)**
Actuarial (losses)/gains on plan assets or reimbursement rights	2.2	10.7
Actuarial (losses)/gains of demographic assumptions on the present value of obligations	(0.1)	(0.6)
Actuarial (losses)/gains of financial assumptions on the present value of obligations	(3.6)	(28.1)
Experience (losses)/gains on the present value of obligations	1.9	(0.6)

Principal actuarial assumptions used to calculate post-employment benefit obligations

In the eurozone and the United Kingdom, the Group discounts its obligations using the yields of high quality corporate bonds, with a term consistent with the duration of the obligations.

The rates used are as follows:

In percentage	31 December 2017		31 December 2016	
	Discount rate	Rate of future compensation increase [1]	Discount rate	Rate of future compensation increase [1]
France	1.30%	2.15% - 3.40%	1.30%	2.30% - 3.30%
Luxembourg	0.80% - 1.80%	1.00% - 3.50%	0.00% - 0.90%	1.00% -3.50%
United-Kingdom	2.40%	4.70%	2.60%	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:

In million of euros	31 December 2017		31 December 2016	
	Discount rate -100pb	Discount rate +100pb	Discount rate -100pb	Discount rate +100pb
France	3.0	(2.5)	3.3	(2.7)
Luxembourg	8.7	(8.1)	10.3	(8.7)
United-Kingdom	20.2	(15.4)	21.3	(16.1)

Actual rate of return on plan assets and reimbursement rights over the period

In percentage [1]	31 December 2017	31 December 2016
France	3.65%	3.20%
Luxembourg	1.30% - 3.10%	1.00% - 1.40%
United-Kingdom	2.30% -4.70%	6.90% - 14.50%

[1] *Range of values. reflecting the existence of several plans in the same country.*

Breakdown of plan assets

In pourcentage						31 December 2017
	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%**

In pourcentage						31 December 2016
	Shares	Government bonds	Non-government bonds	Real estate	Deposit accounts	Others
France	7%	66%	18%	9%	0%	0%
Luxembourg	6%	24%	30%	0%	7%	33%
United Kingdom	27%	66%	4%	2%	1%	0%
Others	0%	0%	0%	0%	0%	100%
Total	**14%**	**44%**	**17%**	**2%**	**3%**	**20%**

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 finan- cial management servicing contracts.

The investment strategy is based on an assets and liabilities management analysis that should be realised at least on an annual basis for plans with assets in excess of EUR 100 million and every three years for plans with assets of between EUR 20 and EUR 100 million.

7.c OTHER LONG-TERM BENEFITS

The Group offers its employees various long-term benefits, mainly long-service awards and the ability to save up paid annual leave in time savings accounts.

On 31 December 2017, the provisions existing within the Group relative to other long-term benefits amounted to EUR 39.8 million (EUR 36.5 million on 31 December 2016).

7.d TERMINATION BENEFITS

The Group has implemented a number of voluntary redundancy plans for employees who meet certain eligibility criteria. The expenses related to voluntary redundancy plans are provisioned relative to the eligible working employees.

On 31 December 2017, the existing provisions within the Group for the voluntary redundancy and early retirement plans amounted to EUR 13.6 million (EUR 25.9 million at 31 December 2016).

8. ADDITIONAL INFORMATION

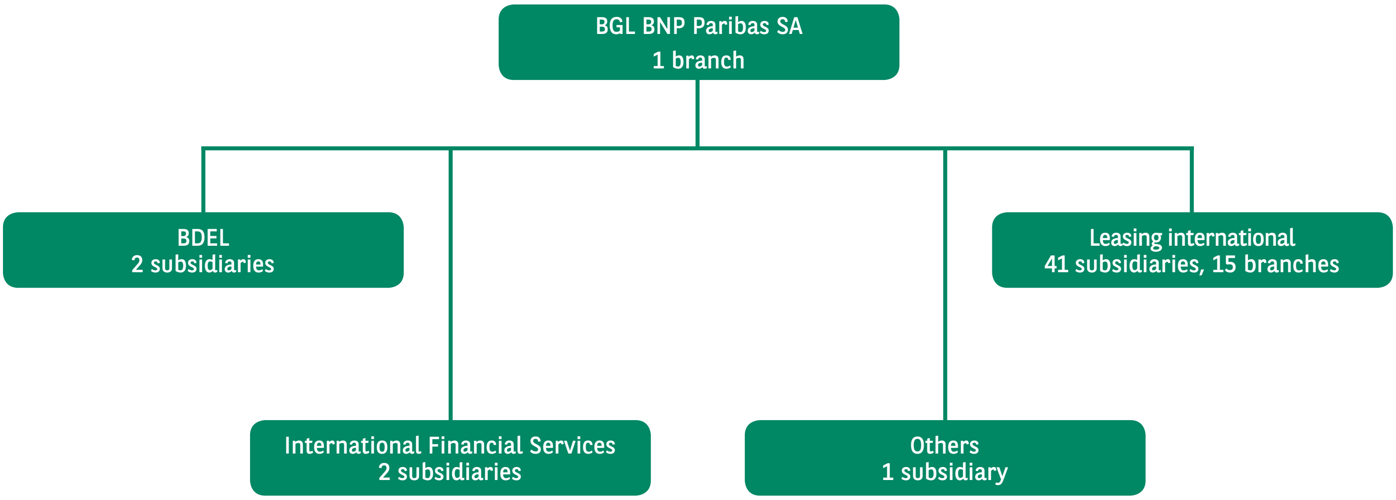
8.a CHANGES IN SHARE CAPITAL

BGL BNP Paribas did not perform any share capital transactions in 2017.

In accordance with the Law of 28 July 2014 relating to the immobilisation of shares and units in Luxembourg compa- nies, the Bank cancelled 2,561 shares on 19 February 2016, thereby reducing the subscribed and paid-up capital by 65 thousand euros and shareholders' equity by 535 thousand euros.

8.b SCOPE OF CONSOLIDATION

Simplified structure of the Group by core business



List of subsidiaries and branches consolidated in the Group

			31 December 2017			31 December 2016		
Name	Country	Activity	Consolidation method	Group ownership interest	Ref.[1)]	Consoli-dation Method	Group ownership interest	Ref.[1)]
Consolidating company								
BGL BNP Paribas SA	Luxembourg	Bank						
BGL BNP Paribas (German branch)	Germany	Bank	IG	100.00%		IG	100.00%	
BDEL								
BGL BNP Paribas Factor SA	Luxembourg	Factoring	-	-		-	-	S2
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%	

			31 December 2017			31 December 2016		
Name	Country	Activity	Consolidation method	Group ownership interest	Ref.[1)]	Consoli-dation Method	% conso part du Groupe	Ref.[1)]
BDEL								
Structured entities								
Société Immobilière de Monterey SA	Luxembourg	Real Estate	-	-	-	-	-	S4
Leasing International								
Ace Equipment Leasing NV	Belgium	Leasing	-	-	-	-	-	S3
Albury Asset Rentals Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
All In One Vermietungsgesellschaft für Telekommunikationsanlagen mbH	Germany	Leasing	-	-	S3	ME*	50.00%	
All In One Vermietung GmbH	Austria	Leasing	-	-	-	-	-	S3
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%	D1	ME*	50.00%	
Artegy SA	France	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Finansal Kiralama AS	Turkey	Leasing	IG	47.74%		IG	47.74%	
BNP Paribas Lease Group (Belgium) SA	Belgium	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Group BPLG SA	France	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Groupe (German branch)	Germany	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Groupe (Spanish branch)	Spain	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Groupe (Italian branch)	Italy	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Groupe (Portuguese branch)	Portugal	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Group IFN SA	Romania	Leasing	IG	49.97%	D1	ME*	49.97%	
BNP Paribas Lease Group Kft	Hungary	Leasing	-	-	S3	ME*	50.00%	
BNP Paribas Lease Group Lizing RT	Hungary	Leasing	-	-	S3	ME*	50.00%	
BNP Paribas Lease Group Sp.z o.o.	Poland	Leasing	IG	50.00%	D1	ME*	50.00%	
BNP Paribas Lease Group UK PLC	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Lease Group Rentals Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Leasing Solutions NV	The Netherlands	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Leasing Solutions Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Leasing Solutions SA	Luxembourg	Leasing	IG	50.00%		IG	50.00%	
BNP Paribas Leasing Solutions SPA	Italy	Leasing	ME	13.09%		ME	13.09%	
BNP Paribas Leasing Solutions Switzerland SA	Switzerland	Leasing	ME*	50.00%		ME*	50.00%	
Claas Financial Services Inc.	United States	Leasing	-	-	-	-	-	S4
Claas Financial Services Ltd	United-Kingdom	Leasing	IG	25.50%		IG	25.50%	
Claas Financial Services SA	France	Leasing	IG	25.05%	V2	IG	30.05%	
Claas Financial Services (German branch)	Germany	Leasing	IG	25.05%	V2	IG	30.05%	
Claas Financial Services (Spanish branch)	Spain	Leasing	IG	25.05%	V2	IG	30.05%	
Claas Financial Services (Polish branch)	Poland	Leasing	IG	25.05%	V2	IG	30.05%	
Class Financial Services (Italian branch)	Italy	Leasing	IG	25.05%	V2	IG	30.05%	
CNH Industrial Capital Europe BV	The Netherlands	Leasing	IG	25.05%		IG	25.05%	

Name	Country	Activity	31 December 2017 Consolidation method	Group ownership interest	Ref.[1]	31 December 2016 Consoli-dation Method	Group ownership interest	Ref.[1]
Leasing International								
CNH Industrial Capital Europe GmbH	Austria	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe Ltd	United-Kingdom	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe SA	France	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe (German branch)	Germany	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe (Belgian branch)	Belgium	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe (Spanish branch)	Spain	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe (Italian branch)	Italy	Leasing	IG	25.05%		IG	25.05%	
CNH Industrial Capital Europe (Polish branch)	Poland	Leasing	IG	25.05%		IG	25.05%	
Commercial Vehicle Finance Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
Fortis Lease Belgium SA	Belgium	Leasing	IG	50.00%		IG	50.00%	
Fortis Lease SA	France	Leasing	IG	50.00%		IG	50.00%	
Fortis Lease Deutschland GmbH	Germany	Leasing	IG	50.00%	D1	ME*	50.00%	
Fortis Lease Operativ Lizing Zartkoruen Mukodo Reszvenytarsasag	Hungary	Leasing	-	-	-	-	-	S1
Fortis Lease Iberia SA	Spain	Leasing	IG	39.31%	D1	ME*	39.31%	
Fortis Lease Portugal SA	Portugal	Leasing	IG	50.00%	D1	ME*	50.00%	
Fortis Lease UK Ltd	United-Kingdom	Leasing	ME*	50.00%		ME*	50.00%	
Fortis Lease UK Retail Ltd	United-Kingdom	Leasing	-	-	-	-	-	S3
Fortis Vastgoed Lease BV	The Netherlands	Leasing	ME*	50.00%		ME*	50.00%	
HFGL Ltd	United-Kingdom	Leasing	-	-	-	-	-	S1
Humberclyde Commercial Inv. Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
Humberclyde Commercial Inv. (N1) Ltd	United-Kingdom	Leasing	-	-	-	-	-	S1
JCB Finance Holdings Ltd	United-Kingdom	Leasing	IG	25.05%		IG	25.05%	
JCB Finance SA	France	Leasing	IG	25.05%		IG	25.05%	
JCB Finance (German branch)	Germany	Leasing	IG	25.05%		IG	25.05%	
JCB Finance (Italian branch)	Italy	Leasing	IG	25.05%		IG	25.05%	
BNPP Rental Solutions SA (Formerly Locatrice Italiana SA)	Italy	Leasing	ME*	50.00%		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 Portofoliu SRL	Romania	Leasing	-	-	S3	ME*	50.00%	
Same Deutz Fahr Finance Ltd	United-Kingdom	Leasing	IG	50.00%		IG	50.00%	
Same Deutz Fahr Finance SA	France	Leasing	IG	50.00%		IG	50.00%	
SREI Equipment Finance Ltd	Inde	Leasing	-	-	-	-	-	S4
Fortis Lease Zeebrugge SA	Belgium	Leasing	ME	37.50%	E3	-	-	-
Folea Grundstucksverwaltungs und Vermietungs Gmbh & Co	Germany	Leasing	ME	3.00%	E3	-	-	-
BNPP B Institutional II - Treasury 17	Belgium	Asset management	IG	100.00%	E1	-	-	-

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Name	Country	Activity	31 December 2017 Consolidation method	Group ownership interest	Ref.[1]	31 December 2016 Consoli-dation Method	% conso part du Groupe	Ref.[1]
International Financial Services								
Cardif Lux Vie SA	Luxembourg	Insurance	ME	33.33%		ME	33.33%	
Corporate & Institutional Banking								
Alleray SARL	Luxembourg	Equity management	-	-	-	-	-	S1
Other activities								
Plagefin SA	Luxembourg	Equity management	IG	100.00%		IG	100.00%	
Société Alsacienne de développement et d'expansion (SADE) SA	France	Finance	-	-	-	-	-	S4

[1] Changes in the scope of consolidation:

New entries (E) in the scope of consolidation
E1 Incorporation
E2 Purchase, gain of control or significant influence
E3 Crossing of threshold as defined by Group

Removals (S) from the scope of consolidation
S1 Disposal
S2 Merger
S3 Entities no longer consolidated as below 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)

8.c MINORITY INTERESTS

Main minority interests

BGL BNP Paribas owns 50% + 1 share of the Luxembourg holding company BNP Paribas Leasing Solutions SA (BPLS). The minority shareholder of BPLS is BNP Paribas, which holds 50% minus 1 share. Other subsidiaries are all wholly owned.

BPLS itself holds many international leasing subsidiaries (see Note 8.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 2017	31 December 2016
Shareholders'equity - Minority interests	1,403.5	1,314.9
Net income attributable to minority interests	166.5	151.4
Dividends paid to minority shareholders	(73.1)	(106.1)
Interim dividend payments to minority shareholders	-	(25.1)

Contribution of BNP Paribas Leasing Solutions and its subsidiaries (before elimination of intercompany transactions)

In millions of euros	31 December 2017	31 December 2016
Total balance sheet	20,615.4	19,468.3
Balance of cash and equivalent accounts	1,012.8	1,068.5
Revenues	714.1	687.4
Net income	286.5	262.8
Net income and changes in assets and liabilities recognised directly in equity	254.2	208.3

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

In 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 5.9 million at 31 December 2017 compared with EUR 6.4 million at 31 December 2016.

8.d SIGNIFICANT RESTRICTIONS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Significant restrictions related to the ability of entities to transfer cash to the Group

The ability of entities to pay dividends or to repay loans and advances depends, inter alia, on local regulatory requirements for capitalisation, and legal reserves, as well as the entities' financial and operational performance. During 2017 and 2016, 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 6c and 5.r.

Significant restrictions related to liquidity reserves

The amount of mandatory deposits with central banks and other regulators amounted to EUR 456.0 million at 31 December 2017 (EUR 471.4 million at 31 December 2016).

8.e STRUCTURED ENTITIES

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.

8.e.1 Consolidated structured entities

Structured entities consolidated by the Group mainly include structured entities controlled by the Group as part of its core business of structured finance or investments.

8.e.2 Unconsolidated structured entities

The Group is involved in relationships with unconsolidated structured entities as part of its activities to meet the needs of its customers.

Information 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 2017
	Securitisation	Funds	Assets financing	Real estate structure	Others	Total
Interests on the Group balance sheet						
Assets						
Available-for-sale financial assets	-	-	-	0.0	-	0.0
Loans and receivables	-	-	-	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

In millions of euros						31 December 2016
	Securiti-sation	Funds	Assets financing	Real estate structure	Others	Total
Interests on the Group balance sheet						
Assets						
Available-for-sale financial assets	-	-	-	0.0	2.4	2.5
Loans and receivables	-	-	-	5.4	-	5.4
Total assets	**-**	**-**	**-**	**5.5**	**2.4**	**7.9**
Liabilities						
Financial liabilities carried at amortised cost	-	-	0.0	4.2	2.4	6.7
Total liabilities	**-**	**-**	**0.0**	**4.2**	**2.4**	**6.7**
Maximum exposure to loss	**-**	**-**	**-**	**234.5**	**2.4**	**236.9**
Size of structured entities	n/a	-	2.0	472.3	2.5	476.8

The maximum exposure to losses on structured entities is the carrying amount of the potential loss in cash flow.

It is composed of the carrying value of the asset, excluding, for available-for-sale, financial assets, changes in value 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 sponsored differs depending on their type.

Thus, the following financial data have been used to measure the size:

- Securitisation: total assets of the structured entity, mentioned in the last report to investors;
- Funds: Fund NAV;
- Other structured entity: total assets of the structured entity or, if the information is not available, the amount of the Group's commitment.

Information 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. These investments represent a total of EUR 84.3 million at 31 December 2017 (EUR 105.1 million at 31 December 2016).

Funds: the Group may invest in mutual funds or securities investment funds without any involvement in either their management or structuring. These investments rep- resent a total of EUR 20.0 million at 31 December 2017 (EUR 355.0 million at 31 December 2016).

8.f COMPENSATION AND BENEFITS AWARDED TO MEMBERS OF THE BOARD OF DIRECTORS AND KEY CORPORATE OFFICERS

In 2017, the remuneration paid to the Group's key officers amounted to EUR 8.8 million (including EUR 0.7 million of pension expenses) (2016: EUR 8.8 million including EUR 0.6 million of pension expenses).

The remuneration paid in 2017, relative to 2016, to the members of the BGL BNP Paribas Board of Directors amounted to EUR 1.1 million (2016: EUR 1.3 million).

During 2017, the key officers were allocated EUR 0.7 million under the retention scheme (2016: EUR 0.7 million).

At 31 December 2017, the loans granted to members of the Board of Directors were equal to EUR 2.1 million (31 December 2016: EUR 2.1 million); the loans granted to key officers were equal to EUR 7.2 million (31 December 2016: EUR 4.7 million).

At 31 December 2017, the credit lines granted to members of the Board of Directors amounted to EUR 3.8 million (31 December 2016: EUR 2.7 million); the credit lines granted to key officers amounted to EUR 11.7 million (31 December 2016: EUR 6.5 million).

8.g 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 8.f.

Relationships with joint ventures are not significant.

The State of Luxembourg is a 34% shareholder of BGL BNP Paribas S.A. As such, it received a dividend of EUR 62.6 million from BGL BNP Paribas SA in 2017. 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 2017			31 December 2016		
	Associates	Parent companies	Other BNP Paribas entities	Associates	Parent companies	Other BNP Paribas entities
ASSETS						
Financial assets at fair value through profit or loss	-	25.4	8.3	-	41.7	40.0
Derivatives used for hedging purposes	-	116.4	-	-	170.3	-
Available-for-sale financial assets	-	-	262.6	-	-	231.9
Loans and receivables due from credit institutions	292.8	9,070.4	222.5	340.6	8,079.4	230.3
Loans and receivables due from customers	110.4	3,539.6	224.3	463.6	0.1	155.6
Accrued income and other assets	8.3	13.3	97.7	8.3	12.8	75.4
Total	**411.4**	**12,765.1**	**815.4**	**812.5**	**8,304.3**	**733.3**
LIABILITIES						
Financial liabilities at fair value through profit or loss	-	37.9	15.5	-	34.5	9.3
Derivatives used for hedging purposes	-	31.4	-	-	58.1	-
Due to credit institutions	-	9,973.7	75.5	23.4	8,718.2	49.5
Due to customers	113.5	-	277.4	84.0	-	315.1
Debt securities	-	0.3	-	-	7.5	-
Accrued expenses and other liabilities	34.5	52.6	5.7	30.3	55.5	7.7
Total	**147.9**	**10,095.9**	**374.0**	**137.7**	**8,873.8**	**381.7**

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 nancial instruments (equities, debt securities...) contracted or issued by them.

In millions of euros	31 December 2017			31 December 2016		
	Associates	Parent companies	Other BNP Paribas entities	Associates	Parent companies	Other BNP Paribas entities
FINANCING AND GUARANTEE COMMITMENTS						
Financing commitments given	-	25.4	-	-	-	-
Financing commitments received	-	371.8	7.2	-	1.201.0	4.2
Guarantee commitments given	99.4	316.3	206.6	130.5	324.8	98.9
Guarantee commitments received	0.0	88.0	31.0	0.0	80.7	31.8

As at 31 December 2017, just as at 31 December 2016, 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. As at 31 December 2017, a provision of EUR 3.8 million for this guarantee was recorded in the accounts (compared with EUR 4.2 million as at the end of 2016).

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	2017			2016		
	Associates	Parent companies	Other BNP Paribas entities	Associates	Parent companies	Other BNP Paribas entities
Interest and similar income	4.5	153.5	10.3	6.9	170.1	9.6
Interest and similar expense	(0.0)	(131.9)	(3.9)	(0.8)	(162.6)	(4.5)
Commission (income)	10.8	9.1	30.0	6.8	8.2	30.7
Commission (expense)	(4.6)	(4.5)	(7.4)	(4.6)	(3.6)	(5.3)
Gains (losses) on financial instruments at fair value through profit or loss	-	(4.1)	5.8	(0.0)	74.8	(0.2)
Income (expenses) from other activities	(18.6)	(0.0)	46.4	(14.6)	(0.0)	42.9
Total	(7.9)	22.1	81.1	(6.3)	86.9	73.2

8.h COUNTRY-BY-COUNTRY INFORMATION

In accordance with Article 38-3 of the Law of 5 April 1993 as amended by the Law of 23 July 2015, credit institutions, financial holding companies (mixed) and investment firms must disclose information on their locations and activities, included in their scope of consolidation in each State or territory.

Details of countries of operation are available in note 8.b: Scope of Consolidation.

Profit and loss items and employees by country

	2017* in millions of euros					Financial staff** at 31 December 2017
	Revenues	Income before tax	Current tax expense	Deferred tax	Income tax expense	
Member states of the European Union						
Germany	92.5	37.9	(11.2)	0.7	(10.5)	299
Austria [1]	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 consolidated entities under exclusive control.*

*** Financial staff: the full-time equivalent (FTE) workforce as at 31 December 2017 of the fully consolidated entities under exclusive control.*

[1] The staff are located in Austrian entities, which are not consolidated and therefore not included in this note.

[2] The staff are located in an Italian entity, consolidated using the equity method, and therefore not included in this note.

The Group did not receive any government grants during 2017.

	Revenues	Income before tax	Current tax expense	Deferred tax	Income tax expense	Financial staff** at 31 December 2017
					2016* *in millions of euros*	
Member states of the European Union						
Germany	87.9	33.4	(15.3)	2.3	(12.9)	273
Austria [1]	2.2	1.6	(0.4)	(0.0)	(0.4)	-
Belgium	35.4	25.9	(6.9)	(2.7)	(9.6)	122
Spain	21.8	12.7	(4.7)	0.6	(4.1)	72
France	250.1	88.9	(35.1)	19.5	(15.7)	1,234
Italy [2]	79.3	34.8	(10.6)	(0.1)	(10.6)	-
Luxembourg	680.3	356.5	(73.8)	21.6	(52.2)	2,347
The Netherlands	25.3	14.6	(2.8)	(0.8)	(3.6)	68
Poland	4.4	1.3	(0.7)	0.3	(0.4)	9
Portugal	6.4	2.5	(0.7)	0.1	(0.6)	30
United-Kingdom	121.1	69.6	(13.9)	(0.2)	(14.1)	403
Africa and Mediterranean region						
Turkey	38.0	16.6	-	(2.4)	(2.4)	142
Total Group	**1,352.2**	**658.4**	**(164.7)**	**38.2**	**(126.5)**	**4,700**

** The financial data correspond to the contribution to the consolidated profit and loss of consolidated entities under exclusive.*

*** Financial staff: the full-time equivalent (FTE) workforce as at 31 December 2016 of the fully consolidated entities under exclusive control.*

[1] The staff are located in Austrian entities, which are not consolidated and therefore not included in this note.

[2] The staff are located in an Italian entity, consolidated using the equity method, and therefore not included in this note.

8.i BALANCE SHEET BY MATURITY

The table below gives a breakdown of the balance sheet by contractual maturity. The maturity of financial assets and liabilities at fair value through profit or loss within the trading portfolio is deemed to be "undetermined" insofar as these instruments are intended to be sold or redeemed before their contractual maturity dates. The maturities of variable- income financial assets classified as available-for-sale, hedging derivatives, remeasurement adjustments on interest-rate risk hedged portfolios and undated subordinated debt are also deemed to be "undetermined".

The majority of the financing and guarantee commitments given may be drawn at sight.

31 December 2017

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 assets at fair value through profit or loss	176.6	-	-	-	-	5.5	-	182.1
Derivatives used for hedging purposes	116.4	-	-	-	-	-	-	116.4
Available-for-sale financial assets	389.8	-	-	333.3	499.6	2,576.3	909.3	4,708.2
Loans and receivables due from credit institutions	-	1,022.4	5,316.9	143.0	1,135.7	4,975.0	618.2	13,211.3
Loans and receivables due from customers	-	893.5	1,014.8	1,250.7	5,725.0	11,751.8	7,918.0	28,553.8
Held to maturity financial assets	-	-	-	6.3	-	284.0	-	290.4
Financial assets by maturity	**682.7**	**2,501.4**	**6,331.7**	**1,733.3**	**7,360.3**	**19,592.7**	**9,445.6**	**47,647.6**
Financial liabilities 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
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**

31 December 2016

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	-	1,454.3	-	-	-	-	-	1,454.3
Financial assets at fair value through profit or loss	228.2	-	-	-	-	5.5	-	233.7
Derivatives used for hedging purposes	170.3	-	-	-	-	-	-	170.3
Available-for-sale financial assets	692.0	-	-	68.6	4.8	3,740.5	970.1	5,476.0
Loans and receivables due from credit institutions	-	1,053.5	459.5	288.6	734.6	4,989.3	1,184.0	8,709.4
Loans and receivables due from customers	-	939.3	917.3	1,735.2	5,086.1	11,170.9	6,732.1	26,580.9
Held to maturity financial assets	-	-	24.5	7.0	-	242.6	19.7	293.8
Financial assets by maturity	**1,090.5**	**3,447.1**	**1,401.3**	**2,099.3**	**5,825.5**	**20,148.9**	**8,905.8**	**42,918.4**
Financial liabilities at fair value through profit or loss	73.6	-	7.5	16.6	6.2	156.7	31.0	291.7
Derivatives used for hedging purposes	58.1	-	-	-	-	-	-	58.1
Due to credit institutions	-	554.0	802.0	1,271.2	2,524.9	4,457.1	361.4	9,970.7
Due to customers	-	19,800.7	536.8	2,842.9	318.9	280.5	73.0	23,852.8
Debt securities	-	-	43.4	200.6	495.9	367.7	-	1,107.7
Remeasurement adjustment on the interest-rate-risk hedged portfolios	86.9	-	-	-	-	-	-	86.9
Financial liabilities by maturity	**218.7**	**20,354.8**	**1,389.8**	**4,331.4**	**3,345.9**	**5,262.1**	**465.4**	**35,367.9**

8.J FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST

The information supplied in this note must be used and interpreted with the greatest caution for the following reasons:

- These fair values are an estimate of the value of the relevant instruments as of 31 December 2017. 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 deposit portfolios or to the clientele in relation with the Group in its various activities. Consequently, these fair values should not be regarded as the actual contribution of the instruments concerned to the overall valuation of the Group.

In millions of euros at 31 December 2017	Estimated fair value				Balance sheet value
	Level 1	Level 2	Level 3	Total	
FINANCIAL ASSETS					
Loans and receivables due from credit institutions	-	13,211.3	-	13,211.3	13,211.3
Loans and receivables due from customers [1]	134.0	1,069.3	15,071.0	16,274.2	16,184.8
Held-to-maturity financial assets	316.1	-	-	316.1	290.4
FINANCIAL LIABILITIES					
Due to credit institutions	-	11,916.7	-	11,916.7	11,661.0
Due to customers	-	26,415.6	-	26,415.6	26,238.5
Debt securities	-	1,476.2	-	1,476.2	1,473.2

[1] *Excluding finance lease operations.*

In millions of euros at 31 December 2016	Estimated fair value				Balance sheet value
	Level 1	Level 2	Level 3	Total	
FINANCIAL ASSETS					
Loans and receivables due from credit institutions	-	8,709.4	-	8,709.4	8,709.4
Loans and receivables due from customers [1]	230.6	1,000.6	13,838.0	15,069.3	14,899.9
Held-to-maturity financial assets	331.0	-	-	331.0	293.8
FINANCIAL LIABILITIES					
Due to credit institutions	-	9,975.7	-	9,975.7	9,970.7
Due to customers	-	23,854.8	-	23,854.8	23,852.8
Debt securities	-	1,112.8	-	1,112.8	1,107.7

[1] *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.

8.k CONTINGENT LIABILITIES: LEGAL PROCEEDINGS AND ARBITRATION

Like any other financial institution, the Group is involved as defendant in various claims, disputes and legal proceedings, arising in the ordinary course of the banking and insurance business.

The Group makes provisions for such matters when, in the opinion of management and upon consultation with its legal advisors, it is probable that a payment will have to be made by the Group, and when the amount can be reasonably estimated (see note 5.p "Provisions for contingencies and charges").

In respect of further claims and legal proceedings against the Group of which management is aware (and which, according to the principles outlined above, have not been provided for), it is the opinion of management, after due consideration of appropriate professional advice, that such claims are without merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss in the Group's consolidated financial statements.

8.l GUARANTEE FUND

On 18 December 2015, the Luxembourg Government transposed into the Law on the resolution and liquidation of credit institutions and the system for the protection of depositors and investors, European Directives 2014/59/ EU, laying down the framework for the recovery and resolution of credit institutions and investment firms, and 2014/49/EU defining deposit guarantee schemes.

This new mechanism covers all eligible deposits up to 100,000 euros and investments up to 20,000 euros. In addition, the law stipulates that recent deposits (less than 12 months) resulting from specific transactions linked to a social objective or correlated with certain events in life are also guaranteed beyond the ceiling of 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.

When the target of 0.8% is reached by the end of 2018, in accordance with Article 163(8) of the Law, credit institutions and investment firms will contribute to the construction of a second tranche of 0.8% of guaranteed deposits of credit institutions and investment firms in Luxembourg over a period of 8 years.

In 2017, the Bank took into account the tranche relating to the 2017 financial year for an amount of EUR 8.0 million (versus EUR 7.3 million in 2016). In April 2017, the Bank paid a contribution to the LDGF for an amount of EUR 10.6 million (versus EUR 10.3 million in 2016).

8.m FEES PAID TO THE STATUTORY AUDITORS

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%

Year to 31 December 2016 *In thousands of euros*	Deloitte		PricewaterhouseCoopers		Mazars		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Statutory audit, certification, examination of the individual and consolidated accounts, of which:								
- Consolidating entity	-	0%	712	68%	553	30%	1,265	43%
- Consolidated subsidiaries	7	44%	285	27%	1,287	70%	1,579	54%
Other due diligence reviews and services directly related to the corporate auditor's scope, of which:								
- Consolidating entity	-	0%	23	2%	-	0%	23	1%
- Consolidated subsidiaries	-	0%	-	0%	10	1%	10	0%
Audit total	**7**	**44%**	**1,020**	**98%**	**1,850**	**100%**	**2,877**	**99%**
Other services provided by the networks								
Legal, tax, social	-	0%	-	0%	-	0%	-	0%
Other	9	56%	22	2%	-	0%	31	1%
Other services total	**9**	**56%**	**22**	**2%**	**-**	**0%**	**31**	**1%**
Total fees	16	100%	1,042	100%	1,850	100%	2,908	100%

8.n SUBSEQUENT EVENTS

On 20 February 2018, BGL BNP Paribas and ABN AMRO Bank NV announced that they had signed an agreement concerning the acquisition, by BGL BNP Paribas, of the outstanding shares in ABN AMRO Bank (Luxembourg) SA and of its fully owned subsidiary ABN AMRO Life SA.

Immediately after acquisition, BGL BNP Paribas will sell on the activities of ABN AMRO Life SA to Cardif Lux Vie. The proposed deal is subject to agreement from the competent regulatory authorities and should be finalised during the third quarter of 2018.

Apart from the items cited above, there were no other significant events after the reporting date.

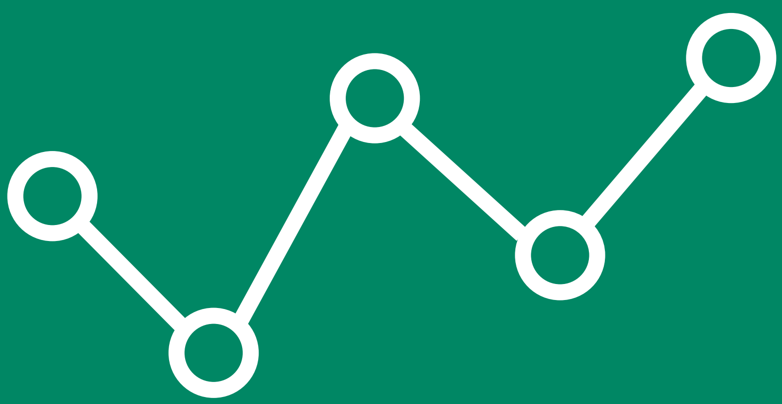
10 UNCONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2017

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 commerce 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 2017.



UNCONSOLIDATED BALANCE SHEET

In millions of euros	31 December 2017	31 December 2016
Assets		
Cash, credit notes with central banks and post office banks	**481.2**	**1,299.6**
Receivables from credit institutions	**12,041.5**	**7,588.3**
a) demand	1,634.3	119.3
b) other receivables	10,407.2	7,469.0
Receivables due from customers	**18,932.1**	**17,443.1**
Bonds and other fixed income securities	**4,889.7**	**5,372.5**
a) from public issuers	4,109.2	4,594.8
b) other issuers	780.5	777.7
Equities and other variable income securities	**131.5**	**160.5**
Investments in subsidiaries	**11.3**	**12.1**
Investments in affiliates	**1,341.4**	**1,353.2**
Intangible fixed assets	**9.6**	**9.3**
Tangible fixed assets	**337.4**	**358.3**
Other assets	**33.9**	**24.2**
Accrued income	**254.4**	**312.1**
Total assets	38,464.1	33,933.3

UNCONSOLIDATED BALANCE SHEET (CONTINUATION)

In millions of euros	31 December 2017	31 December 2016
Liabilities		
Due to credit institutions	**3,667.4**	**1,883.7**
a) demand	779.5	556.9
b) forward or with notice	2,887.9	1,326.8
Due to customers	**25,849.8**	**23,452.4**
a) savings deposits	6,514.0	6,036.5
b) other debts	19,335.8	17,415.9
- demand	15,009.4	13,680.8
- forward or with notice	4,326.4	3,735.1
Debt securities	**1,565.9**	**1,242.0**
a) bills and outstanding bonds	478.7	529.7
b) other	1,087.2	712.3
Other liabilities	**659.6**	**707.6**
Accrued income	**133.7**	**114.4**
Provisions	**270.1**	**318.3**
a) provisions for taxes	28.8	30.4
b) other provisions	241.3	287.9
Subordinated liabilities	**80.0**	**80.0**
Special items with a share of the reserves	**183.5**	**185.5**
Fund for general banking risks	**484.4**	**340.4**
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	**0.4**	**0.1**
Profit or loss for the fiscal year	**145.8**	**185.4**
Total liabilities	38,464.1	33,933.3

Off-balance sheet		
Contingent liabilities	**2,263.8**	**2,109.8**
of which: surety bonds and assets given in guarantee	*554.8*	*407.0*
Commitments	**3,120.1**	**2,825.7**
Fiduciary operations	**1,148.1**	**1,276.5**

UNCONSOLIDATED PROFIT AND LOSS ACCOUNT

In millions of euros	2017	2016
Interest and similar income	**621.4**	**679.6**
of which : On fixed-revenue marketable securities	*136.0*	*150.1*
Interest and similar expense	**(166.2)**	**(193.2)**
Income on equities and other variable instruments	**66.9**	**158.3**
a) earnings from equities. shares and other variable instruments	2.9	3.1
b) earnings from holdings	1.7	16.0
c) earnings from affiliates	62.3	139.3
Commissions earned	**174.0**	**167.6**
Commissions paid	**(40.7)**	**(46.7)**
Earnings on financial operations	**20.3**	**10.4**
Other operating income	**71.4**	**69.9**
Administrative overhead costs	**(345.9)**	**(354.5)**
a) staff costs	(231.2)	(230.2)
including: wages and salaries	*(195.4)*	*(194.1)*
social charges	*(28.3)*	*(28.5)*
including social charges applying to pensions	*(21.4)*	*(22.1)*
b) other administrative costs	(114.7)	(124.3)
Value corrections on intangible fixed assets and on tangible fixed assets	**(24.4)**	**(18.1)**
Other operating expenses	**(3.1)**	**(8.7)**
Additions/reversals for value creations on receivables and provisions for possible debts and commitments	**(30.2)**	**(22.9)**
Additions/reversals for value creations on marketable securities described as financial fixed assets. on participating interests and shares in affiliates	**(1.0)**	**(17.0)**
Allocations to "special items with a quota share of reserves"	**-**	**(4.1)**
Proceeds resulting from the dissolution of the "special items with a share of the reserves"	**2.0**	**43.5**
Allocations to Fund for general banking risks	**(144.0)**	**(223.0)**
Income tax applicable to ordinary activities	**(53.9)**	**(55.0)**
Proceeds resulting from ordinary activities. after tax	146.7	186.1
Other taxes not included in the above items	**(0.9)**	**(0.7)**
Profit or loss for the fiscal year	145.8	185.4

11 APPROPRIATION OF PROFIT

Net profit for the period*	145,776,267.00
Profit brought forward	410,632.62
Total amount for appropriation	**146,186,899.62**
Statutory allocations	1,170,033.93
Dividends**	144,918,653.32
Retained earnings	98,212.37
Total	**146,186,899.62**

** Figures not consolidated under Luxembourg GAAP - in euro.*
*** Gross dividend per share of EUR 5.18 (net: EUR 4.403) payable from 9 April 2018.*

12 BRANCH NETWORK

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IMPRESSUM

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BGL
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qui change