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# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## as at 30 June 2017



BGL BNP PARIBAS

The bank for a changing world

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*The figures in the tables of these financial statements may, in some cases, differ to an immaterial extent, due to rounding. These differences do not in any way affect the true and fair presentation of the Group's consolidated accounts.*

# STATEMENT BY THE BOARD OF DIRECTORS

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

The Board of Directors declares that, to its knowledge, the condensed consolidated interim financial statements prepared in accordance with IAS 34 "Interim Financial Reporting" 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 S.A. and the companies included in the consolidation as at 30 June 2017, and that the interim management report presents fairly the information required under section 4 (4) of the law.

Luxembourg, 7 September 2017

**Board of Directors:**

| | |
|---|---|
| Chairman : | ETIENNE REUTER |
| Vice-chairman : | THIERRY LABORDE |
| Directors : | H.R.H THE PRINCE GUILLAUME OF LUXEMBOURG |
| | JEAN-MARIE AZZOLIN |
| | DIDIER BEAUVOIS |
| | FRANCIS CAPITANI |
| | JEAN CLAMON |
| | ANNA DARESTA |
| | GABRIEL DI LETIZIA |
| | JEAN-PAUL FRIEDRICH |
| | MAXIME JADOT |
| | JOSIANE KREMER |
| | VINCENT LECOMTE |
| | ERIC MARTIN |
| | JEAN MEYER |
| | BAUDOUIN PROT |
| | DENISE STEINHÄUSER |
| | CARLO THELEN |
| | TOM THEVES |
| | CARLO THILL |
| | MICHEL WURTH |

# MANAGEMENT REPORT

## Preamble

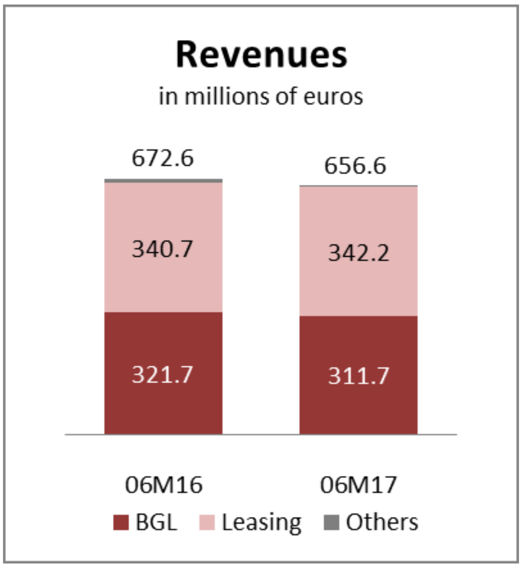
The first half of 2017 was marked by an improvement in economic conditions in the euro area. Unemployment continued to decline gradually and the leading indicators remained positive. If the recovery continues, growth in the euro zone is expected to be close to 2% and overall inflation will be close to 1.5% in 2017. Long-term interest rates have risen by half a percentage point since the historical lows reached in 2016.

In Luxembourg, although the initial estimates of growth in the first quarter of 2017 are disappointing, current forecasts point to a growth rate of between 4 and 5% for 2017 as a whole.

## Consolidated Results

| Profit and loss account | First half 2017 | First half 2016 | Changes | |
|---|---|---|---|---|
| *In millions of euros* | | | Value | % |
| **Revenues** | **656.6** | **672.6** | **(16.0)** | **-2%** |
| Operating expenses | (348.4) | (337.7) | (10.8) | 3% |
| **Gross operating income** | **308.2** | **335.0** | **(26.8)** | **-8%** |
| Cost of risk | (18.7) | (24.8) | 6.1 | -25% |
| **Operating Income** | **289.5** | **310.1** | **(20.7)** | **-7%** |
| Share of earnings of associates | 16.8 | 7.9 | 9.0 | 114% |
| *of which: Leasing* | *9.2* | *2.8* | *6.4* | 231% |
| Other non operating items | 5.6 | (24.3) | 29.9 | -123% |
| **Pre-tax income** | **311.9** | **293.7** | **18.2** | **6%** |
| Corporate income tax | (72.6) | (76.8) | 4.2 | -5% |
| **Net income** | **239.2** | **216.8** | **22.4** | **10%** |
| of which net income attributable to equity holders of the parent | 170.3 | 149.3 | 21.0 | 14% |

# Analysis of the profit and loss account and the balance sheet




**Revenues** weres down 2% compared to the first half 2016 at EUR 656.6 million on 30 June 2017.

**Net interest income** stood at EUR 541.9 million at 30 June 2017 compared with EUR 551.8 million at 30 June 2016, a decrease of EUR 9.9 million or 2%.

With regard to banking activities, net interest income was down EUR 13.3 million or 6%. Financial market and Treasury activities still continued to be penalised by a low, or even negative, interest rate environment, thus leading to a downturn in results. On the other hand, net interest income from customer-related activities increased due to the growth in outstanding loans and the strong inflow of deposits.

The net interest income from the activities of Leasing International rose by EUR 6.9 million, up 2%, due to the growth in outstandings in most geographic areas, and to better financing conditions. However, this solid growth was offset by the negative impact of EUR 10.1 million resulting from unfavorable exchange rate movements for certain entities outside the euro area.

Lastly, the sale of SADE S.A. in June 2016 and the discontinuation of the factoring activities of BNP Paribas FACTOR S.A. in December 2016 led to a decrease in net interest income of EUR 3.3 million.

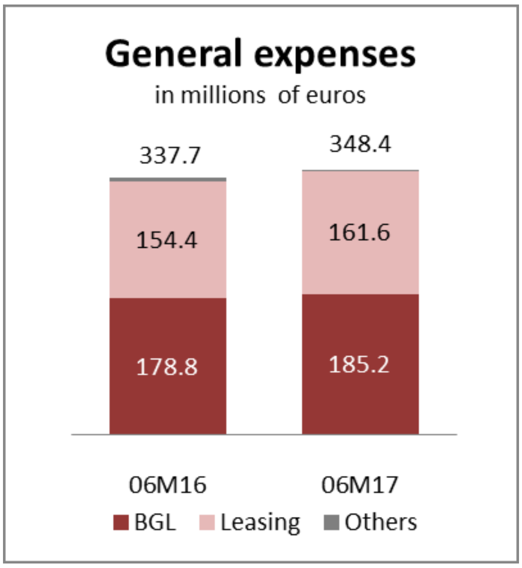
**Net commission income** rose from EUR 72.4 million in the first half of 2016 to EUR 77.7 million in the first half of 2017, an increase of EUR 5.3 million or 7%. During the first half of 2017, the Bank recorded an increase in transaction fees and various customer-related commissions, reflecting the dynamism of the business lines. It also recorded commissions received as part of the reorganisation of the foreign exchange activity from June 2016 onwards.

**Net gains or losses on financial instruments at fair value through profit or loss** decreased by EUR 12.2 million or 71% to EUR 5.0 million compared to EUR 17.2 million in the first half of 2016. This item was mainly affected by a penalty of EUR 4.5 million due to the revaluation of the Bank's own exposure at fair value and the negative revaluation of EUR 7.1 million of the option linked to the Indian participation, SREI INFRASTRUCTURE FINANCE LIMITED, within Leasing International.

**Net gains or losses on available-for-sale financial assets** registered a gain of EUR 8.1 million in the first half of 2017, compared with EUR 10.5 million in the first half of 2016. In 2017, the results were notably helped by net gains of EUR 1.4 million from the sale of sovereign and bank securities, at the Bank and by income derived from non-consolidated Leasing International participations, up EUR 5.2 million. In 2016, this item was mainly impacted by a dividend of EUR 14.9 million received from BIP Investment Partners and an impairment loss of EUR 5.7 million.

**Net income and expenses from other activities** amounted to EUR 23.9 million, compared with EUR 20.8 million in the first half of 2016. The item mainly includes net income from investment property for the Bank, as well as for certain Leasing International entities and revenues from the management of IT equipment and industrial rolling stock fleets within specialised entities of Leasing International. The increase at the Bank level is due to rental income, as some office space in the new buildings has now been leased, following the completion of the Luxembourg-Kirchberg expansion project during the first half of 2016.

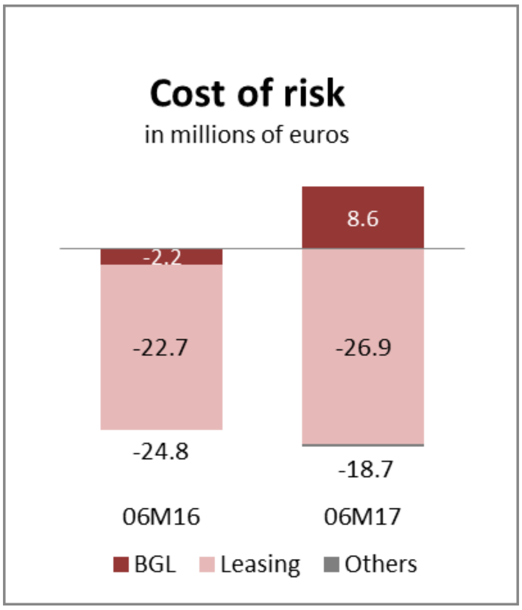
At 30 June 2017, **general expenses** amounted to EUR 348.4 million compared to EUR 337.7 million at the end of the first half of the previous year, an increase of EUR 10.8 million or 3%.




For banking activities, operating expenses increased by EUR 6.4 million or 4%. This is mainly due to costs incurred under the 2020 transformation plan (EUR 4.2 million increase), to the allocations to the Single Resolution Fund and the Deposit Guarantee Fund (EUR 2.0 million or 20% increase) and the increase in depreciation and amortisation of tangible and intangible assets (EUR 4.2 million) due to the depreciation of the new buildings at the Luxembourg-Kirchberg site, which have now been completed. Excluding these items, operating expenses, excluding staff costs, decreased by EUR 2.1 million or 4%. Lastly, staff costs decreased by EUR 2.0 million, due in particular to the continuing decline in the number of employees, as a result of the efficiencies generated by investments made under the Simple & Efficient programme in previous years.

As regards Leasing International activities, general expenses increased by EUR 7.2 million or 5%. This increase can be explained in part by the envelope linked to the 2020 Transformation Project costs of EUR 2.9 million, which was not present in 2016, by the investments and recruitment costs of EUR 2.3 million made in connection with the growth plan, and by the increase in contributions to the Single Resolution Fund of EUR 0.4 million.

**Gross operating income** was EUR 308.2 million, down EUR 26.8 million or 8%, due to lower revenues and higher general expenses.




The **cost of risk** amounted to EUR -18.7 million compared with EUR -24.8 million in first half of 2016.

The cost of risk improved at the Bank level, with a net reversal of EUR 8.6 million as at 30 June 2017, compared with a EUR 2.2 million allocation in the first half of 2016. The cost of risk of Leasing International increased by EUR 4.2 million, from EUR -22.7 million at 30 June 2016 to EUR -26.9 million at 30 June 30 2017. Despite this increase, which mainly concerns France, the cost of risk remained at the low level of 33 bp.

The **share of earnings of associates** amounted to EUR 16.8 million compared with EUR 7.9 million in the first half of 2016.

The contribution of Leasing International improved by EUR 6.4 million from EUR 2.8 million in the first half of 2016 to EUR 9.2 million in the first half of 2017, due to an improvement in the cost of risk, particularly in Spain, Portugal and Switzerland.

The contribution from life-insurance income in Luxembourg (Cardif Lux Vie S.A.), in which the Bank has a 33% holding, was EUR 7.6 million, an increase of EUR 2.5 million compared to the first half of 2016. On the one hand, the entity posted higher volumes in the "Savings" business segment and, on the other hand, it benefited from a revaluation of its securities portfolio following the favourable trend in stock prices.

**Net gains on fixed assets** amounted to 5.6 million euros in the first half of 2017. This can be mainly explained by the sale of a building within Cofhylux which generated a capital gain of EUR 4.7 million. In the first half of 2016, the item had been impacted by a charge of EUR 11.4 million through equity transactions within Leasing International and by the capital loss realised on the sale of SADE SA for EUR 12.0 million.

**Income tax expense** fell by EUR 4.2 million or 5% compared to the previous year, going from EUR 76.8 million at 30 June 2016 to EUR 72.6 million at 30 June 2017, in line with the change in operating income.

Finally, after deduction of income from minority interests, **net income attributable to equity holders** for the first half of 2017, showed a net profit of EUR 170.3 million compared to net income of EUR 149.3 million in the first half of 2016, an increase of EUR 21.0 million or 14%.

## Balance Sheet

At 30 June 2017, total assets amounted to EUR 49.5 billion compared to EUR 45.0 billion at 31 December 2016, up 10%.

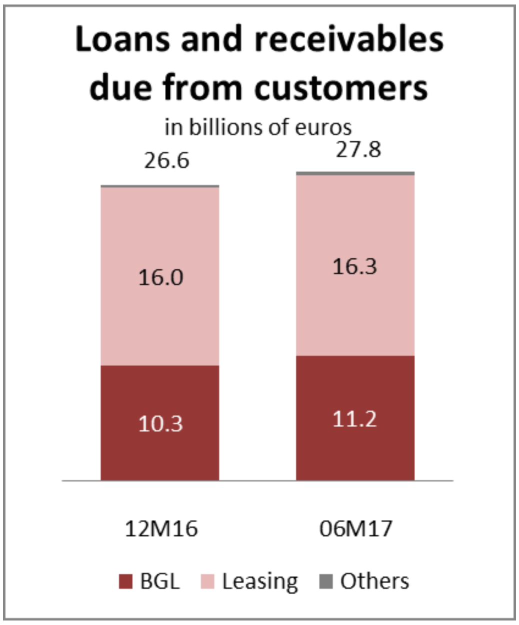
On the **assets** side, **cash and amounts due from central banks** amounted to EUR 5.9 billion compared with EUR 1.5 billion at 31 December 2016. It is essentially composed of short-term deposits with the Central Bank of Luxembourg.

**Financial instruments at fair value through profit or loss** were up 24%, from EUR 234 million to EUR 289 million, mainly due to a EUR 82 million increase in the equity portfolio of Corporate Investment Banking - Prime Solutions & Financing. This increase was partially offset by a decrease in positive fair value on derivatives of EUR 23 million and a decrease of EUR 4 million in repurchase agreement transactions.

**Available-for-sale financial assets** stood at EUR 4.8 billion, compared with EUR 5.5 billion at 31 December 2016. This item consists mainly of the bond portfolio held by the Bank, comprising mostly sovereign and supranational securities and bank bonds. In 2017, the decrease in the bond portfolio was mainly due to the sale of sovereign bonds and bank bonds for EUR 526 million and the maturity of government securities for EUR 19 million, partially offset by acquisitions of bank and sovereign securities to the tune of EUR 282 million.

This item decreased by EUR 316 million with regard to Leasing International due in particular to the repayment in 2017 of an investment in a SICAV.

**Loans and receivables due from credit institutions** decreased by EUR 451 million to EUR 8.3 billion at 30 June 2017. This decrease is attributable mainly to changes in bank deposits by the Bank with other entities of the BNP Paribas Group.

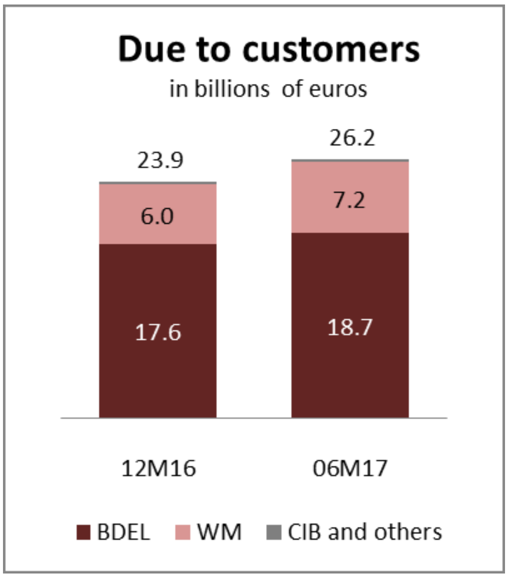



**Loans and receivables due from customers** amounted to EUR 27.8 billion, up EUR 1.2 billion. In terms of banking activities, outstandings increased by EUR 877 million, or 9%, compared to 31 December 2016. All the Bank's business lines showed similar positive improvements. There were increases in Retail Banking loans of 3%, in particular in mortgage loans and consumer loans, which were fueled by a buoyant national market. As for Corporate Banking, it grew by 22%, while Wealth Management saw its assets increase by 4%.

In terms of leasing activities, outstandings grew by EUR 289 million or 2% in the first half of 2017, due to business development in strategic geographic areas.

On the **liabilities** side, **financial instruments at fair value through profit or loss** amounted to EUR 489 million, an increase of 67% compared with 31 December 2016. This increase was mainly due to the conclusion of new repurchase agreements in the first half of 2017. However, the increase was partially offset by a reduction in outstanding Euro Medium Term Notes (EMTNs) valued at fair value.

**Amounts due to credit institutions** increased by EUR 1.8 billion to EUR 11.7 billion at 30 June 2017. This increase was mainly due to the increase of EUR 0.8 billion in the Bank's interbank loans, with other entities in the BNP Paribas Group, as well as repo transactions of EUR 0.6 billion with BNP Paribas Métropole. There was a EUR 0.3 billion increase in financing by Leasing International of entities outside the BGL BNP Paribas Group.




**Amounts due to Customers** increased from EUR 23.9 billion at 31 December 2016 to EUR 26.2 billion at 30 June 2017, an increase of 10%. This positive development is spread across all the Bank's business lines.

At Corporate Banking in Luxembourg, deposits at the end of the period increased by EUR 0.8 billion, or 8%, compared to the situation at 31 December 2016, buoyed by good inflows of funds during the first half. Retail Banking deposits were up EUR 0.2 billion or 2% over the period.

Lastly, Wealth Management saw its deposits increase in 2017 by EUR 1.2 billion or 20%.

**Debt Securities** increased from EUR 1.1 billion at 31 December 2016 to EUR 1.5 billion at 30 June 2017, an increase of 36% following an increase of EUR 412 million in outstanding short-term paper (European Commercial Paper) mainly denominated in GBP, EUR and USD. This increase was partially offset by the non-renewal of mature Euro Medium Term Notes (EMTNs) due to unfavorable market conditions.

## Own funds

At 30 June 2017, excluding net income for the current period and after application of prudential deductions, **regulatory capital,** established in accordance with the Basel 3 regulations, was EUR 5.7 billion, and the **solvency ratio** stood at 23.4 % compared to EUR 5.5 billion and 23.1% at 31 December 2016.

# Outlook

Since the end of 2016, the various business lines and functions of BGL BNP Paribas have been working on the implementation of an ambitious strategic plan for 2020. This plan aims to bring about the changes in all those areas, digital, human, organisational and commercial, which are essential in order to build the bank of tomorrow, and which will bring an ever higher level of satisfaction to its customers, as well as to its employees and partners.

To achieve this, BGL BNP Paribas has focused on innovation and it continues to pursue its aim of optimising the digital experience of its customers, supported by innovative work methods, such as those which characterise startups, and which its employees adopt on a daily basis. These methods allow it to cooperate more closely with innovative customers.

With regard to business development by the Business lines, they should continue to benefit from the favourable economic environment in Luxembourg compared to other countries in the euro zone, enabling them to maintain their revenues and absorb expenses related to the implementation of regulatory changes.

Beyond its banking activities, BGL BNP Paribas maintains its commitment in the field of corporate social responsibility, as well as in the economic, cultural and social life of the country.

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEME

To the Board of Directors of BGL BNP Paribas S.A.

We have reviewed the accompanying condensed consolidated interim financial statements of BGL BNP Paribas S.A. (the "Bank"), which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flow for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

*Board of Directors' responsibility for the condensed consolidated interim financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these consolidated interim financial statements in accordance with Interim Financial Reporting standard ("IAS 34") as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

*Responsibility of the "Réviseur d'entreprises agréé"*

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE 2410) as adopted for Luxembourg by the "Institut des Réviseurs d'Entreprises". This standard requires us to comply with relevant ethical requirements and conclude whether anything has come to our attention that causes us to believe that the condensed consolidated interim financial statements, taken as a whole, are not prepared in all material respects in accordance with Interim Financial Reporting standard ("IAS 34") as adopted by the European Union.

A review of condensed consolidated interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. The "Réviseur d'entreprises agréé" performs procedures, primarily consisting of making inquiries of management and others within the Company, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these condensed consolidated interim financial statements.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared in all material respects in accordance with Interim Financial Reporting standard ("IAS 34") as adopted by the European Union.

PricewaterhouseCoopers, Société coopérative — Luxembourg, 7 September 2017

Represented by

Philippe Sergiel — Olivier Delbrouck

*Only the French version of the present Report has been reviewed by the auditors. In case of differences between the French version and the translation, the French version should be retained.*

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

| *In millions of euros* | Note | First half 2017 | First half 2016 |
|---|---|---|---|
| Interest income | 2.a | 663.0 | 664.2 |
| Interest expense | 2.a | (121.1) | (112.4) |
| Commission (income) | 2.b | 184.2 | 174.8 |
| Commission (expense) | 2.b | (106.5) | (102.4) |
| Net gain / loss on financial instruments at fair value through profit or loss | 2.c | 5.0 | 17.2 |
| Net gain / loss on financial assets available for sale | 2.d | 8.1 | 10.5 |
| Income from other activities | 2.e | 167.1 | 144.0 |
| Expense on other activities | 2.e | (143.1) | (123.2) |
| **REVENUES** | | **656.6** | **672.6** |
| Staff costs | | (212.8) | (212.7) |
| Other operating expense | 2.f | (118.5) | (112.5) |
| Depreciation, amortisation and impairment of property, plant and equipment and intangible assets | | (17.1) | (12.5) |
| **GROSS OPERATING INCOME** | | **308.2** | **335.0** |
| Cost of risk | 2.g | (18.7) | (24.8) |
| **OPERATING INCOME** | | **289.5** | **310.1** |
| Share of earnings of associates | 2.h | 16.8 | 7.9 |
| Net gain or loss on other fixed assets | 2.i | 5.6 | (24.3) |
| **PRE-TAX INCOME** | | **311.9** | **293.7** |
| Corporate income tax | 2.j | (72.6) | (76.8) |
| **NET INCOME** | | **239.2** | **216.8** |
| Minority interests | | 68.9 | 67.6 |
| **NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | **170.3** | **149.3** |

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

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| **Net income** | **239.2** | **216.8** |
| **Changes in assets and liabilities recognised directly in equity** | **(34.3)** | **6.2** |
| **Items transferable to profit and loss** | **(37.1)** | **28.1** |
| Items related to exchange rate movements | (17.3) | (32.6) |
| Changes in fair value of available-for-sale financial assets and of securities reclassified as loans and receivables | (6.5) | 35.3 |
| Changes in fair value of available-for-sale financial assets, reported in net income for the period | (1.4) | 0.4 |
| Changes in fair value of hedging instruments | (9.4) | 16.6 |
| Changes in items related to equity associates | (2.4) | 8.4 |
| **Items non transferable to profit or loss** | **2.8** | **(21.8)** |
| Remeasurement gains (losses) related to post-employment benefits | 2.8 | (21.8) |
| **TOTAL** | **204.9** | **223.1** |
| Attributable to equity holders of the parent | 136.6 | 179.8 |
| Attributable to minority interests | 68.3 | 43.3 |

# CONSOLIDATED BALANCE SHEET

| *In millions of euros* | Note | 30 June 2017 | 31 December 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and amounts due from central banks | | 5,875.6 | 1,454.3 |
| Financial instruments at fair value through profit or loss | | | |
| Trading securities | 4.a | 190.1 | 108.3 |
| Loans and repurchase agreements | 4.a | 24.0 | 27.7 |
| Instruments designated at fair value through profit or loss on option | 4.a | 5.5 | 5.5 |
| Derivatives | 4.a | 69.1 | 92.3 |
| Derivatives used for hedging purposes | | 144.5 | 170.3 |
| Available-for-sale financial assets | 4.b | 4,771.6 | 5,476.0 |
| Loans and receivables due from credit institutions | | 8,258.7 | 8,709.4 |
| Loans and receivables due from customers | 4.d | 27,765.7 | 26,580.9 |
| Held-to-maturity financial assets | | 289.6 | 293.8 |
| Current and deferred tax assets | 4.f | 108.6 | 132.6 |
| Accrued income and other assets | 4.g | 770.0 | 695.1 |
| Investments in associates | 4.h | 246.3 | 241.4 |
| Investment property | 4.k | 169.1 | 169.8 |
| Property, plant and equipment | 4.k | 658.5 | 661.5 |
| Intangible assets | | 27.0 | 27.7 |
| Goodwill | 4.i | 133.2 | 133.8 |
| **TOTAL ASSETS** | | **49,507.1** | **44,980.2** |
| **LIABILITIES** | | | |
| Financial instruments at fair value through profit or loss | | | |
| Trading securities | 4.a | - | 0.0 |
| Borrowings and repurchase agreements | 4.a | 239.2 | - |
| Instruments designated at fair value through profit or loss on option | 4.a | 189.2 | 218.0 |
| Derivatives | 4.a | 60.1 | 73.6 |
| Derivatives used for hedging purposes | | 41.4 | 58.1 |
| Due to credit institutions | | 11,724.1 | 9,970.7 |
| Due to customers | 4.d | 26,158.4 | 23,852.8 |
| Debt securities | 4.e | 1,510.9 | 1,107.7 |
| Remeasurement adjustment on interest-rate risk hedged portfolios | | 55.8 | 86.9 |
| Current and deferred tax liabilities | 4.f | 505.1 | 510.4 |
| Accrued expenses and other liabilities | 4.g | 1,052.3 | 1,070.8 |
| Provisions for contingencies and charges | | 160.3 | 174.1 |
| **TOTAL LIABILITIES** | | **41,696.8** | **37,123.2** |
| **CONSOLIDATED EQUITY** | | | |
| *Share capital and additional paid-in capital* | 5.a | *6,125.1* | *5,903.6* |
| *Net income for the period attributable to shareholders* | | *170.3* | *403.2* |
| **Total capital, retained earnings and net income for the period attributable to shareholders** | | **6,295.4** | **6,306.8** |
| Changes in assets and liabilities recognised directly in equity | | 199.1 | 235.2 |
| **Total consolidated equity** | | **6,494.6** | **6,542.1** |
| Retained earnings and net income for the period attributable to minority interests | | 1,379.8 | 1,378.0 |
| Changes in assets and liabilities recognised directly in equity | | (64.1) | (63.1) |
| **Total minority interests** | | **1,315.7** | **1,314.9** |
| **TOTAL CONSOLIDATED EQUITY** | | **7,810.3** | **7,857.0** |
| **TOTAL LIABILITIES AND EQUITY** | | **49,507.1** | **44,980.2** |

# STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

♦ Attibutable to shareholders

| *In millions of euros* | Capital and retained earnings | | | Change in assets and liabilities recognised directly in equity * | | | |
|---|---|---|---|---|---|---|---|
| | Share capital and additional paid-in capital | Non distributed reserves | **Total capital and retained earnings** | Exchange rates | Available-for-sale financial assets | Derivatives used for hedging purposes | **Total equity attributable to equity holders of the parent** |
| **As at 31 December 2015** | **3,474.9** | **2,590.1** | **6,065.1** | **(37.1)** | **213.6** | **35.9** | **6,277.5** |
| Capital reduction | (0.3) | (0.2) | **(0.5)** | | | | **(0.5)** |
| Dividends | | (151.4) | **(151.4)** | | | | **(151.4)** |
| Commitment to repurchase minority shareholders' interests | | 0.4 | **0.4** | | | | **0.4** |
| Other movements | | 0.0 | **0.0** | | | | **0.0** |
| Change in assets and liabilities recognised directly in equity | | (13.0) | **(13.0)** | (11.7) | 38.5 | 16.7 | **30.5** |
| Net income for the first half of 2016 | | 149.3 | **149.3** | | | | **149.3** |
| **As at 30 June 2016** | **3,474.6** | **2,575.1** | **6,049.8** | **(48.7)** | **252.1** | **52.6** | **6,305.7** |
| Commitment to repurchase minority shareholders' interests | | (2.6) | **(2.6)** | | | | **(2.6)** |
| Other movements | | 2.0 | **2.0** | | | | **2.0** |
| Change in assets and liabilities recognised directly in equity | | 3.7 | **3.7** | (12.7) | (2.3) | (5.7) | **(17.0)** |
| Net income for the second half of 2016 | | 253.9 | **253.9** | | | | **253.9** |
| **As at 31 December 2016** | **3,474.6** | **2,832.2** | **6,306.8** | **(61.4)** | **249.8** | **46.9** | **6,542.1** |
| Capital reduction | - | 0.0 | **0.0** | | | | **0.0** |
| Dividends | | (184.1) | **(184.1)** | | | | **(184.1)** |
| Commitment to repurchase minority shareholders' interests | | - | **-** | | | | **-** |
| Other movements | | (0.0) | **(0.0)** | | | | **(0.0)** |
| Change in assets and liabilities recognised directly in equity | | 2.4 | **2.4** | (8.0) | (18.8) | (9.4) | **(33.7)** |
| Net income for the first half of 2017 | | 170.3 | **170.3** | | | | **170.3** |
| **As at 30 June 2017** | **3,474.6** | **2,820.8** | **6,295.4** | **(69.4)** | **231.0** | **37.6** | **6,494.6** |

* *Including items relating to associates*

At 31 December 2016 and 30 June 2017, the undistributed reserves include reserves that are not available for distribution under Luxembourg regulation with a net value of EUR 167.8 million (compared to EUR 161.4 million at 31 December 2015 and 30 June 2016).                                   .

### ♦ 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** |
| Increases in capital and issues | 0.0 | | 0.0 |
| Dividends | (106.1) | | (106.1) |
| Commitment to repurchase minority shareholders' interests | 1.8 | | 1.8 |
| Other movements | 0.0 | | 0.0 |
| Change in assets and liabilities recognised directly in equity | (8.8) | (15.5) | (24.3) |
| Net income for the first halft of 2016 | 67.6 | | 67.6 |
| **As at 30 June 2016** | **1,311.3** | **(52.2)** | **1,259.0** |
| Interim dividend payments | (25.1) | | (25.1) |
| Commitment to repurchase minority shareholders' interests | 2.8 | | 2.8 |
| Other movements | 2.0 | | 2.0 |
| Change in assets and liabilities recognised directly in equity | 3.2 | (10.9) | (7.6) |
| Net income for the second half of 2016 | 83.8 | | 83.8 |
| **As at 31 December 2016** | **1,378.0** | **(63.1)** | **1,314.9** |
| Increases in capital and issues | (0.0) | | (0.0) |
| Dividends | (70.4) | | (70.4) |
| Commitment to repurchase minority shareholders' interests | (0.1) | | (0.1) |
| Other movements | 3.0 | | 3.0 |
| Change in assets and liabilities recognised directly in equity | 0.4 | (1.0) | (0.6) |
| Net income for the first half of 2017 | 68.9 | | 68.9 |
| **As at 30 June 2017** | **1,379.8** | **(64.1)** | **1,315.7** |

* *Including items relating to associates*

# CONSOLIDATED CASH FLOW STATEMENT

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| **Pre-tax income** | **311.9** | **293.7** |
| **Non-monetary items included in pre-tax net income and other adjustments** | **(12.1)** | **(132.2)** |
| Net depreciation/amortisation expense on property, plant and equipment and intangible assets | 51.2 | 45.8 |
| Impairment of goodwill and other fixed assets | (2.4) | (5.7) |
| Net addition to provisions | 6.7 | (5.4) |
| Share of earnings of associates | (16.8) | (7.9) |
| Net income from investing activities | (5.2) | 23.9 |
| Other movements | (45.5) | (182.9) |
| **Net increase (decrease) in cash related to assets and liabilities generated by operating activities** | **3,800.3** | **1,960.1** |
| Net increase (decrease) in cash related to transactions with credit institutions | 1,732.1 | 679.0 |
| Net increaese in cash related to transactions with customers | 1,390.1 | 989.1 |
| Net increase (decrease) in cash related to transactions involving other financial assets or liabilities | 752.1 | 384.6 |
| Net decrease in cash related to transactions involving non-financial assets and liabilities | (33.5) | (22.8) |
| Taxes paid | (40.5) | (69.9) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS GENERATED BY OPERATING ACTIVITIES** | **4,100.1** | **2,121.5** |
| Net increase (decrease) related to financial assets and investments | 0.5 | 140.7 |
| Net decrease related to property, plant and equipment and intangible assets | (3.6) | (47.9) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS RELATED TO INVESTING ACTIVITIES** | **(3.2)** | **92.9** |
| Decrease in cash and cash equivalents related to transactions with shareholders | (239.9) | (179.3) |
| Decrease in cash and cash equivalents generated by other financing activities | - | - |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS RELATED TO FINANCING ACTIVITIES** | **(239.9)** | **(179.3)** |
| Effect of movement in exchange rates | (0.3) | (1.2) |
| **NET CHANGES IN CASH AND CASH EQUIVALENTS** | **3,856.6** | **2,033.8** |
| **Balance of cash and cash equivalents accounts at the start of the period** | **1,953.8** | **1,282.2** |
| **Balance of cash and cash equivalents accounts at the end of the period** | **5,810.5** | **3,316.0** |

- **Additional information**

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| **Composition of cash and cash equivalents** | **5,810.5** | **3,316.0** |
| Cash and amounts due from central banks | 5,875.6 | 2,141.7 |
| Demand deposit with credit institutions | 974.0 | 1,533.7 |
| Demand loans from credit institutions | (1,038.8) | (359.0) |
| Deduction of receivables and accrued interest on cash and cash equivalents | (0.3) | (0.4) |

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| **Additional information** | | |
| Interests paid | (120.3) | (114.9) |
| Interests received | 684.3 | 676.6 |
| Dividends paid | (252.2) | (257.5) |
| Dividends received | 30.1 | 52.9 |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## GENERALITIES

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

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

The BNP Paribas Group is the majority shareholder of BGL BNP Paribas. It controls 65.97% of the capital of BGL BNP Paribas, both directly and indirectly through BNP Paribas Fortis S.A.

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 S.A. its main shareholder (50,01%). The consolidated financial statements of BNP Paribas Fortis S.A. are available at its head office at 3 Montagne du Parc, B - 1000 Brussels.

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

# 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED BY THE GROUP

## 1.a APPLICABLE ACCOUNTING STANDARDS

### 1.a.1 APPLICABLE ACCOUNTING STANDARDS

The consolidated financial statements of the BGL BNP Paribas Group have been prepared in accordance with international accounting standards (International Financial Reporting Standards - IFRS), as adopted for use in the European Union[1]. Accordingly, certain provisions of IAS 39 on hedge accounting have been excluded, and certain recent texts have not yet undergone the approval process.

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" which foresees thepublication of condensed semi-annual accounts.

The Group did not choose to early-adopt the new standards, amendments, and interpretations adopted by the European Union, whose application in 2017 was optional.

### 1.a.2 NEW MAJOR ACCOUNTING STANDARDS, PUBLISHED BUT NOT YET APPLICABLE

**IFRS 9 "Financial Instruments"**

IFRS 9 "Financial Instruments", issued by the IASB in July 2014, will replace IAS 39 “Financial Instruments: recognition and measurement”, related to the classification and measurement of financial instruments. It sets out the new principles for the classification and measurement of financial instruments, and for impairment for credit risk on debt instruments as well as for micro hedge accounting.

IFRS 9, which was adopted by the European Union on 22 November 2016, is mandatory for annual periods beginning on or after 1 January 2018.

*Classification and measurement*

According to IFRS 9, the classification and measurement of financial assets, such as debt instruments (loans, receivables or securities) will depend on the business model and the contractual characteristics of the instruments.
On initial recognition under IFRS 9, financial assets will be classified as follows:

- at amortised cost if the business model objective is to hold the financial assets in order to collect contractual cash flows, and if the contractual cash flows solely consist of payments relating to principal and interest on the principal.

- at fair value through shareholders' equity if the business model is achieved by both holding the financial assets in order to collect contractual cash flows and selling the assets and if the cash flows solely consist of payments relating to principal and interest on the principal. Upon disposal, gains and losses previously recognised in shareholders' equity will be transferred to profit or loss.

- other debt instruments will be presented at fair value through profit or loss.

Debt instruments may only be designated as at fair value through profit or loss if the use of this option enables the entity to eliminate or significantly reduce an accounting mismatch in profit or loss.

[1] *The full set of standards adopted for use in the European Union can be found on the website of the European Commission at: htto://ec.eurooa.ea/intemal market/accountin ias en.htm#adopted-commission.*

Derivatives embedded in financial assets will no longer be recognised separately from the host contract. The contractual characteristics of the instrument as a whole should be analysed in accordance with IFRS 9.

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 (on a separate line). In the latter case, upon disposal of equity instruments classified at fair value through shareholders equity, amounts previously recognised in shareholders' equity shall not be transferred to profit or loss. Only dividends will be recognised in profit or loss.

With respect to financial liabilities, the only 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 application of this standard will lead to the following classification and valuation changes:

- credits and securities that do not meet the criterion of contractual characteristics will change from "Loans and receivables" in accordance with IAS 39 to "Instruments measured at fair value through profit or loss" under IFRS 9;

- fixed-income securities classified as "Available-for-sale financial assets" under IAS 39 , the management model of which is to hold the instrument in order to collect the contractual cash flows, should be recognised at amortised cost;

- investments in equity instruments will mostly be classified as instruments at fair value through profit or loss, making income more volatile than under IAS 39. However, some of these investments are likely to be classified at fair value through shareholders' equity.

Given the analyses carried out to date, the Group does not expect significant changes in the classification and valuation of its financial assets, in view of the size of the Group's balance sheet.

*Impairment*

IFRS 9 establishes a new credit risk impairment model 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.

Under the impairment model in IAS 39 based on incurred loss, an impairment loss is recognised when there is objective evidence of a decrease in value. Counterparties that are not individually impaired are risk-assessed on the basis of portfolios with similar characteristics, and groups of counterparties which, as a result of events occurring since inception of the loans, present objective indication of impairment, are subject to portfolio-based impairment. Moreover, the Group may recognise additional collective impairment with respect to a given economic sector or geographic area affected by exceptional economic events.

The new impairment model in three stages requires the recognition of expected credit losses as follows:

- up to 12 months (resulting from default risks in the next 12 months) on financial instruments issued or acquired, as of the date of initial recognition on the balance sheet, and as long as there is no significant deterioration in credit risk ("stage 1");
- at maturity (resulting from default risks over the residual life of the financial instrument) when a significant increase in credit risk must be recognised if the credit risk has increased significantly since initial recognition. ("stage 2");
- at maturity with interest income calculated using the effective interest rate method applied to the net book value (after depreciation) for depreciated financial assets, ie for which there is an objective indication of loss of value related to an event occurring after the loan was put in place or the asset acquired ("stage 3"). The criteria for identifying impaired assets will be similar to those prevailing in accordance with IAS 39.

Significant increase in the credit risk will be assessed on an individual basis or on a collective basis (by grouping the financial instruments according to common credit risk characteristics) by taking into consideration all reasonable and supportable information and comparing the default risk of the financial instrument at the reporting date with the default risk on the date of its initial recognition.

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

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

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

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

Accounting principles of restructuring for financial difficulties are likely to remain similar to those prevailing under IAS 39.

Methods of measuring expected credit losses will be based on 3 main parameters: the probability of default ("PD"), loss given default ("LGD") and exposure at default ('EAD") in light of amortisation profiles. Expected credit losses will be measured as the product of the PD, LGD and EAD.

The Group is considering using existing concepts and methods (in particular the Basel framework) on exposures for which the capital requirement for credit risk is measured according to the IRBA methodology. This method will also need to be applied to portfolios for which the capital requirement for credit risk is measured according to the standardised approach. Moreover, the Basel framework will need to be supplemented with the specific provisions of IFRS 9, in particular the use of forward-looking information.

The new impairment model is likely to result in an increase in impairment for credit risk since all financial assets will be subject to a 12-month expected credit loss assessment. Moreover, the scope of the assets for which there is a significant increase in credit risk could be different from the scope of assets for which portfolio-based impairment was recognised under IAS 39.

*Hedge accounting*

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

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

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

*Transition*

The IFRS 9 classification and measurement provisions, as well as its new impairment model, are applicable retrospectively as at 1 January 2018, and the standard introduces the option not to restate the comparative figures for prior periods. The Group is considering retaining this option.

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

*Implementation of IFRS 9 within the Group*

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

In this context, several projects corresponding to each of the various components of the standard have been set up as well as steering committees bringing together the heads of Risk and Finance functions. Operational committees dedicated to the various issues related to the implementation of the new standard also complement the system. There has been a permanent synchronisation throughout between the Group and BNP Paribas S.A.

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

The work relating to the analysis of business models and the contractual cash flows characteristics of the Group's assets, as well as the required IT developments and adaptations are being finalised.

The project on the impairment model is conducted under the joint responsibility of the Finance and Risk Departments.

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

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

**IFRS 15 "Revenue from contracts with customers"**

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

Adopted by the European Union on 22 September 2016, IFRS 15 will become mandatory for years beginning on, or after, 1 January 2018.

IFRS 15 defines a single model for recognising revenue based on five-step principles. These five steps make it notably possible to identify the distinct performance obligations in the contracts with customers and to allocate the transaction price to them. The transaction price amounts that are allocated to the different performance obligations are recognised as revenue when the performance obligations are satisfied, namely when the control of the promised goods or services has been transferred.

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

The implementation of IFRS 15 within the Group is based on a project structure managed by the Finance Department. The analysis of the standard and the documentation and identification of its potential impacts are being finalised. Impacts are not expected to be material.

**IFRS 16 "Leases"**

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

From the lessors' point of view, the expected impact should be limited, as the requirements of IFRS 16 remain mostly unchanged from the current IAS 17.

For the lessee, IFRS 16 will require recognition in the balance sheet of all leases, in the form of a right of-use on the leased asset presented under fixed assets, along with the recognition of a financial liability for the rent and other payments to be made over the leasing period. The right-of-use assets will be amortised on a straight-line basis and the financial liabilities will be amortised on an actuarial basis over the lease period. The main change induced by this new standard is related to contracts which, under IAS 17, met the definition of operating leases, and as such, did not require recognition in the balance sheet of the leased assets.

IFRS 16 will become mandatory for annual periods beginning on or after 1 January 2019, after its adoption by the European Union for application in Europe. Following the publication of the standard, the Group has started to analyse the standard and define its potential impacts.

## 1.b CONSOLIDATION

### 1.b.1 SCOPE OF CONSOLIDATION

The consolidated accounts of BNP Paribas include entities that are controlled by the Group, jointly controlled, and under significant influence, with the exception of those entities whose consolidation is regarded as immaterial in drawing up the financial statements of the Group. The consolidation of an entity is regarded as immaterial if its contribution to the consolidated financial statements is below the following three thresholds: EUR 15 million of consolidated revenues, EUR 1 million of consolidated net income before tax, EUR 500 million of total consolidated assets. 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

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

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

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

For these entities, the analysis of control shall consider the purpose and design of the entity, the risks to which they are designed to be exposed and to what extent the Group absorbs the related variability. The assessment of control shall consider all facts and circumstances able to determine the Group's practical ability to make decisions that could significantly affect its returns, even if such decisions are contingent on uncertain future events or circumstances.

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

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

Where the Group contractually holds the decision-making power, for instance where the Group acts as fund manager, it shall determine whether it is acting as agent or principal. Indeed, when associated with a certain level of exposure to the variability of returns, this decision-making power may indicate that the

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

Enterprises over which the Group exercises significant influence (so-called associates) are accounted for by the equity method. Significant influence is the power to participate in an entity's financial and operating policy decisions, without exercising control. Significant influence is presumed to exist if the Group directly or indirectly holds 20% or more of an entity's voting rights. Investments below this threshold are excluded from the scope of consolidation, unless they represent a strategic investment and if the Group exercises significant effective influence. This is the case for companies developed in partnership with other groups in which the BGL BNP Paribas Group participates in the strategic decisions of the associate by being represented in the management bodies, influencing the operational management of the company associated with the provision of management systems or management personnel, or provides technical cooperation for the development of this company.

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

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

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

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 fully consolidated funds, units held by third-party investors are recorded at market value when the units issued by these funds are repayable at market value at the option of the holder.

In transactions resulting in a loss of control, the residual share any retained is remeasured at fair value through profit and loss.

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

### 1.b.3 CONSOLIDATION PROCEDURES

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

- **Elimination of intragroup balances and transactions**

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

- **Translation of financial statements expressed in foreign currencies**

BGL BNP Paribas' consolidated accounts are prepared in euros.

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

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

Differences arising from the translation of balance sheet items and profit and loss items are recorded in shareholders' equity under "Translation differences", for the portion attributable to the Group, and in "Minority interests" for the portion attributable to outside investors. Under the optional treatment permitted by IFRS 1, the Group has reset to zero all translation differences, by booking all cumulative translation differences attributable to shareholders and to minority interests in the opening balance sheet at 1 January 2004 to retained earnings.

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

Should the percentage interest held change without any modification of the nature of the investment, the cumulative translation adjustment is reallocated between the portion attributable to shareholders and that attributable to minority interests, if the entity is fully consolidated. For enterprises consolidated under the equity method, the portion related to the interest sold is recognised in the profit and loss account.

### 1.b.4 BUSINESS COMBINATIONS AND MEASUREMENT OF GOODWILL

- **Business combinations**

Business combinations are accounted for using the purchase method.

Under this method, the acquiree's identifiable assets and liabilities are measured at fair value or its equivalent on the acquisition date, except for non-current assets classified as assets held for sales, which are accounted for at fair value less costs to sell.

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

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

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

The Group may recognise any adjustments to the provisional accounting within 12 months of the acquisition date.

Goodwill represents the difference between the acquisition cost and the acquirer's interest in the net fair value, or its equivalent, of the identifiable assets, liabilities and contingent liabilities on the acquisition date. On this date, positive goodwill is recognised in the acquirer's balance sheet, while negative goodwill is recognised immediately in profit or loss. Minority interests are measured at their share of the fair value of the acquiree's identifiable assets and liabilities. However, for each business combination, the Group can elect to measure minority interests at fair value, in which case a proportion of goodwill is allocated to them. To date, the Group has never used this latter option.

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

On the acquisition date, any previously held equity interest in the acquiree is remeasured at its fair value through profit or loss. In the case of a step acquisition, the goodwill is therefore determined by reference to the acquisition-date fair value.

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

As permitted under IFRS 1, business combinations that took place before 1 January 2004, and were recorded in accordance with the previously applicable French accounting standards, have not been restated in accordance with the principles of IFRS 3.

- **Measurement of goodwill**

The BGL BNP Paribas Group tests goodwill for impairment on a regular basis.

- Cash-generating units

The Group has split all its activities into "cash-generating units" (as defined by IAS 36). This split is consistent with the Group's organisational structure and management methods, and reflects the independence of each unit in terms of results generated and management approach. This distribution is reviewed on a regular basis, to take account of events likely to affect the composition of cash-generating units (such as acquisitions, disposals and major reorganisations etc.).

- Testing cash-generating units for impairment

Goodwill allocated to cash-generating units is tested for impairment annually and whenever there is an indication that a unit may be impaired, by comparing the carrying amount of the unit with 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 the higher of the fair value of the unit less costs to sell, and its value in use.

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

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

# 1.c FINANCIAL ASSETS AND FINANCIAL LIABILITIES

## 1.c.1 LOANS AND RECEIVABLES

Loans and receivables include credit provided 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 that are quoted in an active market are classified as "Available-for-sale financial assets" and measured using the methods applicable to this category.

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

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

Commissions earned on financing commitments prior to the inception of a loan are deferred, and included in the value of the loan when the loan is made.

Commission earned on financing commitments when the probability of drawdown is low, or when there is uncertainty as to the timing and amount of drawdowns, is recognised on a straight-line basis over the life of the commitment.

## 1.c.2 SECURITIES

- **Categories of securities**

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

- **Financial assets at fair value through profit or loss**

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

- 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 down out in Section 1.c.9.

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

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

- **Loans and receivables**

Securities with fixed or determinable payments that are not traded on an active market, apart from securities for which the owner may not recover almost all of its initial investment due to reasons other than credit deterioration, are classified as "Loans and receivables" if they do not meet the criteria to be classified as financial assets at fair value through profit or loss. These securities are assessed and accounted for under the conditions set out in 1.c.1.

- **Held-to-maturity financial assets**

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

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

- **Available-for-sale financial assets**

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

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

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

- **Repurchase agreements and securities lending / borrowing**

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

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

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

- **Date of recognition for securities transactions**

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

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

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

### 1.c.3 FOREIGN CURRENCY TRANSACTIONS

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

- **Monetary assets and liabilities[1] expressed in foreign currencies**

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

- **Non-monetary assets expressed in foreign currencies**

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

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

### 1.c.4 IMPAIRMENT AND RESTRUCTURING OF FINANCIAL ASSETS

- **Doubtful Assets**

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

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

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

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

- the existence of accounts more than three months past due;

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

- knowledge or indications of the counterparty's significant financial difficulties, such that a risk can be considered to have arisen whether or not any arrearage has occurred;

- concessions with regard to the credit terms that would not have been granted in the absence of the borrower's financial difficulties.

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

Impairment losses on loans or receivables are usually 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 subject to disputes, are recognised in liabilities. Impaired receivables are written off in whole or in part, and the corresponding provision is reversed for the amount of the loss when all other means available to the bank for recovering the receivables or guarantees have failed, or when all or part of the receivables have been waived.

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

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

- **Impairment of available-for-sale financial assets**

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

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

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

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

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

Impairment losses on variable-income securities are recognised within the net banking income under the “Net gains or losses on available-for-sale financial assets” and may not be reversed to earnings, if relevant, until such time as these securities are sold. Moreover, any subsequent decline of the fair value constitutes an additional impairment loss that is recognised through profit or loss.

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

- **Restructuring of assets classified in "Loans and receivables"**

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

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

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

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

### 1.c.5 RECLASSIFICATION OF FINANCIAL ASSETS

The authorised reclassifications of financial assets are the following:

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

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

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

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

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

### 1.c.6 ISSUES OF DEBT SECURITIES

Financial instruments issued by the Group are qualified as debt instruments if the Group company issuing the instruments has a contractual obligation to deliver cash or another financial asset to the holder of the instrument. The same applies if the Group is required to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Group, or to deliver a variable number of the Group's own equity instruments.

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

Bonds redeemable for or convertible into equity instruments of the Group are accounted for as hybrid instruments with a debt component and an equity component, determined on initial recognition.

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

### 1.c.7 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING

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

- **Derivatives held for trading purposes**

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

- **Derivatives and hedge accounting**

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

Fair value hedges are notably 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 notably used to hedge interest rate risk on floating-rate assets and liabilities, including rollovers, and foreign exchange risks on highly probable future foreign currency revenues.

At the inception of the hedge relationship, the Group prepares formal documentation that identifies the instrument or portion of the instrument or of the risk that is being hatched, the hedging strategy and type of hedged risk, the hedging instrument and the method used to assess the effectiveness of the hedging relationship.

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

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

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

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

If a hedging relationship is interrupted or no longer fulfils the effectiveness criteria, the hedging derivatives are transferred to the trading portfolio and recognised according to the principles applicable to this category. In the case of initially hedged identified fixed income instruments, the remeasurement adjustment recognised in the balance sheet for these instruments is amortised at the effective interest rate over their remaining life. In the case of interest rate risk hedged fixed income portfolios, the adjustment is amortised on a straight-line basis over the remainder of the original term of the hedge. If the hedged items no longer appear in the balance sheets, notably in case of early repayment, this amount is immediately posted to the profit and loss account.

In a cash flow hedging relationship, derivatives are remeasured at fair value in the balance sheet, with changes in fair value posted to a specific line of the shareholders equity, “Unrealised or deferred gains or losses.” The amounts posted to shareholders equity, , over the life of the hedge, are transferred to the profit and loss account under “Net interest income” as and when the cash flows from the hedged item impact the earnings. The hedged instruments continue to be accounted for using the specific rules applicable to their accounting category.

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

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

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

Hedges of net foreign currency investments in subsidiaries or branches are recognised in the same way as future results hedges. Hedging instruments may be currency derivatives or any other non-derivative financial instruments.

- **Embedded derivatives**

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

### 1.c.8 DETERMINATION OF FAIR VALUE

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

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

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

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

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

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

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

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

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

### 1.c.9 FINANCIAL ASSETS AND FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE TROUGH PROFIT OR LOSS ON OPTION

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

- when they are hybrid financial instruments containing one or more embedded derivatives that would otherwise have been separated and recognised separately;
- when using this option enables the entity to eliminate or significantly reduce an inconsistency in the

valuation and recognition of assets and liabilities that would result from their classification in separate accounting categories;
- when a group of financial assets and/or liabilities is managed and assessed on the basis of its fair value, in compliance with a duly documented management and investment strategy.

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

### 1.c.10 INCOME AND EXPENSES ARISING FROM FINANCIAL ASSETS AND FINANCIAL LIABILITES

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

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

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

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

### 1.c.11 COST OF RISK

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

### 1.c.12 DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

### 1.c.13 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

## 1.d PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

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

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

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

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

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

Subsequent to initial recognition, property, plant and equipment and intangible assets are assessed at cost, less accumulated depreciation or amortisation and any impairment losses 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 as lessor under operating leases are presumed to have a residual value, as the useful life of property, plant and equipment and intangible assets used in operations is generally the same as their economic life.

Property, plant and equipment and intangible assets are depreciated or amortised using the straight-line method over the useful life of the asset. Depreciation and amortisation expenses are recognised in the profit and loss 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 for different patterns for producing economic benefits, each component is recognised separately and appreciated using a method appropriate to that component. The component-based approach has been adopted for property used in operations and for investment property.

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

Software 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 construction costs.

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

If there is an indication of impairment, the asset’s new recoverable value is compared with the asset’s carrying amount. If the asset is found to be impaired, an impairment loss is recognised in the profit and loss account. This loss is reversed in case of a change to the estimated recoverable amount or if there is no longer an indication of impairment. Impairment losses are recognised in the profit and loss 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 expenses used in operations are recognised in the profit and loss account, under “Net gains on fixed assets”.

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

## 1.e LEASES

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

### 1.e.1 GROUP COMPANY IS THE LESSOR IN THE LEASING CONTRACT

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

- **Finance leases**

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

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

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

- **Operating leases**

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

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

### 1.e.2 THE GROUP COMPANY IS THE LESSEE IN THE LEASING CONTRACT

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

- **Finance leases**

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

- **Operating lease contracts**

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

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

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

Once classified in this category, non-current assets and groups of assets and liabilities are assessed at the lower of their book value or fair value net of 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 shut down, and subsidiaries acquired exclusively with a view to resell.

All gains and losses related to discontinued operations are shown separately in the profit and loss account, on the line "Post-tax gain/loss on discontinued operations and assets held for sale". This line includes the post-tax profits or losses of discontinued operations, the post-tax gain or loss arising from remeasurement at fair value less costs to sell, and the post-tax gain or loss on disposal of the operation.

## 1.g EMPLOYEE BENEFITS

- **Short-term benefits**

Short-term employee benefits (such as salary and annual leave) are those which fall wholly due within the12 months following the end of the year in which the staff members rendered the corresponding services.

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

- **Long-term benefits**

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

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

- **Termination benefits**

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

- **Post-employment benefits**

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

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

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

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

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

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

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

When the value of the plan assets exceeds the amount of the obligation, an asset is recognised if it represents a future economic benefit for the Group in the form of a reduction in future contributions or a future 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 net interest linked to the effect of discounting the net defined-benefit liability (asset), the past service cost arising from plan amendments or curtailments, and the effect of any plan settlements.

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

## 1.h SHARE-BASED PAYMENTS

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

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

The Group grants employees deferred share-based plans based on the possibility to acquire BNP Paribas shares.

- **Stock option and share award plans.**

The expense related to share award plans is recognised over the vesting period, if the benefit is conditional upon the grantee's continued employment.

This charge, recorded in staff costs, the counterpart of which is shown in shareholders' equity, is calculated on the basis of the overall plan value, determined at the date of grant by the Board of Directors of BNP

Paribas.

In the absence of any market for these instruments, financial valuation models are used that take into account any performance conditions related to the BNP Paribas share price. The total expense of a plan is determined by multiplying the unit value of the option or of the free shares awarded by the estimated number of free shares acquired at the end of the vesting period, taking into account the conditions regarding the grantee's continued employment.

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

## 1.i PROVISIONS RECORDED UNDER LIABILITES

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

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

## 1.j CURRENT AND DEFERRED TAXES

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

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

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

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

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

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

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

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

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

## 1.k CASH FLOW STATEMENT

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

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

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

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

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

Preparation of the Group 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 in the balance sheet, and in the disclosure of information in the notes to the financial statements. This requires the managers in question to exercise their judgement and to make use of information available at the date of the preparation of the financial statements when making their estimates. The actual future results from operations where managers have made use of estimates may in reality differ significantly from those estimates, mainly according to market conditions, which may have a material effect on the financial statements.

This applies in particular to the following:

- impairment losses recognised to cover credit risks inherent in making intermediation activities;
- the use of internally-developed models to measure positions in financial instruments that are not quoted on active markets;
- calculations of the fair value of unquoted financial instruments classified in "Available-for-sale financial assets", "Financial assets at fair value through profit or loss" or "Financial liabilities at fair value through profit or loss", and more generally calculations of the fair value of financial instruments subject to a fair value disclosure requirement within the financial statements;
- whether a market is active or inactive for the purposes of using a valuation technique;
- impairment losses on variable income financial assets classified as "Available for sale";
- impairment tests performed on intangible assets;
- the appropriateness of the designation of certain derivative instruments such as cash flow hedges, 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;
- the measurement of provisions for contingencies and charges;

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

# 2. NOTES TO THE PROFIT AND LOSS ACCOUNT

## 2.a. NET INTEREST INCOME

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

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

| | First half 2017 | | | First half 2016 | | |
|---|---|---|---|---|---|---|
| *In millions of euros* | Income | Expense | Net | Income | Expense | Net |
| **Customer items** | **530.2** | **(37.3)** | **492.9** | **539.0** | **(34.6)** | **504.4** |
| Deposits, loans and borrowings | 183.1 | (19.4) | 163.7 | 185.8 | (20.2) | 165.6 |
| Finance leases | 347.1 | (17.9) | 329.2 | 353.3 | (14.4) | 338.8 |
| **Interbank items** | **72.1** | **(72.8)** | **(0.6)** | **61.7** | **(71.0)** | **(9.3)** |
| Deposits, loans and borrowings | 71.0 | (72.2) | (1.2) | 61.7 | (71.0) | (9.3) |
| Repurchase agreements | 1.1 | (0.6) | 0.5 | 0.0 | - | 0.0 |
| **Debt securities issued** | **-** | **(2.0)** | **(2.0)** | **-** | **(2.5)** | **(2.5)** |
| **Cash flow hedge instruments** | **11.2** | **(4.1)** | **7.1** | **7.8** | **(3.3)** | **4.5** |
| **Interest rate portfolio hedge instruments** | **16.1** | **(1.4)** | **14.7** | **13.5** | **0.3** | **13.8** |
| **Trading book** | **2.1** | **(3.6)** | **(1.5)** | **0.5** | **(1.3)** | **(0.8)** |
| Fixed-income securities | 2.0 | - | 2.0 | 0.5 | - | 0.5 |
| Repurchase agreements | 0.1 | (0.2) | (0.1) | 0.0 | (0.3) | (0.2) |
| Loans / borrowings | 0.0 | (2.1) | (2.1) | 0.0 | (0.5) | (0.5) |
| Debt securities | - | (1.3) | (1.3) | - | (0.5) | (0.5) |
| **Available-for-sale financial assets** | **25.7** | **-** | **25.7** | **35.2** | **-** | **35.2** |
| **Held-to-maturity financial assets** | **5.6** | **-** | **5.6** | **6.4** | **-** | **6.4** |
| **TOTAL INTEREST INCOME/ EXPENSE** | **663.0** | **(121.1)** | **541.9** | **664.2** | **(112.4)** | **551.8** |

## 2.b. COMMISSIONS

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| Credit operations for customers | 8.8 | 8.4 |
| Means of payment and account keeping | 15.3 | 12.3 |
| Securities, investment funds and UCITS | 26.7 | 26.5 |
| Securities transactions for customers account | 16.6 | 14.9 |
| Insurance activities | 13.2 | 11.0 |
| Other commissions | (2.9) | (0.7) |
| **TOTAL COMMISSIONS FOR THE PERIOD** | **77.7** | **72.4** |

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

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

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| **Trading portfolio** | **(6.7)** | **0.9** |
| Interest rate instruments | (2.5) | 1.8 |
| Equity financial instruments | (4.2) | (1.0) |
| **Instuments assessed at fair value on option** | **0.5** | **1.0** |
| **Impact of hedge accounting** | **(0.3)** | **0.2** |
| Fair value hedges | (4.1) | 35.7 |
| Hedged items in fair value hedge | 3.8 | (35.5) |
| **Exchange rate result** | **11.5** | **15.1** |
| **TOTAL** | **5.0** | **17.2** |

The line "Instruments assessed at fair value on option" includes the revaluation of own credit risk totalling EUR 1.5 million (2016: EUR 3.0 million).

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

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

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| **Loans and receivables, fixed-income securities** (1) | **1.4** | **-** |
| Gains and losses on disposal | 1.4 | - |
| **Equities and other variable-income securities** | **6.7** | **10.5** |
| Dividend income | 5.1 | 16.2 |
| Additions and reversals on impairments | 2.2 | (11.7) |
| Gains and losses on disposal | (0.6) | 6.0 |
| **TOTAL** | **8.1** | **10.5** |

*(1) Interest income from fixed income financial instruments is included in the "net interest income" (see note 2.a) and impairment losses linked to potential issuer insolvency are included in "Cost of risk" (see note 2.g.)*

## 2.e. INCOME AND EXPENSE FROM OTHER ACTIVITIES

| | First half 2017 | | | First half 2016 | | |
|---|---|---|---|---|---|---|
| *In millions of euros* | Income | Expense | Net | Income | Expense | Net |
| Income and expense from investment property | 13.2 | (6.0) | 7.2 | 10.1 | (4.1) | 5.9 |
| Income and expense from assets held under operating leases | 60.1 | (45.1) | 15.0 | 63.5 | (46.0) | 17.5 |
| Other income and expense | 93.8 | (92.0) | 1.7 | 70.5 | (73.1) | (2.6) |
| **TOTAL** | **167.1** | **(143.1)** | **23.9** | **144.0** | **(123.2)** | **20.8** |

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

## 2.f. OTHER OPERATING EXPENSES

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| Taxes (1) | (23.9) | (21.3) |
| External services and other operating expenses | (94.7) | (91.2) |
| **TOTAL OTHER OPERATING EXPENSES** | **(118.5)** | **(112.5)** |

*'(1)Taxes notably include the contribution to the Deposit Guarantee Fund and the Single Resolution Fund which amounts to EUR -14.1 million for the first half of 2017 compared with EUR -11.7 million for the first half of 2016.*

## 2.g. COST OF RISK

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

### Cost of risk for the period

- **Cost of risk for the period**

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| Net additions to impairments | (14.0) | (22.1) |
| Recoveries on loans and receivables previously written off | 3.3 | 5.1 |
| Irrecoverable loans and receivables not covered by impairments | (8.1) | (7.8) |
| **TOTAL COST OF RISK FOR THE PERIOD** | **(18.7)** | **(24.8)** |

- **Cost of risk for the period by asset type**

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| Loans and receivables due from credit institutions | 0.0 | 0.0 |
| Loans and receivables due from customers | (19.8) | (26.9) |
| Financial instruments on trading activities | - | (0.0) |
| Other assets | (0.7) | 2.1 |
| Off-balance sheet commitments and other items | 1.8 | (0.1) |
| **TOTAL COST OF RISK FOR THE PERIOD** | **(18.7)** | **(24.8)** |

## 2.h. SHARE OF EARNINGS OF ASSOCIATES

This net income derives from the contribution of leasing activities for EUR 9.2 million (EUR 2.8 million in 2016) and Cardif Lux Vie for EUR 7.6 million (EUR 5.1 million in 2016).

## 2.i. NET GAINS OR LOSSES ON OTHER FIXED ASSETS

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| Net gains and losses on disposals of shareholdings | 0.9 | (24.4) |
| *of which result on disposal of SREI Equipment Finance Ltd* | - | *(18.2)* |
| *of which result on disposal of SADE SA* | - | *(12.0)* |
| *of which result on disposal of Claas Financial Services Inc* | - | *5.5* |
| Net gains or losses on disposals of fixed assets | 4.7 | 0.1 |
| **TOTAL** | **5.6** | **(24.3)** |

## 2.j. CORPORATE INCOME TAX

| *In millions of euros* | **First half 2017** | **First half 2016** |
|---|---|---|
| Current tax expense | (81.8) | (95.8) |
| Deferred tax income | 9.2 | 19.0 |
| **Corporate income tax expense** | **(72.6)** | **(76.8)** |

# 3. SEGMENT INFORMATION

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

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

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

The Group is composed of four core businesses:

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

- **Leasing International** which includes the leasing activities of the BNP Paribas group held by the Luxembourg holding company BNP Paribas Leasing Solutions S.A.. BNP Paribas Leasing Solutions uses multiple channels (direct sales, sales via referrals, sales via partnerships and bank networks) to offer businesses and professionals a range of leasing solutions ranging from equipment financing to outsourcing of fleets of vehicles.

- **Corporate and Institutional Banking (CIB)** offers Bank customers, mostly business customers and institutions, products and services related to the capital markets and financing in Luxembourg.

- **International Financial Services (IFS)** includes Wealth Management, which provides wealth management services for international private clients 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 the income generated from placing own funds as well as items related to support functions that cannot be allocated to a specific business segment. They also include non-recurring items resulting from applying the rules for business combinations. In order to provide consistent and relevant economic information for each core business, the costs associated with major regulatory programmes, and contributions to the Single Resolution Fund are in this sector. Finally, the income from la Société Alsacienne de Développement et d'Expansion (SADE) S.A., which was sold to BNP Paribas S.A. in the second quarter of 2016, is also allocated to this Other Activities.

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

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

## Allocation rules

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

The balance sheet allocation and squaring methodology are used so as to report information on segments to reflect the business model.

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

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

The distribution of income within the Group's various core business lines is based on the business to which the entities are attached, except for BGL BNP Paribas S.A., which is the broken down differently.

- **Income by business segment**

| | First half 2017 | | | | | |
|---|---|---|---|---|---|---|
| *In millions of euros* | BDEL | Leasing International | Corporate & Institutional Banking | International Financial Services | Others | Total |
| **Revenues** | **172.2** | **342.2** | **14.2** | **61.2** | **66.9** | **656.6** |
| Operating expense | (124.4) | (161.6) | (6.1) | (49.6) | (6.7) | (348.4) |
| Cost of risk | 7.4 | (26.9) | - | 0.4 | 0.4 | (18.7) |
| **Operating income** | **55.1** | **153.7** | **8.1** | **12.0** | **60.6** | **289.5** |
| Non-operating items | 4.8 | 9.7 | (0.0) | 7.6 | 0.3 | 22.4 |
| **Pre-tax income** | **59.8** | **163.4** | **8.1** | **19.6** | **61.0** | **311.9** |

| | First half 2016 | | | | | |
|---|---|---|---|---|---|---|
| *In millions of euros* | BDEL | Leasing International | Corporate & Institutional Banking | International Financial Services | Others | Total |
| **Revenues** | **183.8** | **340.7** | **16.5** | **61.5** | **70.1** | **672.6** |
| Operating expense | (118.4) | (154.4) | (7.2) | (50.5) | (7.1) | (337.7) |
| Cost of risk | (5.7) | (22.7) | - | 0.2 | 3.3 | (24.8) |
| **Operating income** | **59.7** | **163.6** | **9.3** | **11.2** | **66.4** | **310.1** |
| Non-operating items | 0.1 | (8.6) | - | 5.1 | (13.0) | (16.5) |
| **Pre-tax income** | **59.8** | **155.0** | **9.3** | **16.3** | **53.3** | **293.7** |

# 4. NOTES TO THE BALANCE SHEET

## 4.a. FINANCIAL ASSETS, FINANCIAL LIABILITIES AND DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and financial liabilities at fair value through profit or loss principally comprise proprietary trading issues made to fulfil customer demand, instruments contracted for trading purposes, and instruments that accounting regulation do not allow to be classified as hedging instruments.

| | 30 June 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| *In millions of euros* | Trading book | Portfolio designated at fair value on option | Trading book | Portfolio designated at fair value on option |
| Securities portfolio | 190.1 | - | 108.3 | - |
| Loans and repurchase agreements | 24.0 | 5.5 | 27.7 | 5.5 |
| **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS** | **214.0** | **5.5** | **135.9** | **5.5** |
| Securities portfolio | - | - | 0.0 | - |
| Borrowing and repurchase agreements | 239.2 | - | - | - |
| Debt securities (note 4.e) | - | 106.5 | - | 133.3 |
| Subordinated debt (note 4.e) | - | 82.7 | - | 84.7 |
| **FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS** | **239.2** | **189.2** | **0.0** | **218.0** |

The details of these headings are presented in note 4.c.

### Derivative financial instruments held for trading

| | 30 June 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| *In millions of euros* | Positive fair value | Negative fair value | Positive fair value | Negative fair value |
| Currency derivatives | 32.9 | 29.7 | 47.8 | 43.6 |
| Interest rates derivatives | 26.4 | 15.5 | 32.8 | 18.9 |
| Equity derivatives | 9.9 | 14.9 | 11.7 | 11.1 |
| **Financial derivative instruments** | **69.1** | **60.1** | **92.3** | **73.6** |

## 4.b. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| In millions of euros | 30 June 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** | **4,392.5** | **-** | **178.7** | **4,784.0** | **-** | **223.5** |
| Government Bonds | 2,036.1 | - | 101.5 | 2,539.6 | - | 134.7 |
| Other fixed-income securities | 2,356.4 | - | 77.2 | 2,244.3 | - | 88.7 |
| **Equities and other variable-income securities** | **379.2** | **(240.2)** | **114.7** | **692.0** | **(240.3)** | **94.1** |
| Listed securities | 40.6 | - | 18.4 | 26.8 | - | 4.6 |
| Non-listed securities | 338.5 | (240.2) | 96.2 | 665.2 | (240.3) | 89.5 |
| **TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS** | **4,771.6** | **(240.2)** | **293.3** | **5,476.0** | **(240.3)** | **317.6** |

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

| In millions of euros | 30 June 2017 | | | 31 December 2016 | | |
|---|---|---|---|---|---|---|
| | Fixed-income securities | Equities and other variable-income | Total | Fixed-income securities | Equities and other variable-income | Total |
| **Unhedged reevalutation of securities recognised in "available-for-sale financial assets"** | **178.7** | **114.7** | **293.3** | **223.5** | **94.1** | **317.6** |
| Deferred tax linked to these reevaluation | (43.7) | (19.3) | (63.0) | (54.2) | (20.3) | (74.5) |
| Share of reevaluation of available-for-sale securities owned by associates, net of deferred tax | 23.8 | 7.1 | 30.9 | 27.2 | 5.9 | 33.1 |
| Unamortised reevaluation of available-for-sale securities reclassifi ed as loans and receivables | (12.7) | | (12.7) | (17.5) | | (17.5) |
| Other variations | (0.0) | (0.0) | (0.0) | - | (0.0) | (0.0) |
| **Changes in value of assets recognised directly to equity under the heading "Availablefor-sale financial assets"** | **146.1** | **102.4** | **248.5** | **179.0** | **79.7** | **258.7** |
| Attributable to equity shareholders | 146.1 | 84.9 | 231.0 | 179.0 | 70.7 | 249.8 |
| Attributable to minority interests | - | 17.5 | 17.5 | - | 8.9 | 8.9 |

## 4.c. MEASUREMENT OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

### Valuation process

The Group has retained the fundamental principle that it should have a unique and integrated processing chain for producing and controlling the valuations of financial instruments that are used for the purpose of daily risk management and financial reporting. All these processes are based on a common economic valuation which is a core component of business decisions and risk management strategies.

Economic value is composed of mid-market value and additional valuation adjustments.

Mid-market value is derived from external data or valuation techniques that maximise the use of observable and market-based data. Mid-market value is a theoretical additive value which does not take account of i) the direction of the transaction or its impact on the existing risks in the portfolio, ii) the nature of the counterparties, and iii) the aversion of a market participant to particular risks inherent in the instrument, the market in which it is traded, or the risk management strategy.

Additional valuation adjustments take into account valuation uncertainty and include market and credit risk premiums to reflect costs that could be incurred in case of an exit transaction in the principal market. When valuation techniques are used for the purpose of deriving fair value, funding assumptions related to the future expected cash flows are an integral part of the mid-market valuation, notably through the use of appropriate discount rates. These assumptions reflect what the Bank anticipates as being the effective funding conditions of the instrument that a market participant would consider. This notably takes into account the existence and terms of any collateral agreement.

Fair value generally equals the economic value, subject to limited additional adjustments, such as own credit adjustments, which are specifically required by IFRS standards.

The main additional valuation adjustments are presented in the section below.

## Additional valuation adjustments

Additional valuation adjustments retained by the Group for determining fair values are as follows:

***Bid/offer adjustments***: the bid/offer range reflects the additional exit cost for a price taker (potential client). It represents symmetrically the compensation sought by dealers to bear the risk of holding the position or closing it out by accepting another dealer's price.

The Group assumes that the best estimate of an exit price is the bid or offer price, unless there is evidence that another point in the bid/ offer range would provide a more representative exit price;

***Value adjustment for counterparty risk (Credit valuation adjustment or CVA)***: the CVA adjustment applies to valuations and market quotations whereby the credit worthiness of the counterparty is not reflected. It aims to account for the possibility that the counterparty may default and that the Group may not receive the full fair value of the transactions.

In determining the cost of exiting or transferring counterparty risk exposures, the relevant market is deemed to be an inter-dealer market. However, the observation of CVA remains judgemental due to:

- the possible absence or lack of price discovery in the inter-dealer market,
- the influence of the regulatory landscape relating to counterparty risk on the market participants' pricing behaviour, and
- the absence of a dominant business model for managing counterparty risk.

The CVA model, which is used to establish the value adjustment for counterparty risk, is grounded on the same exposures as those used for regulatory purposes. The model attempts to estimate the cost of an optimal risk management strategy based on i) implicit incentives and constraints inherent in the regulations in force and their evolutions, ii) market perception of the probability of default and iii) default parameters used for regulatory purposes;

***Own-credit valuation adjustment for debts (OCA) and for derivatives (debit valuation adjustment – DVA)***: OCA and DVA are adjustments reflecting the effect of credit worthiness of BGL BNP Paribas, on respectively the value of debt securities designated as at fair value through profit and loss and derivatives. Both adjustments are based on the expected future liability profiles of such instruments. The own credit worthiness is inferred from the market-based observation of the relevant bond issuance levels.

Thus, the carrying value of debt securities designated as at fair value though profit or loss fell by EUR 9.6 million as at 30 June 2017, compared with a reduction in value of EUR 11.2 million as at 31 December 2016.

The change in earnings is largely correlated to changes in the level of spreads: average senior spread applied at 30 June 2017 was 6 basis points compared with 23 basis points that was applied as at 31 December 2016.

The change in fair value of derivatives on the liabilities side of the balance sheet, with respect to own-risk, is not significant at 30 June 2017.

***Funding Valuation Adjustment (FVA):*** for non- or imperfectly collateralized derivative instruments, this valuation method includes an explicit adjustment to the interbank interest rate in the event that the bank would need to refinance the instrument in the market.

The change in fair value of the financing cost of derivatives is not significant at 30 June 2017.

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

As explained in the summary of significant accounting policies (note 1.c.8), financial instruments measured at fair value are categorised into a fair value hierarchy consisting of three levels.

The disaggregation of assets and liabilities into risk classes is meant to provide further insight into the nature of the instruments:

- Securitised exposures are further broken down by collateral type;
- For derivatives, fair values are broken down by dominant risk factor, namely interest rate, foreign exchange, credit and equity. Derivatives used for hedging purposes are mainly interest rate derivatives.

| | 30 June 2017 | | | | 31 December 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| *In millions of euros* | Level 1 | Level 2 | Level 3 | TOTAL | Level 1 | Level 2 | Level 3 | TOTAL |
| **FINANCIAL ASSETS** | | | | | | | | |
| **Trading book** | 190.1 | 24.0 | - | 214.0 | 108.3 | 27.7 | - | 135.9 |
| **Securities portfolio** | **190.1** | **-** | **-** | **190.1** | **108.3** | **-** | **-** | **108.3** |
| Equities and other variable-income securities | 190.1 | - | - | **190.1** | 108.3 | - | - | **108.3** |
| **Loans and repurchase agreements** | **-** | **24.0** | **-** | **24.0** | **-** | **27.7** | **-** | **27.7** |
| Repurchase agreements | - | 24.0 | - | **24.0** | - | 27.7 | - | **27.7** |
| **Portfolio designated as at fair value on option** | - | 5.5 | - | 5.5 | - | 5.5 | - | 5.5 |
| **Securities porfolio** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Equities and other variable-income securities | - | - | - | **-** | - | - | - | **-** |
| **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** | 3,734.5 | 720.3 | 316.9 | 4,771.6 | 4,282.7 | 884.1 | 309.2 | 5,476.0 |
| Government bonds | 1,722.4 | 313.6 | - | **2,036.1** | 2,223.2 | 316.5 | - | **2,539.6** |
| Other fixed-income securities | 1,970.9 | 385.5 | - | **2,356.4** | 2,032.2 | 212.1 | - | **2,244.3** |
| Equities and other variable-income securities | 41.2 | 21.1 | 316.9 | **379.2** | 27.3 | 355.6 | 309.2 | **692.0** |
| **FINANCIAL LIABILITIES** | | | | | | | | |
| **Trading book** | - | 239.2 | - | 239.2 | - | 0.0 | - | 0.0 |
| **Securities porfolio** | **-** | **-** | **-** | **-** | **-** | **0.0** | **-** | **0.0** |
| Other fixed-income securities | - | - | - | **-** | - | 0.0 | - | **0.0** |
| **Borrowings and repurchase agreements** | **-** | **239.2** | **-** | **239.2** | **-** | **-** | **-** | **-** |
| Repurchase agreements | - | 239.2 | - | **239.2** | - | - | - | **-** |
| **Portfolio designated as at fair value on option** | - | 189.2 | - | 189.2 | - | 218.0 | - | 218.0 |
| Debt securities | - | 106.5 | - | **106.5** | - | 133.3 | - | **133.3** |
| Subordinated debts | - | 82.7 | - | **82.7** | - | 84.7 | - | **84.7** |

| *In millions of euros* | 30 June 2017 | | | | 31 December 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | TOTAL | Level 1 | Level 2 | Level 3 | TOTAL |
| **POSITIVE FAIR VALUE** | | | | | | | | |
| Foreign exchange derivatives | - | 32.9 | - | **32.9** | - | 47.8 | - | **47.8** |
| Interest rate derivatives | - | 26.4 | - | **26.4** | - | 32.8 | - | **32.8** |
| Equity derivatives | 0.0 | 9.8 | - | **9.9** | - | 11.7 | - | **11.7** |
| **Positive fair value of derivatives (not used for hedging purposes)** | **0.0** | **69.1** | **-** | **69.1** | **-** | **92.3** | **-** | **92.3** |
| **Positive fair value of derivatives used for hedging purposes** | **-** | **144.5** | **-** | **144.5** | **-** | **170.3** | **-** | **170.3** |
| **NEGATIVE FAIR VALUE** | | | | | | | | |
| Foreign exchange derivatives | - | 29.7 | - | **29.7** | - | 43.6 | - | **43.6** |
| Interest rate derivatives | - | 15.5 | - | **15.5** | - | 18.9 | - | **18.9** |
| Equity derivatives | - | 14.9 | - | **14.9** | 0.0 | 11.1 | - | **11.1** |
| **Negative fair value of derivatives (not used for hedging purposes)** | **-** | **60.1** | **-** | **60.1** | **0.0** | **73.6** | **-** | **73.6** |
| **Negative fair value of derivatives used for hedging purposes** | **-** | **41.4** | **-** | **41.4** | **-** | **58.1** | **-** | **58.1** |

Transfers between levels may occur when an instrument fulfils the criteria defined, which are generally market and product dependent. The main factors influencing transfers are changes in the observation capabilities, passage of time, and events during the transaction lifetime. The timing of recognising transfers is determined at the start of the reporting period.

During 2016 and the first half of 2017, there were no transfers between Level 1 to Level 2.

## Description of main instruments in each level

The following section provides a description of the instruments in each level in the hierarchy. It describes notably instruments classified in Level 3 and the associated valuation methodologies.

For main trading book instruments and derivatives classified in Level 3, further quantitative information is provided about the inputs used to derive fair value.

### Level 1

This level encompasses all derivatives and securities that are listed on exchanges or quoted continuously in other active markets.

Level 1 includes notably equity securities and liquid bonds, shortselling of these instruments, derivative instruments traded on organised markets (for example, futures,) and shares of funds and UCITS, for which the net asset value is calculated on a daily basis.

### Level 2

***The Level 2 stock of securities*** is composed of securities which are less liquid than the Level 1 bonds. They are predominantly government bonds, corporate debt securities, Asset Backed Securities and Student Loans, Mortgage Backed Securities, not using a modelling methodology of cash flows, fund shares and short-term securities such as certificates of deposit. They are classified in Level 2 notably when external prices for the same security can be regularly observed from a reasonable number of market makers that are active in this security, but these prices do not represent directly tradable prices. This comprises amongst other, consensus pricing services with a reasonable number of contributors that are active market makers as well as indicative runs from active brokers and/or dealers. Other sources such as primary issuance market, collateral valuation and counterparty collateral valuation matching may also be used where relevant.

***Repurchase agreements*** are classified predominantly in Level 2. The classification is primarily based on the observability and liquidity of the repo market, depending on the underlying collateral.

***Debts issued*** designated as at fair value through profit and loss, are classified in the same level as the one that would apply to the embedded derivative taken individually. Own credit spread is an observable input.

***Derivatives*** classified in Level 2 comprise mainly the following instruments:

- vanilla instruments such as interest rate swaps, caps, floors and swaptions, credit default swaps, equity/foreign exchange (Forex/commodities forwards and options;
- structured derivatives such as exotic Forex options, mono- and multi-underlying equity/funds derivatives, single curve exotic interest rate derivatives and derivatives based on structured rates.

Derivatives are classified in Level 2 when there is a documented stream of evidence supporting one of the following:

- fair value is predominantly derived from prices or quotations of other Level 1 and Level 2 instruments, through standard market interpolation or stripping techniques whose results are regularly corroborated by real transactions;
- fair value is derived from other standard techniques such as replication or discounted cash flows that are calibrated to observable prices, that bear limited model risk and enable an effective offset of the risks of the instrument through trading Level 1 or Level 2 instruments;
- fair value is derived from more sophisticated or proprietary valuation techniques but is directly evidenced through regular back-testing using external market-based data.

Determining of whether an over-the-counter (OTC) derivative is eligible for Level 2 classification involves judgement. Consideration is given to the origin, transparency and reliability of external data used, and the amount of uncertainty associated with the use of models. It follows that the Level 2 classification criteria involve multiple analysis axis within an "observability zone" whose limits are determined by i) a predetermined list of product categories and ii) the underlying and maturity bands. These criteria are regularly reviewed and updated, together with the applicable additional valuation adjustments, so that the classification by level remains consistent with the valuation adjustment policy.

### Level 3

***Level 3 securities*** of the trading book, designated as at fair value through profit or loss or classified as available for sale comprise units of funds and unquoted equity shares.

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

The Discounted Expected Cash flow approach for CDOs takes in 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 4.b, but which are classified in the Level 1 of the fair value hierarchy.

The portfolio of available for sale financial assets classified as Level 3 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 Investment Partners is determined using the discounted cash flow method. This method is based on a multi-year financial plan for the first five years and is then extrapolated based on a growth rate to perpetuity to determine a final value. The test uses a cost of capital in line with market practice. The other parameters are the cost / income factor and the sustainable cost and revenue growth rate; these parameters are specific to this industry.

***Repurchase agreements***: mainly long term on corporate bonds the valuation of these transactions requires proprietary methodologies given the bespoke nature of the transactions and the lack of activity and price discovery in the long-term repo market.

***Debts issued*** designated as at fair value through profit and loss, are classified in the same level as the one that would apply to the embedded derivative taken individually. Own credit spread is an observable input.

*Derivatives*

**Vanilla derivatives** are classified in Level 3 when the exposure is beyond the observation zone for rate curves or volatility surfaces, or relates to less liquid instruments or markets such as tranches on old credit index series or emerging markets interest rates markets.

**Complex derivatives** classified in Level 3 predominantly comprise hybrid products (FX/Interest Rates hybrids, Equity hybrids), credit correlation products, prepayment-sensitive products, some stock basket optional products and some interest rate optional instruments.

## Table of movements in level 3 financial instruments

For level 3 financial instruments, the following movements occurred between 1 January and 30 June 2017:

- **Financial assets**

| | 30 June 2017 | | | 31 December 2016 | | |
|---|---|---|---|---|---|---|
| *In millions of euros* | Financial instruments at fair value through profit or loss on option | Available-for-sale financial assets | TOTAL | Financial instruments at fair value through profit or loss on option | Available-for-sale financial assets | TOTAL |
| **Start of period** | - | 309.2 | 309.2 | 0.1 | 323.6 | **323.7** |
| Purchases | | - | **-** | | 0.8 | **0.8** |
| Sales | | (0.0) | **(0.0)** | | (23.4) | **(23.4)** |
| Settlements | | (0.0) | **(0.0)** | (0.1) | 0.2 | **0.1** |
| Others | | 1.7 | **1.7** | - | 6.9 | **6.9** |
| Gains (or losses) recognised in profit or loss | | (0.1) | **(0.1)** | - | (11.7) | **(11.7)** |
| Changes in fair value of assets and liabilities recognised directly in equity | | 6.1 | **6.1** | - | 12.8 | **12.8** |
| **End of period** | - | 316.9 | 316.9 | - | 309.2 | **309.2** |

Transfers have been reflected as if they had taken place at the start of the reporting period.

Level 3 financial instruments may be hedged by other Level 1 and/or Level 2 instruments, the gains and losses of which are not shown in this table. Consequently, the gains and losses shown in this table are not representative of the gains and losses arising from management of the net risk on all of these instruments.

## 4.d. LOANS AND RECEIVABLES DUE FROM/TO CUSTOMERS

♦ **Loans and receivables due from customers**

| *In millions of euros* | 30 June 2017 | 31 December 2016 |
|---|---|---|
| Ordinary debitory accounts | 1,044.1 | 979.0 |
| Loans to customers | 15,033.4 | 14,148.7 |
| Finance leases | 12,167.9 | 11,964.0 |
| **TOTAL LOANS GRANTED AND RECEIVABLES DUE FROM CUSTOMERS BEFORE IMPAIRMENT** | **28,245.4** | **27,091.8** |
| *of which: Doubtful loans* | *787.4* | *883.1* |
| **Impairments** | **(479.7)** | **(510.9)** |
| Specific impairments | (401.0) | (428.5) |
| Collective impairments | (78.7) | (82.4) |
| **TOTAL LOANS AND RECEIVABLES DUE FROM CUSTOMERS, NET OF IMPAIRMENT** | **27,765.7** | **26,580.9** |

♦ **Restructured loans**

| | 30 June 2017 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Of which: Doubtul loans | | |
| *In millions of euros* | Gross amount | Impairments | Net amount | Gross amount | Impairments | Net amount |
| **Loans and receivables** | **208.7** | **(33.4)** | **175.3** | **89.2** | **(31.7)** | **57.5** |
| Corporates | 162.9 | (28.1) | 134.8 | 62.0 | (26.5) | 35.5 |
| Retail | 45.8 | (5.3) | 40.5 | 27.2 | (5.2) | 22.0 |
| **Off-balance sheet commitments** | **0.0** | **-** | **0.0** | **0.0** | **-** | **0.0** |
| **TOTAL** | **208.7** | **(33.4)** | **175.3** | **89.2** | **(31.7)** | **57.5** |

| | 31 December 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Of which: Doubtul loans | | |
| *In millions of euros* | Gross amount | Impairments | Net amount | Gross amount | Impairments | 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 |
| 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** |

♦ **Due to customers**

| *In millions of euros* | 30 June 2017 | 31 December 2016 |
|---|---|---|
| On demand deposits | 15,557.1 | 13,844.8 |
| Term account | 4,272.1 | 4,011.5 |
| Savings account | 6,306.0 | 5,971.9 |
| Cash vouchers | 23.2 | 24.6 |
| **TOTAL DUE TO CUSTOMERS** | **26,158.4** | **23,852.8** |

## 4.e. DEBT SECURITIES AND SUBORDINATED DEBT

This note covers all debt securities and subordinated debt measured at amortised cost and designated as at fair value through profit or loss on option.

- **Debts measured at fair value though profit and loss on option (Note 4.a)**

| *In millions of euros* | 31 December 2016 | Issues | Redemptions | Movements in exchange rates and others | 30 June 2017 |
|---|---|---|---|---|---|
| **Debt with a maturity of more than 1 year on issue** | | | | | |
| Negociable debt securities | 125.3 | 2.1 | (27.5) | (1.4) | 98.6 |
| Bond issues | 8.0 | - | - | (0.1) | 7.9 |
| **DEBT SECURITIES** | **133.3** | **2.1** | **(27.5)** | **(1.4)** | **106.5** |
| Redeemable subordinated debt | 84.7 | - | - | (2.0) | 82.7 |
| **SUBORDINATED DEBT** | **84.7** | **-** | **-** | **(2.0)** | **82.7** |

- **Debts measured at amortised cost**

| *In millions of euros* | 31 December 2016 | Issues | Redemptions | Movements in exchange rates and others | 30 June 2017 |
|---|---|---|---|---|---|
| **Debt with a maturity of less than 1 year on issue** | | | | | |
| Negociable debt securities | 729.4 | 1,098.1 | (662.6) | (22.4) | 1,142.6 |
| **Debt with a maturity of more than 1 year on issue** | | | | | |
| Negociable debt securities | 378.3 | 0.1 | (10.0) | (0.0) | 368.3 |
| **DEBT SECURITIES** | **1,107.7** | **1,098.2** | **(672.6)** | **(22.4)** | **1,510.9** |

## 4.f. CURRENT AND DEFERRED TAXES

| *In millions of euros* | 30 June 2017 | 31 December 2016 |
|---|---|---|
| Current taxes | 10.6 | 28.3 |
| Deferred taxes | 98.0 | 104.3 |
| **CURRENT AND DEFERRED TAX ASSETS** | **108.6** | **132.6** |
| Current taxes | 65.9 | 45.1 |
| Deferred taxes | 439.2 | 465.3 |
| **CURRENT AND DEFERRED TAX LIABILITIES** | **505.1** | **510.4** |

## 4.g. Accrued income/expense and other assets/liabilities

| *In millions of euros* | 30 June 2017 | 31 Decembre 2016 |
|---|---|---|
| Guarantee deposits and bank guarantees paid | 23.3 | 10.1 |
| Settlement accounts related to securities transactions | 7.6 | 5.2 |
| Collection accounts | 30.1 | 42.8 |
| Accrued income and prepaid expenses | 88.2 | 73.2 |
| Other debtors and miscellaneous assets | 620.8 | 563.7 |
| **TOTAL ACCRUED INCOME AND OTHER ASSETS** | **770.0** | **695.1** |
| Guarantee deposits received | 38.0 | 34.1 |
| Settlement accounts related to securities transactions | 9.6 | 12.5 |
| Collection accounts | 60.5 | 70.4 |
| Accrued expense and deferred income | 195.9 | 167.1 |
| Other creditors and miscellaneous liabilities | 748.4 | 786.6 |
| **TOTAL ACCRUED EXPENSE AND OTHER LIABILITIES** | **1,052.3** | **1,070.8** |

## 4.h. Investments in joint ventures and associates

The Group's main investments in joint ventures and associates are all accounted for using the equity method.

The main associates and joint ventures of the Group are identified below.

| **Investments in equity associates**<br>*In millions of euros* | Country | Activity | % interest | 30 June 2017 | 31 December 2016 |
|---|---|---|---|---|---|
| **Associates** | | | | | |
| Cardif Lux Vie SA | Luxembourg | Insurance | 33.33% | 115.3 | 118.6 |
| BNP Paribas Leasing Solutions SPA | Italy | Leasing | 13.09% | 46.9 | 47.9 |

The aggregate financial information relating to associates and joint ventures is detailed in the table below:

| | First half 2017 | | | 30 June 2017 | First half 2016 | | | 31 December 2016 |
|---|---|---|---|---|---|---|---|---|
| *In millions of euros* | Share of net income | Share of changes in assets and liabilities recognised directly in equity | Share of net income and changes in assets and liabilities recognised directly in equity | Investments in equity associates | Share of net income | Share of changes in assets and liabilities recognised directly in equity | Share of net income and changes in assets and liabilities recognised directly in equity | Investments in equity associates |
| **Associates** (1) | **16.8** | **(2.4)** | **14.4** | **246.3** | **7.6** | **8.8** | **16.4** | **241.4** |
| Cardif Lux Vie SA | 7.6 | (2.2) | 5.3 | 115.3 | 5.1 | 5.7 | 10.8 | 118.6 |
| BNP Paribas Leasing Solutions SPA | (1.1) | 0.1 | (1.1) | 46.9 | (0.2) | (0.2) | (0.4) | 47.9 |
| Others | 10.4 | (0.2) | 10.1 | 84.1 | 2.8 | 3.2 | 6.0 | 74.9 |
| **Joint ventures** | **-** | **-** | **-** | **-** | **0.3** | **(0.4)** | **(0.1)** | **-** |
| SREI Equipment Finance Ltd | - | - | - | n/a * | 0.3 | (0.4) | (0.1) | n/a * |
| **Total associates** | **16.8** | **(2.4)** | **14.4** | **246.3** | **7.9** | **8.4** | **16.2** | **241.4** |

** Participation sold during the first half of 2016*

*(1) Including controlled entities subject to a simplified consolidation under the equity method because they are not material (see Note 1b).*

The Group does not consider holding joint venture or associate significant within the meaning of IFRS 12. The appreciation of the significance of joint ventures and associates is based on the contribution of these investments on the balance sheet and Group Equity as well as net profit excluding non-recurring items.

## 4.i. Goodwill

| *In millions of euros* | 30 June 2017 | 31 December 2016 |
|---|---|---|
| CARRYING VALUE AT PERIOD START | 133.8 | 136.4 |
| Currency translation adjustments | (0.6) | (6.5) |
| CARRYING VALUE AT END OF PERIOD | 133.2 | 133.8 |
| *of which:* | | |
| Gross value | 133.8 | 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 under common control method. They are therefore equivalent in goodwill previously recognized by the BNP Paribas Group on these very companies.

No negative goodwill or impairment were reported in the first half of 2017.

## 4.j. Offsetting of financial assets and liabilities

The following tables present the amounts of financial assets and liabilities before and after offsetting. This information, required by IFRS 7, 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 "impacts of master netting agreements and similar agreements" are relative to outstanding amounts of transactions within an enforceable agreement, which do not meet the offsetting criteria defined by IAS 32. This is the case of transactions for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the contracting parties.

"Financial instruments given or received as collateral" include guarantee deposits and securities collateral recognised at fair value. These guarantees can only be exercised in case of default, insolvency or bankruptcy of one of the contracting parties.

Regarding master netting agreements, the guarantee deposits received or given in compensation for the positive or negative fair values of financial instruments are recognised in the balance sheet in accrued income or expenses and other assets or liabilities.

| *In millions of euros, at 30 June 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 | 5,875.6 | - | 5,875.6 | - | - | 5,875.6 |
| Financial instruments at fair value through profit or loss | | | | | | |
| Trading securities portfolio | 190.1 | | 190.1 | | | 190.1 |
| Loans and repurchase agreements | 24.0 | - | 24.0 | (24.0) | - | - |
| Instruments designated as at fair value on option | 5.5 | | 5.5 | | | 5.5 |
| Derivatives (including derivatives used for hedging purposes) | 228.6 | (15.0) | 213.6 | (47.6) | (12.0) | 154.0 |
| Loans and receivables due from credit institutions and customers | 36,580.8 | (556.3) | 36,024.5 | - | - | 36,024.5 |
| Accrued income and other assets | 770.0 | - | 770.0 | - | - | 770.0 |
| *of which: Guarantee deposits given* | *23.3* | | *23.3* | | | *23.3* |
| Other assets not subject to offsetting | 6,403.9 | | 6,403.9 | | | 6,403.9 |
| **TOTAL ASSETS** | **50,078.4** | **(571.3)** | **49,507.1** | **(71.5)** | **(12.0)** | **49,423.6** |

| *In millions of euros, at 30 June 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 | 239.2 | - | 239.2 | (24.0) | (215.3) | (0.0) |
| Instruments designated at fair value on option | 189.2 | | 189.2 | | | 189.2 |
| Derivatives (including derivatives used for hedging purposes) | 116.4 | (15.0) | 101.4 | (47.6) | (2.2) | 51.6 |
| Due to credit institutions and customers | 38,438.8 | (556.3) | 37,882.5 | - | (630.8) | 37,251.7 |
| Accrued expenses and other liabilities | 1,052.3 | - | 1,052.3 | - | - | 1,052.3 |
| *of which: Guarantee deposits received* | *38.0* | | *38.0* | | | *38.0* |
| Other liabilities not subject to offsetting | 2,232.1 | | 2,232.1 | | | 2,232.1 |
| **TOTAL LIABILITIES** | **42,268.1** | **(571.3)** | **41,696.8** | **(71.5)** | **(848.3)** | **40,777.0** |

| *In millions of euros, at 31 December 2016* | Gross amounts of financial assets | Gross amounts set off on the balance sheetn | Net amounts presented on the balance sheet | Impact of Master Netting Agreements and similar agreements | Financial instruments received as collateral | Net amounts |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and amounts due from central banks | 1,454.3 | - | 1,454.3 | - | - | 1,454.3 |
| Financial instruments at fair value through profit or loss | | | | | | |
| Trading securities portfolio | 108.3 | | 108.3 | | | 108.3 |
| Loans and repurchase agreements | 27.7 | - | 27.7 | - | (23.8) | 3.9 |
| Instruments designated as at fair value on option | 5.5 | | 5.5 | | | 5.5 |
| Derivatives (including derivatives used for hedging purposes) | 277.6 | (15.0) | 262.6 | (54.4) | (21.7) | 186.5 |
| Loans and receivables due from credit institutions and from 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 | 0.0 | - | 0.0 | - | - | 0.0 |
| Borrowings and repurchase agreements | - | - | - | - | - | - |
| Instruments designated at fair value on option | 218.0 | | 218.0 | | | 218.0 |
| Derivatives (including derivatives used for hedging purposes) | 146.7 | (15.0) | 131.7 | (54.4) | - | 77.3 |
| Due to credit institutions and to customers | 34,393.5 | (569.9) | 33,823.6 | - | - | 33,823.6 |
| Accrued expense 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** |

## 4.k. INVESTMENT AND OPERATING FIXED ASSETS

In order to ensure comparability with the figures for the period ending 30 June 2017, a reclassification was made to the figures for the year ending 31 December 2016 in the items Investment property and Property, plant and equipment for an amount of EUR 8.2 million.

# 5. ADDITIONAL INFORMATION

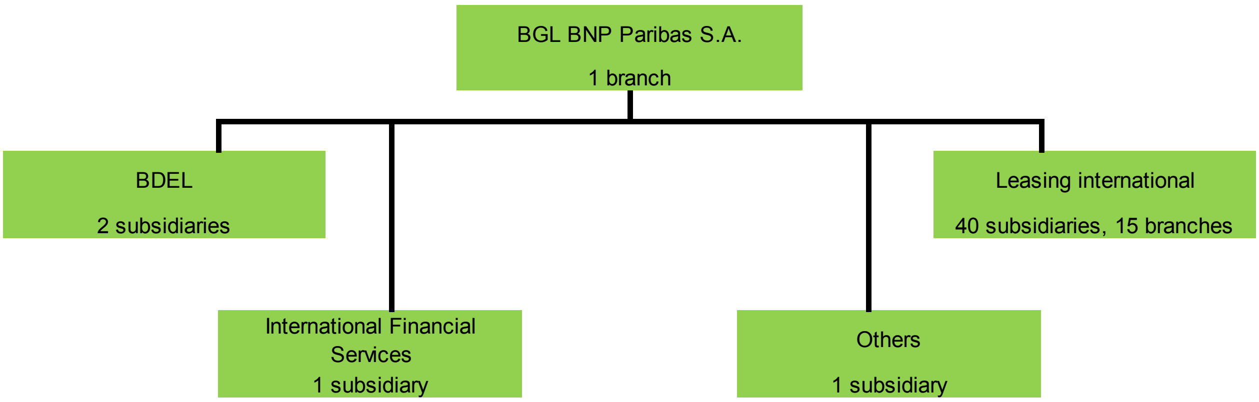
## 5.a. CHANGES IN SHARE CAPITAL

There were no transactions with respect to the share capital of BGL BNP Paribas during the first half of 2017.

In accordance with the Act of 28 July 2014 concerning the immobilisaiton of bearer shares and units of Luxembourg commercial companies, the Bank cancelled 2,561 shares on 19 February 2016, reducing the paid up capital by 65 thousand euros and share capital by 535 thousand euros.

## 5.b. SCOPE OF CONSOLIDATION

♦ **Simplified structure of the Group by core business line**




♦ **List of subsidiaries and branches consolidated in the Group**

| Name | Country | Activiy | 30 June 2017 Consoli-dation method | 30 June 2017 % Group ownership interest | 30 June 2017 Ref.[1] | 31 December 2016 Consoli-dation method | 31 December 2016 % Group ownership interest | 31 December 2016 Ref.[1] |
|---|---|---|---|---|---|---|---|---|
| **Consolidating company** | | | | | | | | |
| BGL BNP Paribas SA | Luxembourg | Bank | | | | | | |
| BGL BNP Paribas (German branch) | Allemagne | Bank | IG | 100,00% | | IG | 100,00% | |
| **BDEL** | | | | | | | | |
| BGL BNP Paribas Factor SA | Luxembourg | Factoring | IG | 100,00% | | IG | 100,00% | |
| BNP Paribas Lease Group Luxembourg SA | Luxembourg | Leasing | IG | 100,00% | | IG | 100,00% | |
| Cofhylux SA | Luxembourg | Real estate | IG | 100,00% | | IG | 100,00% | |
| ***Structured entities*** | | | | | | | | |
| Société Immobilière de Monterey SA | Luxembourg | Real Estate | IG | 100,00% | | IG | 100,00% | |
| **Leasing international** | | | | | | | | |
| Ace Equipment Leasing NV | Belgium | Leasing | -- | -- | S3 | IG | 50,00% | |
| Albury Asset Rentals Ltd | Unitd Kingdom | Leasing | IG | 50,00% | | IG | 50,00% | |
| All In One Vermietungsgesellschaft für Telekommunikationsanlagen mbH | Germany | Leasing | ME* | 50,00% | | ME* | 50,00% | |
| All In One Vermietung GmbH | Austria | Leasing | ME* | 50,00% | | ME* | 50,00% | |
| Aprolis Finance SA | France | Leasing | IG | 25,50% | | IG | 25,50% | |

[1] Changes in the scope of consolidation:

| Name | Country | Activiy | 30 June 2017 | | | 31 December 2016 | | |
|---|---|---|---|---|---|---|---|---|
| | | | Consoli-dation method | % Group ownership interest | Ref.[1] | Consoli-dation method | % Group ownership interest | Ref.[1] |
| Arius SA | France | Leasing | IG | 50,00% | | IG | 50,00% | |
| Artegy Ltd | United-Kingdom | Leasing | ME* | 50,00% | | 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 (Belgique) SA | Belgium | Leasing | IG | 50,00% | | IG | 50,00% | |
| BNP Paribas Lease Group BPLG SA | France | Leasing | IG | 50,00% | | IG | 50,00% | |
| BNP Paribas Lease Groupe (German branch) | Germany | Leasing | IG | 50,00% | | IG | 50,00% | |
| BNP Paribas Lease Groupe (Spanish branch) | Spain | Leasing | IG | 50,00% | | IG | 50,00% | |
| BNP Paribas Lease Groupe (Italian branch) | Italy | Leasing | IG | 50,00% | | IG | 50,00% | |
| BNP Paribas Lease Groupe (Portuguese branch) | Portugal | Leasing | IG | 50,00% | | IG | 50,00% | |
| BNP Paribas Lease Group IFN SA | Romania | Leasing | ME* | 49,97% | | ME* | 49,97% | |
| BNP Paribas Lease Group Kft | Hungary | Leasing | ME* | 50,00% | | ME* | 50,00% | |
| BNP Paribas Lease Group Lizing RT | Hungary | Leasing | ME* | 50,00% | | ME* | 50,00% | |
| BNP Paribas Lease Group Sp.z o.o. | Poland | Leasing | ME* | 50,00% | | ME* | 50,00% | |
| BNP Paribas Lease Group UK PLC | Unitd-Kingdom | Leasing | IG | 50,00% | | IG | 50,00% | |
| BNP Paribas Lease Group Rentals Ltd | United-Kingdom | Leasing | IG | 50,00% | | IG | 50,00% | |
| BNP Paribas Leasing Solutions NV | The Netherlands | Leasing | IG | 50,00% | | IG | 50,00% | |
| BNP Paribas Leasing Solutions Ltd | United-Kingdom | Leasing | IG | 50,00% | | IG | 50,00% | |
| BNP Paribas Leasing Solutions SA | Luxembourg | Leasing | IG | 50,00% | | IG | 50,00% | |
| BNP Paribas Leasing Solutions SPA | Italy | Leasing | ME | 13,09% | | ME | 13,09% | |
| BNP Paribas Leasing Solutions Suisse SA | Switzerland | Leasing | ME* | 50,00% | | ME* | 50,00% | |
| Claas Financial Services Inc. | United-States | Leasing | -- | -- | S4 | IG | 30,05% | |
| Claas Financial Services Ltd | United-Kingdom | Leasing | IG | 25,50% | | IG | 25,50% | |
| Claas Financial Services SA | France | Leasing | IG | 30,05% | | IG | 30,05% | |
| Claas Financial Services (German branch) | Germany | Leasing | IG | 30,05% | | IG | 30,05% | |
| Claas Financial Services (Spanish branch) | Spain | Leasing | IG | 30,05% | | IG | 30,05% | |
| Claas Financial Services (Polish branch) | Poland | Leasing | IG | 30,05% | | IG | 30,05% | |
| Class Financial Services (Italian branch) | Italy | Leasing | IG | 30,05% | | IG | 30,05% | |
| CNH Industrial Capital Europe BV | The Netherlands | Leasing | IG | 25,05% | | IG | 25,05% | |
| CNH Industrial Capital Europe GmbH | Austria | Leasing | IG | 25,05% | | IG | 25,05% | |
| CNH Industrial Capital Europe Ltd | United-Kingdom | Leasing | IG | 25,05% | | IG | 25,05% | |
| CNH Industrial Capital Europe SA | France | Leasing | IG | 25,05% | | IG | 25,05% | |
| CNH Industrial Capital Europe (German branch) | Germany | Leasing | IG | 25,05% | | IG | 25,05% | |
| CNH Industrial Capital Europe (Belgian branch) | Belgium | Leasing | IG | 25,05% | | IG | 25,05% | |
| CNH Industrial Capital Europe (Spanish branch) | Spain | Leasing | IG | 25,05% | | IG | 25,05% | |
| CNH Industrial Capital Europe (Italian branch) | Italy | Leasing | IG | 25,05% | | IG | 25,05% | |
| CNH Industrial Capital Europe (Polish branch) | Poland | Leasing | IG | 25,05% | | IG | 25,05% | |
| Commercial Vehicle Finance Ltd | United-Kingdom | Leasing | IG | 50,00% | | IG | 50,00% | |
| Fortis Lease Belgium SA | Belgium | Leasing | IG | 50,00% | | IG | 50,00% | |
| Fortis Lease SA | France | Leasing | IG | 50,00% | | IG | 50,00% | |
| Fortis Lease Deutschland GmbH | Germany | Leasing | ME* | 50,00% | | ME* | 50,00% | |
| Fortis Lease Operativ Lizing Zartkoruen Mukodo Reszvenytarsasag | Hungary | Leasing | -- | -- | S1 | ME* | 50,00% | |

| Name | Country | Activiy | 30 June 2017 | | | 31 December 2016 | | |
|---|---|---|---|---|---|---|---|---|
| | | | Consoli-dation method | % Group ownership interest | Ref.[1] | Consoli-dation method | % Group ownership interest | Ref.[1] |
| Fortis Lease Iberia SA | Spain | Leasing | ME* | 39,31% | | ME* | 39,31% | |
| Fortis Lease Portugal SA | Portugal | Leasing | ME* | 50,00% | | ME* | 50,00% | |
| Fortis Lease UK Ltd | United-Kingdom | Leasing | ME* | 50,00% | | ME* | 50,00% | |
| Fortis Lease UK Retail Ltd | United-Kingdom | Leasing | ME* | 50,00% | | ME* | 50,00% | |
| Fortis Vastgoed Lease BV | The Netherlands | Leasing | ME* | 50,00% | | ME* | 50,00% | |
| HFGL Ltd | United-Kingdom | Leasing | IG | 50,00% | | IG | 50,00% | |
| Humberclyde Commercial Inv. Ltd | United-Kingdom | Leasing | IG | 50,00% | | IG | 50,00% | |
| Humberclyde Commercial Inv. (N1) Ltd | United-Kingdom | Leasing | -- | -- | S1 | IG | 50,00% | |
| JCB Finance Holdings Ltd | United-Kingdom | Leasing | IG | 25,05% | | IG | 25,05% | |
| JCB Finance SA | France | Leasing | IG | 25,05% | | IG | 25,05% | |
| JCB Finance (German branch) | Germany | Leasing | IG | 25,05% | | IG | 25,05% | |
| JCB Finance (Italian branch) | Italy | Leasing | IG | 25,05% | | IG | 25,05% | |
| Locatrice Italiana SPA | Italy | Leasing | ME* | 50,00% | | ME* | 50,00% | V1 |
| Manitou Finance Ltd | United-Kingdom | Leasing | IG | 25,50% | | IG | 25,50% | |
| MFF SAS | France | Leasing | IG | 25,50% | | IG | 25,50% | |
| RD Portofoliu SRL | Romania | Leasing | ME* | 50,00% | | ME* | 50,00% | E1 |
| Same Deutz Fahr Finance Ltd | United-Kingdom | Leasing | IG | 50,00% | | IG | 50,00% | |
| Same Deutz Fahr Finance SA | France | Leasing | IG | 50,00% | | IG | 50,00% | |
| SREI Equipment Finance Ltd | India | Leasing | -- | -- | S4 | ME ** | 25,00% | |
| **International Financial Services** | | | | | | | | |
| Cardif Lux Vie SA | Luxembourg | Insurance | ME | 33,33% | | ME | 33,33% | |
| **Corporate & Institutional Banking** | | | | | | | | |
| Alleray SARL | Luxembourg | Equity management | -- | -- | S1 | IG | 100,00% | |
| **Other Activities** | | | | | | | | |
| Plagefin SA | Luxembourg | Equity management | IG | 100,00% | | IG | 100,00% | |
| Société Alsacienne de développement et d'expansion (SADE) SA | France | Finance | -- | -- | S4 | IG | 100,00% | |

Changes in the scope of consolidation:

*New entries (E) in the scope of consolidation*
E1 Incorporation
E2 Purchase or gain of control
E3 Passing qualifying thresholds as defined by the Group

*Removals (S) from the scope of consolidation*
S1 Disposal
S2 Merger by acquisition
S3 Entities no longer consolidated as below the thresholds defined by the Group
S4 Sale outside of Group, loss of control or loss of significant influence

*Rate variations (V)*
V1 Additional acquisition

*Others (D)*
D1 Change in consolidation method not linked to a change in interest rate
ME* Controlled but non material entities consolidated under the equity method as associates (see note 1.b)
ME** Entity consolidated under the equity method as per IFRS 11 for accounting purposes; entity consolidated under the proportional method for prudential purposes.

## 5.c. MINORITY INTERESTS

**Main minority interests**

BGL BNP Paribas holds 50% plus 1 share of the Luxembourg holding company BNP Paribas Leasing Solutions S.A. (BPLS). The minority shareholder of BPLS is BNP Paribas, which holds 50% minus 1 share. The other subsidiaries of the Group are all 100% owned.

BPLS itself holds many international leasing subsidiaries (see Note 5 b), some of which also have minority interests (in particular partnerships with builders). These minority interests are not material to the Group.

| *In millions of euros* | 30 June 2017 | 31 December 2016 |
|---|---|---|
| Shareholders'equity - Minority interests | 1,315.7 | 1,314.9 |
| Dividends paid to minority shareholders | (70.4) | (106.1) |
| Interim dividend payments to minority shareholders | - | (25.1) |

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| Net income attributable to minority interests | 68.9 | 67.6 |

- **Contribution of BNP Paribas Leasing Solutions and its subsidiaries (before elimination of intra-group transactions)**

| *In millions of euros* | 30 June 2017 | 31 December 2016 |
|---|---|---|
| Total balance sheet | 19,485.9 | 19,468.3 |

| *In millions of euros* | First half 2017 | First half 2016 |
|---|---|---|
| Balance of cash and equivalent accounts | 995.9 | 1,353.1 |
| Revenues | 342.2 | 340.7 |
| Net income | 120.8 | 115.4 |
| Net income and changes in assets and liabilities recognised directly in equity | 121.2 | 74.2 |

There are no particular contractual restrictions on the assets of the BNP Paribas Leasing Solutions related to the presence of the minority shareholder.

### Acquisitions of additional interests and partial sales of interests leading to changes in minority interests in the equity and reserves.

During the first half 2017, there were no additional share acquisitions or partial disposals within the Group that modified the minority interest in the capital and reserves.

### Commitments to repurchase minority shareholders' interests

In connection with the acquisition of certain entities, the Group granted minority shareholders put options on their holdings.

The total value of these commitments, which are recorded as a reduction in shareholders' equity, amounts to EUR 6.5 million 30 June 2017 compared to EUR 6.4 million on 31 December 2016.

## 5.d. RELATED PARTIES

The parties related to the Group are associated companies, joint ventures, pension funds, members of the Board of Directors and key Group executives, members of the immediate family of the aforementioned persons, entities controlled or significantly influenced by any individual referred to above and other related entities.

As part of its operational activities, the Group is frequently required to conduct transactions with related parties. Such transactions mainly relate to loans and deposits and are entered the same commercial and market conditions as those that apply to unrelated parties.

## Relations with members of the Board of Directors and key management

At 30 June 2017, loans granted to members of the Board amounted to EUR 2.1 million (at 31 December 2016: EUR 2.1 million); loans granted to key executives amounted to EUR 6.0 million (31 December 2016: EUR 4.7 million).

At 30 June 2017, the credit lines granted to members of the Board of Directors amounted to EUR 2.6 million (31 December 2016: EUR 2.7 million); credit lines granted to key managers totalled EUR 7.9 million (at 31 December 2016: EUR 6.5 million).

## Relations with other related parties

The tables below summarise the financial scope of the activities carried out with the following related parties:

- Associated companies:
- Parent companies: BNP Paribas SA, BNP Paribas Fortis SA and their subsidiaries;
- other BNP Paribas Group companies not held by the Group.

The State of Luxembourg is a 34% shareholder of BGL BNP Paribas S.A. As such, in 2017, it received a dividend of EUR 62.7 million from BGL BNP Paribas S.A. Other transactions with the State of Luxembourg or any other entity controlled by the State of Luxembourg are carried out on an arm's length basis.

♦ **Related-party balance sheet items:**

| | 30 June 2017 | | | 31 December 2016 | | |
|---|---|---|---|---|---|---|
| *In millions of euros* | Associates | Parent companies | Other BNP Paribas entities | Associates | Parent companies | Other BNP Paribas entities |
| **ASSETS** | | | | | | |
| Financial assets at fair value through profit or loss | - | 28.9 | 33.4 | - | 41.7 | 40.0 |
| Derivatives used for hedging purposes | - | 144.5 | - | - | 170.3 | - |
| Available-for-sale financial assets | - | - | 232.0 | - | - | 231.9 |
| Loans and receivables due from credit institutions | 325.1 | 7,486.1 | 232.8 | 340.6 | 8,079.4 | 230.3 |
| Loans and receivables due from customers | 475.1 | 0.0 | 210.0 | 463.6 | 0.1 | 155.6 |
| Accrued income and other assets | 2.0 | 9.3 | 100.5 | 8.3 | 12.8 | 75.4 |
| **Total** | **802.2** | **7,668.8** | **808.6** | **812.5** | **8,304.3** | **733.3** |
| **LIABILITIES** | | | | | | |
| Financial liabilities at fair value through profit or loss | - | 33.9 | 114.5 | - | 34.5 | 9.3 |
| Derivatives used for hedging purposes | - | 41.4 | - | - | 58.1 | - |
| Due to credit institutions | 24.5 | 10,132.8 | 88.4 | 23.4 | 8,718.2 | 49.5 |
| Due to customers | 64.2 | - | 276.3 | 84.0 | - | 315.1 |
| Debt securities | - | 0.4 | - | - | 7.5 | - |
| Comptes de régularisation et passifs divers | 16.6 | 44.5 | 8.2 | 30.3 | 55.5 | 7.7 |
| **Total** | **105.2** | **10,253.1** | **487.4** | **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 financial instruments (equities, debt securities…) contracted or issued by them.

| In millions of euros | 30 June 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 | - | 29.3 | - | - | - | - |
| Financing commitments received | - | 880.5 | 4.3 | - | 1,201.0 | 4.2 |
| Guarantee commitments given | 99.5 | 400.7 | 177.2 | 130.5 | 324.8 | 98.9 |
| Guarantee commitments received | 0.0 | 83.6 | 25.3 | 0.0 | 80.7 | 31.8 |

At 30 June 2017 and at 31 December 2016, guarantees given include EUR 100 million of guarantees given to Cardif Lux Vie S.A., following the merger of Fortis Luxembourg Vie S.A. and Cardif Lux International S.A.. At 30 June 2017, a provision of EUR 4.1 million (compared with EUR 4.2 million at the end of 2016) for this guarantee was recorded in the accounts.

The Bank had netting agreements with the entities BNP Paribas Fortis S.A. and BNP Paribas S.A. (and their respective branches established in the territory of the European Union) thereby reducing its exposure to such entities, for both on-balance sheet and off-balance sheet exposures.

- **Related-party profit and loss items:**

| In millions of euros | First half 2017 | | | First half 2016 | | |
|---|---|---|---|---|---|---|
| | Associates | Parent companies | Other BNP Paribas entities | Associates | Parent companies | Other BNP Paribas entities |
| Interest income | 3.4 | 80.1 | 5.0 | 3.5 | 71.6 | 4.6 |
| Interest expense | (0.3) | (66.1) | (1.9) | (0.2) | (69.2) | (2.4) |
| Commission (income) | 5.3 | 6.4 | 17.1 | 4.1 | 2.9 | 13.4 |
| Commission (expense) | (2.2) | (1.4) | (3.1) | (2.4) | (3.4) | (2.6) |
| Gains (losses) on financial instruments at fair value through profit or loss | - | 0.9 | 1.2 | (0.0) | 43.2 | (0.5) |
| Income (expense) from other activities | (10.3) | 0.0 | 21.7 | (8.6) | 0.0 | 20.7 |
| **TOTAL** | **(4.1)** | **19.8** | **40.0** | **(3.6)** | **45.1** | **33.2** |

## 5.e. 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 30 June 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 realised immediately, and in practice might not be realised immediately. Consequently, this fair value does not reflect the actual value of the instruments to the Group as a going concern.

- Most of these fair values are not meaningful, and hence are not taken into account in the management of the commercial banking activities which 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 customer relationships 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 30 June 2017* | Estimated fair value | | | | Balance sheet value |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | |
| **FINANCIAL ASSETS** | | | | | |
| Loans and receivables due from credit institutions | - | 8,258.7 | - | 8,258.7 | 8,258.7 |
| Loans and receivables due from customers[(1)] | 227.2 | 1,066.2 | 14,640.7 | 15,934.1 | 15,860.8 |
| Held-to-maturity financial assets | 319.5 | - | - | 319.5 | 289.6 |
| **FINANCIAL LIABILITIES** | | | | | |
| Due to credit institutions | - | 11,989.9 | - | 11,989.8 | 11,724.1 |
| Due to customers | - | 26,292.8 | - | 26,292.9 | 26,158.4 |
| Debt securities | - | 1,515.6 | - | 1,515.6 | 1,510.9 |

*(1) Excludig 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) Excludig finance lease operations*

The valuation techniques and assumptions used ensure that the fair value of financial assets and liabilities carried at amortised cost is measured on a consistent basis 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 equates to carrying amount. These instruments have been classified in Level 2, except for loans to customers, which are classified in Level 3. Where fair value cannot be determined, the amortised cost is used.

## 5.f. GUARANTEE FUNDS

On 18 December 2015, the Luxembourg government transposed into the Law, related to the resolution and winding up of credit institutions and the scheme for the protection of depositors and investors, European Directives 2014/59 / EU, which establish the framework for the recovery and resolution of credit institutions and investment firms, and 2014/49 / EU, which defines deposit guarantee schemes.

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

The law thereby replaces the guarantee mechanism for depositors and investors in Luxembourg, which was governed by the “Luxembourg Association for the Guarantee of Deposits" (AGDL), with a new mechanism based on the principle of ex-ante contributions into a new fund “Deposit Guarantee Fund Luxembourg “(FGDL). In accordance with Article 163 (8) of the Act, this fund will be capitalised through the payment of a first tranche of 0.8% of the amount of guaranteed deposits with Luxembourg credit institutions and investment firms, at the latest by the end of 2018.

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

Following IFRIC 21, in the first half of the year, the Bank took into account the tranche for the whole of 2017 for a total amount of EUR 8.0 million (compared to EUR 7.3 million in 2016). In April 2017, the Bank made a contribution to the FGDL of EUR 10.6 million (compared with EUR 10.3 million in 2016).