BNP PARIBAS FORTIS SA/NV

ANNUAL REPORT 2016

BNP PARIBAS FORTIS

The bank for a changing world

INTRODUCTION

BNP Paribas Fortis is a limited liability company (naamloze vennootschap (NV)/société anonyme (SA)), incorporated and existing under Belgian law, having its registered office address at Warandeberg 3, 1000 Brussels and registered under number BE VAT 0403.199.702 (hereinafter referred to as the '**Bank**' or as '**BNP Paribas Fortis**').

The BNP Paribas Fortis Annual Report 2016 contains both the audited Consolidated and Non-consolidated Financial Statements, preceded by the Report of the Board of Directors, the Statement of the Board of Directors and a section on Corporate Governance including the composition of the Board of Directors. The audited BNP Paribas Fortis Consolidated Financial Statements 2016, with comparative figures for 2015, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, are followed by the audited Non-consolidated Financial Statements 2016 of BNP Paribas Fortis SA/NV, prepared on the basis of the rules laid down in the Belgian Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

It is considered that the information included in the note 7.j Scope of consolidation, together with the information included in the Report of the Board of Directors and in the Corporate Governance Statement, complies with the requested information in article 168, §3 of the Belgian Act of 25 April 2014 on the legal status and supervision of credit institutions.

All amounts in the tables of the Consolidated Financial Statements are denominated in millions of euros, unless stated otherwise. All amounts in the tables of the Non-consolidated Financial Statements are denominated in thousands of euros, unless stated otherwise. Because figures have been rounded off, small discrepancies with previously reported figures may appear. Certain reclassifications have been made with regard to the prior year's Financial Statements in order to make them comparable for the year under review.

'BNP Paribas Fortis' refers in the Consolidated Financial Statements to the BNP Paribas Fortis SA/NV consolidated situation unless stated otherwise. 'BNP Paribas Fortis' refers in the Non-consolidated Financial Statements to the BNP Paribas Fortis SA/NV non-consolidated situation, unless stated otherwise.

All information contained in the BNP Paribas Fortis Annual Report 2016 relates to the BNP Paribas Fortis statutory Consolidated and Non-consolidated Financial Statements and does not cover the contribution of BNP Paribas Fortis to the BNP Paribas Group consolidated results, which can be found on the BNP Paribas website: www.bnpparibas.com.

The BNP Paribas Fortis Annual Report 2016 is available on the website: www.bnpparibasfortis.com

CONTENT

BNP PARIBAS FORTIS CONSOLIDATED ANNUAL REPORT 2016

REPORT OF THE BOARD OF DIRECTORS

A word from the Chairman and the CEO

BNP Paribas Fortis posted good results in 2016. Net profit came in at EUR 1.73 billion, a rise of 7.4% compared with 2015. Loans to our Retail Banking customers in Belgium were up 4.7%, at EUR 96 billion, and deposits increased by 5.8% to reach EUR 116 billion. At the same time we kept our operating expenses and cost of risk well under control. With a CET1 ratio of 12.5%, our solvency remains robust.

We achieved these results in a challenging market environment, with persistently low interest rates, high bank sector taxes and uncertain expectations for the future all putting the traditional bank earnings model under pressure. The downward pressure on our revenues due to widespread refinancing of mortgages, lower commission income and declining interest margins was nevertheless effectively offset during 2016 by, inter alia, volume growth in Belgium, good results at Leasing and Personal Finance, in asset/liability management (ALM) and also by rising interest income in Turkey.

In this world of fast – and sometimes unexpected – change, we are working to build a bank for the long term that puts the interests of its customers first in everything it does. At the same time, a rapid digital transformation is underway. This is radically altering the way our customers wish to interact with their bank and therefore changing the way in which the bank needs to act in order to provide an optimal service to customers. We count now more than one million mobile banking users. Our steadily increasing digital customer interactions during 2016 are helping us to further develop new, flexible Customer Journeys which ensure that we react more rapidly to needs and provide a better overall service.

In our long term plan, innovation plays a crucial role. In June 2016 we launched Hello home!, the first online platform in Belgium that enables you to calculate your budget for a house purchase, find a home within that budget via the websites of our real estate partners and take out a mortgage online in full transparency. Hello home! provides a completely new experience to our clients.

In addition, during the course of the year extra specialists were appointed at our nine Innovation Hubs where innovative enterprises can obtain tailored services. The Bank is making efforts to integrate them fully into the local innovation ecosystem and foster interaction with more traditional companies established in those areas. We participate also in the business accelerator Co.Station. The two Co.Station establishments – in Brussels and a newly opened one in Ghent – now provide accommodation to some 50 young companies active in the digital sector, with a total of 350 staff.

During 2016 the structure of our bricks-and-mortar network was optimised so as to more closely meet customer needs and expectations as regards expertise and service availability within the framework of a universal bank with strong local roots. We are increasingly moving towards a hybrid distribution model involving the seamless integration of physical and digital contact, for the greater convenience of our customers. In addition to carrying out their day-to-day operations, the adapted direct sales offer now makes it easier for our customers to purchase products and services by themselves.

By signing the Belgian Sustainable Development Goals Charter, we underlined our commitment to live up to our responsibilities towards society. Meanwhile we extended our Socially Responsible Investment (SRI) range from our Private to our Retail Banking clients. Total SRI investments had risen to EUR 6.14 billion by end 2016.

In addition, we stepped up our commitment to microStart, with 767 new micro-loans granted in 2016, totalling EUR 6.1 million, and also provided support to around 200 local community organisations via BNP Paribas Fortis Foundation and our Private Bank.

With the addition of Arval to its portfolio, BNP Paribas Fortis included an innovative, outperforming European leader in auto leasing and vehicle fleet management to its assets. Established in 28 countries, Arval has growth potential in both mature and developing markets, which will enable BNP Paribas Fortis to diversify its risk profile and boost its profitability.

Our drive to become a financial services provider that is fully abreast of the digital transformation wave and always prioritises the customer's needs would be impossible without the unfailing commitment and flexibility of our staff. We are proud that we have been able to conclude with the workforce representatives a fair and well-balanced staff agreement for the next two years through dialogue and consultation, as has always been our approach.

The focus of our strategy is to continue to build the bank for the long term and this drives all our actions: our social agreement, our investments in IT and new products, the diversification into the activities of Arval and the new, agile way of working of our employees. We remain of course determined to maintain solid results and achieve healthy growth.

We thank all our employees for their efforts and we would also like to thank our clients for the trust they continue to place in our Bank.

Max Jadot
Chief Executive Officer

Herman Daems
Chairman of the Board of Directors

Good business performance in a challenging economic and financial environment

The economic context in 2016

The long-awaited recovery in the world economy once again failed to appear in 2016. The rise of controversial politicians, fluctuating oil prices and divergent monetary policy in the course of the year made for uncertainty in the economic indicators. The Belgian economy, like the rest of the eurozone, now seems ready for a revival.

The election and referendum victories of politicians with controversial standpoints brought an undercurrent of economic protectionism to the surface. Free trade agreements and growing international cooperation, which have brought about a spectacular rise in prosperity in recent decades, are now facing increasing resistance.

A majority of those who went to the polls in the UK referendum in June voted to leave the European Union. Around the same time, it became clear that both candidates in the US presidential election had their doubts about the Trans-Pacific Partnership (TPP). Closer to home, opposition arose to the signing of the trade agreement (CETA) agreed between the EU and Canada.

Following the failed coup d'état in Turkey, the overall environment in the country saw various changes in 2016, notably a sharp rise in interest rates, a depreciating Turkish lira and uncertainty over Turkey's economic prospects.

In Belgium the cost of labour largely stabilised during the year, leading to a marked increase in employment during the year and helping to close the gap here somewhat vis-à-vis the rest of Europe. Belgium now has an unemployment rate of 8.0%, well below the eurozone average of 10%.

Meanwhile fossil fuel prices continued their recovery in 2016. Towards year-end, the oil price stood at USD 55 per barrel, up from USD 37 at the beginning of the year and the Organisation of Petroleum-Exporting Countries (OPEC) decided in November to reduce oil production volumes. Thus the OPEC plan to drive the more expensive North American shale oil out of the market appears to have been temporarily shelved.

Rising oil prices pushed the inflation rate in Europe higher during the year. However, at 0.2%, it remained below the European Central Bank's 2% target, the persistently low core inflation being largely to blame for this. The situation in Belgium is rather different, with inflation standing at 1.8% in 2016, placing the country among the frontrunners in the eurozone. Belgium's high core inflation was mostly driven by the rising cost of education and telecoms services, plus a number of new taxes.

The two major central banks now find themselves in different worlds. On the one side, Fed Chair Janet Yellen moved to raise interest rates for the second time since the outbreak of the financial crisis in 2008. The US economy is gradually getting back into gear, posting growth of 1.6% in 2016. On the other side of the fence, the ECB is sticking to its plan of monetary stimulation and ECB President Mario Draghi cut the deposit rate again during the first half of the year. Despite the announcement of an imminent slowdown in the ECB asset purchase programme, growth in the eurozone remains at 1.7%. Both the OECD and the IMF are championing greater fiscal stimulus, but only for those countries that still have the necessary budgetary room for manoeuvre.

Belgium does not yet fall into this category. The country's budget deficit of just below 3% leaves very limited room for government investment. Under the European Stability and Growth Pact, a reduction in the debt ratio, which totalled 106.5% of GDP in 2016, remains the top priority.

A less positive development is the growing level of indebtedness of Belgian households. Over the 2010-2015 period, the household debt-to-income ratio rose by a hefty 17 percentage points, while this ratio fell for the EU as a whole.

The year 2016 saw a strong rise in mortgage lending, though somewhat less pronounced than in 2015. Moreover, once again a higher number of consumer loans were taken out than during the previous year, seemingly marking the end of the negative growth of the post-crisis period.

Meanwhile lending to non-financial companies increased in 2016, with a similar trend apparent across the entire eurozone, and stricter acceptance criteria began to be applied, notably in Belgium. For the first time in several years, the number of outstanding corporate loans was higher than for the previous year.

The post-financial-crisis trend towards more stringent banking regulation will also continue in 2017 and the years beyond. The phasing-in of the Basel III capital adequacy agreements will result in higher capital requirements and minimum risk-weighting of credits might also be increased. Certain other measures may impact revenues from some products more directly. The combined effect of these factors will be to exert downward pressure on the return on the higher amounts of capital and on banks' profit-generating capacity. In this regard, the National Bank of Belgium decided in 2015 on capital surcharges to be applied to systemically important Belgian banks, as provided for by Capital Requirements Directive (CRD) IV and the Belgian Banking Law of May 2014. Given that 'systemically important' banks are defined as financial institutions whose failure would have a significant impact on the financial system or the real economy, additional capital requirements are being imposed on such institutions. Set at 1.5% for BNP Paribas Fortis, these surcharges are being phased in over a three-year period in stages of 0.5%, beginning on 1 January 2016.

Core Businesses

BNP Paribas Fortis

BNP Paribas Fortis covers both the Retail Banking and Corporate & Institutional Banking activities of the BNP Paribas Group in Belgium. On 31 December 2016, the Bank employed a total of 13,981 FTEs in Belgium.

Retail Belgium

BNP Paribas Fortis Retail banking activities comprise banking services to a range of client types, including individual customers, self-employed people and those in the liberal professions, small and medium-sized companies, local businesses, corporate clients and non-profit organisations. Retail Belgium provides its services via two networks, which operated in 2016 under a segmented business approach: Retail & Private Banking Belgium and Corporate & Public Bank, Belgium.

Retail & Private Banking Belgium

BNP Paribas Fortis is the market leader in Retail & Private Banking (RPB) in Belgium, serving 3.52 million clients and with strong positions in all banking products. Retail customers are served through an omni-channel distribution strategy:

- The network comprises 785 branches (of which 241 are independent branches), supplemented by 300 branches under the Fintro brand and 662 sales points under a 50-50 joint venture with bpost bank. The 785 branches are organised in 93 branch groups spread over 9 regions.

- RPB's digital platform manages a network of 3,767 ATMs, banking services via internet through Easy Banking Web (1.02 million users), and Mobile banking (810,000 users).

- The Easy Banking contact centre is available to customers 83 hours a week, processing around 53,000 calls per week.

The offer is completed by the Hello Bank! digital bank.

A long-term partnership with AG Insurance further reinforces the distribution power of the Retail network and builds on RPB's long experience in the bancassurance field.

With 32 Private Banking Centres and one Private Banking Centre by James (Private Banking Centre with remote services through digital channels), BNP Paribas Fortis is a major player in the Belgian private banking market. Clients with a minimum of EUR 250,000 worth of investable assets are eligible for private banking services and these constitute a sizeable client base for investment products. Meanwhile BNP Paribas Fortis' Wealth Management arm targets clients with potential assets worth over EUR 5 million. These clients are provided with a specific service model and are mainly served from two Wealth Management Centres, one in Brussels and the other in Antwerp.

In 2016 Retail & Private Banking demonstrated that it was fully abreast of the challenges the Bank faces, including changing customer behaviour, new competitors, constantly evolving technology and a stricter regulatory environment.

Following lengthy preparations, the year saw the launch of Easy Banking Web, a new informative public website with considerably more online banking options, and with the same look & feel as the Easy Banking App. A great deal of work went into the necessary migration exercise: 2.4 million customers migrated successfully from the old PC banking platform to Easy Banking Web. In addition to carrying out day-to-day operations and transactions, the adapted direct sales flows now make it easier for our customers to purchase end-to-end products and services by themselves.

During 2016 the structure of the banking network was also adjusted in order to more closely meet the needs and expectation of the customers as regards expertise and service availability within the framework of a universal bank with strong local presence. Under the new hybrid distribution model, physical and digital contact is integrated seamlessly into our customers' lives. The country is now divided into nine regions, with experts specifically trained for the branch network, Priority Banking, the Bank for Entrepreneurs, Private Banking and the Easy Banking Centre.

Moreover, new branch formats have been introduced. 'Flagship' branches were opened in Ghent and Brussels. This new type of branch offers daily banking facilities plus a non-banking range with more services than previously available, including a 20 m² LED-based 'Innovation Wall', comprising six interactive screens; an Innovation Library; meeting rooms available on a 'book & work' basis; and a Digital Kids Corner.

The Easy Banking Centre, which is the Bank's call centre, underwent further expansion during the year and now has 400 specialists available to answer all the customers' various questions within a broader timetable – from 7am to 10pm on weekdays and from 9am to 5pm on Saturday.

Hello Bank! posted another 'first' among Belgian banks when it launched Hello Home, an online mortgage loan platform. As part of this initiative the Bank has entered into cooperation agreements with existing real estate sites, including ImmoVlan and Ozaam, so that Hello Home users can first of all calculate their ability to repay a mortgage and then obtain a list of properties on the market that are priced within their repayment ceiling. This new app carried off a bronze medal from the IAB MIXX Awards in the Best Websites category.

The persistently low interest rates led to a drop in interest payable on savings deposits. However, as the political uncertainties in Europe and the United States resulted in a loss of confidence among investors and a consequent slowdown in new investments, the balances on both current and savings accounts increased, in spite of the low interest available on these accounts. Meanwhile the RPB Socially Responsible Investment (SRI) range was expanded during the year. The fact that at end-2016 total SRI investments stood at EUR 6.14 billion clearly indicates that these opportunities meet the needs of our clients. While the widest SRI range is available to our Private Banking clientele, we have also seen growing interest in SRI from Retail Banking clients as well. Flexinvest, an automatic mechanism for investing savings in suitable funds, provides an attractive solution enabling these clients to make their initial acquaintance with sustainable investing. Flexinvest investments are offered in the form of funds, financial insurance (Smart Fund Plan SRI) or investment notes.

The low interest rates in turn gave rise to a significant increase in new mortgages and in refinancing of existing mortgages. Consumer Finance also saw further expansion, partly encouraged by a rise in digital sales via Easy Banking Web.

In addition to the broader SRI offering, BNP Paribas Fortis Private Banking expanded its range of services during the year. The growing complexity of the body of regulation relating to investment requires intensive communication with our clients and advanced training for our Private Banking staff. Clients expressed great appreciation for our new 'Private Banking Expertise Days' initiative, featuring a combined programme of cultural events and financial expertise. The cultural part consisted of visits to highly-rated exhibitions at selected museums. The financial input came from workshops and presentations run by Private Banking experts. 2016 also saw a number of digital initiatives designed to improve interaction between the Private Bank and its clients: Chief Strategy Officer Philippe Gijsels started up a new blog; greater use was made of iPads for commercial contacts; a digital magazine called Digivison was created; and 'Privilege Connect' was launched. This new service, available round the clock, means that clients enjoy even more convenient access to the Private Bank.

Meanwhile, taking advantage of the new network organisation, the Bank for Entrepreneurs extended its outreach by setting up a number of Entrepreneur Bank Centres. The increased availability of specialist advice pertaining to small and medium-sized companies, new businesses, real estate projects, agriculture and the medical professions is intended to meet the precise needs of these client groups and the Bank ensures that staff working in these specialist fields receive advanced training. Based on the outcome of client questionnaires and staff workshops, two new business packs specially designed for businesspeople – Essential Pro and Flex Pro – were developed.

In the field of electronic payment services, a competitive electronic payments offering was rolled out in 2016 and the Bank entered into a ground-breaking cooperation agreement with SIX Payment Services. In addition, with a view to raising the level of digital knowhow among clients of the Bank for Entrepreneurs, the Bank also began to offer, in conjunction with Google, Digital Workshops designed to provide Belgian businesspeople with free training in Digital Marketing. The new Bizcover online information platform is also undergoing further development. The platform currently attracts over 70,000 unique visitors. Last but not least, the highly successful 'Boost your Business' campaign ran for a third year, this time with a special focus on newly started businesses.

Corporate & Public Bank Belgium

Corporate & Public Bank Belgium (CPBB) provides a comprehensive range of local and international services to Belgian companies, government institutions and local authorities. With over 600 corporate clients and over 7,000 midcap clients, CPBB is the market leader in these two categories and a strong challenger in public banking, currently with 570 clients. The offer range comprises flow-banking products, specialised financial expertise, securities, insurance products, real estate services, trade finance, cash management, factoring and leasing, plus M&A and capital markets activities. A team comprising more than 35 corporate banking experts and more than 170 relationship managers in 16 Business Centres, aided by skills officers, ensures that BNP Paribas Fortis has its finger on the pulse of the market.

CPBB pursued its efforts in 2016 to remain the 'top of mind' partner for corporates and public and social profit organisations in Belgium. The central aim of CPBB strategy is to continuously build and maintain strong, long-term relationships based on both expertise and trust. During the year, CPBB relationship managers worked hand-in-hand with their clients as they made strategic decisions, so as to be able to offer them the right financial solutions to achieve their ambitions. Providing a wide range of both traditional and alternative products and services and drawing on the international network of the BNP Paribas Group across more than 75 countries, CPBB continues to meet the precise financing needs of Belgian companies and so to make a significant contribution to the development of Belgium's economic fabric.

During 2016, the Bank was working in an environment marked by weak economic growth, low or even negative interest rates and increasingly more stringent regulation, while also having to meet the challenges of an accelerating digital revolution, which is inter alia bringing about changes in behaviour among its clients. CPBB continued its determined efforts to adjust and equip itself to respond successfully to these and other future challenges.

The year saw the launch of the new Easy Banking Business online banking platform, offering more advanced client-interaction features than its predecessor. The platform is due to evolve further in 2017, with the progressive addition of new functionality.

Meanwhile CPBB continued to place great emphasis on its Innovation Hub network, which is designed to encourage and support innovative Belgian startups and scaleups. In 2016, the Bank ran a series of local events to help position the Innovation Hubs in their local ecosystem and stimulate interaction between their startup clients and more traditional, established companies.

Change in the entrepreneurial world was another theme addressed during 2016. The CPBB 'Change League' competition held in late 2015 resulted in ten clients and their relationship managers going on a visit to Silicon Valley. Subsequently, a community of entrepreneurs was established, very much in line with the original aim of the competition – namely to promote the exchange of best practice so as to help businesses cope more effectively with change.

CPBB also provided support for the opening of the second Co.Station in Ghent in September. The new Co.Station premises offer 1,800 m² of efficient workspace designed to host young companies for the duration of a six to ten month acceleration programme.

Throughout 2016, co-creation and development were a central theme at CPBB, both in terms of providing immediate benefits to clients through new products and services and also for the Bank's employees. CPBB staff were directly involved in designing and creating the new enlarged Corporate Banking business line which, as of 2017, combines CPBB and CIB.

Corporate & Institutional Banking

BNP Paribas Fortis Corporate & Institutional Banking (CIB) provides its clients in Belgium and across Europe with full access to the BNP Paribas CIB product portfolio.

BNP Paribas Fortis CIB, which is part of CIB EMEA (Europe Middle East and Africa), consists of five Business Lines, plus IT and Operational support and a Competence Centre. In the course of 2016, a deep and thorough reorganisation exercise was initiated to bring the CIB businesses within the same fold as Corporate and Public Bank Belgium (CPBB). The purpose of merging these two business lines is to be better armed to become the bank of choice for corporate clients in Belgium and abroad by 2020. As a result of this reorganisation, CIB and CPBB will be operating as of 2017 under the name Corporate Banking.

The five CIB Business Lines are:

Global Markets: The Brussels-based platform focuses on client-driven activities, offering a global product range through access to BNP Paribas Group platforms. Global Markets serves mainly Belgian clients, plus also European Corporates through the Corporate Coverage network, providing flow and 'plain vanilla' products – for which close proximity to the client and rapid response are absolutely essential, enabling us to quote locally for most of the clients' foreign exchange and interest rate hedging needs. Global Markets is also able to leverage strong digital capabilities, based on robust, efficient IT platforms, in order to provide our clients with the highest service quality.

Financing Solutions: Brussels hosts the BNP Paribas Group Competence Centre for structured finance activities in the EMEA region, with the support of three other main originating platforms based in Frankfurt, London and Madrid. The Financing Solutions Brussels platform offers clients expertise in five main areas: Asset and Export Finance; Energy and Infrastructure Finance; Leveraged Finance; Corporate Debt; and Media-Telecoms Finance.

Transaction Banking EMEA offers clients an integrated suite of flow products to manage their treasury in Europe, including Cash Management (domestic and international payments), import-export Trade Financing and Corporate Deposit management.

Corporate Finance is active in Mergers & Acquisitions Advisory and in Equity Capital Markets, focusing on clients in Belgium and Luxembourg.

Private Equity: The Direct Investment team supports the development and growth of companies, and offers solutions for shareholder transition by investing in both equity and mezzanine finance instruments in the Bank's 'home' markets. The Fund Investment team invests in top tier private equity funds with a commitment to generate co-investment opportunities in the home markets, thereby supporting the local real economy through investments in conjunction with highly reputed fund managers.

In addition to the Business Lines, BNP Paribas Fortis **CIB ITO** supports CIB business through its dedicated IT and Operations teams. CIB ITO provides operational support and systems maintenance and development services for BNP Paribas Fortis as well as some other BNP Paribas Group CIB businesses.

Lastly, the **Trade Solutions Competence Centre** provides technical and commercial support to all BNP Paribas Group teams managing and developing Trade Solutions business worldwide (CIB, International Financial Services and Domestic Markets). This support takes the form of training, technical advice and assistance with product development.

Noteworthy deals concluded in 2016[1]

- As part of Cofinimmo's ongoing funding strategy with a view to diversifying funding sources and lengthening its maturities, BNP Paribas acted as sole Bookrunner on a ten year EUR 70 million 1.70% private placement placed with one large European institutional investor and as Joint Bookrunner and Global Coordinator on a 'Green and Social' eight year 2% EUR 55 million bond.

- BNP Paribas acted as a Bookrunner on a EUR 300 million Schuldschein issue for Etex. The purpose of the transaction was to refinance a retail bond which the company issued in 2012. The Schuldschein, originally a type of transaction exclusive to the German market, is a relatively new instrument for unrated European corporate borrowers, which allows various maturities and coupon types. Originally planning a EUR 150 million issue, Etex decided, due to the success of the initial transaction, to increase the issue to EUR 300 million.

- Export Finance acted as Facility Agent and sole Lender for a EUR 11.5 million Delcredere|Ducroire ('D|D') covered credit facility granted to the Ministry of Finance of Vietnam to finance the purchase of Belgian electro-mechanical equipment and related services from Compagnie d'Entreprises CFE as part of the plans to revamp three pumping stations located around the City of Phu Ly, located 60 kilometres south of Hanoi in Ha Nam Province. Designed and co-executed by the Vietnamese Authorities, supported by the Belgian Government, implemented by CFE and financed by the Bank, this project, designed to combat flooding in rural areas, demonstrates the strong commitment of all parties involved towards socially responsible, sustainable development.

- The Bank acted as Bookrunner MLA on a EUR 1.675 billion all-senior debt refinancing for 3i-backed Action, a leading international non-food discount retailer headquartered in the Netherlands. Proceeds from the EUR 1.6 billion term loan will be used to refinance existing debt and finance a distribution to Action's shareholders.

- BNP Paribas Fortis is acting as Arranger, Account Bank, Hedging Bank and Facility Agent for the 370 MW Norther offshore wind project 23 kilometres off the Belgian coast. This, the largest Belgian wind farm, sponsored by Elicio, Eneco and Mitsubishi Corporation, will generate around 1,400 direct jobs and another 1,400 indirect jobs during construction. From summer 2019 onwards, this wind farm will supply energy to some 400,000 households. Total investment amounts to EUR 1.2 billion and the total amount financed by the group of banks is EUR 867 million.

- Following a lead from Commercial Banking, Private Equity made both equity and mezzanine investments in Het Anker, one of the oldest breweries in Belgium, located in the heart of the Beguinage of Mechelen.

- Private Equity made an equity reinvestment in Novy, a cooker hood specialist, following a transaction involving new shareholders.

- In February 2016, integrated mining and metals group Nyrstar increased its capital by EUR 274 million. The Bank acted as Co-Lead Manager on this transaction.

- In March, Corporate Finance successfully closed the sale of Martens Energie, a regional distributor of petroleum products, to Q8, acting for the family owners.

- Also in March, a reverse stock split for the Dexia financial group was completed, with BNP Paribas Fortis acting as Coordinating Bank and Paying Agent. The Bank also provided its services on a reverse stock split for Nyrstar in June.

- In May, Bekaert, the world market and technology leader in steel wire transformation and coatings, successfully placed a EUR 380 million convertible bond. The Bank took on the role of Joint Bookrunner in what was a high-profile landmark transaction both for the company and the Belgian market.

[1] *In this list of noteworthy deals, the expression 'the Bank' may designate BNP Paribas as well as BNP Paribas Fortis. These transactions are however all connected to clients for whom BNP Paribas Fortis manages the overall relationship.*

- In June, the Bank closed a number of noteworthy M&A transactions: for software and services provider SD Worx, which acquired the UK activities of Ceridian; for the family-owned Walloon Trafic group, which entered into a strategic alliance with France-based GiFi Group; also advising Immobel on its merger with Allfin, which created one of the largest listed real estate development companies in Europe.

- In September, the Bank acted as Joint Bookrunner for a EUR 127 million rights issue carried out by real estate specialist Befimmo, and again in November as Joint Bookrunner for another real estate company, WDP, which raised EUR 177 million in fresh capital through a rights issue.

- In November, following advisory services provided by the Bank, Umicore succeeded in selling its zinc powders business, one of its traditional core activities, to Open Gate Capital for EUR 142 million.

- The year closed with another milestone equity capital markets transaction, this time for Greenyard Foods, where the Bank acted as Joint Global Coordinator and Joint Bookrunner on a debut convertible bond of EUR 125 million. Just before New Year's Eve, two major buy-side transactions were announced by listed clients advised by the Bank – namely mineral water group Spadel, on its acquisition of Bulgarian leading water producer Devin; and hygiene products manufacturer Ontex, on its takeover of the personal hygiene business of Brazilian consumer goods firm Hypermarcas. Both transactions are scheduled to close during the first quarter of 2017.

BGL BNP Paribas SA

Domestic Markets businesses

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

The Bank serves its clients through 41 branches, 5 Private Banking Centres for high-net-worth residents of the Grand Duchy, around 100 ATMs and one online branch providing specifically targeted products and services. Direct Banking was set up in 2014, subsuming all remote banking services including NetAgence, which enables day-to-day transactions, and Personal Investors, which provides investment advice.

BNP Paribas Leasing Solutions is the local market leader for financial leasing, providing attractive solutions for the financing of plant and equipment to business customers.

Arval offers vehicle operating lease services exclusively to a corporate clientele, specialising in providing optimal solutions for managing company car fleets.

International Financial Services businesses

BNP Paribas Wealth Management provides tailored asset management and wealth management solutions, including high-end specialist services such as investment counselling, discretionary wealth management mandates, wealth organisation and succession planning, finance and daily banking services as well as asset diversification advice.

BNP Paribas Investment Partners provides institutional clients and distributors all over the world with a comprehensive range of financial management services.

Cardif Lux Vie offers a range of products and services through three complementary business lines: Wealth Management for an international clientele; insurance to Retail customers via the BGL BNP Paribas branch network; and insurance products designed for a business and corporate clientele.

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

Corporate & Institutional Banking

The Corporate and Institutional Banking (CIB) division in Luxembourg provides Bank clients, mainly companies and institutions, with products and services relating to the capital and financing markets in the Grand Duchy.

CIB Luxembourg comprises four main businesses:

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

In addition, the Financial Institutions Coverage department supports and assists the four businesses in managing client relationships.

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

Türk Ekonomi Bankası A.Ş. (TEB)

BNP Paribas Fortis operates in Turkey through TEB, in which it holds a 48.72% stake via TEB Holding and BNP Paribas Fortis Yatırımlar Holding A.Ş.

As at 30 September 2016, TEB, which provides the full range of BNP Paribas Group Retail products and services in Turkey, ranked 10th in the country's banking sector in terms of market share for loans and deposits.

TEB Retail and Private banking activities are steadily attracting and serving greater numbers of customers with its diversified product range, quality of service and experience, through both its bricks-and-mortar branches and online channels. Its goal is to be the primary bank for all its customers.

The CEPTETEB Digital Banking Platform, which was launched in March 2015 and offers both financial and non-financial services to its customers, continued to develop its digital channel experience in 2016, expanding its customer base. CEPTETEB offers a customer experience based on speed and convenience, inter alia enabling new customers to sign up online. In only 1.5 years, it has become one of the fastest-growing digital banks in Turkey, today serving 350,000 customers and managing deposits totalling TRY 3.4 billion.

TEB offers exclusive tailor-made products and services for SMEs, micro and agribusinesses, women led/owned SMEs and startups, based on a 'Consultant Bank' approach which has been a game changer in the market since 2004. TEB not only acts as a traditional bank providing financial services to its clients but also takes an innovative approach, offering business advisory services such as information dissemination tools, business management training and consultancy and organising networking events, so as to help clients grow their business. As a result of these policies, TEB was recognised in a 2011 case study by the International Finance Corporation (IFC), a member of the World Bank Group, as one of the top three banks in terms of providing the most comprehensive non-financial services for SMEs.

Corporate Banking services include international trade finance, structured finance, cash management, credit services and hedging of currency, interest and commodity risk.

Having set a highly successful example for a merger in the Turkish market, TEB continues to deliver. Throughout 2016, the Bank posted a very satisfactory performance in both revenue generation and profitability, in spite of the less-than-favourable conditions prevailing in Turkey's banking sector.

TEB has been steadily increasing the accessibility of its services and today operates through a total of 515 branches and over 1,700 automated teller machines throughout Turkey. As well as growing the network, TEB is also working to improve efficiency. During the period from end-2009 to end-2016, the Bank achieved significant improvements in most efficiency indicators.

Meanwhile, the Bank has embarked on a Financial Literacy and Access campaign through the TEB Family Academy. This corporate social responsibility initiative is prompted by TEB's determination to help families create a better future for themselves. Since October 2012, more than 225,000 people have received face-to-face financial literacy training free of charge. Also thanks to the TEB Family Academy, over 11 million students received financial literacy education. In addition, the TEB Family Academy is planning to provide similar assistance to five million adults within the next three years under a project in partnership with the government's 'General Directorate for Lifelong Learning' entitled 'I Can Manage My Own Budget', which started up in Q4 2016. While the project will be focusing primarily on families whose financial literacy is believed to be limited, it will also be providing financial literacy training to 1,000 teachers, which will qualify them for financial literacy instructor certification through community education centres in 81 cities in Turkey. TEB also intends to reach 1.2 million vocational and technical high school students through a partnership with the General Directorate for Vocational and Technical Education. Through these partnerships, the TEB Family Academy will be reaching out to some 20 million people – roughly 25% of the Turkish population – by the end of 2019.

Corporate Social Responsibility

In September 2016, BNP Paribas Fortis signed the Belgian Sustainable Development Goals (SDG) Charter. This confirms the Bank's commitment to the achievement of the 17 United Nations Sustainable Development Goals, which is reflected in our ongoing efforts to help finance sustainable economic development and make a positive impact on the activities of our stakeholders and on society as a whole.

Economy

With EUR 96 billion in outstanding loans to companies and individuals in Belgium in 2016, BNP Paribas Fortis continues to provide strong support to the real economy. Outstanding lending to 'Green and Social Profit' sector investment projects amounted to EUR 6.9 billion. This included, among other projects, EUR 2.6 billion in investment in the social profit sector (hospitals, schools, universities, etc.), EUR 2.3 billion in 'green' mortgages, and EUR 1.8 billion in support of projects in the renewable energy field.

During the year, the 'Schools of Tomorrow' public-private partnership enabled 87 new or renovated schools to be opened. The project was also extended to 17 further new schools, which will bring the total upon completion to 182 schools.

The Bank further increased its commitment to Socially Responsible Investment (SRI) in 2016. This portfolio grew by 30% to EUR 6.1 billion, and the SRI expertise area has become a core element in the training of our Private Bankers. The success of the BNP Paribas SRI Fund of Funds Portfolio (accounting for EUR 3 billion in assets and attracting 20,000 investors) enabled the donation of EUR 736,000 in management fees to the King Baudouin Foundation's Venture Philanthropy Fund, which provides long-term support to organisations and companies working in the social economy. As well as boosting the financial resources of the Venture Philanthropy Fund, clients who invested in the SRI Fund were given the opportunity to vote for the social project of their choice, and the project garnering the most votes received an additional grant and publicity via the Bank.

Support for social entrepreneurship is now firmly embedded in the Bank's organisation, with 37 specialists appointed throughout the branch network. Total outstanding loans to social enterprises stood at EUR 84 million by the end of 2016. However, the Bank's commitment goes beyond offering loans, and includes proactively incorporating social entrepreneurship into our Procurement policy, as well as creating networking opportunities such as the Meetups organised in conjunction with the Sociale Innovatiefabriek. In addition, for the third year in a row, 60 managers completed a Social Business Challenge as part of their training programme, the task being to help solve a business problem for a social entrepreneur. One of these challenges resulted in the setting up of the 'Manuwash' service – two carwash facilities run by Manufast (a social enterprise employing people with a – primarily mental – disability) at our Brussels offices.

Belgian social entrepreneurs were also in the spotlight at the Wave Exhibition. The aim of this exhibition, which has been travelling the world since 2014, is to highlight 'collective ingenuity'. Through examples of innovative projects, Wave illustrates the main currents in collective ingenuity, including co-creation and the sharing economy. The exhibition opened in Brussels at the start of the CrowdSourcing Week which was hosted by BNP Paribas Fortis at our head offices. This event brought together innovators from different backgrounds, plus over 80 speakers, who shared their vision on the challenges facing our society today. Four position papers were drawn up on the subjects of education, the energy transition, the environment and urban development.

The opening of Co.Station Ghent in September 2016 marked another milestone. BNP Paribas Fortis co-founded this accelerator, whose core mission is to assist young companies working in the digital field. The two Co.Station locations, in Brussels and Ghent, now host over fifty businesses employing 350 people. Extra specialists were also appointed during the year for our Innovation Hubs, which provide innovative companies with tailored services. The Bank's strong intention is that the Hubs, which are currently located in nine Belgian cities, will become fully embedded in the local startup and scale-up ecosystems.

All business conducted by BNP Paribas Fortis is subject to the BNP Paribas Group's policies regarding sensitive sectors. The Bank has to date adopted eight specific sector policies, has drawn up a public position on the tobacco industry, and has published a list of excluded goods and activities, which can all be viewed on the corporate website. In 2016, of the 29 proposed transactions that underwent an in-depth investigation to verify compliance with these policies, seven were rejected. Some 952 employees who are exposed to sensitive sectors followed training courses to increase their understanding of the Group's sector policies, including a new training module on the agricultural sector.

Moreover, Bank staff also receive continuous training on Compliance issues. In 2016, this included compulsory eLearning modules for all employees on Know Your Customer, Sanctions & Embargoes, Anti Money Laundering and the new Group Code of Conduct. In addition, over 600 hours of face-to-face training on Financial Security, Protection of Client's Interests, Professional Ethics, Market Abuse and Privacy & Data Protection were provided.

Recognising that the detection of payment fraud has become increasingly complex in this era of digital banking, BNP Paribas Fortis founded a Chair in Fraud Analytics at the University of Leuven in 2016. By supporting academic research in this field, the Bank aims to help improve the performance of the entire sector in this regard. This new academic chair also serves to reinforce the Bank's partnerships with Belgian universities.

In order to raise customer satisfaction to an even higher level, the Bank continues to place considerable emphasis on reducing operational deficiencies and providing customers with clear, transparent information. Our 47 Customer Councils, each composed of around 15 customers, enable us to engage in valuable interactive dialogue with our customers. Meanwhile, thanks to the efforts made to improve accessibility at our retail branches, BNP Paribas Fortis was the first Belgian company to receive the European Marketplace Award from the disabled persons' support body 'Disability Matters Europe'.

Employees

BNP Paribas Fortis continued during 2016 to push ahead with efforts to promote diversity and inclusion in the workplace. During the year, the Diversity Label conferred on the Bank by the Brussels Capital Region was extended to the Investment Partners Belgium business. Meanwhile more than 1,500 employees attended Diversity Week, which featured numerous events enabling staff to experience disability first-hand, swap jobs for a day, etc. During the Open@Work event, the creation of a new internal 'Pride Belgium' network – which gives a stronger voice to the LGBT Community across the Bank – was announced.

The employees' variable salary component is linked to the attainment of a number of CSR targets. In 2016, this included a self-assessment on inclusive leadership for all team managers. In addition, 95 of the most senior managers followed a session on 'unconscious bias', with a view to combating social stereotyping. In December, the Bank also signed the Belgian 'Decent Work for All' charter, in support of the United Nations Sustainable Development Goals. This underlines the Bank's determination to be a responsible employer that is committed to creating sustainable jobs in an inclusive work environment.

Society

BNP Paribas Fortis confirmed its long-term support for microStart by subscribing to its EUR 1.6 million capital increase, which is intended to enable microStart to carry out its strategic plan for 2016-2020, catering to the growing demand for micro-loans and diversifying its offerings. In 2016, this included the crowdfunding of 15 projects through a new partnership with Babyloan. A cooperation initiative with the Bank's new Flagship store in Ghent now offers local small businesses financed by microStart a platform to tell their story. During 2016, some 630 microStart clients also received coaching from volunteers (including 50 BNP Paribas Fortis staff). MicroStart granted 767 new micro-loans totalling EUR 6.1 million and also welcomed Partena Professional as an additional shareholder during the year.

Since 2010, BNP Paribas Fortis Foundation has supported 1,294 initiatives by Belgian not-for-profit organisations, making financial grants amounting to EUR 7.1 million. In 2016, the Foundation granted a total of EUR 1.3 million (up 13% on 2015), to 195 organisations in Belgium. An ever-increasing number of Bank staff complement this financial support by making generous donations of their time and skills to social work projects. This year, 878 BNP Paribas Fortis employees took part in one of the Foundation's activities. Moreover, more than 17,000 people, including 1,400 Bank staff, voted for nine charitable organisations which consequently received an extra grant under the Foundation's Awards Programme.

The Foundation also stepped up its partnership with Ulule. This gave rise not only to seven successful crowdfunding campaigns but also to the founding of a brand new Crowdfunding Academy. All organisations supported by the Foundation were invited to a session where they were able to learn more about how to organise a successful crowdfunding campaign. The Foundation also allocated EUR 200,000 to homeless persons' charity Samusocial for the creation of an educational unit to help integrate refugees in Belgium. This formed part of the EUR 5 million donated by the BNP Paribas Group to help alleviate the European refugee crisis.

BNP Paribas Fortis also reached out to over 15,000 people during the year through the 'Money Matters Made Simple' financial education programme, either through one of the 520 live sessions or via online modules. The Bank further extended the programme, in partnership with Be.Face, to audiences from the less well-off sections of society, with sessions focusing on such topics as 'How to manage your budget'.

The Bank's support for the arts and the preservation of our cultural heritage is increasingly taking on an extra social dimension. Our CSR week aimed at the Bank's staff featured an exhibition on the refugee crisis by photographer Benoît Chattaway, entitled 'Land of the Displaced'. During the annual Heritage Days, visitors were offered a guided tour of our historic building in the Rue Royale conducted in sign language. Meanwhile the 'Dream Up' programme enabled 75 children from less privileged schools to attend the semi-final of the Queen Elisabeth Music Competition. This complemented the Bank's direct financial support for this event and for various cultural institutions such as the Brussels Centre for Fine Arts (BOZAR), La Monnaie, Flagey and the Festival of Flanders.

Environment

As a key player in financing the energy sector, BNP Paribas Fortis has made combating climate change its top environmental priority. The Bank's investments in the renewable energy sector increased by 16% to EUR 1.8 billion during the year. As part of our aim to partner with our clients in making the transition to a low-carbon economy, our 'Green Desk' provided specialised advice to 106 medium-sized enterprise clients in 2016. Moreover, the Bank's sector policies include stringent rules with regard to the protection of biodiversity reserves and forests. To qualify for a loan, clients working in sectors such as agriculture, palm oil, wood pulp and mining are required to comply with the highest standards for water use and water quality, waste management, CO_2 emissions and compliance with designated worldwide conservation areas for biodiversity protection.

The Bank also continuously strives to reduce the environmental impact of its own operations. Accordingly, various new initiatives were taken during 2016 to achieve our target of reducing CO_2 emissions by 25% per FTE between 2012 and 2020. The renewal of the Bank's building portfolio included inter alia the commissioning of our first passive office building in Wierde, plus our office building in Charleroi, which has secured 'Very Good' BREEAM certification. Meanwhile a new car policy was introduced during the year, setting a lower CO_2 limit per car category and offering a wider range of alternative cars (electric, plug-in hybrid and CNG), with a view to further reducing CO_2 emissions related to business travel. The 'Employee Challenge', whereby staff encouraged each other to ride their bicycles or take public transport to work, gave our annual participation in Belgium's Mobility Week an extra boost in 2016. The Bank also purchased the equivalent of one square metre of biodiversity reserves per employee, in support of Belgium's twin nature protection organisations Natuurpunt and Natagora.

Changes in the scope of consolidation

Information on the changes in the scope of consolidation is provided in Note 7.j 'Scope of consolidation' and Note 7.b 'Business combinations'.

BNP Paribas Fortis credit ratings at 28/02/2017

	Long-term	Outlook	Short-term
Standard & Poor's	A	Stable	A-1
Moody's	A2	Stable	P-1
Fitch Ratings	A+	Stable	F1

The table above shows the main BNP Paribas Fortis credit ratings and outlook on 28 February 2017. Each of these ratings reflects the view of the rating agency specifically at the moment when the rating was issued; any explanation of the significance of a given rating is to be obtained from the rating agency which issued it.

On 15 March 2016, following a global review of the government support for European Banks, Standard & Poor's decided to lower the long term rating of BNP Paribas Fortis to ''A'' (from ''A+'') with a stable outlook.

Forward-looking Statements

It should be noted that any statement of future expectations and other forward-looking elements are based on the company's current views and assumptions and involve a degree of risk and uncertainty, especially given the current general economic and market conditions.

Comments on the evolution of the results

Despite an unfavourable context, characterised by a persistently low interest rate environment, BNP Paribas Fortis delivered a good overall operating performance in 2016, mainly thanks to a sustained business activity.

Operating income amounted to EUR 2,472 million in 2016, up by EUR 95 million or 4% compared to EUR 2,377 million in 2015. The increase was the result of higher revenues of EUR 65 million and slightly lower cost of EUR 33 million. Cost of risk remained at a stable level (EUR (3) million).

Non-operating items (e.g. share of earnings of equity-method entities and net results on non-current assets) were down by EUR (272) million, so was the corporate income tax that decreased significantly by EUR 377 million.

Net income attributable to equity holders amounted to EUR 1,727 million in 2016 compared to EUR 1,575 million in 2015.

Comparison between the 2016 and 2015 results was impacted by the following elements:

- the change in consolidation method with regard to BNP Paribas Bank Polska. On 30 April 2015, BNP Paribas Bank Polska (that was fully consolidated by BNP Paribas Fortis) merged with Bank BGŻ. Following the merger, BNP Paribas Fortis held a participation of 28.35% in the merged bank, operating under the name 'Bank BGŻ BNP Paribas' and consolidated by equity method since 1 May 2015;

- the contribution in kind of Arval on 8 December 2016. As per 31 December 2016, Arval is fully integrated in the consolidated balance sheet (impact of EUR 16.9 billion) but only contributed for 23 days in the profit and loss account ; and

- the foreign exchange variations, and more particularly the negative evolution of the average rate of the Turkish lira against euro (from 3.02 in 2015 to 3.34 in 2016).

Based on the segment information, 58% of the revenues were generated by banking activities in Belgium, 20% by other domestic markets, 17% in banking activities in Turkey, and 5% in other segment.

Net interest income reached EUR 5,363 million in 2016, a decrease of EUR (62) million or (1)% compared to 2015. Excluding the impact of the change in consolidation method in Poland in 2015 (EUR (43) million) and the FX effect in Turkey (EUR (105) million), net interest income increased with EUR 86 million.

In Belgium, both volumes on customer loans and deposits continued to grow, however, the increase in net interest income was largely driven by the low interest rate environment, demonstrated by much lower interest expenses linked to clients' deposits, offset, to a lesser extent, by less interest income on customers loans and lower indemnities on mortgage loans refinancing.

Interest revenues in Turkey, at Leasing and Personal Finance increased, benefiting mainly from strong production growth. In Luxembourg, the lower net interest income resulted mainly from the low interest rate environment.

Net commission income amounted to EUR 1,466 million in 2016, a decline by EUR (145) million or (9)% compared to 2015. Excluding the impact of the change of consolidation method in Poland in 2015 (EUR (11) million) and the FX effect in Turkey (EUR (33) million), net commission income decreased by EUR (101) million, mainly in Belgium and in Turkey. Commission income in Belgium was negatively impacted by the lower number of transactions on securities and derivatives in 2016 compared to 2015. The lower commission income in Turkey mainly arose from lower account maintenance fees and lower payment services business.

Net results on financial instruments at fair value through profit or loss stood at EUR 163 million, up by EUR 28 million compared to 2015. Apart from the change in consolidation method in Poland (EUR (8) million) and the impact of the evolution of the Turkish lira (EUR 20 million), the net increase amounted to EUR 16 million. This increase was mainly driven by the positive impact of the mark-to-market revaluation of derivatives in Turkey compared to the same period last year, partly compensated by the negative impact of the remeasurement of valuation reserves in Belgium (FVA, DVA and CVA) and of own credit risk as a result of the decrease in interest rates.

Net results on available-for-sale financial assets amounted to EUR 178 million for 2016, an increase of EUR 119 million compared to 2015. This rise was mainly due to the gain on sale of Visa Europe shares, to the dividend received from Visa Belgium and to higher capital gains realised on the sale of fixed-income securities in 2016, mainly in Belgium.

Net income from other activities totalled EUR 130 million in 2016 compared to EUR 5 million in the same period of 2015. The increase was mainly due to the positive impact of the integration of Arval at the end of 2016.

Salary and employee benefit expenses amounted to EUR (2,405) million in 2016, i.e. a decline of EUR 35 million or 1% compared to 2015, or an increase of EUR (33) million excluding the impact of the change in consolidation method in Poland (EUR 34 million) and the FX effect in Turkey (EUR 34 million). In Belgium, staff expenses were lower mainly due to fewer FTEs, lower social security charges and the partial write-back of a provision for charges, despite a new provision for transformation costs. This decline in Belgium was more than compensated by higher staff expenses in Turkey and at Leasing (in line with the effect of business development in these entities) and by the impact of the integration of Arval.

Other operating expenses amounted to EUR (1,752) million in 2016, EUR 14 million or 1% lower than in 2015. Exclusive of the impact of the change in consolidation method in Poland in 2015 (EUR 33 million) and the FX effect in Turkey (EUR 27 million), other operating expenses were up with EUR (46) million or 3%. In Belgium, the increase of costs was mainly driven by higher IT expenses and higher banking taxes (EUR (282) million in 2016 compared to EUR (264) million in 2015), partly compensated by lower marketing expenses, service support costs and professional fees. Outside Belgium, the cost increase was mainly due to the growing activity in Turkey and to the impact of the integration of the activities of Arval.

Depreciation charges stood at EUR (237) million in 2016, compared to EUR (221) million in 2015.

Cost of risk totalled EUR (434) million in 2016, compared to EUR (431) million in 2015. Excluding the impact of the change in consolidation method in Poland (EUR 15 million) and the impact of the FX variation in Turkey (EUR 18 million), there was an increase of EUR (36) million. Cost of risk was lower in Belgium (mainly due to releases of collective provisions), more than compensated by higher cost of risk in Turkey, in line with the increased activity and due to a deterioration of market conditions in the country. In Luxembourg, at Leasing and Personal Finance, cost of risk was stable.

Share of earnings of equity-method entities amounted to EUR 155 million in 2016, compared to EUR 206 million in 2015, down EUR (51) million. The contributions of BNP Paribas Investment Partners, higher by EUR 13 million, and of AG insurance, up by EUR 11 million, were more than compensated by an impairment on Bank BGŻ BNP Paribas in Poland for EUR (82) million.

Net gain on non-current assets came in at EUR (70) million in 2016 versus EUR 151 million in 2015. The result in 2016 was mainly driven by the anticipated loss related to the transfer of the activities of BNP Paribas Fortis' European (CIB) branches (excluding the branch of Madrid) for EUR (43) million, the impact of the liquidation of FB Transportation Capital for EUR (40) million, the realised loss on the sale of the Leasing joint-venture in India for EUR (17) million and the realised loss on the sale of SADE (Société Alsacienne d'Expansion et de Développement) for EUR (12) million. This was partly offset by the gains realised, in Luxembourg, on the sale of Société Immobilière Monterey for EUR 39 million.

Corporate income tax in 2016 totalled EUR (341) million, compared to an amount of EUR (718) million in 2015. The corporate income tax in 2016 was impacted by the activation of losses carried forward on foreign branches. Excluding this element and the share of earnings of equity-method entities (reported net of income taxes), the corporate tax rate stood at 29%, compared to 28% in 2015.

Net income attributable to minority interests amounted to EUR 489 million in 2016, compared to the amount of EUR 441 million recorded in 2015, mainly driven by the higher results in Leasing.

Net income attributable to equity holders totalled EUR 1,727 million in 2016, compared to EUR 1,575 million in 2015.

Comments on the evolution of the balance sheet

The total balance sheet of BNP Paribas Fortis amounted to EUR 297.8 billion as at 31 December 2016, up by EUR 24.1 billion or 9 % compared with EUR 273.7 billion at the end of 2015.

The major scope changes during 2016 were related to the upcoming transfer of the assets and liabilities of BNP Paribas Fortis' branches (Norway, Sweden, Denmark, Finland, Austria, Czech Republic, Romania and the Netherlands) to BNP Paribas (to be completed in 2017), and the acquisition of Arval Service Lease and its subsidiaries on 8 December 2016.

The branches of BNP Paribas Fortis to be transferred to BNP Paribas qualified as a 'disposal group' as defined in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. In accordance with IFRS 5, since 30 June 2016, the assets and liabilities of the disposal group have been reclassified and presented in the separate balance sheet lines - 'Assets classified as held for sale' and 'Liabilities classified as held for sale', which amounted to EUR 19.1 billion and EUR 21.3 billion respectively as at 31 December 2016. Comparative figures of 31 December 2015 were not adjusted. The reclassification did not change the total amount of BNP Paribas

Fortis' consolidated balance sheet although it impacted the variances in some of the balance sheet captions. (e.g. 'Cash and amounts due from central banks', 'Loans & receivables due from customers' and 'Due to customers', mainly related to the branch in the Netherlands).

Arval Service Lease and its subsidiaries' entry into scope contributed to EUR 16.9 billion increase in the consolidated assets at year end 2016, of which EUR 13.6 billion largely relating to the fleet that was accounted for under operating lease. On the liabilities side, the increase of EUR 15.8 billion was mainly linked to the funding from BNP Paribas group entities.

As at 31 December 2016, excluding the impact of scope changes, both customer loans and deposits showed continuous growth. Higher customer loans of EUR 6.7 billion consisted of mainly mortgage loans and term loans (in BNP Paribas Fortis, BGL BNP Paribas and Factoring entities), consumer loans (Alpha credit in Belgium; Von Essen in Germany) and finance lease loans in leasing entities in Belgium and Italy. Customer deposits, up by EUR 5.8 billion was the result of significant inflow of liquidity deposited in the current and saving accounts, mainly in Belgium and Luxemburg.

In its functional currency, customer loans and deposits from entities in Turkey increased by 8% and 12% respectively, however, these increases were adversely impacted by heavily depreciating Turkish lira since the failed coup d'état in Turkey in July 2016.

In Belgium, the volumes of reverse repurchase as well as repurchase activities were lower compared to the end of 2015 for EUR (1.7) billion and EUR (2.6) billion respectively, while the overnight deposits at the Central Bank of Belgium increased slightly by EUR 0.4 billion.

Net position of 'Available for sale investments' decreased by EUR (3.2) billion, mainly in Belgium and Luxembourg, due to the fact that during the course of 2016, there were more positions matured or reimbursed than the ones acquired, as a result of extreme low interest rate environment that persisted during the first nine months of 2016.

Excluding the impact of scope changes, in terms of funding, both short-term deposits from central banks and interbank borrowings (from central banks or BNP Paribas group entities) dropped, however counterbalanced by the increase of commercial paper in the US market issued by New York Branch as well as covered bonds put on market by BNP Paribas Fortis in the fourth quarter of 2016. In terms of subordinated debt, even though there was a new issuance of Tier 2 instrument at the end of 2016 following the call of a previous issue in 2006, its overall level reduced.

Based on the segment information, 62% of the assets were contributed by banking activities in Belgium, 20% by other domestic markets, 7% by banking activities in Turkey, and 11% in other segment.

Assets

Cash and amounts due from central banks amounted to EUR 14.0 billion, down by EUR (2.5) billion or (15)% compared to the end of 2015. Excluding the IFRS 5 impact of EUR (3.5) billion, the remaining variance of EUR 1.0 billion was mainly linked to higher overnight deposit placed at the central banks by BNP Paribas Fortis (EUR 0.4 billion), BGL BNP Paribas (EUR 0.3 billion) and BNP Paribas Fortis' branch in New York (EUR 0.3 billion). Monetary reserves deposited at the central banks decreased by EUR (0.5) billion, mainly in Turkey.

Financial assets at fair value through profit or loss remains stable at EUR 13.0 billion, same as at end of 2015. Trading on reverse repurchase activities saw some very limited increase of EUR 0.1 billion. The fair value of the derivative instruments, up by EUR 0.4 billion, was the combination of a decline in the interest rate, especially during the first nine months of 2016 and the compression process at the year end. Net trading activities on the securities portfolio was EUR (0.3) billion lower compared to end of 2015.

Available-for-sale financial assets stood at EUR 29.6 billion, EUR (3.2) billion or (10)% lower than EUR 32.7 billion as at 31 December 2015. The net investments in government bonds dropped by EUR (2.6) billion as the gross amounts of bonds that arrived at maturity or sold (EUR (3.5) billion) were much more significant than the new purchases (EUR 1.2 billion) (e.g. net positions of Belgian OLOs EUR (2.0) billion, French government bonds EUR (0.3) billion). Net investments in other bonds decreased as well by EUR (0.5) billion, which was a combination of various acquisitions and reimbursements of the positions, mainly linked to bonds issued by German, Belgian, Dutch administrations as well as some financial institutions in the Eurozone.

Loans and receivables due from credit institutions amounted to EUR 14.7 billion as at 31 December 2016, up by EUR 1.6 billion or 12% compared with EUR 13.1 billion at the year-end 2015. Excluding EUR 0.7 billion scope impact from Arval entities, the increase of EUR 0.9 billion was largely explained by a rise of EUR 1.2 billion in the reverse repurchase activities in Belgium and Turkey, and more term deposits of EUR 0.4 billion from Turkish central bank, offset by less current deposit and interbank loans with BNP Paribas group totalling EUR (0.7) billion.

Loans and receivables due from customers amounted to EUR 171.3 billion, down by EUR (5.3) billion or (3)% from EUR 176.6 billion. Excluding EUR (9.2) billion from IFRS 5 entities and EUR 0.9 billion from Arval entities, the remaining increase of EUR 3.1 billion was mainly driven by the increase in loans to customers of EUR 6.7 billion, counterbalanced by lower activities in the reverse repurchase transactions of EUR (2.5) billion in Belgium.

Increase of EUR 3.9 billion in Term loans, primarily in Belgium (EUR 2.9 billion), Luxembourg (EUR 0.5 billion) and factoring entities, was the main factor behind the growth in loans to customers. However, the increase was offset by EUR (0.5) billion term loans in Turkey. Furthermore, mortgage loans grew by EUR 1.2 billion mainly in BNP Paribas Fortis, BGL BNP Paribas and factoring entities. Consumer loans increased by EUR 0.7 billion largely thanks to the strong contribution EUR 0.9 billion from Von Essen in Germany and Alpha credit in Belgium, offset by EUR (0.5) billion in Turkey. Finance lease loans, up by EUR 1.0 billion, was the result of good performance in leasing entities, notably in Belgium and Italy. Securities classified as loans and receivables declined by EUR (0.9) billion, due to reimbursements in the structured credit portfolios which have been in run-down mode since several years.

In its functional currency, loans to customers in TEB in Turkey grew by 8%, although translated in EUR, this increase was much dampened by the adverse effect of depreciating Turkish lira since failed coup d'état in Turkey in July 2016.

Accrued income and other assets stood at EUR 8.6 billion as at 31 December 2016, slightly up by EUR 0.1 billion compared to EUR 8.5 billion at the end of 2015. The variance is due to lower cash collateral of EUR (0.8) billion on the margin call accounts mainly in relation to the derivative transactions with BNP Paribas, counterbalanced by an increase of EUR 0.9 billion in the other assets, mostly linked to the difference between trade and settlement date at year end from Arval entities (scope impact).

Current and deferred tax assets amounted to EUR 2.6 billion, up by EUR 0.1 billion compared with EUR 2.5 billion at the end of 2015, mainly explained by EUR 0.2 billion scope impact from Arval entities.

Equity-method investments amounted to EUR 4.3 billion at the end of 31 December 2016, down by EUR (0.1) billion compared with EUR 4.4 billion at the end of previous period, mainly attributable to several scope changes such as disposal of SREI in the second quarter of 2016, acquisition of Arval entities as well as an impairment (EUR 82 million) booked by BNP Paribas Fortis relating to its equity investment in BGŻ in the fourth quarter of 2016.

Assets classified as held for sale stood at EUR 19.1 billion as at 31 December 2016, as the assets and liabilities of BNP Paribas Fortis' eight branches were reclassified and presented in the separate lines - 'Assets classified as held for sale' and 'Liabilities classified as held for sale' in accordance with IFRS 5.

Liabilities and equity

Cash due to central banks stood at EUR 0.2 billion, down by EUR (1.0) billion or (87)%, compared with EUR 1.2 billion at the end of previous year following the deposits withdrawal from some central banks since 30 June 2016.

Financial liabilities at fair value through profit or loss decreased by EUR (1.3) billion or (8)%, totalling EUR 15.8 billion at the end of December 2016 compared with EUR 17.1 billion at the end of 2015. Trading in repurchase transactions on the liability side decreased by EUR (0.5) billion and the short sales on securities portfolios were down by EUR (0.8) billion. The fair value of derivative instruments increased by EUR 0.8 billion, driven by both the decline in the interest rate, especially during the first nine months of 2016 and the compression process at the year end. In addition, liabilities held at fair value decreased by EUR (0.8) billion in part due to reimbursements and buy back of Cashes.

Due to credit institutions stood at EUR 34.9 billion as at 31 December 2016, EUR 12.3 billion or 54% higher compared with the EUR 22.6 billion at the end of 2015. Excluding the scope impact of EUR 13.4 from Arval entities, the variance of EUR (1.1) billion was explained by less interbank borrowings mostly with BNP Paribas group entities and some central banks.

Due to customers declined by EUR (12.9) billion or (7)% to stand at EUR 163.3 billion as at 31 December 2016, compared with EUR 176.2 billion at the end of 2015. Excluding IFRS 5 impact of EUR (16.1) billion, 'Due to customers' grew by EUR 3.3 billion, due in part to strong growth momentum in customer deposits of EUR 5.8 billion, counterbalanced by EUR (2.5) billion lower volume of repurchase transactions. Current deposits increased significantly by EUR 6.5 billion (mostly in Belgium and Luxembourg), however offset by EUR (3.0) billion resulting from EUR (1.7) billion maturing Belgian saving certificates and less term deposits notably in Belgium (EUR (0.9) billion) and Turkey (EUR (0.6) billion). Both regulated and non-regulated saving deposits went up by EUR 2.2 billion, mainly in Belgium.

In its functional currency, customers deposits in TEB in Turkey grew by 12%, although translated in EUR, this increase was much dampened by the adverse effect of depreciating Turkish lira since failed coup d'état in Turkey in July 2016.

Debt securities increased by EUR 2.4 billion or 22%, standing at EUR 13.5 billion as at 31 December 2016 compared with EUR 11.1 billion as at 31 December 2015. The increase was to a large extent linked to EUR 1.7 billion more commercial papers being issued in the US market by BNP Paribas Fortis' branch in New York. In Belgium, the debt securities increased by EUR 0.7 billion, due mostly to new issuances of covered bonds EUR 0.5 billion in the fourth quarter of 2016.

Accrued expenses and other liabilities increased by EUR 0.6 billion or 9%, amounting to EUR 7.1 billion as at 31 December 2016 compared with EUR 6.6 billion at the end of 2015, mainly due to EUR (0.9) billion lower balances on the margin call accounts (cash collateral on derivatives) offset by EUR 1.3 billion scope impact relating to Arval entities.

Provisions for contingencies and charges came in at EUR 4.8 billion, up by EUR 0.9 billion compared with the EUR 3.9 billion at the end of 2015, due mostly to EUR 0.7 billion scope impact of Arval entities relating to provision on operating lease. And to a lesser extent, an increase of EUR 0.2 billion linked to higher provisions for long-term employee benefits as a consequence of the decrease in the discount rate.

Subordinated debt amounted to EUR 4.3 billion, down by EUR (0.8) billion or (14)% compared with EUR 5.1 billion at the end of 2015. EUR (0.5) billion was linked to the call of a Tier 2 subordinated debt issued by BNP Paribas Fortis in 2006, counterbalanced by a new issuance of Tier 2 instrument of EUR 0.5 billion in the fourth quarter of 2016. In addition, there was also a EUR (0.3) billion decrease in other subordinated debts. Furthermore, subordinated debts issuance in Luxembourg saw a decrease of EUR (0.5) billion.

Liabilities classified as held for sale totalled EUR 21.3 billion as at 31 December 2016, as the assets and liabilities of BNP Paribas Fortis' eight branches were reclassified and presented in the separate lines - 'Assets classified as held for sale' and 'Liabilities classified as held for sale' in accordance with IFRS 5.

Shareholders' equity amounted to EUR 21.1 billion as at 31 December 2016, up by EUR 2.4 billion or 13% compared with EUR 18.8 billion at the end of 2015. Net income attributable to shareholders for the year 2016 contributed EUR 1.7 billion and the acquisition of Arval entities strengthened the consolidated shareholders' equity by EUR 1.1 billion, only offset marginally by the unrealised gains/losses on employee benefits of EUR (0.1) billion as a result of the downward review of the discount rate. Furthermore, foreign translation differences gave rise to a negative variance of EUR (0.2) billion, mainly relating to adverse impact resulting from depreciating Turkish lira in BNP Paribas Fortis' foreign investments in Turkey.

Minority interests stood at EUR 5.4 billion as at 31 December 2016, up by EUR 0.1 billion compared with previous year. Net income for the year 2016 attributable to minority interests amounted to EUR 0.5 billion offsetting the dividend payment (EUR 0.2 billion) to the minority shareholders. Foreign translation differences gave rise to a negative variance of EUR (0.2) billion, mainly relating to adverse impact resulting from depreciating Turkish lira in BNP Paribas Fortis' foreign investments in Turkey.

Liquidity and solvency

BNP Paribas Fortis' liquidity remained sound, with customer deposits standing at EUR 163 billion and customer loans at EUR 168 billion.

Customer deposits consist of the 'due to customers' figure excluding 'repurchase agreements'. Customer loans are loans and receivables due from customers excluding 'securities classified as loans and receivables' and 'reverse repurchase agreements'.

BNP Paribas Fortis' solvency stood well above the minimum regulatory requirements. At 31 December 2016, BNP Paribas Fortis' phased-in Basel III Common Equity Tier 1 ratio (CET1 ratio, taking into account the CRD4 rules with application of the current transitional provisions) stood at 13.6%. Total risk-weighted assets amounted to EUR 145.3 billion at 31 December 2016, of which EUR 120.7 billion are related to credit risk, EUR 2.1 billion to market risk and EUR 11.0 billion to operational risk, while counterparty risk, securitisation and equity risk worked out at EUR 2.3 billion, EUR 1.9 billion and EUR 7.3 billion respectively.

Principal risks and uncertainties

BNP Paribas Fortis' activities are exposed to a number of risks, such as credit risk, market risk, liquidity risk and operational risk. To ensure that these risks are identified and adequately controlled and managed, the Bank adheres to a number of internal control procedures and refers to a whole array of risk indicators, which are further described in Chapter 'Risk management and capital adequacy' to the BNP Paribas Fortis Consolidated Financial Statements 2016.

BNP Paribas Fortis is involved as a defendant in various claims, disputes and legal proceedings in Belgium and in some foreign jurisdictions, arising in the ordinary course of its banking business and following the restructuring of BNP Paribas Fortis and BNP Paribas Fortis Group in late September/early October 2008, as further described in Note 7.a 'Contingent liabilities: legal proceeding and arbitration' to the BNP Paribas Fortis Consolidated Financial Statements 2016.

Events after the reporting period are further described in Note 7.l 'Events after the reporting period' to the BNP Paribas Fortis Consolidated Financial Statements 2016.

STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors of BNP Paribas Fortis is responsible for preparing the BNP Paribas Fortis Consolidated Financial Statements as at 31 December 2016 in accordance with International Financial Reporting Standards as adopted by the European Union, and the BNP Paribas Fortis Non-consolidated Financial Statements as at 31 December 2016 in accordance with rules laid down in the Belgian Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The Board of Directors reviewed the BNP Paribas Fortis Consolidated and Non-consolidated Financial Statements on 9 March 2017 and authorised their issue.

The Board of Directors of BNP Paribas Fortis declares that, to the best of its knowledge, the BNP Paribas Fortis Consolidated Financial Statements and the BNP Paribas Fortis Non-consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit and loss of BNP Paribas Fortis and the undertakings included in the consolidation and that the information herein contains no omissions likely to modify significantly the scope of any statements made.

The Board of Directors of BNP Paribas Fortis also declares that, to the best of its knowledge, the management report includes a fair review of the development, results and position of BNP Paribas Fortis and the undertakings included in the consolidation, together with a description of the principal risks and uncertainties with which they are confronted.

The BNP Paribas Fortis Consolidated Financial Statements and the BNP Paribas Fortis Non-consolidated Financial Statements as at 31 December 2016 will be submitted to the Annual General Meeting of Shareholders for approval on 20 April 2017.

Brussels, 9 March 2017
The Board of Directors of BNP Paribas Fortis

CORPORATE GOVERNANCE STATEMENT

BNP Paribas Fortis adopted the '*Belgian Corporate Governance Code 2009*' as its reference code (hereafter referred to as the '**Code**').

The Code can be consulted on *http://www.corporategovernancecommittee.be*.

The remuneration report as referred to in Provision 7.2 of the Code can be found in Note 7.f 'Compensation and benefits awarded to BNP Paribas Fortis' corporate officers'.

1. Compliance with the Code

BNP Paribas Fortis is of the opinion that it complies in general with the principles of the Code. The most important deviation relates to Principle 8 of the Code concerning the 'dialogue with shareholders'. This Principle states that: "*the company shall enter into a dialogue with shareholders and potential shareholders based on a mutual understanding of objectives and concerns*". The fact that BNP Paribas Fortis is not able to fully comply with Principle 8 of the Code follows from the shareholdership of BNP Paribas Fortis. Specifically, BNP Paribas SA, a limited liability company ('*société anonyme (SA)*'), having its registered office address at boulevard des Italiens 16, 75009 Paris, France, registered under number 662 042 449 RCS Paris, holds 99.94% of the shares of BNP Paribas Fortis. The remaining 0.06% of the issued shares are held by minority shareholders. Nevertheless, BNP Paribas Fortis constantly communicates with its various stakeholders through its website and via other media.

BNP Paribas Fortis's Corporate Governance Charter is available on its public website.

BNP Paribas SA itself is a Euronext-listed company. This implies that certain legal provisions on the disclosure of sensitive information to the market need to be taken into account by BNP Paribas Fortis, its directors and staff. The board of directors of BNP Paribas Fortis is however determined to protect the interests of all shareholders of BNP Paribas Fortis at all times and will provide all of them with the necessary information and facilities to exercise their rights, in compliance with the Companies Code.

The board of directors of BNP Paribas Fortis is made up of 14 members, four of which currently are women.

BNP Paribas Fortis did not receive any transparency declarations within the meaning of the Law of 2 May 2007 on the disclosure of significant shareholdings.

The non-executive directors did not formally meet in the absence of the chairman of the executive board or other executive directors for the purpose of assessing their interactions with executive directors (Provision 4.12 of the Code). However, given BNP Paribas Fortis' shareholdership and the composition of the board of directors, there is a continuous dialogue amongst non-executive directors both in and outside meetings of the board of directors and its committees.

2. Governing Bodies

Board of Directors

Role and responsibilities

In general, the board of directors is responsible for BNP Paribas Fortis in accordance with applicable law. Furthermore, the board of directors:

- approves, assesses and monitors the strategy and goals of BNP Paribas Fortis;
- determines and monitors the risk policy (including the risk tolerance) of BNP Paribas Fortis; and
- approves BNP Paribas Fortis' governance memorandum.

In accordance with article 24 of the law of 25 April 2014 regarding the statutes of and supervision of credit institutions (the '**Banking Law**') and article 22 of the articles of association of BNP Paribas Fortis, the board of directors has transferred all of its management authority ('*bestuursbevoegdheid*' / '*pouvoirs de gestion*') to an executive body, i.e. the executive board ('*directiecomité*' / '*comité de direction*'), with the exception of everything which, by virtue of the Companies Code or the Banking Law, remains with the board of directors. The members of the executive board are also referred to as 'executive directors'.

Size and membership criteria

The board of directors of BNP Paribas Fortis is composed out of not less than five (5) and not more than 35 physical persons (legal persons cannot be members of the board of directors). Directors are appointed for one (1) or more renewable periods, each individual period covering not more than four (4) full accounting years of BNP Paribas Fortis.

The composition of the board of directors of BNP Paribas Fortis takes into account a balanced mix of (i) skills and competences, (ii) men and women and (iii) non-executive directors, whether independent or not, and members of the executive board. Members of the executive board may not however constitute a majority on the board of directors.

All directors must at all times be fit ('*passende deskundigheid*' / '*expertise adéquate*') and proper ('*professionele betrouwbaarheid*' / '*honorabilité professionelle*') for the exercise of their function. All are preselected and assessed against a predefined list of selection criteria. In general, a director is considered to be "**fit**" if he/she has the knowledge, experience, skills and professional behaviour suitable for the exercise of his/her director's mandate; a director is considered to be "**proper**" if there are no elements suggesting differently and no reason to question the reputation of the director concerned.

BNP Paribas Fortis will assess and evaluate the suitability of each nominee director (including in case of nomination for re-appointment) prior to the appointment of such nominee director. BNP Paribas Fortis will also assess and evaluate each director as a minimum on an annual basis.

The decision will be subject to a separate suitability assessment subsequently performed by the relevant supervisor.

Composition

On 9 March 2017, the composition of the board of directors is as follows:

DAEMS Herman

Chairman of the board of directors; non-executive director; member of the board of directors since 14 May 2009. Board member mandate confirmed and renewed on 21 April 2016; expires at the 2020 annual general meeting of shareholders.

JADOT Maxime

Executive director; chairman of the executive board since 1 March 2011; member of the board of directors by co-optation since 13 January 2011. Board member mandate confirmed and renewed on 21 April 2011 and on 23 April 2015; expires at the 2019 annual general meeting of shareholders.

DIERCKX Filip

Executive director; vice chairman of the executive board; member of the board of directors since 28 October 1998. Board member mandate renewed on 18 April 2013; expires at the 2017 annual general meeting of shareholders.

VANDEKERCKHOVE Peter

Executive director; member of the board of directors and the executive board since 21 April 2011. Board member mandate renewed on 23 April 2015; expires at the 2019 annual general meeting of shareholders.

BEAUVOIS Didier

Executive director; member of the board of directors (by co-optation) and the executive board since 12 June 2014. Board member mandate confirmed and renewed on 23 April 2015; expires at the 2019 annual general meeting of shareholders.

BOOGMANS Dirk

Independent non-executive director; member of the board of directors since 1 October 2009. Board member mandate confirmed and renewed on 21 April 2016; expires at the 2020 annual general meeting of shareholders.

d'ASPREMONT LYNDEN Antoinette

Independent non-executive director; member of the board of directors since 19 April 2012. Board member mandate confirmed and renewed on 21 April 2016; expires at the 2020 annual general meeting of shareholders.

DECRAENE Stefaan
Non-executive director; member of the board of directors since 18 April 2013. Board member mandate expires at the 2017 annual general meeting of shareholders.

DUTORDOIR Sophie
Independent non-executive director; member of the board of directors by co-optation since 30 November 2010. Board member mandate confirmed and renewed on 21 April 2011 and on 23 April 2015; expires at the 2019 annual general meeting of shareholders.

VARÈNE Thierry
Non-executive director; member of the board of directors since 14 May 2009. Board member mandate confirmed and renewed on 21 April 2016; expires at the 2020 annual general meeting of shareholders.

LABORDE Thierry
Non-executive director; member of the board of directors since 19 November 2015 by co-optation. Board mandate confirmed on 23 December 2015; expires at the 2019 annual general meeting of shareholders.

VAN AKEN Piet
Executive director; member of the board of directors since 3 June 2016 by co-optation. Board mandate confirmed on 8 December 2016; expires at the 2020 annual general meeting of shareholders.

AUBERNON Dominique
Non-executive director; member of the board of directors since 21 April 2016; expires at the 2020 annual general meeting of shareholders.

MERLO Sofia
Non-executive director; member of the board of directors since 21 April 2016; expires at the 2020 annual general meeting of shareholders.

The BNP Paribas Fortis board of directors, which is responsible for setting general policy and supervising the activities of the executive board, is currently composed of fourteen (14) directors, of whom nine (9) are non-executive directors (three (3) of these appointed as independent directors in compliance with the criteria laid down in article 526ter of the Companies Code) and five (5) are executive directors.

Between 1 January 2016 and 31 December 2016, the composition of the board of directors was as follows:

DAEMS, Herman
Chairman of the board of directors

BONNAFÉ, Jean-Laurent
Non-executive director (until 21 April 2016)

JADOT, Maxime
Chairman of the executive board; executive director

DIERCKX, Filip
Vice chairman of the executive board; executive director

MENNICKEN, Thomas
Executive director (until 2 June 2016)

VAN AKEN, Piet
Executive director (since 3 June 2016)

VANDEKERCKHOVE, Peter
Executive director

BOOGMANS, Dirk
Independent non-executive director

DUTORDOIR, Sophie
Independent non-executive director

PAPIASSE, Alain
Non-executive director (until 21 April 2016)

AUBERNON, Dominique
Non-executive director (since 21 April 2016)

MERLO, Sofia
Non-executive director (since 21 April 2016)

VARÈNE, Thierry
Non-executive director

d'ASPREMONT LYNDEN, Antoinette
Independent non-executive director

DECRAENE, Stefaan
Non-executive director

BEAUVOIS, Didier
Executive director

LABORDE, Thierry
Non-executive director

Attendance at meetings:

The board of directors held 21 meetings in 2016. Attendance at these meetings was as follows:

Director	Number of Meetings Attended
DAEMS, Herman	20
BONNAFÉ, Jean-Laurent (until 21 April 2016)	0
JADOT, Maxime	20
BOOGMANS, Dirk	20
d'ASPREMONT LYNDEN, Antoinette	20
DIERCKX, Filip	17
DUTORDOIR, Sophie	16
MENNICKEN, Thomas (until 2 June 2016)	11
PAPIASSE, Alain (until 21 April 2016)	1
VANDEKERCKHOVE, Peter	20
VARÈNE, Thierry	14
DECRAENE, Stefaan	17
BEAUVOIS, Didier	20
LABORDE, Thierry	11
AUBERNON, Dominique (as from 21 April 2016)	14
MERLO, Sofia (as from 21 April 2016)	13
VAN AKEN, Piet (as from 3 June 2016)	9

Assessment of the board of directors and of the directors

At least once a year, the governance and nomination committee will perform an evaluation of the board of directors and of all directors. The evaluation of directors took place in December 2016 and the evaluation of the board of directors took place in October 2016. In this evaluation, the governance and nomination committee takes into account any event that may impact the suitability assessment performed upon their nomination, and includes in its assessment whether the persons concerned have individually dedicated the time and efforts needed to perform their mandate properly. As part of this annual evaluation the governance and nomination committee issues recommendations on how to manage and resolve any identified weaknesses on an individual basis through training or replacements and/or formulate points for attention for the purpose of improving the overall composition of the board of directors.

Remuneration

Information regarding the total remuneration for 2016, including benefits in kind and pension costs, of executive and non-executive members of the board of directors, paid and payable by BNP Paribas Fortis, is to be found in Note 7.f 'Compensation and benefits awarded to BNP Paribas Fortis' corporate officers' to the BNP Paribas Fortis Consolidated Financial Statements. This Note is deemed to be the remuneration report in accordance with Provision 7.2 of the Code.

Executive board

Role and responsibilities

As indicated above, in accordance with article 24 of the Banking Law and article 22 of the articles of association of BNP Paribas Fortis, the board of directors has transferred all of its management authority ('*bestuursbevoegdheid*' / '*pouvoirs de gestion*') to an executive body, i.e. the executive board ('*directiecomité*' / '*comité de direction*'), with the exception of everything which, by virtue of the Companies Code or the Banking Law, remains with the board of directors. The members of the executive board are also referred to as 'executive directors'.

Size and membership criteria

The executive board is composed exclusively out of directors of BNP Paribas Fortis. Taking into account article 24, §2 of the Banking Law, the total number of members of the executive board must be inferior to half of the total number of directors. In addition, the executive board must keep the number of its members within bounds to ensure that it operates effectively and with the requisite flexibility.

Since all members of the executive board are to be considered effective leaders, suitability criteria apply in addition to the suitability criteria imposed upon directors in general. The decision whether or not a member of the executive board is suitable belongs to the competence of the board of directors, upon a written and motivated recommendation of the governance and nomination committee. The decision will be subject to a separate suitability assessment subsequently performed by the relevant supervisor.

Composition

On 9 March 2017, the composition of the executive board is as follows:

JADOT Maxime
Executive director; chairman of the executive board since 1 March 2011

DIERCKX Filip
Executive director; vice chairman of the executive board

VAN AKEN Piet
Executive director

VANDEKERCKHOVE Peter
Executive director

BEAUVOIS Didier
Executive director

Remuneration

Reference is made to the information on remuneration set forth for the board of directors above.

Other board committees

Article 27 of the Banking Law provides that the board of directors must set up four board committees as from 1 January 2015 onwards. During its meeting of 10 December 2014, the board of directors decided, on the basis of a recommendation of the governance, nomination and remuneration committee, "*…to dissolve the ARCC and the GNRC and to establish an audit committee, a risk committee, a remuneration committee and a governance & nomination committee, to act respectively as the committees referred to in articles 28 to 31 of the Banking Law…*" and agreed upon the composition of the four committees.

The existence of these committees does not in any way impinge upon the board's right to set up further ad-hoc committees to deal with specific matters as and when the need arises. Each board committee has an advisory function in relation to the board. The appointment of committee members is based on (i) their specific competencies and experience, in addition to the general competency requirements for board members, and (ii) the requirement that each committee, as a group, should possess the competencies and experience needed to perform its tasks.

The establishment, composition, responsibilities and functioning of the aforementioned board committees comply with the Code.

As from 1 January 2015, the four board committees identified above functioned in accordance with the organisation set out below.

Audit committee (AC)

In accordance with article 27 of the Banking Law, BNP Paribas Fortis is required to set up a separate audit committee to assist the board of directors with audit related matters. Prior to the entering into force of the Banking Law, the audit committee was part of the audit, risk and compliance committee (the '**ARCC**').

Role and responsibilities

The competences of the audit committee are set forth in the Banking Law and are listed herewith: finance, internal control and risk management, internal audit and external audit. The audit committee shall, upon request of the board of directors, assist (and make recommendations to) the board of directors in all audit and accounting related matters.

Membership criteria

The membership criteria for directors composing a board committee are similar to those of other directors.

In addition, the audit committee as a whole must have the necessary skills and competences in the field of audit and accounting in order to discharge its duties. In addition to the suitability criteria applicable to non-executive directors, the chairperson of the audit committee is expected to also meet the requirements set out in his / her function profile. There are no particular additional suitability requirements for audit committee members in addition to the suitability requirements for non-executive directors, subject to what is stated hereafter. At least one (1) member of the audit committee must have an expertise in the field of audit and accounting. Both of the independent directors currently sitting on the BNP Paribas Fortis audit committee comply with this rule.

The governance and nomination committee will assess whether or not the requirements applicable to the chairperson of the audit committee are met. Subsequently, the potential chairperson of the audit committee will need to undergo a suitability assessment by the relevant supervisor. There is no particular additional suitability assessment for other members of the audit committee.

Composition

The audit committee is composed of at least three (3) non-executive directors, of which at least one (1) director is an independent director within the meaning of article 526ter of the Companies Code.

The chairperson of the audit committee is either the chairperson of the board of directors or another non-executive director.

The chairperson of the audit committee, who must be an independent director, will meet on a regular basis with the audit committee chairpersons of the most important entities within the controlled perimeter of BNP Paribas Fortis.

Composition on 9 March 2017:

- Dirk Boogmans (non-executive, independent director), chairman
- Antoinette d'Aspremont Lynden (non-executive, independent director)
- Thierry Varène (non-executive director)

Attendance at meetings

The audit committee met five (5) times in 2016. Attendance was as follows:

Committee Member	Number of Meetings Attended
BOOGMANS, Dirk	5
d'ASPREMONT LYNDEN, Antoinette	5
VARENE, Thierry	3

Remuneration

Information regarding the remuneration for 2016, including that of the members of the audit committee, paid and payable by BNP Paribas Fortis, is to be found in Note 7.f 'Compensation and benefits awarded to BNP Paribas Fortis' corporate officers' to the BNP Paribas Fortis Consolidated Financial Statements. This Note is deemed to be the remuneration report within the meaning of Provision 7.2 of the Code.

Risk committee (RC)

In accordance with article 27 of the Banking Law, BNP Paribas Fortis is required to set up a separate risk committee to assist the board of directors with risk (related) matters. Prior to the entering into force of the Banking Law, the risk committee was part of the ARCC.

Role and responsibilities

The risk committee shall, upon request of the board of directors, assist (and make recommendations to) the board of directors in all risk (related) matters. In addition, several special competences of the risk committee are set forth in article 29 of the Banking Law and are listed herewith: (i) risk appetite, (ii) price setting and (iii) remuneration policy.

Membership criteria

The membership criteria for directors composing a board committee are similar to those of other directors.

In addition to the suitability criteria for non-executive directors, all members of the risk committee have individually the required knowledge, expertise, experience and skills in order to be able to challenge the risk tolerance, risk strategy and risk management of BNP Paribas Fortis and to participate actively in the discharge of all the duties of the risk committee. In addition to the suitability criteria for risk committee members, the chairperson of the risk committee is expected to meet also the requirements set out in his / her function profile.

The governance and nomination committee will assess whether or not the suitability requirements applicable to the members and chairperson of the risk committee are met. For this assessment, the governance and nomination will take into account the induction program that BNP Paribas Fortis will provide to any new member of the risk committee. Subsequently, the potential chairperson of the risk committee will need to undergo a suitability assessment by the relevant supervisor. There is no particular additional suitability assessment for other members of the risk committee.

Composition

The risk committee is composed of at least three (3) non-executive directors, of which at least one (1) director is an independent director within the meaning of article 526ter of the Companies Code.

The chairperson of the risk committee is either the chairperson of the board of directors or another non-executive director.

Composition on 9 March 2017:

- Dirk Boogmans (non-executive, independent director), chairman
- Antoinette d'Aspremont Lynden (non-executive, independent director)
- Thierry Varène (non-executive director)

Attendance at meetings

The risk committee met six (6) times in 2016. Attendance was as follows:

Committee Member	Number of Meetings Attended
BOOGMANS, Dirk	6
d'ASPREMONT LYNDEN, Antoinette	6
VARENE, Thierry	4

Remuneration

Information regarding the remuneration for 2016, including that of the members of the risk committee, paid and payable by BNP Paribas Fortis, is to be found in Note 7.f 'Compensation and benefits awarded to BNP Paribas Fortis' corporate officers' to the BNP Paribas Fortis Consolidated Financial Statements. This Note is deemed to be the remuneration report within the meaning of Provision 7.2 of the Code.

Governance and nomination committee (GNC)

In accordance with article 27 of the Banking Law, BNP Paribas Fortis is required to set up a separate governance and nomination committee to assist the board of directors with nomination (related) matters. Prior to the entering into force of the Banking Law, the governance and nomination committee was part of the governance, nomination and remuneration committee.

Role and responsibilities

The competences of the governance and nomination committee are set forth in the Banking Law and the regulations of the Belgian National Bank and include being capable of rendering a sound and independent judgment on the composition and functioning of the board of directors and other management bodies of BNP Paribas Fortis and specifically on the individual and collective expertise of their members, their integrity, reputation, independence of spirit and availability.

Membership criteria

The membership criteria for directors composing a board committee are similar to those of other directors.

The governance and nomination committee as a whole must have the necessary skills and competences in the field of governance and nomination regulation in the Belgian banking sector. Furthermore, in addition to the suitability requirements applicable to non-executive directors, the chairperson of the governance and nomination committee is expected to also meet all the requirements as set out in his / her function profile. There are no particular additional individual suitability requirements for other members of the governance and nomination committee.

The governance and nomination committee will assess whether or not the requirements applicable to the chairperson of the committee are met. Subsequently, the potential chairperson of the governance and nomination committee will need to undergo a suitability assessment by the relevant supervisor. There is no particular additional suitability assessment for other members of the governance and nomination committee.

Composition

The governance and nomination committee is composed of at least three (3) non-executive directors, of which at least one (1) director is an independent director within the meaning of article 526ter Companies Code.

The chairperson of the governance and remuneration committee is either the chairperson of the board of directors or another non-executive director.

Composition on 9 March 2017:

- Herman Daems, (non-executive director) chairman
- Sophie Dutordoir (non-executive, independent director)
- Thierry Laborde (non-executive director)

Attendance at meetings

The governance and nomination committee met nine (9) times in 2016. Attendance was as follows:

Committee Member	Number of Meetings Attended
DAEMS, Herman	9
DUTORDOIR, Sophie	9
LABORDE, Thierry	9

Remuneration

Information regarding the remuneration for 2016, including that of the members of the governance and nomination committee, paid and payable by BNP Paribas Fortis, is to be found in Note 7.f 'Compensation and benefits awarded to BNP Paribas Fortis' corporate officers' to the BNP Paribas Fortis consolidated financial statements. This Note is deemed to be the remuneration report within the meaning of Provision 7.2 of the Code.

Remuneration committee (RemCo)

In accordance with article 27 of the Banking Law, BNP Paribas Fortis is required to set up a separate remuneration committee to assist the board of directors with remuneration (related) matters. Prior to the entering into force of the Banking Law, the remuneration committee was part of the governance, nomination and remuneration committee.

Role and responsibilities

The competences of the remuneration committee are set forth in the Banking Law and include being capable to provide a sound and independent judgement on the remuneration policies and reward practices and related incentives taking into account risk control, net equity needs and liquidity position.

Membership criteria

In addition to the suitability requirements applicable to non-executive directors, the chairperson of the remuneration committee is expected to also meet all the requirements as set out in his / her function profile. There are no particular additional suitability requirements for other members of the remuneration committee.

The governance and nomination committee will assess whether or not the requirements applicable to the chairperson of the committee are met. Subsequently, the potential chairperson of the remuneration committee will need to undergo a suitability assessment by the relevant supervisor. There is no particular additional suitability assessment for other members of the remuneration committee.

Composition

The remuneration committee is composed of at least three (3) non-executive directors, of which at least one (1) director is an independent director within the meaning of article 526ter of the Companies Code. The committee must be composed in such a way that it is capable of rendering a sound and independent judgement on the remuneration policy and reward practices and related incentives taking into account risk control, net equity needs and liquidity position.

The chairperson of the remuneration committee is either the chairperson of the board of directors or another non-executive director.

Composition on 9 March 2017:

- Herman Daems, (non-executive director) chairman
- Sophie Dutordoir (non-executive, independent director)
- Thierry Laborde (non-executive director)

Attendance at meetings

The remuneration committee met eight (8) times in 2016. Attendance was as follows:

Committee Member	Number of Meetings Attended
DAEMS, Herman	8
DUTORDOIR, Sophie	8
LABORDE, Thierry	7

Remuneration

Information regarding the remuneration for 2016, including that of the members of the remuneration committee, paid and payable by BNP Paribas Fortis, is to be found in Note 7.f 'Compensation and benefits awarded to BNP Paribas Fortis' corporate officers' to the BNP Paribas Fortis consolidated financial statements. This Note is deemed to be the remuneration report within the meaning of Provision 7.2 of the Code.

Executive committee

An executive committee has been set-up, in order for the executive committee to assist the executive board with the fulfilment of its role and responsibilities and to advice the executive board if and when useful.

The executive committee currently consist of thirteen (13) members and is composed of five (5) executive directors who together make up the executive board and the eight (8) key heads of businesses and support functions:

Maxime JADOT
Executive director, chairman of the executive board / executive committee and chief executive officer

Filip DIERCKX
Executive director, vice chairman of the executive board / executive committee and chief operating officer (group functions)

Peter VANDEKERCKHOVE
Executive director, member of the executive committee, head of retail and private banking

Didier BEAUVOIS
Executive director, member of the executive committee, corporate banking CEO

Piet VAN AKEN
Executive director, member of the executive committee, chief risk officer

Bert VAN ROMPAEY
Member of the executive committee, head of human resources

Vincent BERNARD
Member of the executive committee, chief financial officer

Carine DE NYS
Member of the executive committee, chief compliance officer

Michael ANSEEUW
Member of the executive committee, chief retail banking

Sonja NOBEN
Member of the executive committee, chief information officer

Jo COUTUER
Member of the executive committee, chief data officer

Stéphane VERMEIRE
Member of the executive committee, chief private banking and wealth management

Sandra WILIKENS
Member of the executive committee, secretary general

3. Internal Control Procedures

Roles and responsibilities for preparing and processing accounting and financial information

The Finance Function, under the authority of the Chief Executive Officer, is responsible for preparing and processing accounting and financial information and its work is defined in a specific Charter covering all those working in the function. In particular it consists of:

- defining accounting policies and standards as well as management information principles and standards;
- preparing accounting information and making the regulatory returns;
- producing information on solvency and liquidity ratios calculating the ratios and making the regulatory returns;
- preparing management information (actuals and forecast) and providing the necessary support for financial policy;
- managing the risk associated with accounting and financial information (results, balance sheet, solvency and liquidity) by defining and implementing a permanent operational control system;
- overseeing the architecture, design and deployment of the financial information systems (results, balance sheet, solvency, liquidity);
- managing the organisation and operational processing of activities related to the Finance Function;

Producing accounting and financial information

Accounting policies and rules

The local financial statements for each entity are prepared under local GAAP while the BNP Paribas Fortis Consolidated Financial Statements are prepared under International Financial Reporting Standards (IFRS) as endorsed by the European Union.

A dedicated team within Accounting & Reporting (A&R), section of the Finance department, draws up the accounting policies based on IFRS as endorsed by the European Union and to be applied by all BNP Paribas Fortis entities. These are aligned with BNP Paribas Group accounting policies. This A&R team monitors regulatory changes and prepares new internal accounting policies in line with the level of interpretation necessary to adapt them to the operations carried out by BNP Paribas Fortis. A BNP Paribas Group accounting manual is available, together with additional documentation and guidance related to the specific BNP Paribas Fortis products and scope. This IFRS accounting manual is distributed to all accounting and reporting teams. It is regularly updated to reflect regulatory changes. The dedicated A&R team also handles requests for specific accounting analysis made by the local entities and the Core Businesses/Business Lines.

The Financial Management department draws up management reporting rules.

The accounting principles and rules associated with solvency are within the remit of Risk Management, and those associated with liquidity are within the remit of ALM – Treasury.

The process of preparing information

There are two distinct reporting channels involved in the process of preparing information:

- the financial accounting channel: the particular responsibility of the accounting channel is to perform the entities' financial and cost accounting, and to prepare the BNP Paribas Fortis' consolidated financial statements in compliance with accounting policies and standards. It also produces related information on solvency and liquidity, ensuring that it is consistent with the accounting at each level. This channel certifies the reliability of the information produced by applying internal certification procedures (described below);

- the management accounting channel: this channel prepares the management information (especially that from the Divisions/OEs/business lines compiled from the data per entity) that is relevant to the economic management of activities, complying with the established internal principles and standards. It ensures the consistency of the management data with the accounting data, at every level. This channel is responsible for the preparation of solvency and liquidity ratios and for their analysis.

Group Finance designs, distributes and administers the reporting tools for the two channels. These tools are designed to suit the channels' individual objectives and necessary complementarity, and provide information for the entire BNP Paribas Group. In particular, Group Finance promotes the use of standard accounting systems in Group entities. The systems are designed at Group level and progressively rolled out. This approach promotes the sharing of information and facilitates the implementation of cross-functional projects in the context of the development of pooled account processing and synthesis within the Group.

For the preparation of liquidity-related data, the bank has adopted the principle of integrating internal management data and those required for regulatory reporting, which revolves around the following building blocks:

- governance involving Finance, ALM-Treasury and Risk Management,
- policies and methodologies applicable as required by regulations;
- dedicated tools ensuring data collection and the production of internal and regulatory reports.

This system ensures the production of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) regulatory reports.

Permanent control of accounting and financial information

Internal control within the Finance Function

Internal control at Finance is performed by dedicated teams supported by specialised tools, encompassing accounting controls and other operational permanent control areas.

The mission of these teams is to ensure, on a permanent basis, the reliability of the processes used for producing and validating the financial figures for BNP Paribas Fortis, and to ensure compliance with the legal and regulatory reporting requirements. Other activities consist inter alia of maintaining relations with the external auditors and ensuring that their recommendations are correctly applied throughout BNP Paribas Fortis, monitoring the certifications issued by BNP Paribas Fortis, and verifying the valuation of financial instruments.

Internal Certification Process

BNP Paribas Fortis monitors the accounting and financial reporting risk through a certification process, whose purpose is to report on the quality of the information provided in the MATISSE reporting system. The results of the certification process are presented quarterly to the BNP Paribas Fortis Audit Committee and are an integral part of the accounting process.

Under a general rule set by BNP Paribas Group, each entity submitting a MATISSE reporting package is required to certify the accuracy of the reporting package on a quarterly basis, using the Finance Accounting Control Tool (FACT), an application designed to support the certification process across the BNP Paribas Group. Certificates are made up of standardised questions addressing the main accounting and financial risk areas.

Permanent control within Finance provides a level of comfort to the CFO, the BNP Paribas Fortis Audit Committee, the external auditors and also the National Bank of Belgium that the internal control measures are being properly maintained.

The certification process encompasses:

- certification that the accounting data reported are reliable and comply with the BNP Paribas Fortis accounting policies
- certification that the accounting internal control system designed to ensure the quality of accounting data is operating effectively.

This internal certification process forms part of the overall permanent control monitoring system and enables the BNP Paribas Fortis Finance department, which has overall responsibility for the preparation and quality of the BNP Paribas Fortis consolidated financial statements, to be informed of any incidents relating to the preparation of the financial statements, to monitor the implementation by the accounting entities of appropriate corrective measures and, if necessary, to book appropriate provisions. As regards BNP Paribas Fortis in Belgium, the certification process is supported by an extensive set of sub-certificates which cover all activities that may generate accounting and financial risks for the company.

The certification system is also used in liaison with Risk Management for information forming part of the regulatory reporting on credit risk and solvency ratios. Those contributing to the reports attest that they have complied with the standards and procedures and that the data used are of appropriate quality. They further describe the results of the controls carried out at the various stages of producing the reports, including the accounting data to credit-risk data reconciliation. On the same principles, a certification system has been installed for liquidity-related data. The various contributors report on compliance with standards and the results of key controls performed to ensure the quality of the reporting.

Control of the value of financial instruments and the use of valuation in determining the results of market activities and accounting reports

The Finance department delegates the determination and control of market value or models of financial instruments to the various departments involved in measuring financial instruments within the overall process of monitoring market risk and management data. However, it remains the responsibility of the Finance department to oversee the accuracy of these operations.

The purpose of these control procedures within Finance is:

- to ensure that transactions involving financial instruments are properly recorded in BNP Paribas Fortis' financial and management data;
- to guarantee the quality of the measurement and reporting of financial instruments used both in preparing the financial and management accounts and in managing and monitoring market and liquidity risks; and
- to ensure that the results of market transactions are accurately determined and correctly analysed.

Periodic control – central accounting inspection team

General Inspection has a team of inspectors (the Central Accounting Inspection Team) who are specialists in accounting and financial audit. This reflects its strategy of strengthening audit capability in accountancy, as regards both the technical complexity of its work and its coverage of accounting risk.

Its action plan is based on the remote accounting internal control tools available to BNP Paribas Fortis and the risk evaluation chart set up by General Inspection.

The core aims of the team are as follows:

- to constitute a hub of accounting and financial expertise in order to reinforce the capability of General Inspection when carrying out inspections in such areas;
- to identify and inspect risk areas at the level of BNP Paribas Fortis.

Relations with the statutory auditors

In 2016, the college of accredited statutory auditors was composed of:

- PwC Bedrijfsrevisoren bcvba / PwC Reviseurs d'Entreprises sccrl, represented by Mr Damien WALGRAVE
- Deloitte Bedrijfsrevisoren bv ovv cvba / Reviseurs d'Entreprises SC sfd SCRL, represented by Mr Yves DEHOGNE and Mr Bernard DEMEULEMEESTER.

The statutory auditors are appointed by the Annual General Meeting of Shareholders, based on advice from the Audit Committee and upon a proposal by the Board of Directors and the Works Council.

The statutory auditors are required to issue a report every financial year, in which they give their opinion regarding the fairness of the consolidated financial statements of BNP Paribas Fortis and its subsidiaries.

The statutory auditors also carry out specified procedures for the prudential regulator and for the group auditors. As part of their statutory audit assignment, they:

- examine any significant changes in accounting standards and present their recommendations to the Audit Committee regarding choices that have a material impact;
- present the relevant entity and the Finance department with their findings, observations and recommendations for the purpose of improving aspects of the internal control system for the preparation of accounting and financial information, reviewed in the course of their audit.

The Audit Committee of the Board of Directors is informed about any accounting choices that have a material impact on the financial statements, so that they can submit these choices to the Board of Directors for a final decision.

4. Conflicts of Interest

In addition to the legal provisions on conflicts of interest in the Companies Code, BNP Paribas Fortis is required to comply with the provisions of the Banking Law and the substance of a number of circular letters issued by the National Bank of Belgium (NBB) whose purpose is to avoid conflicts of interest between BNP Paribas Fortis and its directors or executive management, inter alia in relation to external functions exercised and any loans granted.

In addition, BNP Paribas Fortis has in place a general policy and code of conduct regarding conflicts of interest, which states that the attainment of commercial, financial, professional or personal objectives must not stand in the way of compliance with the following basic principles:

1. **Customers' interests** (this includes understanding customer's needs, ensuring the fair treatment of customers and protecting the customer's interests, ...)
2. **Financial security** (this includes fighting against money laundering, bribery, corruption and terrorist financing, ...)
3. **Market integrity** (this includes promoting free and fair competition, complying with market abuse rules, ...)
4. **Professional ethics** (this includes avoiding conflicts of interests in outside activities, taking measures against bribery and corruption, ...)
5. **Respect for colleagues** (this includes applying best standards in professional behavior, rejecting any forms of discrimination and ensuring the safety of the workplace)
6. **Group protection** (this includes building and protecting the BNP Paribas Group's long-term value, protecting the Group's information, communicating responsibly, ...)
7. **Involvement with society** (this includes promoting the respect for human rights, protecting the environment and combating climate change and acting responsibly in public representation)

Finally, BNP Paribas Fortis directors have been assessed by the relevant supervisor before their formal appointment, in accordance with the Banking Law. Before issuing its approval for an appointment, the relevant supervisor conducts an assessment which involves verifying that certain conflicts of interest do not exist.

BNP PARIBAS FORTIS CONSOLIDATED FINANCIAL STATEMENTS 2016

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

Profit and loss account for the year ended 31 December 2016

In millions of euros	Note	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Interest income	2.a	8,374	8,499
Interest expense	2.a	(3,011)	(3,074)
Commission income	2.b	2,280	2,421
Commission expense	2.b	(814)	(810)
Net gain/loss on financial instruments at fair value through profit or loss	2.c	163	135
Net gain/loss on available-for-sale financial assets and other financial assets not measured at fair value	2.d	178	59
Income from other activities	2.e	599	440
Expense on other activities	2.e	(469)	(435)
REVENUES		**7,300**	**7,235**
Salary and employee benefit expenses	6.a	(2,405)	(2,440)
Other operating expense	2.f	(1,752)	(1,766)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	4.n	(237)	(221)
GROSS OPERATING INCOME		**2,906**	**2,808**
Cost of risk	2.g	(434)	(431)
OPERATING INCOME		**2,472**	**2,377**
Share of earnings of equity-method entities		155	206
Net gain on non-current assets		(70)	151
Goodwill	4.o	-	-
PRE-TAX INCOME		**2,557**	**2,734**
Corporate income tax	2.h	(341)	(718)
NET INCOME BEFORE DISCONTINUED OPERATIONS		**2,216**	**2,016**
NET INCOME		**2,216**	**2,016**
Net income attributable to minority interests		489	441
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS		**1,727**	**1,575**

Statement of net income and change in assets and liabilities recognized directly in equity

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Net income for the period	**2,216**	**2,016**
Changes in assets and liabilities recognised directly in equity	**(784)**	**146**
Items that are or may be reclassified to profit or loss	**(660)**	**(126)**
Changes in exchange rate movements	(520)	(211)
of which deferred tax	(31)	8
Changes in fair value of available-for-sale financial assets, including those reclassified as loans and receivables	82	96
of which deferred tax	(9)	(21)
Changes in fair value of available-for-sale assets reported in net income, including those reclassified as loans and receivables	(64)	(5)
of which deferred tax	7	4
Changes in fair value of hedging instruments designated as cash flow hedges	(68)	8
of which deferred tax	35	8
Changes in fair value of hedging instruments designated as cash flow hedges reported in net income	2	2
of which deferred tax	(1)	-
Charges in equity-method investments	(92)	(16)
of which deferred tax	49	8
Items that will not be reclassified to profit or loss	**(124)**	**272**
Remeasurement gains (losses) related to post-employment benefit plans	(112)	268
of which deferred tax	48	(126)
Items related to equity-method investments	(12)	4
of which deferred tax	6	(1)
TOTAL	**1,432**	**2,162**
- Attributable to equity shareholders	1,126	1,734
- Attributable to minority interests	306	428

Balance sheet at 31 December 2016

In millions of euros	Note	31 December 2016	31 December 2015
ASSETS			
Cash and amounts due from central banks		14,037	16,505
Financial instruments at fair value through profit or loss			
Trading securities	*4.a*	*1,669*	*1,970*
Loans and repurchase agreements	*4.a*	*1,994*	*1,870*
Instruments designated as at fair value through profit or loss	*4.a*	*1,796*	*1,946*
Derivative financial instruments	*4.a*	*7,532*	*7,180*
Derivatives used for hedging purposes	4.b	2,101	1,907
Available-for-sale financial assets	4.c	29,558	32,729
Loans and receivables due from credit institutions	4.f	14,687	13,064
Loans and receivables due from customers	4.g	171,329	176,640
Remeasurement adjustment on interest-rate risk hedged portfolios		1,463	1,218
Held-to-maturity financial assets	4.j	525	582
Current and deferred tax assets	4.k	2,593	2,527
Accrued income and other assets	4.l	8,560	8,495
Equity-method investments	4.m	4,317	4,396
Investment property	4.n	204	125
Property, plant and equipment	4.n	15,276	2,034
Intangible assets	4.n	278	186
Goodwill	4.o	795	309
Assets classified as held for sale		19,076	-
TOTAL ASSETS		**297,790**	**273,683**
LIABILITIES			
Due to central banks		157	1,175
Financial instruments at fair value through profit or loss			
Trading securities	*4.a*	*2,207*	*3,044*
Borrowings and repurchase agreements	*4.a*	*3,089*	*3,584*
Instruments designated as at fair value through profit or loss	*4.a*	*4,559*	*5,355*
Derivative financial instruments	*4.a*	*5,927*	*5,095*
Derivatives used for hedging purposes	4.b	4,395	4,120
Due to credit institutions	4.f	34,867	22,609
Due to customers	4.g	163,316	176,161
Debt securities	4.i	13,539	11,133
Remeasurement adjustment on interest-rate risk hedged portfolios		876	1,067
Current and deferred tax liabilities	4.k	748	691
Accrued expenses and other liabilities	4.l	7,136	6,561
Provisions for contingencies and charges	4.p	4,784	3,957
Subordinated debt	4.i	4,348	5,084
Liabilities classified as held for sale		21,308	-
TOTAL LIABILITIES		**271,256**	**249,636**
CONSOLIDATED EQUITY			
Share capital and retained earnings		*19,094*	*16,392*
Net income for the period attributable to shareholders		*1,727*	*1,575*
Total capital, retained earnings and net income for the period attributable to shareholders		*20,821*	*17,967*
Changes in assets and liabilities recognised directly in equity		299	787
Shareholders' equity		**21,120**	**18,754**
Retained earnings and net income for the period attributable to minority interests		5,439	5,146
Changes in assets and liabilities recognised directly in equity		(25)	147
Total minority interests		**5,414**	**5,293**
TOTAL CONSOLIDATED EQUITY		**26,534**	**24,047**
TOTAL LIABILITIES AND EQUITY		**297,790**	**273,683**

Cash flow statement for the year ended 31 December 2016

In millions of euros	Note	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Pre-tax income		**2,557**	**2,734**
Non-monetary items included in pre-tax net income and other adjustments		**(1,130)**	**1,779**
Net depreciation/amortisation expense on property, plant and equipment and intangible assets		322	285
Impairment of goodwill and other non-current assets		(9)	(8)
Net addition to provisions		372	318
Share of earnings of equity-method entities		(155)	(206)
Net expense (income) from investing activities		85	(114)
Net expense from financing activities		-	1
Other movements		(1,745)	1,503
Net increase in cash related to assets and liabilities generated by operating activities		**1,223**	**4,885**
Net increase (decrease) in cash related to transactions with credit institutions		(658)	8,383
Net increase (decrease) in cash related to transactions with customers		157	(1,771)
Net increase (decrease) in cash related to transactions involving other financial assets and liabilities		2,099	(1,512)
Net increase (decrease) in cash related to transactions involving non-financial assets and liabilities		5	(22)
Taxes paid		(380)	(193)
NET INCREASE IN CASH AND EQUIVALENTS GENERATED BY OPERATING ACTIVITIES		**2,650**	**9,398**
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS GENERATED BY DISCONTINUED OPERATING ACTIVITIES		**6,040**	**(98)**
Net increase in cash related to acquisitions and disposals of consolidated entities		397	129
Net decrease related to property, plant and equipment and intangible assets		(287)	(448)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS RELATED TO CONTINUING INVESTING ACTIVITIES		**110**	**(319)**
NET DECREASE IN CASH AND EQUIVALENTS RELATED TO DISCONTINUED INVESTING ACTIVITIES		**(1)**	**(232)**
Net increase (decrease) in cash and equivalents related to transactions with shareholders		343	(3,312)
Net decrease in cash and equivalents generated by other financing activities		(837)	(777)
NET DECREASE IN CASH AND EQUIVALENTS RELATED TO FINANCING ACTIVITIES		**(494)**	**(4,089)**
NET INCREASE IN CASH AND EQUIVALENTS RELATED TO DISCONTINUED FINANCING ACTIVITIES		**80**	**-**
EFFECT OF MOVEMENT IN EXCHANGE RATES ON CASH AND EQUIVALENTS		**(413)**	**(152)**
EFFECT OF MOVEMENT IN EXCHANGE RATES ON CASH AND EQUIVALENTS OF DISCONTINUED ACTIVITIES		**1**	**3**
Balance of cash and equivalent accounts at the start of the period		**12,820**	**11,519**
Cash and amounts due from central banks		13,013	10,758
Due to central banks		(1,174)	(337)
On-demand deposits with credit institutions	4.f	(833)	2,254
On-demand loans from credit institutions	4.f	1,814	(1,156)
Balance of cash and equivalent accounts at the end of the period		**14,749**	**16,377**
Cash and amounts due from central banks		14,033	16,505
Due to central banks		(157)	(1,175)
On-demand deposits with credit institutions	4.f	2,017	1,971
On-demand loans from credit institutions	4.f	(1,144)	(924)
NET INCREASE IN CASH AND EQUIVALENTS OF CONTINUING ACTIVITIES		**1,929**	**4,858**
Balance of cash and equivalent accounts of discontinued activities at the start of the period		**3,557**	**347**
Balance of cash and equivalent accounts of discontinued activities at the end of the period		**9,601**	**-**
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS OF DISCONTINUED ACTIVITIES		**6,044**	**(347)**
Additional information:			
Interest paid		(3,240)	(3,285)
Interest received		8,310	8,479
Dividend paid/received		(303)	(3,269)

Statement of changes in shareholders' equity between 1 January 2015 and 31 December 2016

In millions of euros	Capital and retained earnings			Changes in assets and liabilities recognised directly in equity				Total Shareholders' equity
	Share capital	Non-distributed reserves	Total	Exchange rates	Financial assets available for sale and reclassified as loans and receivables	Derivatives used for hedging purposes	Total	
Capital and retained earnings at 1 January 2015	**9,605**	**9,764**	**19,369**	**(455)**	**1,152**	**189**	**886**	**20,255**
Other movements	-	17	17	-	-	-	-	17
Dividends	-	(3,252)	(3,252)	-	-	-	-	(3,252)
Changes in assets and liabilities recognised directly in equity	-	258	258	(195)	102	(6)	(99)	159
Net income for 2015	**-**	**1,575**	**1,575**	**-**	**-**	**-**	**-**	**1,575**
Capital and retained earnings at 31 December 2015	**9,605**	**8,362**	**17,967**	**(650)**	**1,254**	**183**	**787**	**18,754**
Other movements	2,300	(1,060)	1,240	-	-	-	-	1,240
Changes in assets and liabilities recognised directly in equity	-	(113)	(113)	(347)	(74)	(67)	(488)	(601)
Net income for 2016	**-**	**1,727**	**1,727**	**-**	**-**	**-**	**-**	**1,727**
Capital and retained earnings at 31 December 2016	**11,905**	**8,916**	**20,821**	**(997)**	**1,180**	**116**	**299**	**21,120**

Minority interests between 1 January 2015 and 31 December 2016

In millions of euros	Capital and retained earnings	Exchange rates, Financial assets available for sale and reclassified as loans and receivables, Derivatives used for hedging purposes	Total minority interests
Capital and retained earnings at 1 January 2015	**4,966**	**174**	**5,140**
Other movements	(144)	-	(144)
Dividends	(131)	-	(131)
Changes in assets and liabilities recognised directly in equity	14	(27)	(13)
Net income for 2015	**441**	**-**	**441**
Capital and retained earnings at 31 December 2015	**5,146**	**147**	**5,293**
Other movements	19	-	19
Dividends	(204)	-	(204)
Changes in assets and liabilities recognised directly in equity	(11)	(172)	(183)
Net income for 2016	**489**	**-**	**489**
Capital and retained earnings at 31 December 2016	**5,439**	**(25)**	**5,414**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2016

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED BY BNP PARIBAS FORTIS

1.a Applicable accounting standards

1.a.1 Accounting standards

The consolidated financial statements of BNP Paribas Fortis 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.

The introduction of standards which are mandatory as of 1 January 2016 has no effect on the 2016 financial statements.

BNP Paribas Fortis did not choose to early-adopt the new standards, amendments, and interpretations adopted by the European Union, whose application in 2016 was optional.

Information on the nature and extent of risks relating to financial instruments as required by IFRS 7 "Financial Instruments: Disclosures" along with information on regulatory capital required by IAS 1 "Presentation of Financial Statements" is presented in the section 'Risk management and capital adequacy' in the Annual report. This information is an integral part of the notes to the BNP Paribas Fortis consolidated financial statements.

1.a.2 New 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, for impairment for credit risk on financial assets and for general hedge accounting (i.e. micro hedging).

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, classification and measurement of financial assets will depend on the business model and the contractual characteristics of the instruments. On initial recognition, financial assets will be measured at amortised cost, at fair value through shareholders' equity (on a separate line) or at fair value through profit or loss.

It will no longer be possible to recognise derivatives embedded in financial assets separately from the host contract.

Application of the criteria relating to the business model and the contractual characteristics of the instruments may lead to different classification and measurement of some financial assets compared with IAS 39.

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

- They will be classified 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.

- They will be classified 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, amounts previously recognised in shareholders' equity will be transferred to 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: http://ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission.

- All debt instruments not eligible for classification at amortised cost or at fair value through shareholders' equity 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.

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 provisions of IAS 39 concerning the derecognition of financial assets and financial liabilities have been maintained in IFRS 9 without any modification.

Based on existing business models, the main classifications would be expected to be as follows:

- Apart from those not complying with the contractual characteristics criterion, loans and receivables due from credit institutions and customers and repurchase agreements recognised in "Loans and receivables" under IAS 39 should be eligible to amortised cost under IFRS 9;

- Treasury bills, Government bonds and other fixed-income securities classified as "Available-for-sale financial assets" under IAS 39 should be recognised at amortised cost or at fair value through shareholders' equity depending on the business model, apart from those not complying with the contractual characteristics criterion;

- Financial assets classified at fair alue through profit or loss under IAS 39 could remain in this category under IFRS 9;

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

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, an impairment loss is recognised when there is an 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 a portfolio-based impairment. Moreover, BNP Paribas Fortis may recognise additional collective impairment with respect to a given economic sector or geographic area affected by exceptional economic events.

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

Expected credit losses at maturity (that result from the risk of default over the life of the financial instrument) must be recognised if the credit risk has increased significantly since initial recognition.

Financial assets for which a 12-month expected credit loss will be recognised, will be included in "Stage 1". Interest income will be measured according to the effective interest method using the financial asset's gross value (before impairment).

Financial assets for which the credit risk has increased significantly since the initial recognition will be included in "Stage 2". Interest income will be measured according to the effective interest method using the financial asset's gross value (before impairment).

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 and those existing on the reporting date.

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.

Financial assets for which there is objective evidence of a decrease in value as a result of an event occurring after inception of the loan or acquisition of the asset will be considered as impaired and be included in "Stage 3". Criteria for identifying impaired assets will be similar to those prevailing under IAS 39. Interest income will be measured according to the effective interest method using the financial asset's net value (after impairment).

Treatment of restructuring for financial difficulties is likely to remain similar to that prevailing under IAS 39.

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.

Furthermore, the impairment model of IFRS 9 is based on more forward-looking information than that of IAS 39, inducing a more volatile amount of expected credit losses.

BNP Paribas Fortis 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.

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.

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, BNP Paribas Fortis 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.

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

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

Transition

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

IFRS 9 allows early application of the requirements for the presentation of 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 at BNP Paribas Fortis

The implementation of IFRS 9 at BNP Paribas Fortis relies on a set of projects corresponding to each of the different phases of the standard. Steering committees bringing together the heads of the Risk and Finance functions have been set up, as well as operational committees dedicated to the various issues associated with the implementation of the new standard.

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

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

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

The work conducted to this day has led to the definition of a methodology for the new impairment model (see above) that is consistent with that of the Group. 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 and developing information sharing at every level.

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 determine performance obligations (contractual goods and services) that are considered to be distinct and the transaction price to be allocated to them.

Revenue is recognised when the performance obligations are satisfied, namely when the entity transfers control of the goods or services. BNP Paribas Fortis 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 BNP Paribas Fortis 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 will be finalised in 2017. 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 lessor's point of view, the expected impact should be limited, as the requirements of IFRS 16 remain substantially 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. Under IAS 17, operating leases require no recognition in the balance sheet.

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, BNP Paribas Fortis has started to analyse the standard and define its potential impacts.

1.b Segment reporting

The Bank considers that within the legal and regulatory scope of BNP Paribas Fortis ('controlled perimeter'), the nature and financial effects of the business activities in which it engages and the economic environments in which it operates are best reflected through the following segments:

- Banking activities in Belgium
- Other Domestic Markets
- Banking activities in Turkey
- Other

Operating segments are components of BNP Paribas Fortis:

- that engage in business activities from which it may earn revenues and incur expenses;
- whose operating results are regularly reviewed by the Board of Directors of BNP Paribas Fortis in order to make decisions about resources to be allocated to that segment and to assess its performance;
- for which discrete financial information is available.

The Board of Directors of BNP Paribas Fortis is deemed to be the chief operating decision maker (CODM) within the meaning of IFRS 8 'Operating Segments', jointly overseeing the activities, performance and resources of BNP Paribas Fortis.

BNP Paribas Fortis, like many other companies with diverse operations, organises and reports financial information to the CODM in more than one way.

BNP Paribas Fortis and the legal entities that are part of the Group exercise management control over the full legal and regulatory scope, known as the 'controlled perimeter', including the establishment of appropriate governance structures and control procedures.

Within this organisational structure and in the context of the regulatory scope ('controlled perimeter') of BNP Paribas Fortis, the operating segments mentioned above are best aligned with the core principles and criteria for determining operating segments as defined in IFRS 8 'Operating Segments'.

Transactions or transfers between the operating segments are entered into under normal commercial terms and conditions as would be the case with non-related third parties.

1.c Consolidation

1.c.1 Scope of consolidation

The consolidated financial statements of BNP Paribas Fortis include entities that are controlled by BNP Paribas Fortis, jointly controlled, and under significant influence, with the exception of those entities whose consolidation is regarded as immaterial to BNP Paribas Fortis. 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.

Subsidiaries are consolidated from the date on which BNP Paribas Fortis obtains effective control. Entities under temporary control are included in the consolidated financial statements until the date of disposal.

1.c.2 Consolidation methods

Controlled enterprises are fully consolidated. BNP Paribas Fortis 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, BNP Paribas Fortis 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 that are not governed by voting rights, such as when those voting rights relate to administrative tasks only, whereas the relevant activities are directed by means of contractual arrangements. They often have the following features or attributes: restricted activities, a narrow and well-defined objective and insufficient equity to permit them to finance their activities without subordinated financial support.

For these entities, the analysis of control shall consider the purpose and design of the entity, the risks to which the entity is designed to be exposed and to what extent BNP Paribas Fortis absorbs the related variability. The assessment of control shall consider all facts and circumstances able to determine BNP Paribas Fortis' 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, BNP Paribas Fortis 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 BNP Paribas Fortis contractually holds the decision-making power, for instance where BNP Paribas Fortis 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 BNP Paribas Fortis is acting on its own account and that it thus has control over those entities.

Where BNP Paribas Fortis 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), BNP Paribas Fortis exercises joint control over the activity. Where the jointly controlled activity is structured through a separate vehicle in which the partners have rights to the net assets, this joint venture is accounted for using the equity method. Where the jointly controlled activity is not structured through a separate vehicle or where the partners have rights to the assets and obligations for the liabilities of the jointly controlled activity, BNP Paribas Fortis accounts for its share of the assets, liabilities, revenues and expenses in accordance with the applicable IFRSs.

Enterprises over which BNP Paribas Fortis exercises significant influence (associates) are accounted for by the equity method. Significant influence is the power to participate in the financial and operating policy decisions of an enterprise without exercising control. Significant influence is presumed to exist when BNP Paribas Fortis holds, directly or indirectly, 20% or more of the voting power of an enterprise. Interests of less than 20% are excluded from consolidation unless they represent a strategic investment and BNP Paribas Fortis effectively exercises significant influence. This applies to companies developed in partnership with other groups, where BNP Paribas Fortis participates in strategic decisions of the enterprise through representation on the Board of Directors or equivalent governing body, exercises influence over the enterprise's operational management by supplying management systems or senior managers, or provides technical assistance to support the enterprise's development.

Changes in the net assets of associates (companies accounted for under the equity method) are recognised on the assets side of the balance sheet under "Investments in equity-method entities" and in the relevant component of shareholders' equity. Goodwill on associates is also included under "Investments in equity-method entities".

Whenever there is an indication of impairment, the carrying amount of the investment consolidated under the equity method (including goodwill) is subjected to an impairment test, by comparing its recoverable value (the higher of value-in-use and market value less costs to sell) to its carrying amount. Where appropriate, impairment is recognised under "Share of earnings of equity-method entities" in the consolidated income statement and can be reversed at a later date.

If BNP Paribas Fortis' share of losses of an equity-method entity equals or exceeds the carrying amount of its investment in this entity, BNP Paribas Fortis discontinues including its share of further losses. The investment is reported at nil value. Additional losses of the equity-method entity are provided for only to the extent that BNP Paribas Fortis has a legal or constructive obligation to do so, or has made payments on behalf of this entity.

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

As regards fully consolidated funds, units held by third-party investors are recognised as debts at fair value through profit or loss, inasmuch as they are redeemable at market value at the subscriber's initiative.

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

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

1.c.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 enterprises, 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.

Translation of financial statements expressed in foreign currencies

The consolidated financial statements of BNP Paribas Fortis are prepared in euros.

The financial statements of enterprises 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 for the period.

The same method is applied to the financial statements of enterprises 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 "Exchange rates" for the portion attributable to shareholders, and in "Minority interests" for the portion attributable to outside investors. Under the optional treatment permitted by IFRS 1, BNP Paribas Fortis 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 foreign enterprise 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 interest percentage held change without any modification in the nature of the investment, the translation adjustment is reallocated between the portion attributable to shareholders and that attributable to minority interests, if the enterprise 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.c.4 Business combinations and measurement of goodwill

Business combinations

Business combinations are accounted for using the purchase method.

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

The acquiree's contingent liabilities are not recognised in the consolidated balance sheet unless they represent a present obligation on the acquisition date and their fair value can be measured reliably.

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

Any contingent consideration is included in the cost, as soon as control is obtained, at fair value on the date when control was acquired. Subsequent changes in the value of any contingent consideration recognised as a financial liability are recognised through profit or loss.

BNP Paribas Fortis may recognise any adjustments to the provisional accounting within 12 months of the acquisition date.

Goodwill represents the difference between the cost of the combination and the acquirer's interest in the net fair value of the identifiable assets and liabilities of the acquiree at the acquisition date. Positive goodwill is recognised in the acquirer's balance sheet, while negative goodwill is recognised immediately in profit or loss, on the acquisition date.

Minority interests are measured at their share of the fair value of the acquiree's identifiable assets and liabilities. However, for each business combination, BNP Paribas Fortis can elect to measure minority interests at fair value, in which case a proportion of goodwill is allocated to them. To date, BNP Paribas Fortis 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 applied prospectively, business combinations completed prior to 1 January 2010 were not restated for the effects of changes to IFRS 3.

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

Measurement of goodwill

BNP Paribas Fortis tests goodwill for impairment on a regular basis.

Cash-generating units

BNP Paribas Fortis has split all its activities into homogeneous groups of business[2], representing the reporting entities or groups of reporting entities of BNP Paribas Fortis. This split is consistent with the organisational structure and management methods of BNP Paribas Fortis, and reflects the independence of each reporting entity or group of reporting entities in terms of results and management approach. It is reviewed on a regular basis in order to take account of events likely to affect the composition of cash-generating units, such as acquisitions, disposals and major reorganisations.

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 at the market conditions prevailing at the date of measurement, as determined mainly by reference to actual prices of recent transactions involving similar entities or on the basis of stock market multiples for comparable companies.

Value in use is based on an estimate of the future cash flows to be generated by the cash-generating unit, derived from the annual forecasts prepared by the unit's management and approved by the Executive Committee, and from analyses of changes in the relative positioning of the unit's activities on their market. These cash flows are discounted at a rate that reflects the return that investors would require from an investment in the business sector and region involved.

Transactions under common control

Transfers of assets or exchange of shares between entities under common control do not fall within the scope of IFRS 3 'Business Combinations' or other IFRS standards. Therefore, based on IAS 8, which requires management to use its judgement in developing and applying an accounting policy that provides relevant and reliable financial statement information, BNP Paribas Fortis has decided to adopt a predecessor basis of accounting. Under this method, BNP Paribas Fortis, as acquiring party, recognises those assets and liabilities at their carrying amount as determined and reported by the transferring entity in the consolidated financial statements of BNP Paribas at the date of the transfer. Consequently, no new goodwill (other than the existing goodwill relating to either of the combining entities) is recognised. Any difference between the consideration paid/transferred and the share in the net assets measured at the predecessor carrying amount is presented as an adjustment in equity. This predecessor basis of accounting for the business combinations under common control is applied prospectively from the date of the acquisition.

2 The definition in IAS 36 'Impairment of Assets' for 'homogeneous groups of business' is cash generating units.

BNP Paribas Fortis has opted to apply the scope exemption for business combinations under common control, as set out in IFRS 3, also to the acquisition of an interest in an associate in a transaction under common control. As such, BNP Paribas Fortis will measure the value of its share in the net assets of the interest in an associate, acquired in a transaction under common control, based on the predecessor carrying amounts as determined and reported by the transferring entity in the Consolidated Financial Statements of BNP Paribas at the date of the transfer.

1.d Financial assets and financial liabilities

1.d.1 Loans and receivables

Loans and receivables include credit provided by BNP Paribas Fortis, the share of BNP Paribas Fortis 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 commission (syndication commission, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate on the loan.

Loans and receivables are subsequently measured at amortised cost. The income from the loan, representing interest plus transaction costs and fees/commission included in the initial value of the loan, is calculated using the effective interest method and taken to profit or loss over the life of the loan.

Commission earned on financing commitments prior to the inception of a loan is 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.d.2 Securities

Categories of securities

Securities held by BNP Paribas Fortis 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 BNP Paribas Fortis has designated, on initial recognition, at fair value through profit or loss using the fair value option available under IAS 39. The conditions for applying the fair value option are set out in section 1.d.10.

Securities in this category are measured at fair value at the balance sheet date. Transaction costs are directly posted in the profit and loss account. 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 into this category is shown under "Interest income" in the profit and loss account.

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

Loans and receivables

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

Held-to-maturity financial assets

Held-to-maturity financial assets are investments with fixed or determinable payments and fixed maturity that BNP Paribas Fortis 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 accounted for at amortised cost using the effective interest method, which builds in amortisation of premium and discount (corresponding to the difference between the purchase price and redemption value of the asset) and acquisition costs (where material). Income earned from this category of assets is included in "Interest income" in the profit and loss account.

Available-for-sale financial assets

Available-for-sale financial assets are fixed-income and variable-income securities other than those classified as "fair value through profit or loss" or "held-to-maturity" or "loans and receivables".

Assets included in the available-for-sale category are initially recorded at fair value, plus transaction costs where material. At the balance sheet date, they are remeasured at fair value, with changes in fair value (excluding accrued interest) shown on a separate line in shareholders' equity. Upon disposal, these unrealised gains and losses are transferred from shareholders' equity to the profit and 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 method for fixed-income available-for-sale securities is recorded under "Interest income" in the profit and loss account. Dividend income from variable-income securities is recognised under "Net gain/loss on available-for-sale financial assets" when BNP Paribas Fortis' right to receive payment is established.

Repurchase agreements and securities lending/borrowing

Securities temporarily sold under repurchase agreements continue to be recorded in BNP Paribas Fortis' balance sheet in the category of securities to which they belong. The corresponding liability is recognised in the appropriate debt category on the balance sheet except in the case of repurchase agreements contracted for trading purposes where the corresponding liability is classified under "Financial liabilities at fair value through profit or loss".

Securities temporarily acquired under reverse repurchase agreements are not recognised in BNP Paribas Fortis' balance sheet. The corresponding receivable is recognised under "Loans and receivables" except in the case of reverse repurchase agreements contracted for 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 on the balance sheet. In cases where the borrowed securities are subsequently sold by BNP Paribas Fortis, the obligation to deliver the borrowed securities on maturity is recognised on the balance sheet under "Financial liabilities at fair value through profit or loss".

Date of recognition for securities transactions

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

Regardless of their classification (at 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 at the settlement date. For reverse repurchase agreements and repurchase agreements, a financing commitment, respectively given and received, is recognized 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 BNP Paribas Fortis' rights to receive the related cash flows expire, or until BNP Paribas Fortis has substantially transferred all the risks and rewards related to ownership of the securities.

1.d.3 Foreign currency transactions

The methods used to account for assets and liabilities relating to foreign currency transactions entered into by BNP Paribas Fortis, and to measure the foreign exchange risk arising on such transactions, depend on whether the asset or liability in question is classified as a monetary or a non-monetary item.

Monetary assets and liabilities[3] 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 in the profit and loss account, except for those arising from financial instruments designated as a cash flow hedge or a net foreign investment hedge, which are recognised in shareholders' equity.

Non-monetary assets and liabilities 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 translated using the exchange rate at the date of the transaction if they are measured at historical cost, and at the closing rate if they are measured at fair value.

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

3 Monetary assets and liabilities are assets and liabilities to be received or paid in fixed or determinable amounts of cash.

1.d.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 where (i) there is objective evidence of a decrease in value as a result of an event occurring after inception of the loan or acquisition of the asset; (ii) the event affects the amount or timing of future cash flows; and (iii) the consequences of the event can be reliably measured. Loans are initially assessed for evidence of impairment on an individual basis, and subsequently on a portfolio basis. Similar principles are applied to financing and guarantee commitments given by BNP Paribas Fortis, with the probability of drawdown taken into account in any assessment of financing commitments.

At an individual level, objective evidence that a financial asset is impaired includes observable data regarding the following events:

- the existence of accounts that are more than three months past due;
- knowledge or indications that the borrower meets significant financial difficulty, such that a risk can be considered to have arisen regardless of whether the borrower has missed any payments;
- concessions with respect to the credit terms granted to the borrower that the lender would not have considered had the borrower not been meeting financial difficulty (see section "Restructuring of assets classified as "Loans and receivables").

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, of those components (principal, interest, collateral, etc.) regarded as recoverable. Changes in the amount of impairment losses are recognised in the profit and loss account under "Cost of risk". Any subsequent decrease in an impairment loss that can be related objectively to an event occurring after the impairment loss was recognised is credited to the profit and loss account, also under "Cost of risk". 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 and receivables are usually recorded in a separate provision account which reduces the amount for which the loan or receivable was recorded in assets upon initial recognition. Provisions relating to off-balance sheet financial instruments, financing and guarantee commitments or disputes are recognised in liabilities. Impaired receivables are written off in whole or in part and the corresponding provision is reversed for the amount of the loss when all other means available to the Bank for recovering the receivables or guarantees have failed, or when all or part of the receivables have been waived.

Counterparties that are not individually impaired are risk-assessed on a portfolio basis with similar characteristics. This assessment draws upon an internal rating system based on historical data, adjusted as necessary to reflect circumstances prevailing at the balance sheet date. It enables BNP Paribas Fortis to identify groups of counterparties which, as a result of events occurring since inception of the loans, have collectively acquired a probability of default at maturity that provides objective evidence of impairment of the entire portfolio, but without it being possible at that stage to allocate the impairment to individual counterparties. This assessment also estimates the amount of the loss on the portfolios in question, taking account of trends in the economic cycle during the assessment period. Changes in the amount of portfolio impairments are recognised in the profit and loss account under "Cost of risk".

Based on the experienced judgement of the Bank's divisions or Risk Management, BNP Paribas Fortis may recognise additional collective impairment provisions with respect to a given economic sector or geographic area affected by exceptional economic events. This may be the case when the consequences of these events cannot be measured with sufficient accuracy to adjust the parameters used to determine the collective provision recognised against affected portfolios of loans with similar characteristics.

Impairment of available-for-sale financial assets

Impairment of available-for-sale financial assets (which mainly comprise securities) is recognised on an individual basis if there is objective evidence of impairment as a result of one or more events occurring since acquisition.

In the case of variable-income securities quoted in an active market, the control system identifies securities that may be impaired on a long term basis and is based on criteria such as a significant decline in quoted price below the acquisition cost or a prolonged decline, which prompts BNP Paribas Fortis 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, BNP Paribas Fortis has determined three indications of impairment, one being a significant decline in price, defined as a fall of more than 50% of the acquisition price, another being a prolonged decline over two consecutive years and the final one being a decline on average of at least 30% over an observation period of one year. BNP Paribas Fortis believes that a period of two years is what is necessary for a moderate decline in price below the purchase cost to be considered as something more than just the effect of random volatility inherent in the stock markets or a cyclical change lasting a few years, but which represents a lasting phenomenon justifying an impairment.

A similar method is applied for variable-income securities not quoted in an active market. Any impairment is then determined based on the model value.

In the case of fixed-income securities, impairment is assessed based on the same criteria applied to individually impaired loans and receivables. For securities quoted in an active market, impairment is determined based on the quoted price. For all the others, it is determined based on model value.

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

Impairment losses taken against fixed-income securities 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 as "Loans and receivables"

The restructuring of an asset classified in loans and receivables is considered to be a troubled debt restructuring when the Bank, for economic or legal reasons related to the borrower's financial difficulties, agrees to a modification of terms of the original transaction that it would not otherwise consider, resulting in the borrower's contractual obligation to the Bank, measured at present value, being reduced compared with 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 asset value is recognised in the profit and loss account 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.d.13) and the assets received in settlement are recognised at their fair value on the settlement date. The difference in value is recognised in profit or loss under "Cost of risk".

1.d.5 Reclassification of financial assets

The only authorised reclassifications of financial assets are the following:

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

Financial assets are reclassified at fair value, or at the value calculated by a model, on the reclassification date. Any derivatives embedded in the reclassified financial assets are recognised separately and 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 asset for the purpose of determining any impairment.

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

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

1.d.6 Issues of debt securities

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

Bonds redeemable for or convertible into BNP Paribas Fortis' equity instruments are accounted for as hybrid instruments with a debt component and an equity component, determined on initial recognition.

1.d.7 Own equity instruments and own equity instrument derivatives

The term "own equity instruments" refers to shares issued by the parent company (BNP Paribas Fortis) and by its fully consolidated subsidiaries. External costs that are directly attributable to an issue of new shares are deducted from equity net of all related taxes.

Own equity instruments held by BNP Paribas Fortis, also known as treasury shares, are deducted from consolidated shareholders' equity irrespective of the purpose for which they are held. Gains and losses arising on such instruments are eliminated from the consolidated profit and loss account.

When BNP Paribas Fortis acquires equity instruments issued by subsidiaries under the exclusive control of BNP Paribas Fortis, the difference between the acquisition price and the share of net assets acquired is recorded in retained earnings attributable to BNP Paribas Fortis shareholders. Similarly, the liability corresponding to put options granted to minority shareholders in such subsidiaries, and changes in the value of that liability, are offset initially against minority interests, with any surplus offset against retained earnings attributable to BNP Paribas Fortis shareholders. Until these options have been exercised, the portion of net income attributable to minority interests is allocated to minority interests in the profit and loss account. A decrease in BNP Paribas Fortis' interest in a fully consolidated subsidiary is recognised in BNP Paribas Fortis' accounts as a change in shareholders' equity.

Own equity instrument derivatives are treated as follows, depending on the method of settlement:

- as equity instruments if they are settled by physical delivery of a fixed number of own equity instruments for a fixed amount of cash or other financial asset. Such instruments are not revalued;
- as derivatives if they are settled in cash, or by choice depending on whether they are settled by physical delivery of the shares or in cash; changes in value of such instruments are taken to the profit and loss account.

If the contract includes an obligation, whether contingent or not, for the bank to repurchase its own shares, the bank must recognise the debt at its present value with an offsetting entry in equity.

1.d.8 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 to 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 at fair value through profit or loss" when their fair value is positive, and in "Financial liabilities at fair value through profit or loss" when their fair value is negative. Realised and unrealised gains and losses are recognised in the profit and loss account on the line "Net gain/loss on financial instruments at fair value through profit or loss".

Derivatives and hedge accounting

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

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

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

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

On inception and at least quarterly, BNP Paribas Fortis assesses, in consistency with the original documentation, the actual (retrospective) and expected (prospective) effectiveness of the hedging relationship. Retrospective effectiveness tests are designed to assess whether the ratio of actual changes in the fair value or cash flows of the hedging instrument to those in the hedged item is within a range of 80% to 125%. Prospective effectiveness tests are designed to ensure that expected changes in the fair value or cash flows of the derivative over the residual life of the hedge adequately offset those of the hedged item. For highly probable forecast transactions, effectiveness is assessed largely on the basis of historical data for similar transactions.

Under IAS 39 as adopted by the European Union, which excludes certain provisions on portfolio hedging, interest rate risk hedging relationships based on portfolios of assets or liabilities qualify for fair value hedge accounting as follows:

- the risk designated as being hedged is the interest rate risk associated with the interbank rate component of interest rates on commercial banking transactions (loans to customers, savings accounts and demand deposits);
- the instruments designated as being hedged correspond, for each maturity band, to a portion of the interest rate gap associated with the hedged underlyings;
- the hedging instruments used consist exclusively of "plain vanilla" swaps;
- prospective hedge effectiveness is established by the fact that all derivatives must, on inception, have the effect of reducing interest rate risk in the portfolio of hedged underlyings. Retrospectively, a hedge will be disqualified from hedge accounting once a shortfall arises in the underlyings specifically associated with that hedge for each maturity band (due to prepayment of loans or withdrawals of deposits).

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

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

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

In a cash flow hedging relationship, the derivative is measured at fair value in the balance sheet, with changes in fair value taken to shareholders' equity on a separate line, "Unrealised or deferred gains or losses". The amounts taken 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 profit or loss. The hedged items continue to be accounted for using the treatment specific to the category to which they belong.

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

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

Whatever the hedging strategy used, any ineffective portion of the hedge is recognised in 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 and branches are accounted for in the same way as cash flow hedges. Hedging instruments may be currency derivatives or any other non-derivative financial instrument.

Embedded derivatives

Derivatives embedded in hybrid financial instruments are separated from the value of the host contract and accounted for separately as a derivative if the hybrid instrument is not recorded as a financial asset or liability at fair value through profit or loss, and if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.

1.d.9 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.

BNP Paribas Fortis 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 maximize the use of observable inputs and minimize the use of unobservable inputs. They are calibrated to reflect current market conditions and valuation adjustments are applied as appropriate, when some factors such as model, liquidity and credit risks are not captured by the models or their underlying inputs but are nevertheless considered by market participants when setting the exit price.

The unit of measurement is generally the individual financial asset or financial liability but a portfolio-based measurement can be elected subject to certain conditions. Accordingly, BNP Paribas Fortis 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 parameters that were originally non-observable become observable, or when the valuation can be substantiated in comparison with recent similar transactions in an active market, the unrecognised portion of the day one profit is released to the profit and loss account.

1.d.10 Financial assets and liabilities designated as at fair value through profit or loss (fair value option)

Financial assets or financial liabilities may be designated on initial recognition as at fair value through profit or loss, in the following cases:

- hybrid financial instruments containing one or more embedded derivatives which otherwise would have been separated and accounted for separately;
- where using the option enables the entity to eliminate or significantly reduce a mismatch in the measurement and accounting treatment of assets and liabilities that would arise if they were to be classified in separate categories;
- when a group of financial assets and/or financial liabilities is managed and measured on the basis of fair value, in accordance with a documented risk management and investment strategy.

1.d.11 Income and expenses arising from financial assets and financial liabilities

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

The effective interest rate is the rate that exactly discounts estimated future cash flows 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.

The method used by BNP Paribas Fortis to recognise service-related commission income and expenses depends on the nature of the service. Commission treated as an additional component of interest is included in the effective interest rate, and is recognised in the profit and loss account in "Net interest income". Commission payable or receivable on execution of a significant transaction is recognised in the profit and loss account in full on execution of the transaction, under "Commission income and expense". Commission payable or receivable for recurring services is recognised over the term of the service, also under "Commission income and expense".

Commission received in respect of financial guarantee commitments is regarded as representing the fair value of the commitment. The resulting liability is subsequently amortised over the term of the commitment, under commission income in Revenues.

1.d.12 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 provisions for financing and guarantee commitments given, losses on irrecoverable loans and amounts recovered on loans written off. This caption 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.d.13 Derecognition of financial assets and financial liabilities

BNP Paribas Fortis derecognises all or part of a financial asset either when the contractual rights to the cash flows from the asset expire or when BNP Paribas Fortis transfers the contractual rights to the cash flows from the asset and substantially all the risks and rewards of ownership of the asset. Unless these conditions are fulfilled, BNP Paribas Fortis retains the asset in its balance sheet and recognises a liability for the obligation created as a result of the transfer of the asset.

BNP Paribas Fortis derecognises all or part of a financial liability when the liability is extinguished in full or in part.

1.d.14 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, BNP Paribas Fortis 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.

Repurchase agreements and derivatives traded with clearing houses that meet the two criteria set out in the accounting standard are offset in the balance sheet.

1.e Property, plant, equipment and intangible assets

Property, plant and equipment and intangible assets shown in the consolidated balance sheet are composed of assets used in operations and investment property.

Assets used in operations are those used in the provision of services or for administrative purposes, and include non-property assets leased by BNP Paribas Fortis as lessor under operating leases.

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

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

Software developed internally by BNP Paribas Fortis that fulfils the criteria for capitalisation is capitalised at direct development cost, which includes external costs and the labour costs of employees directly attributable to the project.

Subsequent to initial recognition, property, plant and equipment and intangible assets are measured at cost less accumulated depreciation or amortisation and any impairment losses. The only exceptions are shares in civil property companies (SCIs) held in unit-linked insurance contract portfolios, which are measured at fair value on the balance sheet date, with changes in fair value taken to profit or loss.

The depreciable amount of property, plant and equipment and intangible assets is calculated after deducting the residual value of the asset. Only assets leased by BNP Paribas Fortis as the 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 expense is recognised in the profit and loss account under “Depreciation, amortisation and impairment of property, plant and equipment and intangible assets”.

Where an asset consists of a number of components which may require replacement at regular intervals, or which have different uses or generate economic benefits at different rates, each component is recognised separately and depreciated using a method appropriate to that component. BNP Paribas Fortis has adopted the component-based approach for property used in operations and for investment property.

The depreciation periods used for office property are as follows: 80 years or 60 years for the shell (for prime and other property respectively); 30 years for facades; 20 years for general and technical installations; and 10 years for fixtures and fittings.

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

Software maintenance costs are expensed as incurred. However, expenditure that is regarded as upgrading the software or extending its useful life is included in the initial acquisition or production cost.

Depreciable property, plant and equipment and intangible assets are tested for impairment if there is an indication of potential impairment at 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 new recoverable amount of the asset is compared with the carrying amount. If the asset is found to be impaired, an impairment loss is recognised in the profit and loss account. This loss is reversed in the event of a change in the estimated recoverable amount or if there is no longer an indication of impairment. Impairment losses are taken to the profit and loss account in "Depreciation, amortisation and impairment of property, plant and equipment and intangible assets".

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

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

1.f Leases

BNP Paribas Fortis' companies may either be the lessee or the lessor in a lease agreement.

1.f.1 Lessor accounting

Leases contracted by BNP Paribas Fortis as lessor are categorised as either finance leases or operating leases.

Finance leases

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

The present value of the lease payments, plus any residual value, is recognised as a receivable. The net income earned from the lease by the lessor is equal to the amount of interest on the loan, and is taken to the profit and loss account under "Interest income". The lease payments are spread over the lease term, and are allocated to 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 lease.

Individual and portfolio impairments of lease receivables are determined using the same principles as applied to other loans and receivables.

Operating leases

An operating lease is a lease under which substantially all 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 depreciated on a straight-line basis over the lease term. The depreciable amount excludes the residual value of the asset. The lease payments are taken to the profit and loss account in full on a straight-line basis over the lease term. Lease payments and depreciation expenses are taken to the profit and loss account under "Income from other activities" and "Expense on other activities".

1.f.2 Lessee accounting

Leases contracted by BNP Paribas Fortis 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 balance sheet of the lessee at the lower of its fair value or the present value of the minimum lease payments calculated at the interest rate implicit in the lease. A matching liability, equal to the fair value of the leased asset or the present value of the minimum lease payments, is also recognised in the balance sheet of the lessee. The asset is depreciated using the same method as that applied 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 accounted for at amortised cost.

Operating leases

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

1.g Non-current assets held for sale and discontinued operations

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

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

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

Where 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.h Employee benefits

Employee benefits are classified in one of four categories:

- short-term benefits, such as salary, annual leave, incentive plans, profit-sharing and additional payments;
- long-term benefits, including compensated absences, long-service awards, and other types of cash-based deferred compensation;
- termination benefits;
- post-employment benefits.

Short-term benefits

BNP Paribas Fortis 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 12 months 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 techniques used are similar to those used for defined-benefit post-employment benefits, except that the revaluation items are recognised in the profit and loss account and not in equity.

Termination benefits

Termination benefits are employee benefits payable in exchange for the termination of an employee's contract as a result of either a decision by BNP Paribas Fortis to terminate a contract of employment before the legal retirement age, or a decision by an employee to accept voluntary redundancy in exchange for these benefits. Termination benefits due more than 12 months after the balance sheet date are discounted.

Post-employment benefits

In accordance with IFRS, BNP Paribas Fortis draws a distinction between defined-contribution plans and defined-benefit plans.

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

Only defined-benefit schemes give rise to an obligation for BNP Paribas Fortis. This obligation must be measured and recognised as a liability by means of a provision.

The classification of plans into these two categories is based on the economic substance of the plan, which is reviewed to determine whether BNP Paribas Fortis has a legal or constructive obligation to pay the agreed benefits to employees.

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

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

The present value of the defined-benefit obligation is measured on the basis of the actuarial assumptions applied by BNP Paribas Fortis, using the projected unit credit method. This method takes into account various parameters, specific to each country or entities of BNP Paribas Fortis, such as demographic assumptions, the probability that employees will leave before retirement age, salary inflation, a discount rate, and the general 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 BNP Paribas Fortis 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 "Salaries and employee benefits", with respect to defined-benefit plans includes the current service cost (the rights vested by each employee during the period in return for service rendered), the net interests 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 shareholders' equity and are never reclassified to profit or loss. They include actuarial gains and losses, the return on plan assets and any change in the effect of the asset ceiling (excluding amounts included in net interest on the defined-benefit liability or asset).

1.i Share-based payments

Share-based payment transactions are payments based on shares issued by BNP Paribas, whether the transaction is settled in the form of equity or cash of which the amount is based on trends in the value of BNP Paribas 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.

BNP Paribas Fortis grants employees stock subscription option plans and deferred share-based or share price-linked cash-settled compensation plans, and also offers them the possibility to purchase specially-issued BNP Paribas shares at a discount, on condition that they retain the shares for a specified period.

Stock option and share award plans

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

Stock options and share award expenses are recorded under salary and employee benefits expenses, with a corresponding adjustment to shareholders' equity. They are calculated on the basis of the overall plan value, determined at the date of grant by the Board of Directors.

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 per option or share awarded by the estimated number of options or shares awarded vested 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 BNP Paribas Fortis and those relating to performance conditions that are not linked to the price value of BNP Paribas shares.

Share price-linked cash-settled deferred compensation plans

The expense related to these plans is recognised in the year during which the employee rendered the corresponding services.

If the payment of share-based variable compensation is explicitly subject to the employee's continued presence at the vesting date, the services are presumed to have been rendered during the vesting period and the corresponding compensation expense is recognised on a pro rata basis over that period. The expense is recognised under salary and employee benefits expenses with a corresponding liability in the balance sheet. It is revised to take into account any non-fulfilment of the continued presence or performance conditions and the change in BNP Paribas share price.

If there is no continued presence condition, the expense is not deferred, but recognised immediately with a corresponding liability in the balance sheet. This is then revised on each reporting date until settlement to take into account any performance conditions and the change in the BNP Paribas share price.

Share subscriptions or purchases offered to employees under the company savings plan

Share subscriptions or purchases offered to employees under the company savings plan at lower-than-market rates over a specified period do not include a vesting period. However, employees are prohibited by law from selling shares acquired under this plan for a period of five years. This restriction is taken into account when measuring the benefit to the employees, which is reduced accordingly. Therefore, the benefit equals the difference, at the date the plan is announced to employees, between the fair value of the share (after allowing for the restriction on sale) and the acquisition price paid by the employee, multiplied by the number of shares acquired.

The cost of the mandatory five-year holding period is equivalent to the cost of a strategy involving the forward sale of shares subscribed at the time of the capital increase reserved for employees and the cash purchase of an equivalent number of BNP Paribas shares on the market, financed by a loan repaid at the end of a five-year period out of the proceeds from the forward sale transaction. The interest rate on the loan is the rate that would be applied to a five-year general purpose loan taken out by an individual with an average risk profile. The forward sale price for the shares is determined on the basis of market parameters.

1.j Provisions recorded under liabilities

Provisions recorded under liabilities (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 embodying economic benefits will be required to settle an obligation arising from a past event, and a reliable estimate can be made of the amount of the obligation. The amount of such obligations is discounted, where the impact of discounting is material, in order to determine the amount of the provision.

1.k 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 BNP Paribas Fortis operates during the period in which the income is generated.

Deferred taxes are recognised when temporary differences arise between the carrying amount of an asset or liability in the balance sheet and its tax base.

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

- taxable temporary differences on initial recognition of goodwill;
- taxable temporary differences on investments in enterprises under the exclusive or joint control of BNP Paribas Fortis, where BNP Paribas Fortis 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 the same tax group, they fall under the jurisdiction of a single tax authority, and there is a legal right to offset.

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

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

1.l 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 BNP Paribas Fortis' operations, including cash flows related to investment property, held-to-maturity financial assets and negotiable certificates of deposit.

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 certificates of deposit).

1.m Use of estimates in the preparation of the financial statements

Preparation of the financial statements requires managers of core businesses and corporate 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. This may have a material effect on the financial statements.

This applies in particular to:

- impairment losses recognised to cover credit risks inherent in banking intermediation activities;
- the use of internally-developed models to measure positions in financial instruments that are not quoted in 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;
- 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 goodwill and intangible assets;
- impairment testing on investments in equity-method entities;
- deferred tax asset recognition;
- 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 FOR THE YEAR ENDED 31 DECEMBER 2016

2.a Net interest income

BNP Paribas Fortis includes under '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 gain/loss on financial instruments at fair value through profit or loss'.

Interest income and expense on derivatives accounted for as fair value hedges are included with the 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 income and expense relating to the underlying transactions.

In millions of euros	Year to 31 Dec. 2016			Year to 31 Dec. 2015		
	Income	Expense	Net	Income	Expense	Net
Customer items	**6,568**	**(1,459)**	**5,109**	**6,747**	**(1,637)**	**5,110**
Deposits, loans and borrowings	5,793	(1,412)	4,381	6,061	(1,608)	4,453
Repurchase agreements	15	(8)	7	-	(4)	(4)
Finance leases	760	(39)	721	686	(25)	661
Interbank items	**269**	**(373)**	**(104)**	**283**	**(357)**	**(74)**
Deposits, loans and borrowings	258	(298)	(40)	265	(297)	(32)
Repurchase agreements	11	(75)	(64)	18	(60)	(42)
Debt securities issued	**-**	**(295)**	**(295)**	**-**	**(302)**	**(302)**
Cash flow hedge instruments	**492**	**(409)**	**83**	**428**	**(356)**	**72**
Interest rate portfolio hedge instruments	**467**	**(289)**	**178**	**432**	**(230)**	**202**
Financial instruments at fair value through profit or loss	**126**	**(186)**	**(60)**	**82**	**(192)**	**(110)**
Fixed-income securities	15	-	15	11	-	11
Loans / Borrowings	53	(31)	22	14	(1)	13
Repurchase agreements	58	(81)	(23)	57	(78)	(21)
Debt securities	-	(74)	(74)	-	(113)	(113)
Available-for-sale financial assets	**427**	**-**	**427**	**495**	**-**	**495**
Held-to-maturity financial assets	**25**	**-**	**25**	**32**	**-**	**32**
Total interest income / (expense)	**8,374**	**(3,011)**	**5,363**	**8,499**	**(3,074)**	**5,425**

Interest income on individually impaired loans amounted to EUR 35 million in the year ending 31 December 2016, compared with EUR 36 million in the year ending 31 December 2015.

2.b Commission income and expense

In millions of euros	Year to 31 Dec. 2016			Year to 31 Dec. 2015		
	Income	Expense	Net	Income	Expense	Net
Financial instruments not measured at fair value through profit or loss	**423**	**(76)**	**347**	**443**	**(85)**	**358**
Trust and similar activities through which BNP Paribas Fortis holds or invests assets on behalf of clients, trusts, pension and personal risk funds or other institutions	**382**	**(2)**	**380**	**410**	**(4)**	**406**
Other commissions	**1,475**	**(736)**	**739**	**1,568**	**(721)**	**847**
Payment services	454	(157)	297	490	(177)	313
Operations linked to securities and derivatives	211	(79)	132	257	(66)	191
Insurance activities	348	(8)	340	354	(8)	346
Other	462	(492)	(30)	467	(470)	(3)
Total commissions	**2,280**	**(814)**	**1,466**	**2,421**	**(810)**	**1,611**

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 BNP Paribas Fortis has designated as at fair value through profit or loss under the fair value option, other than interest income and expense which are recognised in 'Net interest income' (Note 2.a).

Gains and losses on financial instruments designated as at fair value through profit or loss are mainly due to instruments whose changes in value may be compensated by changes in the value of economic hedging derivatives.

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Trading Book	**11**	**(5)**
Interest rate and credit instruments	92	62
Equity financial instruments	(209)	82
Foreign exchange financial instruments	134	(144)
Other derivatives	(6)	(4)
Repurchase agreements	-	(1)
Financial instruments designated as at fair value through profit or loss	**162**	**120**
of which debt remeasurement effect arising from BNP Paribas Fortis issuer risk (note 4.d)	(8)	21
Impact of hedge accounting	**(10)**	**20**
Fair value hedging derivatives	(577)	305
Hedged items in fair value hedge	567	(285)
Total	**163**	**135**

Net gains on the Trading Book in 2016 and 2015 include a non-material amount relating to the ineffective portion of cash flow hedges.

2.d Net gain/loss on available-for-sale financial assets and other financial assets not measured at fair value

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Loans and receivables, fixed-income securities [1]	**78**	**48**
Disposal gains and losses	78	48
Equities and other variable-income securities	**100**	**11**
Dividend income	55	23
Additions to impairment provisions	(37)	(23)
Net disposal gains	82	11
Total	**178**	**59**

[1] Interest income from fixed-income financial instruments is reported in 'Net interest income' (Note 2.a), and impairment losses relating to potential issuer default are included in 'Cost of risk' (Note 2.g).

Upon sale of the available-for-sale securities, or where there is objective evidence of impairment, the unrealised gains or losses on these securities, recognised in other comprehensive income, are reclassified from equity to profit and loss. For the year ending 2016, this amounted to a gain of EUR 72 million, compared to a gain of EUR 14 million for the year ending 2015.

2.e Net income from other activities

In millions of euros	Year to 31 Dec. 2016			Year to 31 Dec. 2015		
	Income	Expense	Net	Income	Expense	Net
Net income from investment property	36	(16)	20	34	(16)	18
Net income from assets held under operating leases	316	(201)	115	130	(94)	36
Other net income and expense	247	(252)	(5)	276	(325)	(49)
Total net income from other activities	**599**	**(469)**	**130**	**440**	**(435)**	**5**

2.f Other operating expense

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Tax	(357)	(357)
External services and other operating expenses	(1,395)	(1,409)
Total other operating expenses	**(1,752)**	**(1,766)**

2.g Cost of risk

Cost of risk represents the net amount of impairment losses recognised in respect to credit risks inherent in the banking intermediation activities, plus any impairment losses in the cases of known counterparty risks on over-the-counter financial instruments.

Cost of risk for the period

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Net allowances to impairment	(445)	(434)
Recoveries on loans and receivables previously written off	34	37
Irrecoverable loans and receivables not covered by impairment provisions	(23)	(34)
Total cost of risk for the period	**(434)**	**(431)**

Cost of risk for the period by asset type

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Loans and receivables due from credit institutions	20	(12)
Loans and receivables due from customers	(425)	(399)
Financial instruments of trading activities	9	2
Other assets	2	-
Commitments given and other items	(40)	(22)
Total cost of risk for the period	**(434)**	**(431)**
Cost of risk on a specific basis	(455)	(379)
Cost of risk on a collective basis	21	(52)

Credit risk impairment

Impairment variance during the period

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Total impairment provisions at start of year	**3,276**	**3,434**
Net allowance to impairment	445	434
Impairment provisions used	(357)	(589)
Effect of exchange rate movements and other items	(40)	(3)
Total impairment provisions at end of year	**3,324**	**3,276**

Impairment by asset type

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Impairment of assets		
Loans and receivables due from credit institutions (Note 4.f)	67	105
Loans and receivables due from customers (Note 4.g)	3,032	2,945
Financial instruments on trading activities	36	73
Available-for-sale financial assets (Note 4.c)	11	11
Other assets	3	1
Total impairment of financial assets	**3,149**	**3,135**
of which specific impairment	2,570	2,513
of which collective provisions	579	622
Provisions recognised as liabilities		
Provisions for commitments given		
- to credit institutions	3	10
- to customers	129	106
Other specific provisions	43	25
Total provisions recognised for credit commitments (Note 4.p)	**175**	**141**
of which specific impairment for commitments given	155	113
of which collective provisions	20	28
Total impairment and provisions	**3,324**	**3,276**

2.h Corporate income tax

Reconciliation of the effective tax expense to the theoretical tax expense at standard tax rate in Belgium	Year to 31 Dec. 2016		Year to 31 Dec. 2015	
	In millions of euros	Tax rate	In millions of euros	Tax rate
Corporate income tax expense on pre-tax income at standard tax rate [(1)]	**(816)**	**33.99%**	**(860)**	**33.99%**
Impact of differently taxed foreign profits	79	(3.3%)	75	(3.0%)
Impact of dividends and securities disposals taxed at reduced rate	30	(1.2%)	82	(3.2%)
Tax impact of previously unrecognised deferred taxes (tax losses and temporary differences)	474	(19.7%)	(9)	0.4%
Tax impact of using tax losses for which no deferred tax asset was previously recognised	5	(0.2%)	5	(0.2%)
Other items	(113)	4.7%	(11)	0.4%
Corporate income tax expense	**(341)**	**14.20%** [(2)]	**(718)**	**28.39%**
of which				
Current tax expense for the year to 31 December	(276)		(305)	
Deferred tax expense for the year to 31 December (Note 4.k)	(65)		(413)	

(1) *Restated for the share of profits in equity-method entities and goodwill impairment.*

(2) *Excluding the impact of activation on tax losses carried forward, the corporate income tax rate stood at 29%.*

3 SEGMENT INFORMATION

3.a Operating segments

Banking activities in Belgium

In Belgium, BNP Paribas Fortis offers a comprehensive package of financial services to private individuals, the self-employed, members of the professions and SMEs. The Bank also provides high net worth individuals, corporations and public and financial institutions with customised solutions, for which it is able to draw on the know-how and international network of the mother company, BNP Paribas.

In Retail & Private Banking (RPB), BNP Paribas Fortis has a solid footprint, serving 3.52 million individuals, professionals, SMEs and private banking customers. It has a very strong presence in the local market, through an extensive network of 785 branches, plus other channels such as ATMs and online banking facilities, including mobile banking. In its Retail banking activities, BNP Paribas Fortis operates under four complementary brands: the main brand BNP Paribas Fortis, plus Fintro, bpost bank/banque and Hello bank!, a 100% digital mobile banking service. In the insurance sector, BNP Paribas Fortis works in close cooperation with the Belgian market leader, AG Insurance.

Corporate & Public Bank, Belgium (CPBB) provides a comprehensive range of local and international financial services to Belgian enterprises, public entities and local authorities. The offering includes domestic banking products, specialist financial skills, and securities, insurance and real estate services. Skills include specialist trade services, cash management, factoring and leasing, plus M&A and capital markets activities. A central team of corporate bankers, relationship managers and skills officers ensures that BNP Paribas Fortis stays close to the market. This team, combined with the European network of business centres managed within Corporate & Institutional Banking, enables the Bank to offer unified commercial services to its Belgian clients locally and abroad.

Corporate & Institutional Banking (CIB) offers its clients (in Belgium and throughout Europe) full access to BNP Paribas CIB's product portfolio. CIB consists of five Business Lines: Global Markets, Financing Solutions, Corporate Finance, Private Equity, and Transaction Banking EMEA.

Other Domestic Markets

The operating segment 'Other Domestic Markets' mainly comprises BGL BNP Paribas in Luxembourg, BNP Paribas Leasing Solutions and Arval.

BGL BNP Paribas ranks among the leading banks operating in the Luxembourg financial marketplace. It has made a significant contribution to the country's emergence as a major international financial centre and is deeply rooted in Luxembourg's economic, cultural, sporting and social life.

As a partner with a longstanding commitment to the national economy, BGL BNP Paribas offers a wide range of products both for individuals and for professional and institutional clients. Ranked as the number one bank for corporates and the number two bank for resident individuals in the Grand Duchy of Luxembourg, BGL BNP Paribas is also the leader in bancassurance, providing combined offerings of insurance and banking services.

Fully owned by BNP Paribas Fortis, Arval specialises in full service vehicle leasing. Arval offers its customers - large international corporates, SMEs and professionals - tailored solutions that optimise their employees' mobility and outsource the risks associated with fleet management. Expert advice and service quality, which are the foundations of Arval's customer promise, are delivered in 28 countries.

Operating in 22 countries, BNP Paribas Leasing Solutions is a European leader in leasing for corporate and small business clients. It specialises in rental and finance solutions, ranging from professional equipment leasing to fleet outsourcing.

Banking activities in Turkey

BNP Paribas Fortis operates in Turkey via Türk Ekonomi Bankasi (TEB), in which it has a 48.72% stake. Retail Banking products and services consist of debit and credit cards, personal loans, and investment and insurance products distributed through the TEB branch network and via internet and phone banking. Corporate banking services include international trade finance, asset and cash management, credit services, currency hedging, interest and commodity risk, plus factoring and leasing. Through its commercial and SME banking departments, the Bank offers an array of banking services to small and medium-sized enterprises.

Other

This segment mainly comprises BNP Paribas Investment Partners, AG insurance, Personal Finance and the foreign branches of BNP Paribas Fortis.

3.b Information by operating segment

Income and expense by operating segment

In millions of euros	Year to 31 Dec. 2016					Year to 31 Dec. 2015				
	Banking activities in Belgium	Other Domestic Markets	Banking activities in Turkey	Other	Total	Banking activities in Belgium	Other Domestic Markets	Banking activities in Turkey	Other	Total
Revenues	**4,197**	**1,443**	**1,269**	**391**	**7,300**	**4,168**	**1,395**	**1,224**	**448**	**7,235**
Operating expense	(2,783)	(713)	(653)	(245)	(4,394)	(2,775)	(681)	(680)	(291)	(4,427)
Cost of risk	(73)	(54)	(270)	(37)	(434)	(130)	(46)	(201)	(54)	(431)
Operating Income	**1,341**	**676**	**346**	**109**	**2,472**	**1,263**	**668**	**343**	**103**	**2,377**
Non-operating items	(113)	27	-	171	85	77	(10)	-	290	357
Pre-tax income	**1,228**	**703**	**346**	**280**	**2,557**	**1,340**	**658**	**343**	**393**	**2,734**

Assets and liabilities by operating segment

In millions of euros	Year to 31 Dec. 2016					Year to 31 Dec. 2015				
	Banking activities in Belgium	Other Domestic Markets	Banking activities in Turkey	Other	Total	Banking activities in Belgium	Other Domestic Markets	Banking activities in Turkey	Other	Total
Assets	**183,668**	**60,130**	**22,263**	**31,729**	**297,790**	**182,529**	**43,059**	**23,410**	**24,685**	**273,683**
of which goodwill on acquisitions during the period (1)	-	509	-	-	509	-	-	-	-	-
of which investments in associates and Joint ventures	1,105	368	-	2,844	4,317	1,167	295	-	2,934	4,396
Liabilities	**172,405**	**51,415**	**20,224**	**27,212**	**271,256**	**172,839**	**35,691**	**21,287**	**19,819**	**249,636**

(1) Existing goodwill of Arval

3.c Country-by-country reporting

The country-by-country reporting has been prepared to comply with the requirements set out in Article 89 of the European Union Capital Requirements Directive IV. The information is presented using the same basis as the Consolidated Financial Statements of BNP Paribas Fortis for the period ending 31 December 2016, which are prepared in accordance with IFRSs as adopted by the European Union. The country information relates to the country of incorporation or residence of branches and subsidiaries.

In millions of euros, Year to 31 Dec. 2016 (*)	Revenues	Pre-tax income	Current tax	Deferred tax	Corporate income tax	FTE (**) as at 31 Dec. 2016	Nature of activities
Belgium	**4,358**	**1,386**	**(45)**	**(55)**	**(100)**	**14,887**	
of which: BNP Paribas Fortis NV/SA (Including Bass Master Issuer NV)	*4,469*	*1,626*	*(11)*	*(181)*	*(192)*	*13,981*	*Credit institution*
Turkey	**1,273**	**344**	**(58)**	**(13)**	**(71)**	**10,194**	
of which: Türk Ekonomi Bankası AS	*1,234*	*325*	*(57)*	*(10)*	*(67)*	*9,575*	*Credit institution*
Luxembourg	**685**	**352**	**(76)**	**22**	**(54)**	**2,301**	
of which: BGL BNP Paribas	*651*	*324*	*(75)*	*20*	*(55)*	*2,272*	*Credit institution*
France	**319**	**115**	**(44)**	**8**	**(36)**	**2,820**	
of which: BNP Paribas Lease Group BPLG	*145*	*43*	*(28)*	*13*	*(15)*	*1,230*	*Leasing firm*
Germany	**227**	**100**	**(28)**	**(2)**	**(30)**	**1,083**	
of which: Von Essen GMBH & CO. KG Bankgesellschaft	*129*	*63*	*(13)*	*(13)*	*(26)*	*376*	*Credit institution*
Poland	**4**	**1**	**(1)**	**-**	**(1)**	**116**	
of which: BNP Paribas Bank Polska S.A. (First 4 months of 2015)	*-*	*-*	*-*	*-*	*-*	*-*	*Credit institution*
United Kingdom	**132**	**74**	**(15)**	**-**	**(15)**	**1,150**	
Spain	**75**	**20**	**(5)**	**(14)**	**(19)**	**708**	
The Netherlands	**66**	**(1)**	**2**	**(8)**	**(6)**	**481**	
Italy	**79**	**35**	**(11)**	**-**	**(11)**	**905**	
Other	**82**	**(24)**	**5**	**(3)**	**2**	**1,182**	
Total	**7,300**	**2,402**	**(276)**	**(65)**	**(341)**	**35,827**	

(*) The financial data correspond to the contribution to consolidated income of fully consolidated entities under exclusive control.

(**) Full-time equivalents (FTE) at 31 December 2016 in wholly consolidated, fully consolidated entities.

4 NOTES TO THE BALANCE SHEET AT 31 DECEMBER 2016

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 consist of held-for-trading transactions - including derivatives - and certain assets and liabilities designated by BNP Paribas Fortis as at fair value through profit or loss at the time of acquisition or issuance.

	31 December 2016		31 December 2015	
In millions of euros	**Trading Book**	**Instruments designated as at fair value through profit or loss**	**Trading Book**	**Instruments designated as at fair value through profit or loss**
Securities portfolio	1,669	384	1,970	502
Loans and repurchase agreements	1,994	1,412	1,870	1,444
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**3,663**	**1,796**	**3,840**	**1,946**
Securities portfolio	2,207	-	3,044	-
Borrowings and repurchase agreements	3,089	230	3,584	249
Debt securities (Note 4.i)	-	3,331	-	3,776
Subordinated debt (Note 4.i)	-	998	-	1,330
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**5,296**	**4,559**	**6,628**	**5,355**

Loans measured at fair value through profit or loss

BNP Paribas Fortis has designated some financial assets of Corporate and Public Bank Belgium (CPBB) as at fair value through profit or loss. Selected inflation rate-linked credit contracts with governmental counterparties are designated as at fair value through profit or loss, reducing a potential accounting mismatch between the measurement of the interest rate swaps and other derivatives involved and the credit otherwise measured at amortised cost.

The evolution of the fair value of the loans held at fair value through profit or loss is influenced by repayments, by the evolution of the interest rates and by a tightening of the credit spreads.

Some other structured loans and contracts, including derivatives, are also designated as 'Held at fair value through profit or loss', thereby reducing a potential accounting mismatch.

The amortised cost of 'Loans held at fair value through profit or loss' at 31 December 2016 was EUR 1,077 million (31 December 2015: EUR 1,126 million).

In millions of euros	31 December 2016		31 December 2015	
	Positive market value	Negative market value	Positive market value	Negative market value
Interest rate derivatives	4,976	3,725	5,316	3,722
Foreign exchange derivatives	2,124	2,071	1,225	1,256
Credit derivatives	4	5	8	8
Equity derivatives	428	127	631	109
Other derivatives	-	(1)	-	-
Derivative financial instruments	**7,532**	**5,927**	**7,180**	**5,095**

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

In millions of euros	31 December 2016			31 December 2015		
	Organised markets (1)	Over-the-counter	Total	Organised markets (1)	Over-the-counter	Total
Interest rate derivatives	168,942	653,220	822,162	126,790	932,574	1,059,364
Foreign exchange derivatives	-	161,543	161,543	-	116,635	116,635
Credit derivatives	-	156	156	-	216	216
Equity derivatives	108	1,839	1,947	32	1,803	1,835
Other derivatives	-	21	21	-	1	1
Derivatives financial instruments	**169,050**	**816,779**	**985,829**	**126,822**	**1,051,229**	**1,178,051**

(1) *Financial instruments negotiated on organised markets are mainly traded with clearing houses*

4.b Derivatives used for hedging purposes

The table below shows the fair value of derivatives used for hedging purposes.

In millions of euros	31 December 2016		31 December 2015	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Fair value hedges	**1,754**	**4,221**	**1,651**	**3,791**
Interest rate derivatives	1,580	4,204	1,632	3,715
Foreign exchange derivatives	174	17	19	76
Cash flow hedges	**347**	**174**	**256**	**329**
Interest rate derivatives	209	87	245	62
Foreign exchange derivatives	139	87	11	267
Derivatives used for hedging purposes	**2,101**	**4,395**	**1,907**	**4,120**

The total notional amount of derivatives used for hedging purposes stood at EUR 114,857 million at year-end 2016 compared with EUR 117,998 million at 31 December 2015.

4.c Available-for-sale financial assets

In millions of euros	31 December 2016			31 December 2015		
	Net	of which impairments	of which changes in value recognised directly in equity	Net	of which impairments	of which changes in value recognised directly in equity
Fixed-income securities	**28,343**	**(11)**	**558**	**31,449**	**(11)**	**635**
Treasury bills and Government bonds	20,198	-	300	22,765	-	382
Other fixed-income securities	8,145	(11)	258	8,684	(11)	253
Equities and other variable-income securities	**1,215**	**(511)**	**239**	**1,280**	**(516)**	**244**
Of which listed securities	72	-	30	55	-	34
Of which unlisted securities	1,143	(511)	209	1,225	(516)	210
Total available-for-sale financial assets	**29,558**	**(522)**	**797**	**32,729**	**(527)**	**879**

The gross amount of impaired fixed-income securities is EUR 11 million at 31 December 2016 (EUR 11 million at 31 December 2015).

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

In millions of euros	31 December 2016			31 December 2015		
	Fixed-income securities	Equities and other variable-income securities	Total	Fixed-income securities	Equities and other variable-income securities	Total
Non-hedged changes in value of securities recognised in 'Available-for-sale financial assets'	**558**	**239**	**797**	**635**	**244**	**879**
Deferred tax linked to these changes in value	(102)	(23)	(125)	(104)	(17)	(121)
BNP Paribas Fortis' share of changes in value of available-for-sale securities owned by equity-method entities after deferred tax and insurance policyholders' surplus reserve	713	97	810	795	97	892
Unamortised changes in value of available-for-sale securities reclassified as loans and receivables	(194)	-	(194)	(297)		(297)
Other variations	(2)	3	1		2	2
Changes in value of assets taken directly to equity under the heading 'Financial assets available for sale and reclassified as loans and receivables'	**973**	**316**	**1,289**	**1,029**	**326**	**1,355**
Attributable to equity shareholders	887	293	1,180	951	303	1,254
Attributable to minority interests	86	23	109	78	23	101

4.d Measurement of the fair value of financial instruments

Valuation process

BNP Paribas Fortis 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 to which add 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.

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. In particular, for non- or imperfectly collateralised derivative instruments, they include an explicit adjustment to the interbank interest rate (Funding Valuation Adjustment – FVA).

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

The main valuation adjustments are presented in the section below.

Valuation adjustments

Valuation adjustments retained by BNP Paribas Fortis for determining fair values are as follows:

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

BNP Paribas Fortis 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.

Input uncertainty adjustments: when the observation of prices or data inputs required by valuation techniques is difficult or irregular, an uncertainty exists on the exit price. There are several ways to gauge the degree of uncertainty on the exit price such as measuring the dispersion of the available price indications or estimating the possible ranges of the inputs to a valuation technique.

Model uncertainty adjustments: these relate to situations where valuation uncertainty is due to the valuation technique used, even though observable inputs might be available. This situation arises when the risks inherent in the instruments are different from those available in the observable data, and therefore the valuation technique involves assumptions that cannot be easily corroborated.

Credit valuation adjustment (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 BNP Paribas Fortis 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 determination of CVA remains judgemental due to i) the possible absence or lack of price discovery in the inter-dealer market, ii) the influence of the regulatory landscape relating to counterparty risk on the market participants' pricing behaviour and iii) the absence of a dominant business model for managing counterparty risk.

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

Own-credit valuation adjustment for debts (OCA) and for derivatives (debit valuation adjustment - DVA): OCA and DVA are adjustments reflecting the effect of credit worthiness of BNP Paribas Fortis, on respectively the value of debt securities designated as at fair value through profit or 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. The DVA adjustment is determined after taking into account the Funding Valuation Adjustment (FVA).

Thus, the carrying value of debt securities designated as at fair value through profit or loss is increased by EUR 50 million as at 31 December 2016, compared with an increase in value of EUR 42 million as at 31 December 2015, i.e. a EUR (8) million variation recognised in 'net gain on financial instruments at fair value through profit or loss' (note 2.c).

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.d.10), financial instruments measured at fair value are categorised into a fair value hierarchy consisting of three levels.

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

- Securitised exposures are further broken down by collateral type.

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

In millions of euros	31 December 2016											
	Trading Book				Instruments designated as at fair value through profit or loss				Available-for-sale financial assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Securities portfolio	**1,619**	**48**	**2**	**1,669**	**149**	**77**	**158**	**384**	**21,522**	**7,252**	**784**	**29,558**
Treasury bills and government bonds	1,511	9		1,520				-	16,124	4,074		20,198
Asset Backed Securities	-	11	-	11	-	-	-	-	-	-	-	-
CDOs / CLOs				-				-				-
Other Asset Backed Securities		*11*		*11*				-				-
Other fixed-income securities	-	28	2	30	-	-	-	-	5,325	2,820	-	8,145
Equities and other variable-income securities	108	-	-	108	149	77	158	384	73	358	784	1,215
Loans and repurchase agreements	**-**	**1,992**	**2**	**1,994**	**-**	**1,412**	**-**	**1,412**				
Loans			-			1,412		1,412				
Repurchase agreements		1,992	2	1,994			-					
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS	**1,619**	**2,040**	**4**	**3,663**	**149**	**1,489**	**158**	**1,796**	**21,522**	**7,252**	**784**	**29,558**
Securities portfolio	**1,134**	**1,073**	**-**	**2,207**	**-**	**-**	**-**	**-**				
Treasury bills and government bonds	1,134			1,134				-				
Other fixed-income securities		1,073		1,073				-				
Equities and other variable-income securities			-				-					
Borrowings and repurchase agreements	**-**	**3,087**	**2**	**3,089**	**-**	**230**	**-**	**230**				
Borrowings		18		18		230		230				
Repurchase agreements		3,069	2	3,071				-				
Debt securities (Note 4.i)	**-**	**-**	**-**	**-**	**-**	**2,502**	**829**	**3,331**				
Subordinated debt (Note 4.i)	**-**	**-**	**-**	**-**	**-**	**998**	**-**	**998**				
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**1,134**	**4,160**	**2**	**5,296**	**-**	**3,730**	**829**	**4,559**				

In millions of euros	31 December 2015											
	Trading Book				Instruments designated as at fair value through profit or loss				Available-for-sale financial assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Securities portfolio	**1,923**	**47**	**-**	**1,970**	**198**	**86**	**218**	**502**	**22,402**	**9,124**	**1,203**	**32,729**
Treasury bills and government bonds	1,750	3		1,753				-	18,507	4,258		22,765
Asset Backed Securities	-	-	-	-	-	-	-	-	-	-	-	-
CDOs / CLOs				-				-				-
Other Asset Backed Securities				-				-				-
Other fixed-income securities	75	44		119				-	3,840	4,844		8,684
Equities and other variable-income securities	98			98	198	86	218	502	55	22	1,203	1,280
Loans and repurchase agreements	**-**	**1,719**	**151**	**1,870**	**-**	**1,444**	**-**	**1,444**				
Loans			-			1,444		1,444				
Repurchase agreements		1,719	151	1,870				-				
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS	**1,923**	**1,766**	**151**	**3,840**	**198**	**1,530**	**218**	**1,946**	**22,402**	**9,124**	**1,203**	**32,729**
Securities portfolio	**3,042**	**2**	**-**	**3,044**	**-**	**-**	**-**	**-**				
Treasury bills and government bonds	3,040			3,040				-				
Other fixed-income securities	2	2		4				-				
Equities and other variable-income securities				-				-				
Borrowings and repurchase agreements	**-**	**3,522**	**62**	**3,584**	**-**	**249**	**-**	**249**				
Borrowings		17		17		249		249				
Repurchase agreements		3,505	62	3,567				-				
Debt securities (Note 4.i)	**-**	**-**	**-**	**-**	**-**	**3,168**	**608**	**3,776**				
Subordinated debt (Note 4.i)	**-**	**-**	**-**	**-**	**-**	**1,330**	**-**	**1,330**				
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**3,042**	**3,524**	**62**	**6,628**	**-**	**4,747**	**608**	**5,355**				

In millions of euros	31 December 2016							
	Positive market value				Negative market value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Interest rate derivatives	11	4,904	61	4,976	-	3,585	140	3,725
Foreign exchange derivatives	-	2,107	17	2,124	-	2,063	8	2,071
Credit derivatives	-	2	2	4	-	4	1	5
Equity derivatives	-	428	-	428	-	127	-	127
Other derivatives	-	-	-	-	-	(1)	-	(1)
Derivative financial instruments not used for hedging purposes	**11**	**7,441**	**80**	**7,532**	**-**	**5,778**	**149**	**5,927**
Derivative financial instruments used for hedging purposes	**-**	**2,101**		**2,101**	**-**	**4,395**	**-**	**4,395**

In millions of euros	31 December 2015							
	Positive market value				Negative market value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Interest rate derivatives	-	5,001	315	5,316	-	3,540	182	3,722
Foreign exchange derivatives	-	1,225	-	1,225	-	1,256	-	1,256
Credit derivatives	-	3	5	8	-	4	4	8
Equity derivatives	-	631	-	631	-	109	-	109
Other derivatives	-	-	-	-	-	-	-	-
Derivative financial instruments not used for hedging purposes	**-**	**6,860**	**320**	**7,180**	**-**	**4,909**	**186**	**5,095**
Derivative financial instruments used for hedging purposes	**-**	**1,907**		**1,907**	**-**	**4,120**	**-**	**4,120**

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 beginning of the reporting period.

During 2016, transfers between Level 1 and Level 2 were not significant.

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 (futures, options,...) and shares of funds, 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, mortgage backed securities, 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. The issuance spread is considered observable.

Derivatives classified in Level 2 comprise mainly the following instruments:

- Vanilla instruments such as interest rate swaps, caps, floors and swaptions, credit default swaps, foreign exchange (FX) forwards and options
- Structured derivatives such as exotic FX and interest rate options, 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 valuation adjustments, so that the classification by level remains consistent with the valuation adjustment policy.

Level 3:

Securities designated as at fair value through profit or loss or classified as available for sale comprise unlisted private equity investments and unquoted equity shares.

Unlisted private equities investments are systematically classified as Level 3, whose valuations are performed according to the BNP Paribas Fortis' valuation policy which follows the International Private Equity and Venture Capital Valuation (IPEV) guidelines.

The portfolio of available for sale financial assets classified as Level 3 contains mainly unquoted equity shares. The value of most of these securities corresponds to the net book value.

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. The issuance spread is considered observable.

Repurchase agreements: mainly long-term or structured repurchase agreements. 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. The curves used in the valuation are corroborated using available data such as the implied basis of the relevant benchmark bond pool, recent long-term repo trade data and price enquiry data. Valuation adjustments applicable to these exposures are commensurate with the degree of uncertainty inherent in the modelling choices and amount of data available.

Derivatives

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

The main instruments are:

- ***Interest rate derivatives:*** exposures mainly comprise swap products in less liquid currencies. Classification is driven by the lower liquidity of some maturities, while observation capabilities through consensus may be available. The valuation technique is standard, and uses external market information and extrapolation techniques.

- ***Credit derivatives (CDS):*** exposures mainly comprise CDSs beyond the maximum observable maturity and, to a much lesser extent, CDSs on illiquid or distressed names and CDSs on loan indices. Classification is driven by the lack of liquidity while observation capabilities may be available notably through consensus. Level 3 exposures also comprise CDS and Total Return Swaps (TRS) positions on securitised assets. These are priced along the same modelling techniques as the underlying bonds, taking into consideration the funding basis and specific risk premium.

- ***Equity derivatives:*** exposures essentially comprise long dated forward or volatility products or exposures where there is a limited market for optional products. The marking of the forward curves and volatility surfaces beyond the maximum observable maturity relies on extrapolation techniques. However, when there is no market for model input, volatility or forward is generally determined on the basis of proxy or historical analysis.

These vanilla derivatives are subject to additional valuation adjustments linked to uncertainty on liquidity, specialised by the nature of underlying and liquidity bands

Complex derivatives classified in Level 3 predominantly comprise hybrid products (Interest Rates hybrids), prepayment-sensitive products, some stock basket optional products and some interest rate optional instruments. The main exposures, related valuation techniques and associated source of uncertainty are as follows:.

- ***Complex interest rate options*** are classified in Level 3 when they involve currencies where there is not sufficient observation or when they include a quanto feature where the pay-off is measured with a forex forward fixed rate (except for the main currencies). Long term complex derivatives are also classified in Level 3;

- ***Hybrid products*** for which the valuation requires complex modelling of joint behaviour of inflation, credit and interest rate, and is notably sensitive to the unobservable correlations;

- ***Securitisation swaps*** mainly comprise fixed rate swaps, cross currency or basis swaps whose notional is indexed to the prepayment behaviour of some underlying portfolio. The estimation of the maturity profile of securitisation swaps is corroborated by statistical estimates using external historical data;

- ***Forward volatility options*** are generally products whose pay-off is indexed to the future variability of a rate index such as volatility swaps. These products involve material model risk as it is difficult to infer forward volatility information from the market-traded instruments. The valuation adjustment framework is calibrated to the uncertainty inherent in the product, and to the range of uncertainty from the existing external consensus data;

- ***Inflation derivatives*** classified in Level 3 mainly comprise swap products on inflation indices that are not associated with a liquid indexed bond market, optional products on inflation indices (such as caps and floors) and other forms of inflation indices involving optionality on the inflation indices or on the inflation annual rate. Valuation techniques used for inflation derivatives are predominantly standard market models. Proxy techniques are used for a few limited exposures. Although the valuations are corroborated through monthly consensus data, these products are classified as Level 3 due to their lack of liquidity and some uncertainties inherent in the calibration;

These complex derivatives are subject to specific additional valuation adjustment so as to cover uncertainties linked to liquidity, parameters and model risk.

Valuation adjustments (CVA, DVA and FVA)

The additional valuation adjustment for counterparty credit risk (CVA),own-credit risk for derivatives (DVA) and the explicit funding valuation adjustment (FVA) are deemed to be unobservable components of the valuation framework and therefore classified in Level 3. This does not impact, in general cases, the classification of individual transactions into the fair value hierarchy. However since 2014, a specific process allows to identify individual deals for which the marginal contribution of these adjustments and related uncertainty is significant. Are particularly concerned some poorly collateralized vanilla interest rate instruments with very long residual maturity.

For these products classified in Level 3, the following table provides the range of values of main unobservable inputs. The ranges displayed correspond to a variety of different underlying instruments and are meaningful only in the context of the valuation technique implemented by BNP Paribas Fortis. The weighted averages, where relevant and available, are based on fair values, nominal amounts or sensitivities.

Risk classes	Balance Sheet valuation (In millions of euros)		Main product types composing the Level 3 stock within the risk class	Valuation technique used for the product types considered	Main unobservable inputs for the product types considered	Range of unobservable input across Level 3 population considered	Weighted average
	Asset	Liability					
Repurchase agreements	2	2	Long-term repo and reverse-repo agreements	Proxy techniques, based amongst others on the funding basis of a benchmark bond pool, that is actively traded and representative of the repo underlying	Long-term repo spread on private bonds (High Yield, High Grade) and on ABSs	0 bp-79 bp	42 bp [(a)]
Interest rate derivatives	61	140	Floors and caps on inflation rate or on the cumulative inflation (such as redemption floors), predominantly on European and Belgian inflation	Inflation pricing model	Volatility of cumulative inflation	0.7% - 10.3%	[(b)]
					Volatility of the year on year inflation rate	0.3% - 2%	
			Forward volatility products such as volatility swaps, mainly in euro	Interest rates option pricing model	Forward volatility of interest rates	0.3% - 0.7%	[(b)]
Credit Derivatives	2	1	Single name Credit Default Swaps (other than CDS on ABSs and loans indices)	Stripping, extrapolation and interpolation	Credit default spreads beyond observation limit (10 years)	112 bp to 167 bp	140 bp [(c)]
					Illiquid credit default spread curves (across main tenors)	72 bp to 288 bp	161 bp [(c)]

(a) *Weights based on relevant risk axis at portfolio level*

(b) *No weighting since no explicit sensitivity is attributed to these inputs*

(c) *Weighting is not based on risks, but on alternative methodology in relation with the Level 3 instruments (PV or notional)*

Table of movements in level 3 financial instruments

For Level 3 financial instruments, the following movements occurred between 1 January 2015 and 31 December 2016:

In millions of euros	Financial Assets				Financial Liabilities		
	Financial instruments at fair value through profit or loss held for trading	Financial instruments designated as at fair value through profit or loss	Available-for-sale financial assets	TOTAL	Financial instruments at fair value through profit or loss held for trading	Financial instruments designated as at fair value through profit or loss	TOTAL
At 31 December 2014	**225**	**305**	**561**	**1,091**	**577**	**874**	**1,451**
Purchases	151	1	617	**769**			**-**
Issues				**-**	56	138	**194**
Sales		(54)	(6)	**(60)**			**-**
Settlements [(1)]	(44)		(14)	**(58)**	(492)	(14)	**(506)**
Transfers to level 3	324			**324**	89		**89**
Transfers from level 3	(25)			**(25)**		(340)	**(340)**
Gains or (losses) recognised in profit or loss with respect to transactions expired or terminated during the period			(24)	**(24)**		(50)	**(50)**
Gains or (losses) recognised in profit or loss with respect to unexpired instruments at the end of the period	(160)	(34)		**(194)**	18		**18**
Changes in fair value of assets and liabilities recognised directly in equity							
- Exchange rate movements			(2)	**(2)**			**-**
- Changes in assets and liabilities recognised in equity			71	**71**			**-**
At 31 December 2015	**471**	**218**	**1,203**	**1,892**	**248**	**608**	**856**
Purchases			73	**73**			**-**
Issues				**-**		413	**413**
Sales			(145)	**(145)**			**-**
Settlements [(1)]	(161)	(60)	36	**(185)**	(48)	(48)	**(96)**
Transfers to level 3	(63)			**(63)**	1	45	**46**
Transfers from level 3	(191)		(337)	**(528)**	(62)	(169)	**(231)**
Gains or (losses) recognised in profit or loss with respect to transactions expired or terminated during the period	1		(66)	**(65)**		(20)	**(20)**
Gains or (losses) recognised in profit or loss with respect to unexpired instruments at the end of the period	27			**27**	12		**12**
Changes in fair value of assets and liabilities recognised directly in equity							
- Exchange rate movements			(4)	**(4)**			**-**
- Changes in assets and liabilities recognised in equity			24	**24**			**-**
At 31 December 2016	**84**	**158**	**784**	**1,026**	**151**	**829**	**980**

(1) For the assets, includes redemptions of principal, interest payments as well as cash inflows and outflows relating to derivatives. For the liabilities, includes principal redemptions, interest payments as well as cash inflows and outflows relating to derivatives the fair value of which is negative.

Transfers out of Level 3 of derivatives at fair value include mainly the update of the observability tenor of certain yield curves, but also the effect of derivatives becoming only or mainly sensitive to observable inputs due to the shortening of their lifetime. The review of criteria for repurchase agreements allowed reclassifying as level 2 some agreements for which the valuation uncertainty is deemed to be immaterial.

Transfers into Level 3 of instruments at fair value reflect the effect of the regular update of the observability zones.

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

The Level 3 financial instruments may be hedged by other Level 1 and 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 these instruments.

Sensitivity of fair value to reasonably possible changes in level 3 assumptions

The following table summarises those financial assets and financial liabilities classified as Level 3 for which alternative assumptions in one or more of the unobservable inputs would change fair value significantly.

The amounts disclosed are intended to illustrate the range of possible uncertainty inherent to the judgement applied when estimating Level 3 parameters, or when selecting valuation techniques. These amounts reflect valuation uncertainties that prevail at the measurement date, and even though such uncertainties predominantly derive from the portfolio sensitivities that prevailed at that measurement date, they are not predictive or indicative of future movements in fair value, nor do they represent the effect of market stress on the portfolio value.

In estimating sensitivities, BNP Paribas Fortis either remeasured the financial instruments using reasonably possible inputs, or applied assumptions based on the additional valuation adjustment policy.

For the sake of simplicity, the sensitivity on cash instruments that are not relating to securitised instruments was based on a uniform 1% shift in the price. More specific shifts were however calibrated for each class of the Level 3 securitised exposures, based on the possible ranges of the unobservable inputs.

For derivative exposures, the sensitivity measurement is based on the additional credit valuation (CVA), the explicit funding valuation adjustment (FVA) and the parameter and model uncertainty additional adjustments related to Level 3.

Regarding the additional credit valuation (CVA) and the explicit funding valuation adjustment (FVA), the uncertainty was calibrated based on prudent valuation adjustments described in the technical standard 'Prudent Valuation' published by the European Banking Authority. For other additional adjustments, two scenarios were considered: a favourable scenario where all or portion of the additional valuation adjustment is not considered by market participants and an unfavourable scenario where market participants would require as much as twice the additional valuation adjustments considered by BNP Paribas Fortis for entering into a transaction.

In millions of euros	31 December 2016		31 December 2015	
	Potential impact on income	Potential impact on equity	Potential impact on income	Potential impact on equity
Treasury bills and government bonds				
Asset Backed Securities (ABS)				
CDOs / CLOs				
Other Asset Backed Securities				
Other fixed-income securities				
Equities and other variable-income securities	+/-2	+/-8	+/-2	+/-12
Repurchase agreements	+/-0		+/-1	
Derivative financial instruments	+/-23		+/-25	
Interest rate derivatives	*+/-23*		*+/-25*	
Credit derivatives	*+/-0*		*+/-0*	
Equity derivatives				
Other derivatives				
Sensitivity of Level 3 financial instruments	**+/-25**	**+/-8**	**+/-28**	**+/-12**

Deferred margin on financial instruments measured using techniques developed internally and based on inputs partly unobservable in active markets

Deferred margin on financial instruments ('Day One Profit') only concerns the scope of market activities eligible for Level 3.

The day one profit is calculated after setting aside valuation adjustments for uncertainties as described previously and released to profit or loss over the expected period for which the inputs will be unobservable.

The unamortised amount is included under 'Financial instruments at fair value through profit or loss' as a reduction in the fair value of the relevant complex transactions.

The deferred margin not taken to the profit and loss account but contained in the price of the derivatives sold to clients and measured using internal models based on non-observable parameters ('Day One Profit') is less than EUR 1 million.

4.e Reclassification of financial instruments initially recognised at fair value through profit or loss held for trading purposes or as available-for-sale assets

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

In millions of euros	Reclassification date	31 December 2016		31 December 2015	
		Carrying value	Market or model value	Carrying value	Market or model value
Structured transactions and other fixed-income securities from the available-for-sale portfolio		**3 017**	**3 158**	**3 847**	**4 042**
of which Portuguese sovereign securities	*30 June 2011*	*254*	*279*	*310*	*360*
of which Irish sovereign securities	*30 June 2011*	*143*	*169*	*138*	*174*
of which structured transactions and other fixed-income securities	*30 June 2009*	*2 620*	*2 710*	*3 399*	*3 508*
Structured transactions and other fixed-income securities from other assets portfolio	**30 June 2009**	**-**	**-**	**39**	**39**
Structured transactions and other fixed-income securities from the trading portfolio	**30 June 2009**	**105**	**110**	**129**	**136**

Without these reclassifications, BNP Paribas Fortis' net income would not have been significantly different for the year ended 31 December 2016, nor for the year ended 31 December 2015. Similarly, changes in value of assets and liabilities recognised directly in equity would not have been significantly different in 2016 nor in 2015.

4.f Interbank and money-market items

Loans and receivables due from credit institutions

In millions of euros	31 December 2016	31 December 2015
On demand accounts	2,019	1,973
Loans[1]	11,516	11,164
Repurchase agreements	1,219	32
Total loans and receivables due from credit institutions, before impairment	**14,754**	**13,169**
of which doubtful loans	*148*	*160*
Impairment of loans and receivables due from credit institutions (Note 2.g)	**(67)**	**(105)**
specific impairment	(67)	(90)
collective provisions	-	*(15)*
Total loans and receivables due from credit institutions, net of impairment	**14,687**	**13,064**

(1) Loans and receivables due from credit institutions include term deposits made with central banks, which amounted to EUR 717 million as at 31 December 2016 (EUR 308 million as at 31 December 2015).

Due to credit institutions

In millions of euros	31 December 2016	31 December 2015
On demand accounts	1,147	924
Borrowings	32,889	20,782
Repurchase agreements	831	903
Total due to credit institutions	**34,867**	**22,609**

4.g Customer items

Loans and receivables due from customers

In millions of euros	31 December 2016	31 December 2015
On demand accounts	3,234	9,405
Loans to customers	156,971	154,571
Repurchase agreements		2,489
Finance leases	14,156	13,120
Total loans and receivables due from customers, before impairment	**174,361**	**179,585**
of which doubtful loans	*5,326*	*5,267*
Impairment of loans and receivables due from customers (Note 2.g)	**(3,032)**	**(2,945)**
specific impairment	*(2,453)*	*(2,338)*
collective provisions	*(579)*	*(607)*
Total loans and receivables due from customers, net of impairment	**171,329**	**176,640**

Breakdown of finance leases

In millions of euros	31 December 2016	31 December 2015
Gross investment	**16,351**	**15,480**
Receivable within 1 year	*5,852*	*5,128*
Receivable after 1 year but within 5 years	*9,424*	*9,280*
Receivable beyond 5 years	*1,075*	*1,072*
Unearned interest income	**(2,195)**	**(2,360)**
Net investment before impairment	**14,156**	**13,120**
Receivable within 1 year	*5,113*	*4,369*
Receivable after 1 year but within 5 years	*8,114*	*7,862*
Receivable beyond 5 years	*929*	*889*
Impairment provisions	**(305)**	**(331)**
Net investment after impairment	**13,851**	**12,789**

Due to customers

In millions of euros	31 December 2016	31 December 2015
On demand deposits	60,805	72,210
Term accounts and short-term notes	40,393	40,426
Regulated savings accounts	61,724	60,667
Repurchase agreements	394	2,858
Total due to customers	**163,316**	**176,161**

4.h Past-due and doubtful loans

The following tables present the carrying amounts of financial assets that are past due but not impaired and impaired assets and related collateral or other guarantees. The amounts shown are stated before any provision on a portfolio basis.

The amounts shown for collateral and other guarantees correspond to the lower of the value of the collateral or other guarantee and the value of the secured assets.

Past-due but not impaired loans

In millions of euros	31 December 2016					
	< 90 days	> 90 days < 180 days	> 180 days < 1 year	> 1 year	Total	Collateral received
Loans and receivables due from credit institutions	1				1	
Loans and receivables due from customers	3,364	24	9	5	3,402	1,364
Total past-due but not impaired loans	**3,365**	**24**	**9**	**5**	**3,403**	**1,364**

In millions of euros	31 December 2015					
	< 90 days	> 90 days < 180 days	> 180 days < 1 year	> 1 year	Total	Collateral received
Loans and receivables due from credit institutions	1				1	1
Loans and receivables due from customers	2,762	21	4	1	2,788	1,235
Total past-due but not impaired loans	**2,763**	**21**	**4**	**1**	**2,789**	**1,236**

Doubtful loans

In millions of euros	31 December 2016			
	Doubtful loans			Collateral received
	Gross value	Impairment	Net	
Available-for-sale financial assets (excl. variable-income securities) (Note 4.c)	11	(11)		
Loans and receivables due from credit institutions (Note 4.f)	148	(67)	81	78
Loans and receivables due from customers (Note 4.g)	5,326	(2,453)	2,873	2,183
Doubtful assets	**5,485**	**(2,531)**	**2,954**	**2,261**
Financing commitments given	244	(2)	242	331
Guarantee commitments given	349	(110)	239	-
Off-balance sheet doubtful commitments	**593**	**(112)**	**481**	**331**
Total	**6,078**	**(2,643)**	**3,435**	**2,592**

In millions of euros	31 December 2015			
	Doubtful loans			
	Gross value	Impairment	Net	Collateral received
Available-for-sale financial assets (excl. variable-income securities) (Note 4.c)	11	(11)		
Loans and receivables due from credit institutions (Note 4.f)	160	(90)	70	66
Loans and receivables due from customers (Note 4.g)	5,267	(2,338)	2,929	2,353
Doubtful assets	**5,438**	**(2,439)**	**2,999**	**2,419**
Financing commitments given	171	(3)	168	146
Guarantee commitments given	211	(85)	126	
Off-balance sheet doubtful commitments	**382**	**(88)**	**294**	**146**
Total	**5,820**	**(2,527)**	**3,293**	**2,565**

4.i 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.

Debt securities measured at amortised cost:

In millions of euros	31 December 2016	31 December 2015
Negotiable certificates of deposit and other debt securities	13,340	11,049
Bond issues	199	84
Total debt securities	**13,539**	**11,133**

Debt securities and subordinated debt at fair value through profit and loss

In millions of euros	31 December 2016	Amount accepted Tier 1	Amount accepted Tier 2	31 December 2015
Debt securities	3,331	-	-	3,776
Subordinated debt	998	162	143	1,330

Subordinated debt measured at amortised cost:

In millions of euros	31 December 2016	Amount accepted Tier 1	Amount accepted Tier 2	31 December 2015
Redeemable subordinated debt	4,237	-	2,050	4,974
Undated subordinated debt	111	-	108	110
Total subordinated debt at amortised cost	**4,348**			**5,084**

The perpetual subordinated debt recognised at fair value through profit or loss mainly consists of Convertible And Subordinated Hybrid Equity linked Securities (CASHES) issued by BNP Paribas Fortis (previously Fortis Banque) in December 2007.

The CASHES are perpetual securities but may be exchanged for Ageas (previously Fortis SA/NV) shares at the holder's sole discretion at a price of EUR 239.40. However, as of 19 December 2014, the CASHES will be automatically exchanged into Ageas shares if their price is equal to or higher than EUR 359.10 for twenty consecutive trading days. The principal amount will never be redeemed in cash. The rights of the CASHES holders are limited to the Ageas shares held by BNP Paribas Fortis and pledged to them.

Ageas and BNP Paribas Fortis have entered into a Relative Performance Note (RPN) contract, the value of which varies contractually so as to offset the impact on BNP Paribas Fortis of the relative difference between changes in the value of the CASHES and changes in the value of the Ageas shares.

On 7 May 2015, BNP Paribas and Ageas reached a new agreement which allows BNP Paribas to purchase outstanding CASHES under the condition that these are converted into Ageas shares, leading to a proportional settlement of the RPN. The agreement between Ageas and BNP Paribas has expired on 31 December 2016.

On 24 July 2015, BNP Paribas obtained the prior agreement from the European Central Bank to proceed to purchase CASHES within a limit of EUR 200 million nominal amount. In 2016, this agreement has been used for EUR 164 million converted into Ageas shares.

On 8 July 2016, BNP Paribas obtained a new agreement from the European Central Bank to proceed to purchase CASHES within a limit of EUR 200 million nominal amount. This agreement supersedes the previous one.

As at 31 December 2016, the subordinated liability is eligible to Tier 1 capital for EUR 162 million (considering both the transitional period and this agreement).

4.j Held-to-maturity financial assets

In millions of euros	31 December 2016	31 December 2015
Treasury bills and government bonds	335	330
Other fixed-income securities	190	252
Total held-to-maturity financial assets	**525**	**582**

No held-to-maturity financial asset has been impaired as at 31 December 2016, nor as at 31 December 2015.

4.k Current and deferred taxes

In millions of euros	31 December 2016	31 December 2015
Current taxes	164	70
Deferred taxes	2,429	2,457
Current and deferred tax assets	**2,593**	**2,527**
Current taxes	118	159
Deferred taxes	630	532
Current and deferred tax liabilities	**748**	**691**

Changes in deferred tax over the period:

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Net deferred taxes at start of period	**1,925**	**2,477**
Net losses arising from deferred taxes (note 2.h)	(65)	(413)
Changes in deferred taxes linked to changes in value and reversal through profit or loss of changes in value of available-for-sale financial assets, including those reclassified as loans and receivables	(71)	115
Changes in deferred taxes linked to changes in value and reversal through profit or loss of changes in value of cash flow hedge derivatives	34	7
Changes in deferred taxes linked to items recognised directly in equity that will not be reclassified to profit and loss	54	(127)
Effect of exchange rate, scope and other movements	(78)	(134)
Net deferred taxes at end of period	**1,799**	**1,925**

Breakdown of deferred taxes and liabilities by nature:

In millions of euros	31 December 2016	31 December 2015
Available-for-sale financial assets including those reclassified as loans and receivables	(784)	(788)
Hedging derivatives	902	733
Unrealised finance lease reserve	(205)	(197)
Provisions for employee benefit obligations	137	78
Provisions for credit risk	505	451
Other items	(415)	(13)
Tax loss carryforwards	1,659	1,661
Net deferred taxes	**1,799**	**1,925**
Deferred tax assets	2,429	2,457
Deferred tax liabilities	(630)	(532)

Unrecognised deferred tax assets totalled EUR 593 million at 31 December 2016 compared with EUR 1,272 million as at 31 December 2015.

In order to determine the size of the tax loss carryforwards recognised as assets, BNP Paribas Fortis conducts every year a specific review for each relevant entity, based on the applicable tax regime – notably incorporating any time limit rules – and a realistic projection of their future revenues and charges in line with their business plan.

Main entities with deferred tax assets recognised on tax loss carry forwards:

In millions of euros	31 December 2016	Statutory limits on carryforwards	Expected recovery period
BNP Paribas Fortis (excluding branches)	1,507	unlimited	6 years
US Branch	50	20 years	20 years
Arval Service Lease	71	unlimited	14 years
Other	31	-	-
Total deferred tax assets relating to tax loss carryforwards	**1,659**		

4.l Accrued income/expense and other assets/liabilities

In millions of euros	31 December 2016	31 December 2015
Guarantee deposits and bank guarantees paid	2,612	3,407
Settlement accounts related to securities transactions	104	108
Collection accounts	54	36
Accrued income and prepaid expenses	511	358
Other debtors and miscellaneous assets	5,279	4,586
Total accrued income and other assets	**8,560**	**8,495**
Guarantee deposits received	549	1,241
Settlement accounts related to securities transactions	22	49
Collection accounts	149	60
Accrued expense and deferred income	1,133	976
Other creditors and miscellaneous liabilities	5,283	4,235
Total accrued expense and other liabilities	**7,136**	**6,561**

4.m Equity – method investments

Cumulated financial information of associates and joint ventures is presented in the following table:

In millions of euros	Year to 31 Dec. 2016			31 December 2016	Year to 31 Dec. 2015			31 December 2015
	Share of earnings	Share of changes in assets and liabilities recognised directly in equity	Share of earnings and of changes in assets and liabilities recognised directly in equity	Investments in associates and joint ventures	Share of earnings	Share of changes in assets and liabilities recognised directly in equity	Share of earnings and of changes in assets and liabilities recognised directly in equity	Investments in equity method associates
Joint ventures	18	(11)	7	432	7	(41)	(34)	440
Associates [1]	137	(93)	44	3 885	199	29	228	3 956
Total equity method entities	**155**	**(104)**	**51**	**4 317**	**206**	**(12)**	**194**	**4 396**

(1 Including controlled but non material entities consolidated under the equity method

Financing and guarantee commitments given by BNP Paribas Fortis to joint ventures and associates are listed in the Note 7.g 'Other related parties'.

The carrying amount of the BNP Paribas Fortis' investment in the main joint ventures and associates is presented in the following table:

In millions of euros Name	Country of registration	Activity	31 December 2016 Interest %	31 December 2016 Equity-method investments	31 December 2015 Interest %	31 December 2015 Equity-method investments
Joint ventures						
bpost bank	Belgium	Retail banking	50%	366	50%	366
Associates						
AG Insurance	Belgium	Multichannel insurer	25%	1,758	25%	1,840
BNPP - Investment Partners	France	Asset Management	30.85%	1,287	30.85%	1,220
Bank BGŻ BNP Paribas	Poland	Retail banking	28.35%	357	28.35%	441

AG Insurance :

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Total net income	466	419
Changes in assets and liabilities recognised directly in equity	(364)	238

In millions of euros	31 December 2016	31 December 2015
Total assets	76 592	73 975
Total liabilities	70 106	67 195
Net assets of the equity associate	**6 486**	**6 780**

BNPP Investment Partners :

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Total net income	182	149
Changes in assets and liabilities recognised directly in equity	15	(6)

In millions of euros	31 December 2016	31 December 2015
Total assets	4 211	3 961
Total liabilities	1 067	1 018
Net assets of the equity associate	**3 144**	**2 943**

Reconciliation of AG Insurance's total net assets to BNP Paribas Fortis' carrying amount in the Consolidated Financial Statements :

In millions of euros	31 December 2016	31 December 2015
Total net assets	6,486	6,780
Minority interest at AG Insurance level	(250)	(231)
Purchase Price Allocations (PPA)	(77)	(62)
Adjusted total net assets	**6,159**	**6,487**
BNP Paribas Fortis' interest % in AG Insurance	25%	25%
BNP Paribas Fortis' share in AG Insurance	1,540	1,622
Goodwill	218	218
Carrying amount	**1,758**	**1,840**

BNP Paribas Fortis received dividends of EUR 111 million from AG Insurance in 2016 (EUR 98 million in 2015).

Impairment testing on investments in equity associates

According to the IFRS-rules, there is a requirement to assess at the end of each reporting period whether there is any objective evidence that an investment in an equity associate is impaired. There is objective evidence of impairment if events have occurred, during the period, which have negative impacts on the estimated future cash flows that will be generated by the investment. If so, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36, by comparing its carrying amount with its recoverable amount, being the highest of the fair value less costs to sell and the value in use.

At 31 December 2016, an impairment test on the investment held by BNP Paribas Fortis in BANK BGŻ BNP PARIBAS was done.

This investment was tested for impairment by comparing its carrying amount with its value-in-use. The valuation approach is the DCF (discounted cash flow model) analysis, aligned with the methodology as also applied at BNP Paribas Group level.

The DCF method is based on a number of assumptions in terms of future revenues, expenses and cost of risk (cash flows) based on medium-term business plans over a period of five years. Cash flow projections beyond the 5-year forecast period are based on a growth rate to perpetuity and are normalised when the short-term environment does not reflect the normal conditions of the economic cycle.

The key parameters which are sensitive to the assumptions made are the cost of capital, the cost/income ratio and the growth rate to perpetuity.

The perpetual growth rate is set at 2%, the level of expected long-term inflation. The test takes into account a cost of capital in line with current market standards. Other key parameters include the cost/income ratio, the tax rate and the growth rates of revenues and expenses. These parameters are specific to the business.

Equity allocated is set at 13% of the Risk Weighted Assets. This constraint complies with regulatory requirements applicable to a bank and is consistent with the fact that this asset manager is owned by a bank.

Based on the above, it appeared that an impairment was required.

The impairment testing on the investment in BANK BGŻ BNP PARIBAS showed that the recoverable amount (EUR 357 million) was EUR 82 million below the carrying amount (EUR 439 million) of the investment, which was accounted for by impairing the existing goodwill of EUR 56 million (PLN 247 million), with the remaining EUR 26 million booked as a negative impact on the investment of equity associates.

At 31 December 2016, an impairment test on the investment held by BNP Paribas Fortis in BNPP IP has been done. This test didn't demonstrate the necessity to act an additional impairment on the investment.

The table below shows the sensitivity of the estimated value of the investment to key assumptions:

In millions of euros	31 December 2016
	BNPP IP
Cost of capital	
Adverse change (+10 basis points)	(16)
Positive change (-10 basis points)	16
Cost/income ratio	
Adverse change (+1%)	(28)
Positive change (-1%)	28
Long-term growth rate	
Adverse change (-50 basis points)	(52)
Positive change (+50 basis points)	60

There are no grounds for additional impairment on the investment even if the adverse scenarios reflected in the table are applied for the impairment test.

Regarding the investment in AG Insurance, an analysis was performed, which did not identify any impairment trigger as of 31 December 2016.

4.n Property, plant, equipment and intangible assets used in operations, investment property

In millions of euros	31 December 2016			31 December 2015		
	Gross value	Accumulated depreciation, amortisation and impairment	Carrying amount	Gross value	Accumulated depreciation, amortisation and impairment	Carrying amount
Investment property	**346**	**(142)**	**204**	**249**	**(124)**	**125**
Land and buildings	2,241	(1,134)	1,107	2,327	(1,230)	1,097
Equipment, furniture and fixtures	1,097	(827)	270	1,078	(847)	231
Plant and equipment leased as lessor under operating leases	18,755	(5,089)	13,666	517	(242)	275
Other property, plant and equipment	469	(236)	233	604	(173)	431
Property, plant and equipment	**22,562**	**(7,286)**	**15,276**	**4,526**	**(2,492)**	**2,034**
Purchased software	342	(291)	51	296	(258)	38
Internally-developed software	323	(216)	107	189	(137)	52
Other intangible assets	170	(50)	120	118	(22)	96
Intangible assets	**835**	**(557)**	**278**	**603**	**(417)**	**186**

Investment property

The estimated fair value of investment property accounted for at amortised cost at 31 December 2016 is EUR 235 million, compared with EUR 134 million at 31 December 2015.

Operating leases

Operating leases and investment property transactions are in certain cases subject to agreements providing for the following minimum future payments:

In millions of euros	31 December 2016	31 December 2015
Future minimum lease payments receivable under non-cancellable leases	**5 607**	**446**
Payments receivable within 1 year	*2 462*	*162*
Payments receivable after 1 year but within 5 years	*3 105*	*245*
Payments receivable beyond 5 years	*40*	*39*

Future minimum lease payments receivable under non-cancellable leases are payments that the lessee is required to make during the lease term.

The increase in operating leases is linked to the acquisition of Arval entities at the end of 2016.

Intangible assets

Other intangible assets include leasehold rights, goodwill and trademarks acquired by BNP Paribas Fortis.

Depreciation, amortisation and impairment

Net depreciation and amortisation expense for the year ending 31 December 2016 was EUR 237 million, compared with EUR 221 million for the year ending 31 December 2015.

The net increase in impairment on property, plant and equipment and intangible assets taken to the profit and loss account in the year ending 31 December 2016 amounted to EUR 0.4 million, compared with EUR 0.2 million for the year ended 31 December 2015.

4.o Goodwill

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Carrying amount at start of period	**309**	**328**
Acquisitions	636	
Divestments		
Impairment recognised during the period		
Exchange rate adjustments	(150)	(19)
Other movements		
Carrying amount at end of period	**795**	**309**
Gross value	931	556
Accumulated impairment recognised at the end of period	(136)	(247)

Goodwill by cash-generating unit is as follows:

In millions of euros	Carrying amount		Impairment recognised during the period		Acquisition of the period	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
BNP Paribas Fortis in Belgium	**28**	**28**	**-**	**-**	**-**	**-**
Alpha Crédit	*22*	*22*	-	-	-	-
Fortis Commercial Finance	*6*	*6*	-	-	-	-
BNP Paribas Fortis in Luxembourg	**134**	**137**	**-**	**-**	**-**	**-**
Leasing (BPLS)	*134*	*137*	-	-	-	-
BNP Paribas Fortis in other countries	**633**	**144**	**-**	**-**	**509**	**-**
TEB Group	*124*	*144*	-	-	-	-
Arval	*509*	-	-	-	*509*	-
Total goodwill	**795**	**309**	**-**	**-**	**509**	**-**

BNP Paribas Fortis activities are divided into cash-generating units, representing reporting entities or groups of reporting entities of BNP Paribas Fortis. The breakdown is consistent with BNP Paribas Fortis' organisational structure and management methods, and reflects the independence of the reporting entities in terms of results and management approach. This is reviewed on a regular basis in order to take account of events likely to affect the composition of cash-generating units, such as acquisitions, disposals and major reorganisations.

The cash generating units to which goodwill is allocated are:

- **Alpha Credit** is the bank's consumer credit specialist. It provides a comprehensive range of consumer loans at point of sale (retail stores and car dealerships) and directly to clients. It distributes also its products through the bank's retail network and through bpost bank. It is the market leader in Belgium and Luxembourg.

- **Fortis Commercial finance** is the subsidiary of the bank regrouping its factoring activities. It is mainly active in Belgium, Germany, UK and The Netherlands. It is the market leader in Belgium.

- **BNP Paribas Leasing Solutions (BPLS)** uses a multi-channel approach (direct sales, sales via referrals, partnerships and banking networks) to offer corporate and small business clients an array of leasing and rental solutions, ranging from equipment financing to fleet outsourcing.

- **Turk Ekonomi Bankasi (TEB):** Present mostly in Turkey, TEB offers its customers (Retail, Corporate and SME) a wide array of financial products and services, including retail and private banking, treasury and capital markets services, and financing services.

- **Arval Services Lease:** previously held 100% by BNP Paribas S.A., is the parent company of 49 Arval subsidiaries worldwide. Arval is one of the leaders in the European fleet management market (top 5) and offers growth prospects in mature and developing countries. In November 2015, Arval acquired the GE European fleet services business making it 2nd in number of funded vehicles in Europe at the end of 2015.

Goodwill impairment tests are based on three different methods: observation of transactions related to comparable businesses, share price data for listed companies with comparable businesses, and discounted future cash flows (DCF).

If one of the two comparables-based methods indicates the need for impairment, the DCF method is used to validate the results and determine the amount of impairment required.

The DCF method is based on a number of assumptions in terms of future revenues, expenses and cost of risk (cash flows) based on medium-term business plans over a period of five years. Cash flow projections beyond the 5-year forecast period are based on a growth rate to perpetuity and are normalised when the short-term environment does not reflect the normal conditions of the economic cycle.

The key parameters which are sensitive to the assumptions made are the cost of capital, the cost/income ratio, the cost of risk and the growth rate to perpetuity.

Cost of capital is determined on the basis of a risk-free rate, an observed market risk premium weighted by a risk factor based on comparable specific to each homogeneous group of businesses. The values of these parameters are obtained from external information sources.

Allocated capital is determined for each homogeneous group of businesses based on the Common Equity Tier One regulatory requirements for the legal entity to which the homogeneous group of businesses belongs, with a minimum of 7%.

The growth rate to perpetuity used is 2% for mature economies. For CGUs implemented in countries with high levels of inflation, a specific add-on is taken into account (calculated according to inflation rates disclosed by external sources).

The following table shows the sensitivity of cash generating unit valuations to changes in the value of parameters used in the DCF calculation: the cost of capital, the cost/income ratio in terminal value, the cost of risk in terminal value and the growth rate to perpetuity.

Sensitivities

The table below shows the sensitivity of the main goodwill valuations to a 10-basis point change in the cost of capital, a 1% change in the cost/income ratio in terminal value, a 5% change of the cost of risk in terminal value and a 50-basis point change in the growth rate to perpetuity.

In millions of euros	31 December 2016		
	Alpha Crédit	BPLS	TEB
Cost of capital			
Adverse change (+10 basis points)	(5)	(58)	(22)
Positive change (-10 basis points)	5	59	23
Cost/income ratio			
Adverse change (+1%)	(12)	(84)	(92)
Positive change (-1%)	12	84	92
Cost of risk			
Adverse change (+5%)	(53)	(163)	(57)
Positive change (-5%)	50	125	57
Long-term growth rate			
Adverse change (-50 basis points)	(7)	(159)	(30)
Positive change (+50 basis points)	8	184	34

There are no grounds for goodwill impairment even if the adverse scenarios reflected in the table are applied for the impairment test.

4.p Provisions for contingencies and charges

In millions of euros	31 December 2015	Net additions to provisions	Provisions used	Changes in value recognised directly in equity	Effect of movements in exchange rates and other movements	31 December 2016
Provisions for employee benefits	**3,514**	**42**	**(94)**	**175**	**59**	**3,696**
of which post-employment benefits (Note 6.b)	3,081	5	(57)	163	62	3,254
of which post-employment healthcare benefits (Note 6.b)	76	-	-	12	-	88
of which provision for other long-term benefits (Note 6.c)	102	(2)	(16)		4	88
of which provision for voluntary departure, early retirement plans, and headcount adaptation plan (Note 6.d)	248	31	(10)		(7)	262
of which provision for share-based payment	7	8	(11)		-	4
Provisions for home savings accounts and plans	**-**	**-**	**-**		**-**	**-**
Provisions for credit commitments (Note 2.g)	**81**	**38**	**(5)**	**-**	**61**	**175**
Provisions for litigation	**203**	**(5)**	**(27)**	**-**	**(49)**	**122**
Other provisions for contingencies and charges	**159**	**142**	**(118)**	**-**	**608**	**791**
Total provisions for contingencies and charges	**3,957**	**217**	**(244)**	**175**	**679**	**4,784**

4.q Offsetting of financial assets and liabilities

The following table presents 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 BNP Paribas Fortis 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 settle the liability simultaneously. The amounts offset 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 31 December 2016	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements (MNA) and similar agreements	Financial instruments received as collateral	Net amounts
Assets						
Financial instruments at fair value through profit or loss						
Trading securities	*1,669*	*-*	*1,669*	*-*	*-*	*1,669*
Loans	*-*	*-*	*-*	*-*	*-*	*-*
Repurchase agreements	*2,951*	*(957)*	*1,994*	*(460)*	*(1,517)*	*17*
Instruments designated as at fair value through profit or loss	*1,796*	*-*	*1,796*	*-*	*-*	*1,796*
Derivative financial instruments (including derivatives used for hedging purposes)	*9,648*	*(15)*	*9,633*	*(5,539)*	*(403)*	*3,691*
Loans and receivables due from customers and credit institutions	**186,586**	**(570)**	**186,016**	**(281)**	**(927)**	**184,808**
of which repurchase agreements	*1,219*	*-*	*1,219*	*(281)*	*(927)*	*11*
Accrued income and other assets	**8,560**	**-**	**8,560**	**-**	**(2,354)**	**6,206**
of which guarantee deposits paid	*2,612*	*-*	*2,612*	*-*	*(2,354)*	*258*
Other assets not subject to offsetting	**88,122**	**-**	**88,122**	**-**	**-**	**88,122**
TOTAL ASSETS	**299,332**	**(1,542)**	**297,790**	**(6,280)**	**(5,201)**	**286,309**

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 (MNA) and similar agreements	Financial instruments given as collateral	Net amounts
Liabilities						
Financial instruments at fair value through profit or loss						
Trading securities	*2,207*	*-*	*2,207*	*-*	*-*	*2,207*
Borrowings	*18*	*-*	*18*	*-*	*-*	*18*
Repurchase agreements	*4,028*	*(957)*	*3,071*	*(530)*	*(2,536)*	*5*
Instruments designated as at fair value through profit or loss	*4,559*	*-*	*4,559*	*-*	*-*	*4,559*
Derivative financial instruments (including derivatives used for hedging purposes)	*10,337*	*(15)*	*10,322*	*(5,539)*	*(2,352)*	*2,431*
Due to customers and to credit institutions	**198,753**	**(570)**	**198,183**	**(211)**	**(1,012)**	**196,960**
of which repurchase agreements	*1,225*	*-*	*1,225*	*(211)*	*(1,012)*	*2*
Accrued expense and other liabilities	**7,136**	**-**	**7,136**	**-**	**(319)**	**6,817**
of which guarantee deposits received	*549*	*-*	*549*	*-*	*(319)*	*230*
Other liabilities not subject to offsetting	**45,760**	**-**	**45,760**	**-**	**-**	**45,760**
TOTAL LIABILITIES	**272,798**	**(1,542)**	**271,256**	**(6,280)**	**(6,219)**	**258,757**

In millions of euros at 31 December 2015	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements (MNA) and similar agreements	Financial instruments received as collateral	Net amounts according to IFRS 7 §13 C (e)
Assets						
Financial instruments at fair value through profit or loss						
Trading securities	*1,970*	*-*	*1,970*	*-*	*-*	*1,970*
Loans	*-*	*-*	*-*	*-*	*-*	*-*
Repurchase agreements	*3,362*	*(1,492)*	*1,870*	*(1,241)*	*(580)*	*49*
Instruments designated as at fair value through profit or loss	*1,946*	*-*	*1,946*	*-*	*-*	*1,946*
Derivative financial instruments (including derivatives used for hedging purposes)	*9,102*	*(15)*	*9,087*	*(4,037)*	*(1,332)*	*3,718*
Loans and receivables due from customers and credit institutions	**190,250**	**(546)**	**189,704**	**(1,673)**	**(780)**	**187,251**
of which repurchase agreements	*2,521*	*-*	*2,521*	*(1,673)*	*(780)*	*68*
Accrued income and other assets	**8,495**	**-**	**8,495**	**-**	**(3,224)**	**5,271**
of which guarantee deposits paid	*3,407*	*-*	*3,407*	*-*	*(3,224)*	*183*
Other assets not subject to offsetting	**60,611**	**-**	**60,611**	**-**	**-**	**60,611**
TOTAL ASSETS	**275,736**	**(2,053)**	**273,683**	**(6,951)**	**(5,916)**	**260,816**

In millions of euros, at 31 December 2015	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 (MNA) and similar agreements	Financial instruments given as collateral	Net amounts according to IFRS 7 §13 C (e)
Liabilities						
Financial instruments at fair value through profit or loss						
Trading securities	*3,044*	*-*	*3,044*	*-*	*-*	*3,044*
Borrowings	*17*	*-*	*17*	*-*	*-*	*17*
Repurchase agreements	*5,059*	*(1,492)*	*3,567*	*(1,418)*	*(1,879)*	*270*
Instruments designated as at fair value through profit or loss	*5,355*	*-*	*5,355*	*-*	*-*	*5,355*
Derivative financial instruments (including derivatives used for hedging purposes)	*9,230*	*(15)*	*9,215*	*(4,037)*	*(3,189)*	*1,989*
Due to customers and to credit institutions	**199,316**	**(546)**	**198,770**	**(1,496)**	**(1,981)**	**195,293**
of which repurchase agreements	*3,761*	*-*	*3,761*	*(1,496)*	*(1,981)*	*284*
Accrued expense and other liabilities	**6,561**	**-**	**6,561**	**-**	**(1,195)**	**5,366**
of which guarantee deposits received	*1,241*	*-*	*1,241*	*-*	*(1,195)*	*46*
Other liabilities not subject to offsetting	**23,107**	**-**	**23,107**	**-**	**-**	**23,107**
TOTAL LIABILITIES	**251,689**	**(2,053)**	**249,636**	**(6,951)**	**(8,244)**	**234,441**

4.r Transfers of financial assets

BNP Paribas Fortis enters into transactions in which it transfers financial assets held on the balance sheet and as a result may either be eligible to derecognise the transferred asset in its entirely or must continue to recognise the transferred asset to the extent of any continuing involvement. More information is included in Note 1 'Summary of significant accounting policies'.

Financial assets that have been transferred but not derecognised by BNP Paribas Fortis are mainly composed of securities sold temporarily under repurchase agreements or securities lending transactions, as well as securitised assets. The liabilities associated to securities temporarily sold under repurchase agreements consist of debts recognised under the 'Repurchase agreements' heading. The liabilities associated to securitised assets consist of the securitisation notes purchased by third parties.

Securities lending, repurchase agreements and other transactions:

	31 December 2016		31 December 2015	
In millions of euros	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**
Securities lending operations				
Securities at fair value through profit or loss	414		424	
Available-for-sale financial assets	*2,611*			
Repurchase agreements				
Securities at fair value through profit or loss	930	930	524	520
Securities classified as loans and receivables	46	46	395	395
Available-for-sale financial assets	2,539	2,540	3,467	3,464
Total	**6,540**	**3,516**	**4,810**	**4,379**

Securitisation transactions partially refinanced by external investors, whose recourse is limited to the transferred assets:

	31 December 2016				
In millions of euros	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**	**Fair value of transferred assets**	**Fair value of associated liabilities**	**Net position**
Securitisation					
Loans and receivables	36,645	1,541	38,715	1,480	37,235
Total	**36,645**	**1,541**	**38,715**	**1,480**	**37,235**

In millions of euros	31 December 2015				
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities	Net position
Securitisation					
Loans and receivables	35,832	2,386	37,426	2,317	35,109
Total	**35,832**	**2,386**	**37,426**	**2,317**	**35,109**

There have been no significant transfers leading to partial or full derecognition of the financial assets where the Bank has a continuing involvement in them.

4.s Non-current assets classified as held for sale and discontinued operations

The assets and liabilities classified as held-for-sale as at 31 December 2016 are related to transactions approved by the Board of BNP Paribas Fortis and the Executive Committee of BNP Paribas, which are not subject to signed contracts yet and for which the sale could not yet take place because of legal, regulatory and operational constraints. These transactions refer to not-yet-transferred assets and liabilities of BNP Paribas Fortis' branches in Norway, Sweden, Denmark, Finland, Austria, Czech Republic, Romania and the Netherlands, which will be sold to BNP Paribas SA. The legal transfer of the branches assets and liabilities will be completed in 2017.

These eight branches of BNP Paribas Fortis qualify as a disposal group as defined in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. The assets and liabilities included in this disposal group are reclassified and presented in separate line items 'Assets classified as held for sale' and 'Liabilities classified as held for sale' respectively in the consolidated balance sheet. In accordance with IFRS 5, comparative information is not adjusted in the consolidated balance sheet.

A disposal group shall be measured at the lower of its carrying amount and fair value less costs to sell. This specific disposal group is measured at its fair value less cost to sell which amounts to a loss of EUR (43.2) million, reported under 'Net gain/loss on non-current assets' in the consolidated income statement as at 31 December 2016.

Major classes of assets and liabilities classified as held for sale

The assets and liabilities classified as held for sale as at 31 December 2016 are shown below.

In millions of euros	31 December 2016
ASSETS	
Cash and amounts due from central banks and post office banks	9,730
Financial assets at fair value through profit or loss	30
Derivatives used for hedging purposes	-
Available-for-sale financial assets	44
Loans and receivables due from credit institutions	876
Loans and receivables due from customers	8,392
Re-measurement adjustment on interest-rate risk hedged portfolios	-
Held-to-maturity financial assets	-
Current and deferred tax assets	10
Accrued income and other assets	33
Investments in associates	-
Investment property	-
Property, plant and equipment	3
Intangible assets	1
Goodwill	-
Expected loss on sale	(43)
TOTAL ASSETS	**19,076**
LIABILITIES	
Due to central banks and post office banks	1
Financial liabilities at fair value through profit or loss	31
Derivatives used for hedging purposes	-
Due to credit institutions	297
Due to customers	20,840
Debt securities	-
Re-measurement adjustment on interest-rate risk hedged portfolios	-
Current and deferred tax liabilities	-
Accrued expenses and other liabilities	128
Provisions for contingencies and charges	11
Subordinated debt	-
TOTAL LIABILITIES	**21,308**

5 FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS

5.a Financing commitments given or received

Contractual value of financing commitments given and received by BNP Paribas Fortis:

In millions of euros	31 December 2016	31 December 2015
Financing commitments given		
- to credit institutions	533	654
- to customers	58,303	59,111
Confirmed letters of credit	*42,460*	*43,133*
Other commitments given to customers	*15,843*	*15,978*
Total financing commitments given	**58,836**	**59,765**
Financing commitments received		
- from credit institutions	23,633	11,310
- from customers	2	10
Total financing commitments received	**23,635**	**11,320**

5.b Guarantee commitments given by signature

In millions of euros	31 December 2016	31 December 2015
Guarantee commitments given		
- to credit institutions	7,013	6,254
- to customers	20,807	18,415
Property guarantees	*8*	*-*
Sureties provided to tax and other authorities, other sureties	*438*	*491*
Other guarantees	*20,361*	*17,924*
Total guarantee commitments given	**27,820**	**24,669**

5.c Other guarantee commitments

Financial instruments given as collateral:

In millions of euros	31 December 2016	31 December 2015
Financial instruments (negotiable securities and private receivables) lodged with central banks and eligible for use at any time as collateral for refinancing transactions after haircut	25,359	10,836
- Used as collateral with central banks	*3,481*	-
- Available for refinancing transactions	*21,878*	*10,836*
Securities sold under repurchase agreements	5,786	7,451
Other financial assets pledged as collateral for transactions with credit institutions, financial customers	6,545	5,924

Financial instruments given as collateral by BNP Paribas Fortis that the beneficiary is authorised to sell or reuse as collateral amounted to EUR 5,791 million at 31 December 2016 (EUR 7,477 million at 31 December 2015).

Financial instruments received as collateral:

In millions of euros	31 December 2016	31 December 2015
Financial instruments received as collateral (excluding repurchase agreements)	4,988	7,189
of which instruments that BNP Paribas Fortis is authorised to sell and reuse as collateral	*526*	*615*
Securities received under repurchase agreements	3,654	4,593

The financial instruments received as collateral or under repurchase agreements that BNP Paribas Fortis effectively sold or reused as collateral amounted to EUR 1,734 million at 31 December 2016 (compared with EUR 4,003 million at 31 December 2015).

Financial instruments given or received as collateral are mainly measured at fair value.

6 SALARIES AND EMPLOYEE BENEFITS

6.a Salary and employee benefit expenses

In millions of euros	31 December 2016	31 December 2015
Fixed and variable remuneration, incentive bonuses and profit-sharing	(1,799)	(1,830)
Employee benefit expense	(601)	(601)
Payroll taxes	(5)	(9)
Total salary and employee benefit expenses	**(2,405)**	**(2,440)**

6.b Post-employment benefits

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

Defined-contribution pension plans of BNP Paribas Fortis entities

BNP Paribas Fortis has implemented over the past few years a wide campaign of converting defined-benefit plans into defined-contribution plans.

Since defined-benefit plans have been closed to new employees in most countries, they are offered the benefit of joining defined contribution pensions plans.

The amount paid into defined-contribution post-employment plans for the year to 31 December 2016 was EUR 51 million, compared with EUR 50 million for the year to 31 December 2015.

The breakdown by major contributors is determined as follows:

Contribution amount In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Turkey	43	43
Other	8	7
TOTAL	**51**	**50**

Defined-benefit pension plans of BNP Paribas Fortis entities

In Belgium, BNP Paribas Fortis funds a defined benefit plan, based on final salary and number of years of service for its management and employees who joined the bank before its pension plans were harmonised on 1 January 2002. Actuarial liabilities under this scheme are pre-funded at 94% at 31 December 2016 (98% at 31 December 2015) through AG Insurance, in which BNP Paribas Fortis owns a 25% equity interest.

BNP Paribas Fortis senior managers are covered by a top-up pension plan paying a lump sum based on the number of years of service and final salary. This plan is pre-funded at 83% (85% at end 2015) through AXA Belgium and AG Insurance. Since 1 January 2015 this plan is closed for new senior managers. Those are offered a new defined-contribution scheme, which also applies to senior managers already in service at that date who chose to join this scheme.

In addition, the law requires employers to guarantee a minimum return on assets accumulated under defined-contribution schemes. As a result of this obligation, these plans are accounting wise classified as defined-benefit schemes.

At the end of 2015, a new law introduced new modalities for the calculation of this guaranteed minimum return.

As a consequence, BNPP Fortis measures its Belgian defined-contribution pension schemes according to the “Projected Unit Credit Method” since 2016. But, as BNP Paribas Fortis considers that none of these defined-contribution pension schemes have the so-called “back-end loaded” features as defined under IAS19, BNPP Fortis attributes benefit to period of service under the plan’s benefit formula. It is indeed not considered that employee service in later years lead to materially higher level of benefit than in earlier years.

In addition, plan assets and rights to reimbursement under insurance policies under which the insurer guarantees some or all of the benefits payable under the plan are measured as the present value of the related obligation due by the insurance companies (art.115 IAS19R), except for pension schemes covered by a segregated fund. In the latter case, the fair value of the plan assets/reimbursement rights is equal to the market value of the segregated investments available to cover the obligation.

These changes of methodology lead to an increase of EUR 74 million in the defined benefit obligation, an increase of EUR 25 million in the reimbursement rights and an increase of EUR 1 million in the plan assets. The net impact on other comprehensive income therefore equals to EUR 48 million.

In Turkey, the pension plan replaces the national pension scheme (these obligations should in the future be transferred to the Turkish State and are measured based on the terms of the transfer) and offers guarantees exceeding the minimal legal requirements. At the end of 2016, obligations under this plan are fully funded by financial assets held with an external foundation; these financial assets exceed the related obligations, but since it is not refundable, this surplus is not recognised as an asset by BNP Paribas Fortis. The funding rate for the scheme as at 31 December 2016 stood at 171% (172% at 31 December 2015).

Obligations under defined-benefit plans

Assets and liabilities recognised on the balance sheet

In millions of euros, at 31 December 2016	Defined-benefit obligation arising from wholly or partially funded plans	Defined-benefit obligation arising from unfunded plans	Present value of defined-benefit obligation	Fair value of plan assets	Fair value of reimburse- ment rights (1)	Effect of asset ceiling	Net obligation	of which asset recognised in the balance sheet for defined-benefit plans	of which net assets of defined-benefit plans	of which fair value of reimbursement rights	of which obligation recognised in the balance sheet for defined-benefit plans
Belgium	3,080	19	3,099	(9)	(2,877)	-	213	(2,877)	-	(2,877)	3,090
Turkey	270	35	305	(460)	-	190	35	-	-	-	35
Others	525	44	569	(470)	(36)	-	63	(66)	(30)	(36)	129
TOTAL	**3,875**	**98**	**3,973**	**(939)**	**(2,913)**	**190**	**311**	**(2,943)**	**(30)**	**(2,913)**	**3,254**

In millions of euros, at 31 December 2015	Defined-benefit obligation arising from wholly or partially funded plans	Defined-benefit obligation arising from unfunded plans	Present value of defined-benefit obligation	Fair value of plan assets	Fair value of reimburse- ment rights (1)	Effect of asset ceiling	Net obligation	of which asset recognised in the balance sheet for defined-benefit plans	of which net assets of defined-benefit plans	of which fair value of reimbursement rights	of which obligation recognised in the balance sheet for defined-benefit plans
Belgium	2,973	17	2,990	-	(2,912)	-	78	(2,912)	-	(2,912)	2,990
Turkey	281	31	312	(484)	-	203	31	-	-	-	31
Others	318	13	331	(285)	(18)	-	28	(32)	(14)	(18)	60
TOTAL	**3,572**	**61**	**3,633**	**(769)**	**(2,930)**	**203**	**137**	**(2,944)**	**(14)**	**(2,930)**	**3,081**

(1) The reimbursement rights are principally found on the balance sheet of the Group's insurance subsidiaries and associated companies - notably AG Insurance with respect to BNP Paribas Fortis' defined-benefit plan - to hedge their commitments to other Group entities that were transferred to them to cover the post-employment benefits of certain employee categories.

Changes in the present value of the defined benefit obligation

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Present value of defined-benefit obligation at start of period	**3,633**	**3,818**
Current service cost	144	150
Interest cost	76	59
Past service costs	(8)	-
Settlements	2	2
Actuarial (gains)/losses on change in demographic assumptions	1	35
Actuarial (gains)/losses on change in financial assumptions	231	(174)
Actuarial (gains)/losses on experience gaps	14	4
Actual employee contributions	10	10
Benefits paid directly by the employer	(25)	(31)
Benefits paid from assets/reimbursement rights	(229)	(231)
Exchange rate (gains)/losses on the obligation	(78)	(30)
(Gains)/losses on the obligation related to changes in the consolidation scope	203	22
Others	(1)	(1)
Present value of defined-benefit obligation at end of period	**3,973**	**3,633**

Change in the fair value of plan assets and reimbursement rights

	Plan assets		Reimbursement rights	
In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Fair value of assets at start of period	**769**	**751**	**2,930**	**2,794**
Expected return on assets	37	31	55	40
Settlements	-	-	-	-
Actuarial (gains)/losses on assets	73	25	17	183
Actual employee contributions	-	-	10	10
Employer contributions	24	32	92	113
Benefits paid from assets	(23)	(18)	(206)	(213)
Exchange rate (gains)/losses on assets	(109)	(52)	-	-
Gains/(losses) on assets related to changes in the consolidation scope	168	-	15	3
Other	-	-	-	-
Fair value of assets at end of period	**939**	**769**	**2,913**	**2,930**

Components of the cost of defined-benefit plans

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Administration fees	**1**	**1**
Service costs	138	152
Current service cost	144	150
Past service cost	(8)	-
Settlements	2	2
Net financial expense	**1**	**5**
Interest cost	76	59
Interest income on plan assets	(38)	(32)
Interest income on reimbursement rights	(55)	(40)
Return on Asset Limitation	18	18
Total recognised in 'Salary and employee benefit expense'	**140**	**157**

Other items recognised directly in equity

In millions of euros	Year to 31 Dec. 2016	Year to 31 Dec. 2015
Other items recognised directly in equity	**(155)**	**373**
Actuarial (losses)/gains on plan assets or reimbursement rights	90	208
Actuarial (losses)/gains of demographic assumptions on the present value of obligations	(1)	(35)
Actuarial (losses)/gains of financial assumptions on the present value of obligations	(231)	174
Experience (losses)/gains on obligations	(14)	(4)
Variation of the effect of asset limitation	1	30

Main actuarial assumptions used to calculate obligations

For each monetary zone BNP Paribas Fortis discounts its obligations using the yields of high quality corporate bonds, with a term consistent with the duration of the obligations.

The ranges of rates used are as follows:

In %	31 December 2016		31 December 2015	
	Discount rate	Compensation increase rate (1)	Discount rate	Compensation increase rate (1)
Eurozone	0.00% - 1.40%	1.30% - 3.20%	0.40%-2.00%	2.00%-3.30%
Turkey	10.00%	6.00%	10.30%	6.00%

(1) *Including price increases (inflation)*

In the Eurozone, the Observed weighted average rates are as follows : 0.98% at 31 December 2016, and 1.49% at 31 December 2015.

The impact of a 100bp change in discount rates on the present value of post-employment benefit obligations is as follows:

Change in the present value of obligations In millions of euros	31 December 2016		31 December 2015	
	Discount rate -100bp	Discount rate +100bp	Discount rate -100bp	Discount rate +100bp
Eurozone	399	(339)	311	(262)
Turkey	16	(13)	17	(14)

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

In % (1)	31 December 2016	31 December 2015
	Range of value existence of several plans in the same country)	Range of value existence of several plans in the same country)
Belgium	1.50%-5.00%	1.10%-5.20%
Turkey	10.00%	10.80%

(1) *Range of value, reflecting the existence of several plans in the same country.*

Breakdown of plan assets:

In %	31 December 2016						31 December 2015					
	Shares	Governmental bonds	Non-Governmental bonds	Real-estate	Deposit account	Others	Shares	Governmental bonds	Non-Governmental bonds	Real-estate	Deposit account	Others
Belgium	6%	52%	22%	2%	0%	18%	6%	57%	18%	2%	0%	17%
Turkey	0%	0%	0%	5%	94%	1%	0%	0%	0%	5%	93%	2%
Others	10%	45%	9%	1%	2%	33%	14%	39%	11%	2%	6%	28%
BNP Paribas Fortis	**6%**	**45%**	**18%**	**2%**	**11%**	**18%**	**6%**	**48%**	**15%**	**2%**	**13%**	**16%**

BNP Paribas Fortis introduced an asset management governance for assets backing defined-benefit pension plan commitments, the main objectives of which are the management and control of the risks in term of investment.

It sets out investment principles, in particular, by defining an investment strategy for plan assets, based on financial objectives and financial risk management, to specify the way in which plan assets have to be managed, via financial management servicing contracts.

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

Post-employment healthcare benefits

In Belgium, BNP Paribas Fortis has a healthcare plan for retired employees. This plan is closed to new entrants.

The present value of obligations relating to post-employment healthcare benefits stood at EUR 88 million at 31 December 2016, up from EUR 76 million at 31 December 2015, implying an increase of EUR 12 million during the year 2016.

The expense for post-employment healthcare benefits amounts to EUR 2 million for the year 31 December 2016, against EUR 2 million for the year 31 December 2015.

Other items related to post-employment healthcare and directly accounted for in equity amount to EUR 12 million for 31 December 2016, against EUR (19) million for 31 December 2015.

6.c Other long-term benefits

BNP Paribas Fortis offers its employees various long-term benefits, mainly long-service awards, the ability to save up paid annual leave in time savings accounts, and certain guarantees protecting them in the event they become incapacitated.

The net provision amounted to EUR 92 million at 31 December 2016 (EUR 102 million at 31 December 2015).

As part of the BNP Paribas Fortis variable compensation policy, annual deferred compensation plans are set up for certain high-performing employees or pursuant to special regulatory frameworks.

Under these plans, payment is deferred over time and is subject to the performance achieved by the business lines, divisions and BNP Paribas Fortis.

In millions of euros	31 December 2016	31 December 2015
Net provisions for other long-term benefits	**92**	**102**
Asset recognised in the balance sheet under 'Other long-term benefits '	-	-
Obligation recognised in the balance sheet under 'Other long-term benefits'	92	102

6.d Termination benefits

BNP Paribas Fortis has implemented a number of voluntary redundancy plans and headcount adaptation plans for employees who meet certain eligibility criteria. The obligations to eligible active employees under such plans are provided for as soon as a bilateral agreement or a bilateral agreement proposal for a particular plan is made. Besides, BNP Paribas recognises costs related to redundancy plans in a restructuring context as soon as the BNP Paribas Fortis formalises a detailed plan which has been notified to the interested parties.

In millions of euros	31 December 2016	31 December 2015
Provision for voluntary departure and early retirement plans, and headcount adaptation plans	262	248

7 ADDITIONAL INFORMATION

7.a Contingent liabilities: legal proceeding and arbitration

Legal proceedings

BNP Paribas Fortis (and its consolidated subsidiaries) is involved as a defendant in various claims, disputes and legal proceedings in Belgium and in a number of foreign jurisdictions, arising in the ordinary course of its banking business, including inter alia in connection with its activities as lender, employer, investor and taxpayer.

BNP Paribas Fortis makes provisions for such matters when, in the opinion of its management and after consulting its legal advisors, it is probable that a payment will have to be made by BNP Paribas Fortis and when the amount can be reasonably estimated.

With respect to certain other claims and legal proceedings against BNP Paribas Fortis (and its consolidated subsidiaries) of which management is aware (and for which, according to the principles outlined above, no provision has been made), the management is of the opinion, after due consideration of appropriate advice, that, while it is often not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, such proceedings are without legal merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss in the BNP Paribas Fortis Consolidated Financial Statements.

Following the restructuring of Fortis (referring to both 'Fortis SA/NV' and 'Fortis N.V.' and currently 'Ageas SA/NV', hereafter 'Ageas') in late September and early October 2008, a number of claimants' organisations, and other parties, initiated, or threatened to initiate, legal action against various entities of the former Fortis Group and/or certain members of their Board of Directors and management.

On 14 March 2016 Ageas and several claimants' organisations announced a settlement proposal with respect to all civil proceedings related to the former Fortis group for the events in 2007 and 2008 (the "Ageas Settlement"). On 23 May 2016 the parties to this settlement (which does not include BNP Paribas Fortis) have filed a request with the Amsterdam Court of Appeal to declare the settlement binding for all eligible Fortis shareholders in accordance with the Dutch Act on Collective Settlement of Mass Claims.

These legal actions include inter alia the procedures mentioned below. If these claims and legal proceedings were to be continued and successful, they could eventually result in monetary consequences for BNP Paribas Fortis. Such impact remains unquantifiable at this stage.

Claims before the Dutch courts

These legal actions relate to a rights issue by Fortis at the time of the acquisition of ABN Amro and the role of BNP Paribas Fortis as underwriter.

In September 2007, BNP Paribas Fortis acted together with Merrill Lynch and other banks as underwriter of the rights issue by Fortis SA/NV and Fortis N.V. (now Ageas SA/NV) in the amount of EUR 13.4 billion. The purpose of this rights issue was to partly finance Fortis's participation in its acquisition of ABN Amro Bank N.V.

BNP Paribas Fortis received on 3 February 2011 a writ of summons from the Dutch association of shareholders 'VEB NCVB'. This association alleges that BNP Paribas Fortis, Ageas, Merrill Lynch and others are jointly and severally liable in connection with the alleged shortcomings of the prospectus. VEB NCVB is seeking declaratory relief that the statements and alleged omissions in the prospectus were misleading to all who purchased Fortis shares between 24 September 2007 and 3 October 2008 and that as a consequence BNP Paribas Fortis is jointly, with other banks and officers, liable for the damages sustained by those shareholders. On 7 July 2011 BNP Paribas Fortis received a writ of summons from a Dutch foundation named 'Stichting Investor Claims against Fortis'. This action addresses the same subject matter and is largely based on the same allegations. Ageas and Merrill Lynch are co-defendants.

As these are Dutch legal proceedings relating to a declaration sought by an association, no actual claim for damages can be made at this stage. However, these proceedings may potentially lead to future individual damage claims.

On 20 August 2012, BNP Paribas Fortis (and eight other defendants) received a writ of summons from the foundation 'Stichting Investor Claims against Fortis' and other investors, seeking to have the defendants declared jointly and severally liable for the payment of damages arising inter alia, in so far as BNP Paribas Fortis is concerned, from the communication of allegedly incorrect or incomplete information to the market during the period from the acquisition of ABN Amro until 17 October 2008.

These Dutch proceedings have been stayed pursuant to the Ageas Settlement.

Claims before the Belgian Courts

Retail and institutional investors in Fortis shares started legal actions before the courts of Brussels in order to obtain damages from BNP Paribas Fortis and Merrill Lynch in their role as overall coordinator of the rights issue of Fortis in September 2007, as described above. The claimants allege that the banks breached their duty as financial advisors, including with respect to the information to be provided to investors in the prospectus issued by Fortis. These Belgian proceedings have been stayed.

The examining magistrate of the Court of First Instance in Brussels in charge since 2008 of investigating the case relating to events which occurred within the Fortis Group in 2007 and 2008 passed his file to the Public Prosecutor in October 2012. In November 2012 seven individuals were indicted by the examining magistrate and in February 2013 the Public Prosecutor requested the court to order a trial. As additional investigative measures have been ordered, the hearing before the court has not yet taken place.

Other claims before the Belgian Courts that are not related to the Ageas Settlement

Certain holders of Mandatory Convertible Securities (hereafter 'MCS') filed two actions against the co-issuers of the MCS, including BNP Paribas Fortis, and against Bank of New York Corporate Trustee Services Ltd in its capacity of trustee, before the Commercial Court of Brussels, firstly claiming annulment of the MCS Notes conversion and the restitution of their MCS Notes and, secondly, claiming damages. On 23 March 2012 the Commercial Court of Brussels dismissed both actions. Certain holders then filed an appeal in June 2012 claiming damages for a provisional amount of EUR 350 million and the appointment of an expert. BNP Paribas Fortis will continue to contest this case vigorously as it considers that these claims have no merit. This procedure is not concerned by the Ageas Settlement and has thus not been stayed.

On 1 April 2014 The Royal Bank of Scotland Group plc and The Royal Bank of Scotland NV (together "RBS") have filed suit against BNP Paribas Fortis and others. This issue relates to the acquisition of ABN Amro Holding NV by the Consortium of RBS, Ageas and Santander on 17 October 2007 pursuant to the Consortium and Shareholders Agreement dated 28 May 2007. RBS is seeking to have the defendants to be declared jointly and severally liable for the payment of an alleged indemnity obligation of 75mio EUR. This procedure is not concerned by the Ageas Settlement and has thus not been stayed.

Like many other companies in the banking, investment, mutual funds and brokerage sectors, BNP Paribas Fortis (and its consolidated subsidiaries) has received or may receive requests for information from supervisory, governmental or self-regulatory agencies. BNP Paribas Fortis responds to such requests, cooperates with the relevant regulators and other parties and helps to address any issues they might raise.

7.b Business combinations

Operations realised in 2016

Acquisition of Arval

On 8 December 2016, upon approval of the shareholders following the Extraordinary Shareholders' meeting, BNP Paribas contributed 100% of Arval Service Lease's shares to BNP Paribas Fortis. This contribution in kind was remunerated by the issuance of 81,953,055 new BNP Paribas Fortis shares (valued at EUR 2,299,996,536.81), in exchange for 3,320,635 shares of Arval Service Lease. (5 shares has been acquired by GENFINANCE).

Arval Services Lease, previously held 100% by BNP Paribas, is the parent company of 49 Arval subsidiaries worldwide. Arval is one of the leaders in the European fleet management market (top 5) and offers growth prospects in mature and developing countries. In November 2015, Arval acquired the GE European fleet services business making of Arval 2nd in number of funded vehicles in Europe at the end of 2015.

As this contribution occurred between entities under common control, BNP Paribas Fortis applied the 'predecessor basis of accounting method' as described in the accounting policies (1.c.4). Under this method, BNP Paribas Fortis, as acquiring party, recognises the contributed assets and liabilities at their carrying value as determined by the transferring entity at the date of the transfer, not at their fair value.

Consequently, no new goodwill (other than the existing goodwill relating to either of the combining entities) is recognised. Any difference between the value retained for the contribution in kind and the share in the net assets, measured at the predecessor's carrying value, is presented as an adjustment in equity.

The transaction resulted in a net increase of EUR 1.1 billion in the consolidated shareholders' equity of BNP Paribas Fortis.

The table below provides details on the main consolidated balance sheet positions of Arval entities as at 31 December 2016.

In millions of euros	31 December 2016								
						Key figures on acquisition date			
Acquired subsidiaries/ business	Country	Acquired %	Acquisition price	Existing Goodwill	Net cash inflow	Assets		Liabilities	
Arval service lease and its subsidiaries	France	100.00%	2,300	509	195	Property, plant and equipment	13,569	Due to credit institutions	13,404

Liquidation of FB Transportation Capital

On 20 December 2016, FB Transportation Capital (FBTC), held 100% by BNP Paribas Fortis, was liquidated. The liquidation resulted in a realised loss of EUR (18.2) million.

Disposal of SADE

Société Alsacienne d'Expansion et de Développement (SADE), a wholly owned French subsidiary of BGL, was sold to BNP Paribas on 9 June 2016 for a consideration of EUR 80.7million. The realised loss amounted to EUR (12.1) million which was recorded in the line 'Net gain on non-current assets'.

Disposal of SREI

SREI, an Indian company in which BNP Paribas Lease Groupe SA ('BPLG') and SIFL each owned 50% in a joint venture partnership. SIFL acquired the 50% stake of SREI from BPLG for a consideration of EUR 20.2 million representing 5% value of SIFL's shares. The net realized loss on the sale amounted to EUR (16.5) million.

Disposal of Société immobilière de Monterey

In Q3 2016, Société Immobilière de Monterey, held 100% by BGL BNP Paribas, was sold to an external party. BGL BNP Paribas recognised a net capital gain after tax of EUR 27 million.

Operations realised in 2015

Merger between BNP Paribas Bank Polska and Bank BGŻ

On 30 April 2015 the legal merger of BNP Paribas Bank Polska (in which BNP Paribas Fortis held 85% interest) with Bank BGŻ (held by BNP Paribas by 88.98%) was finalised. After the merger, BNP Paribas Fortis holds 28.35% in the merged bank operating under the name Bank BGŻ BNP Paribas S.A.

The merger was executed through a transfer of all assets, equity and liabilities of BNP Paribas Bank Polska to Bank BGŻ. Bank BGŻ increased its share capital through the issuance of the series I shares that were delivered by Bank BGŻ to the existing shareholders of BNP Paribas Bank Polska (merger by take-over). On 30 April 2015 the share capital of Bank BGŻ was increased by PLN 28,099,554 (Merger shares) from PLN 56,138,764 up to PLN 84,238,318 and is divided into 84,238,318 registered and bearer shares with a nominal value of PLN 1 each.

Under the term of exchange, for every six shares of BNP Paribas Bank Polska, the shareholders of BNP Paribas Bank Polska receive five Merger Shares of Bank BGŻ (the "Share Exchange Ratio").

At the moment of the merger BNP Paribas Fortis lost control in BNP Paribas Bank Polska (from 85% to 28.35%), this leads to the de-recognition of the assets and liabilities of BNP Paribas Bank Polska. The difference between 85% of the Net Asset Value (NAV) of BNP Paribas Bank Polska and the fair value of the consideration received (80.47 PLN/BGŻ share) at the date of the merger, amounted to EUR 82.2 million, which was recognised in the line 'Net gain on non-current assets' (GNAI) in the consolidated profit and loss account of BNP Paribas Fortis.

BNP Paribas Fortis accounts for the acquisition of the merged bank – Bank BGŻ BNP Paribas S.A. by applying the 'Predecessor basis of accounting method', meaning the net assets of Bank BGŻ BNP Paribas S.A. were measured at the predecessor carrying amounts at the date of merger as the transaction is under common control. The difference between the fair value of Bank BGŻ shares and 28.35% of the NAV of the merged bank BGŻ BNP Paribas at the date of the merger resulted in a goodwill of EUR 51.2 million which is presented in the line 'Equity-method investments' in the consolidated balance sheet of BNP Paribas Fortis. The goodwill was later adjusted to EUR 60.9 million (PLN 247 million).

As a result of the merger, Bank BGŻ BNP Paribas S.A. is consolidated by equity method by BNP Paribas Fortis.

Sygma Bank

On 01 December 2015, Bank BGŻ BNP Paribas S.A. acquired from BNP Paribas Personal Finance, 100% of Sygma Bank Polska in view of complementing its product offering in the consumer finance market in Poland. As at 31 December 2015, Sygma Bank was consolidated in BNP Paribas Fortis' consolidated financial statements by equity method (28.35%). As a result of this operation, a badwill of EUR 5.3 million was recognised in the profit and loss account.

Société Immobilière du Royal Building

In October 2015, Société Immobilière du Royal Building, a fully consolidated entity, was sold by BGL BNP Paribas to a group entity, Cardif Lux Vie, which is consolidated by equity method.

As a result of this operation, Société Immobilière du Royal Building changed its consolidation method from full consolidation to equity method, and BGL BNP Paribas recognised a net capital gain amounting to EUR 13.3 million.

TCG Fund I L.P.

TCG Fund I L.P, the parent company of Cronos Holding Company Ltd, has been liquidated in September 2015. The result of its liquidation as at 31 December 2015 amounted to EUR 25.6 million (or USD 28.1 million), relating to the recycling of its foreign translation difference from equity to the profit and loss account.

Cronos Holding Company Limited

On 20 January 2015, Cronos Holding Company Limited, previously consolidated by equity method, has been disposed of by TCG Funds I L.P. to an external party. The consideration amounted to EUR 165 million (or USD 199 million), and the capital gains amounted to EUR 68.9 million (or USD 77.5 million). Cronos Holding company Ltd was specialised in the activities of container leasing.

7.c Minority interests

Main minority interests

The assessment of the material nature of minority interests is based on the contribution of the relevant subsidiaries to the BNP Paribas Fortis' balance sheet (before elimination of intra-group balances and transactions) and to the BNP Paribas Fortis' profit and loss account.

	31 December 2016	Year to 31 Dec. 2016						
In millions of euros	Total assets before elimination of intra-group transactions	Revenues	Net income	Net income and changes in assets and liabilities recognised directly in equity	Interest (%)	Net income attributable to minority interests	Net income and changes in assets and liabilities recognised directly in equity - attributable to minority interests	Dividends paid to minority shareholders
Contribution of the entities belonging to the BGL BNP Paribas Group	44,930	1,346	537	507	50%	340	310	204
Other minority interests						149	(4)	1
TOTAL						489	306	205

	31 December 2015	Year to 31 Dec. 2015						
In millions of euros	Total assets before elimination of intra-group transactions	Revenues	Net income	Net income and changes in assets and liabilities recognised directly in equity	Interest (%)	Net income attributable to minority interests	Net income and changes in assets and liabilities recognised directly in equity - attributable to minority interests	Dividends paid to minority shareholders
Contribution of the entities belonging to the BGL BNP Paribas Group	43,196	1,374	484	487	50%	301	310	130
Other minority interests						140	118	1
TOTAL						441	428	131

There are no particular contractual restrictions on the assets of the BGL BNP Paribas Group relating 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 of subsidiaries

	31 December 2016		31 December 2015	
In millions of euros	**Attributable to shareholders**	**Minority interests**	**Attributable to shareholders**	**Minority interests**
BNP Paribas Polska SA				
Merger with Bank BGŻ (note 7.b)	-	-	-	(71)
Turk Ekonomi Bankasi				
An additional acquisition of 2.96% of minority interest has been realised by BNP Paribas Fortis Yatirimlar Holding, lifting its interest percentage of Turk Ekonomi Bankasi AS to 48.72%	-	-	(9)	(39)
Other	**-**	**1**	**-**	**3**
TOTAL	**-**	**1**	**(9)**	**(107)**

Commitments to repurchase minority shareholders' interests

In connection with the acquisition of certain entities, BNP Paribas Fortis 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 274 million at 31 December 2016, compared with EUR 320 million at 31 December 2015.

7.d Significant restrictions in subsidiaries, associates and joint ventures

Significant restrictions relating to the ability of entities to transfer cash to BNP Paribas Fortis

The ability of entities to pay dividends or to repay loans and advances depends, inter alia, on local regulatory requirements for capitalisation and legal reserves, as well as the entities' financial and operating performance. During 2015 and 2016, no BNP Paribas Fortis entity was subject to significant restrictions other than those arising from regulatory requirements.

Significant restrictions relating to BNP Paribas Fortis' ability to use the assets lodged in consolidated structured entities

Access to the assets of consolidated structured entities in which third-party investors (other than BNP Paribas Group entities) have invested is limited in as much as these entities' assets are reserved for the holders of units or securities. These assets totalled EUR 0.3 billion as at 31 December 2016 compared with EUR 0.6 billion as at 31 December 2015.

Significant restrictions relating to BNP Paribas Fortis' ability to use assets pledged as collateral or under repurchase agreements

The financial instruments pledged by BNP Paribas Fortis as collateral or under repurchase agreements are reported in Note 4.r and 5.c.

Significant restrictions relating to liquidity reserves

Significant restrictions related to liquidity reserves correspond to the mandatory deposits placed with central banks presented in Chapter "Risk management and capital adequacy - Liquidity and refinancing risk".

7.e Structured entities

BNP Paribas Fortis considers that it has sponsored a structured entity when it has been involved in its design.

BNP Paribas Fortis is engaged in transactions with sponsored structured entities primarily through its activities of securitisation of financial assets as either the originator or the sponsor, fund management and specialised asset financing.

In addition, BNP Paribas Fortis is also engaged in transactions with structured entities that it has not sponsored, notably in the form of investments in funds or securitisation vehicles.

The method for assessing control of structured entities is detailed in Note 1.c.2. 'Consolidation methods'.

Consolidated structured entities

The main categories of consolidated structured entities are:

ABCP (Asset-Backed Commercial Paper) conduits: the Scaldis ABCP securitisation conduits are securitisation transactions managed by BNP Paribas Fortis on behalf of its customers. Details on how these are financed and BNP Paribas Fortis' risk exposure are reported in Chapter "Risk Management and capital adequacy" under "Securitisation as sponsor on behalf of clients / Short-term refinancing".

Proprietary securitisation: proprietary securitisation positions originated and held by BNP Paribas Fortis are detailed in Chapter "Risk Management and capital adequacy" under 4.c 'Securitisation' (originator under Basel III).

Unconsolidated structured entities

BNP Paribas Fortis has entered into relations with unconsolidated structured entities in the course of its business activities in order to meet the needs of its customers.

Information relating to interests in sponsored structured entities

The main categories of unconsolidated sponsored structured entities are as follows:

Securitisation: BNP Paribas Fortis structures securitisation vehicles for the purposes of offering customers financing solutions for their assets, either directly or through consolidated ABCP conduits. Each vehicle finances the purchase of customers' assets (receivables, bonds, etc.) primarily by issuing bonds backed by these assets, whose redemption is linked to their performance.

Funds: BNP Paribas Fortis structures and manages funds in order to offer investment opportunities to its customers. Dedicated or public funds are offered to institutional and individual customers, and are distributed and commercially monitored by BNP Paribas Fortis. The BNP Paribas Fortis entities responsible for managing these funds may receive management fees and performance commission. Moreover, BNP Paribas Fortis may hold units in these funds.

Asset financing: BNP Paribas Fortis finances structured entities that acquire assets (ships, export finance etc.) intended for lease, and the lease payments received by the structured entity are used to repay the financing, which is guaranteed by the asset held by the structured entity.

Other: On behalf of its customers, BNP Paribas Fortis may also structure entities which invest in assets or are involved in debt restructuring.

An interest in an unconsolidated structured entity is a contractual or non-contractual link that exposes BNP Paribas Fortis to variable returns from the performance of the entity.

BNP Paribas Fortis' assets and liabilities relating to the interests held in sponsored structured entities are as follows:

In millions of euros, at 31 December 2016	Securitisation	Funds	Asset Financing	Others	Total
INTERESTS ON BNP PARIBAS FORTIS BALANCE SHEET					
ASSETS					
Trading Book	-	-	-	2	2
Instruments designated as at fair value through profit or loss	-	-	-	-	-
Available-for-sale financial assets	-	20	-	3	23
Loans and receivables	266	-	332	6	604
Other assets	-	-	-	-	-
TOTAL ASSETS	**266**	**20**	**332**	**11**	**629**
LIABILITIES					
Trading Book	-	117	-	1	118
Instruments designated as at fair value through profit or loss	-	16	-	-	16
Financial liabilities carried at amortised cost	41	898	7	21	967
Other liabilities	-	-	-	-	-
TOTAL LIABILITIES	**41**	**1,031**	**7**	**22**	**1,101**
MAXIMUM EXPOSURE TO LOSS	**267**	**20**	**626**	**238**	**1,151**
SIZE OF THE STRUCTURED ENTITIES (1)	**7,843**	**1,188**	**4,363**	**163**	**13,557**

In millions of euros, at 31 December 2015	Securitisation	Funds	Asset Financing	Others	Total
INTERESTS ON BNP PARIBAS FORTIS BALANCE SHEET					
ASSETS					
Trading Book	1	-	1	4	6
Instruments designated as at fair value through profit or loss	-	-	-	-	-
Available-for-sale financial assets	-	25	-	8	33
Loans and receivables	520	-	342	81	943
Other assets	-	-	-	-	-
TOTAL ASSETS	**521**	**25**	**343**	**93**	**982**
LIABILITIES					
Trading Book	-	152	-	4	156
Instruments designated as at fair value through profit or loss	-	26	-	-	26
Financial liabilities carried at amortised cost	20	1,567	21	44	1,652
Other liabilities	-	-	-	-	-
TOTAL LIABILITIES	**20**	**1,745**	**21**	**48**	**1,834**
MAXIMUM EXPOSURE TO LOSS	**521**	**25**	**711**	**320**	**1,577**
SIZE OF THE STRUCTURED ENTITIES (1)	**18,112**	**2,225**	**3,626**	**455**	**24,418**

(1) The size of sponsored structured entities equals the total assets of the structured entity for securitisation vehicles, the net asset value for funds (excluding management mandates) and the structured entity's total assets or the amount of BNP Paribas Fortis commitment for asset fi nancing and other structures.

BNP Paribas Fortis' maximum exposure to losses on sponsored structured entities is the nominal amount of the cash loss incurred.

It is composed of the carrying amount of the assets, excluding, for available-for-sale financial assets, changes in the carrying amount taken directly to equity, plus the nominal amount of the financing commitments and guarantee commitments given and the notional amount of credit default swaps (CDS) sold.

Information relating to interests in non-sponsored structured entities

The main interests held by BNP Paribas Fortis when it acts solely as an investor in non-sponsored structured entities are detailed below:

- **Units in other funds not managed by BNP Paribas Fortis:** as part of its trading business, BNP Paribas Fortis invests in structured entities without any involvement in either managing or structuring these entities (investments in mutual funds, securities funds or alternative funds), particularly as economic hedge for structured products sold to customers. BNP Paribas Fortis also invests in minority holdings in support of companies as part of its venture capital business. These investments amounted to EUR 0.5 billion as at 31 December 2016 (EUR 0.9 billion as at 31 December 2015).

- **Investments in securitisation vehicles:** the breakdown of the BNP Paribas Fortis' exposure and the nature of the securities held are presented in Chapter "Risk Management and capital adequacy" under "Securitisation - Securitisation as investor". These investments in securitisation vehicles amounted to EUR 2.3 billion as at 31 December 2016 (EUR 2.9 billion as at 31 December 2015). Furthermore, BNP Paribas Fortis also has positions on SPVs that are sponsored by BNP Paribas Group, but not sponsored by BNP Paribas Fortis, these investments represent EUR 0.2 billion on-balance and EUR 0.9 billion off-balance as at 31 December 2016 (EUR 0.2 billion and EUR 0.6 billion as at 31 December 2015).

7.f Compensation and benefits awarded to BNP Paribas Fortis' corporate officers

The remuneration policy for the Board of Directors and Executive Board did not change significantly during 2016.

7.f.1 Remuneration of the members of the Board of Directors

Remuneration policy with regard to the Members of the Board of Directors

Executive and non-Executive Members of the Board of Directors receive Board remuneration based on the principles set out below, as approved by the General Shareholders' Meeting of 21 April 2016, during which the principle of keeping the maximum Board remuneration at a total of EUR 1.5 million per annum was confirmed.

Annual fixed salary Chairman Board of Directors	EUR	50,000	(gross)
Annual fixed salary Board Members	EUR	25,000	(gross)
Attendance fee Chairman Board Committees from 1 January till 30 June 2016	EUR	4,000	(gross)
Attendance fee Chairman Board Committees as from 1 July 2016	EUR	4,400	(gross)
Attendance fee Members Board of Directors / Board Committees from 1 January till 30 June 2016	EUR	2,000	(gross)
Attendance fee Members Board of Directors / Board Committees as from 1 July 2016	EUR	2,200	(gross)

The non-Executive Members of the Board of Directors do not receive any variable pay, pension plan or insurances, nor any other benefits[1].

[1] *With the exception of the Chairman, who receives the use of a company car and mobile phone.*

Remuneration for the year

The table below shows the gross Board remuneration paid in 2016 to each member of the Board of Directors.

In euros		Fixed fees	Attendance fees board*	Total 2016
Herman DAEMS	Chairman	50,000	103,100	153,100
Dominique AUBERNON	Non-executive (as from 21 April 2016)	18,750	20,000	38,750
Didier BEAUVOIS	Executive	25,000	26,000	51,000
Dirk BOOGMANS	Non-executive	25,000	98,400	123,400
Antoinette D'ASPREMONT LYNDEN	Non-executive	25,000	64,300	89,300
Stefaan DECRAENE	Non-executive	25,000	24,000	49,000
Filip DIERCKX	Executive	25,000	26,000	51,000
Sophie DUTORDOIR	Non-executive	25,000	59,200	84,200
Maxime JADOT	Executive	25,000	26,000	51,000
Thierry LABORDE	Non-executive	25,000	34,800	59,800
Thomas MENNICKEN	Executive (until 31 July 2016)	12,500	14,000	26,500
Sophia MERLO	Non-executive (as from 21 April 2016)	18,750	18,000	36,750
Alain PAPIASSE	Non-executive (until 21 April 2016)	6,250	2,000	8,250
Piet VAN AKEN	Executive (as from 3 June 2016)	12,500	14,000	26,500
Peter VANDEKERCKHOVE	Executive	25,000	26,000	51,000
Thierry VARÈNE	Non-executive	25,000	34,800	59,800
TOTAL		**368,750**	**590,600**	**959,350**

* *This column includes the Board fees for all Committees*

7.f.2 Remuneration of the Members of the Executive Board

Remuneration policy regarding the Members of the Executive Board

The Members of the Executive Board have self-employed status and receive a Board remuneration based on the same principles as non-Executive Members. In addition, they are rewarded for their functions in the Executive Management through the following components: fixed monthly remuneration; variable annual remuneration based on the achievement of clear performance criteria and risk monitoring linked to collective and individual performance criteria as mentioned below; a company insurance plan (pension plan, hospital plan, life insurance and disability benefits); benefits in kind (the use of a company car, mobile phone, tablet and internet); and the opportunity to obtain share-based long-term incentive payments. Their remuneration is subject to strict regulation under CRD IV and the Belgian Banking Law.

The remuneration structure and policy on levels of remuneration are determined by the Board of Directors upon a recommendation from the Remuneration Committee with reference to common practices and market benchmarking for determining appropriate executive management compensation, and with guidance from specialised consultancy firms. Governance relating to remuneration followed the same principles and processes as last year and it is expected to continue to do so in the coming years.

Performance criteria used to determine variable remuneration

The entire process described hereunder is audited by the Inspection Générale.

Individual performance

A self-assessment is prepared by each Executive Board Member, which is then challenged by the Chief Executive Officer, who decides on the scoring in close discussion with the Chairman of the Board of Directors. An overall assessment is also made by the Risk and Compliance departments.

Individual performance is assessed in the light of the degree of attainment of personal objectives and managerial performance as assessed by the Board of Directors in terms of the following four management principles:

- **Client Focus:** inspiring people to focus in an innovative way on the client first and foremost, as the interests of the client must always be central to the action;

- **Risk-Aware Entrepreneurship:** undertaking initiatives for development and efficiency while being accountable, by:

  - Acting in an interdependent and cooperative way with the other entities to serve the overall interests of the Group and its clients

  - Being continuously vigilant as to the risks related to one's area of responsibility and empowering staff to do the same;

- **People Care:** caring for our people, by showing them respect, promoting equal opportunities and developing their talents and skills;

- **Lead by example:** setting an example through one's own behaviour and ethical conduct by following the regulations, applying the compliance rules and behaving in a socially responsible manner.

Team performance based on Bank Key Performance Indicators (KPIs)

Collective performance is based on Key Performance Indicators (KPIs) designed to show that the Executive Board is acting as a single Team. Every year, the Bank draws up a strategic plan, from which are derived indicators enabling the Executive Board to measure and assess the Bank performance. The performance criteria measured for each business are: financial results, cost management, risk management/compliance, long term developments, Corporate Social Responsibility, and people management. On a yearly basis, the Executive Board receives a score for its overall performance.

The appraisal period during which performance is assessed is January to December of each year. The methods used to assess the performance against targets are both qualitative (customer satisfaction, sound risk governance, Global People Survey results, people management, etc.) and quantitative (net operating profit, gross income, increase in market share, etc.).

Future performance applied to the deferred part of the variable remuneration

The variable part of the remuneration is subject to the deferral principle, whereby the deferred part is conditional on the future performance of the company and to sound risk management.

Remuneration for the year

The table below shows the gross remuneration paid or payable to the Members of the Executive Board for the year 2016, including benefits in kind and Director's fees.

	2016		2015	
	Chief Executive Officer	Other Members of the Executive Board	Chief Executive Officer	Other Members of the Executive Board
Remuneration				
Fixed [1]	928,513	2,462,611	928,513	2,477,373
Cash part of variable	151,200	494,600	210,000	448,530
Deferred part of variable	128,800	195,400	70,000	179,020
Multi-annual variable compensation [2]	98,000	161,000	70,000	120,000
Director's fees [3]	111,016	267,016	105,516	243,612
Benefits in Kind [4]	7,065	44,692	7,173	238,702
Pension, life insurance and orphan's pension [5]	272,442	215,094	270,144	179,397
Total	**1,697,036**	**3,840,413**	**1,661,346**	**3,886,634**

1 *Gross rental allowances are included in the reported fixed remuneration*

2 *In order to fully comply with the EU Capital Requirement Directive IV applicable to the Credit Institutions, the multi-annual variable compensation indicated is the amount related to the performance of the year under review and not the amount allocated during the year under review. As from 2016, in order to comply with the EBA Guidelines of 21 December 2016, the Multi-annual variable compensation is disclosed taking into account the fair value determined at the time the compensation was granted. The fair value is set at 1.4 times the base value. For 2015 the base value was disclosed.*

3 *In order to comply with article 96 of the Companies Code we have included the board fees received in the controlled perimeter.*

4 *The members of the Executive Board each have a company car and a mobile phone. Reimbursement of school fees is included in the reported benefits in kind*

5 *For defined contribution plan and defined benefit plan : sum of employer contributions*

Information on Multi-annual variable compensation

2015 and 2016

The Contingent Sustainable and International Scheme ('CSIS') is designed to compensate Material Risk Takers identified as key employees of BNP Paribas Group for their performance on terms that are compliant with EU rules, provided that they act in the long-term interests of the BNP Paribas Group. The scheme is intended to support the effective alignment of compensation with prudent risk-taking behaviour. In compliance with the Capital Requirements Directive 4 (CRD4), the CSIS provides for the award of instruments that can be fully written down to adequately reflect the credit quality of the institution as a going concern.

To this end, payments under the CSIS will be cancelled if the BNP Paribas Group finds that its credit quality has deteriorated as would be evidenced by a fall of the Group's Common Equity Tier 1 ratio (CET1 ratio) below a level of 7% or the Group's entry into a resolution procedure.

In addition, in order to reflect the Group ambition to growth while acting with environmental, economic and social responsibility, the Group has also decided:

- to make:
  - 85% of the CSIS Award subject to a condition based on the operating performance of the Group ('Group Performance Indicator – GPI'); and
  - 15% of the CSIS Award subject to a condition based on the Corporate Social Responsibility ('CSR') performance, as it is considered essential that the BNP Paribas Group acts at all levels, and in a significant way, to promote greater environmental, economic and social responsibility;
- to condition any payment under the scheme to the 2018 (year 2021 for 2016 plan) Group BNP Paribas Fortis Pre-Tax Income being positive.

The CSIS Award is a cash amount denominated in local currency (the 'Notional Instrument Amount') bearing an interest rate (the 'Interest Amount'). For 2015 the Vesting Period starts on 1 January 2016 and ends on 1 January 2019. There is a retention period of 6 months between 1 January 2019 and 30 June 2019. The beneficiary is entitled to receive on the Date of Payment an amount of interest calculated from 1 January 2019 to 30 June 2019. The annual interest rate is equal to 1.70%.

For 2016 the Vesting Period starts on 1 January 2017 and ends on 1 January 2022. There is a retention period of 6 months between 1 January 2022 and 30 June 2022. The beneficiary is entitled to receive on the Date of Payment an amount of interest calculated from 1 January 2022 to 30 June 2022. The annual interest rate is equal to 2.19%.

Information on severance pay

In 2016 no termination benefits were paid to members of the Board of Directors.

7.g Other related parties

Other related parties of the BNP Paribas Fortis comprise:

- BNP Paribas (and all its subsidiaries) which has control over BNP Paribas Fortis,
- Consolidated companies of BNP Paribas Fortis (including entities consolidated under the equity method)
- and entities managing post-employment benefit plans offered to BNP Paribas Fortis' employees.

Transactions between the BNP Paribas Fortis and related parties are carried out on an arm's length basis.

Relations between consolidated companies

A list of companies consolidated by the BNP Paribas Fortis is provided in note 7.j "Scope of consolidation". Transactions and outstanding balances between fully-consolidated entities of BNP Paribas Fortis are eliminated.

Outstanding balances of related party transactions :

In millions of euros	31 December 2016			31 December 2015		
	Entities of the BNP Paribas Group	Joint ventures	Associates [1]	Entities of the BNP Paribas Group	Joint ventures	Associates [1]
ASSETS						
Loans, advances and securities						
Demand accounts	*1,464*	*1*	*29*	*1,401*	*-*	*32*
Loans	*9,552*	*-*	*1,940*	*8,894*	*-*	*2,034*
Securities	*203*	*-*	*-*	*245*	*-*	*-*
Securities held in the non-trading portfolio	1,534	-	-	1,626	-	-
Other assets	1,702	1	123	2,063	7	104
Total	**14,455**	**2**	**2,092**	**14,229**	**7**	**2,170**
LIABILITIES				**-**	**-**	**-**
Deposits						
Demand accounts	*498*	*64*	*634*	*391*	*178*	*442*
Other borrowings	*23,904*	*195*	*2,485*	*13,885*	*45*	*2,431*
Debt securities	2,843	-	9	2,368	-	9
Other liabilities	302	-	59	798	-	72
Total	**27,547**	**259**	**3,187**	**17,442**	**223**	**2,954**
FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS						
Financing commitments given	3,067	3,400	445	3,097	2,414	1,577
Guarantee commitments given	8,677	-	132	7,220	-	192
Total	**11,744**	**3,400**	**577**	**10,317**	**2,414**	**1,769**

(1) *Including controlled but non material entities consolidated under the equity method.*

BNP Paribas Fortis also carries out trading transactions with related parties involving derivatives (swaps, options and forwards, etc.) and financial instruments (equities, bonds, etc.).

Related-party profit and loss items:

In millions of euros	Year to 31 Dec. 2016			Year to 31 Dec. 2015		
	Entities of the BNP Paribas Group	Joint ventures	Associates	Entities of the BNP Paribas Group	Joint ventures	Associates
Interest income	402	2	19	354	-	20
Interest expense	(326)	(2)	(16)	(244)	-	(24)
Commission income	166	3	494	127	4	508
Commission expense	(84)	-	(5)	(58)	-	(6)
Services provided	1	1	-	1	1	1
Services received	-	-	(1)	-	-	(4)
Lease income	3	-	14	1	-	3
Total	**162**	**4**	**505**	**181**	**5**	**498**

(1) *Including controlled but non material entities consolidated under the equity method*

BNP Paribas Fortis entities managing certain post-employment benefit plans offered to BNP Paribas Fortis' employees

In Belgium, BNP Paribas Fortis funds a number of pension schemes managed by AG Insurance in which the BNP Paribas Fortis has a 25% equity interest.

7.h Financial instruments by maturity

The table below gives a breakdown of the balance sheet by contractual maturity. The maturities of the 'trading portfolio' reported under financial assets and liabilities measured at fair value through profit or loss are regarded as 'undetermined' insofar as these instruments are intended to be sold or redeemed before their contractual maturity dates.

The maturities of debt securities and subordinated debt, which are part of the financial liabilities designated as at fair value through profit or loss, are reported based on undiscounted cash flows of future interest and principal payments.

The maturities of variable-income financial assets classified as available for sale, derivative hedging instruments, re-measurement adjustments on interest-rate risk hedged portfolios and undated subordinated debt are also deemed to be 'undetermined'.

In millions of euros, at 31 December 2016	Not determined	Overnight or demand	Up to 1 month (excl. overnight)	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Cash and amounts due from central banks		14,037						14,037
Financial assets at fair value through profit or loss	12,991							12,991
Derivatives used for hedging purposes	2,101							2,101
Available-for-sale financial assets	1,215		837	1,897	4,172	11,270	10,167	29,558
Loans and receivables due from credit institutions	63	2,079	2,329	804	1,579	6,501	1,332	14,687
Loans and receivables due from customers		3,781	10,968	10,141	20,289	61,501	64,649	171,329
Re-measurement adjustment on interest-rate risk hedged portfolios	1,463							1,463
Held-to-maturity financial assets			24	30	3	364	104	525
Financial assets by maturity	**17,833**	**19,897**	**14,158**	**12,872**	**26,043**	**79,636**	**76,252**	**246,691**
Due to central banks		157						157
Financial liabilities at fair value through profit or loss	12,404		65	155	390	1,800	1,333	16,147
Derivatives used for hedging purposes	4,395							4,395
Due to credit institutions		1,693	5,735	3,584	7,326	15,228	1,301	34,867
Due to customers		132,718	10,621	8,765	6,210	2,407	2,595	163,316
Debt securities			2,963	3,105	3,904	2,886	681	13,539
Subordinated debt	108		17	231	1,727	603	1,662	4,348
Re-measurement adjustment on interest-rate risk hedged portfolios	876							876
Financial liabilities by maturity	**17,783**	**134,568**	**19,401**	**15,840**	**19,557**	**22,924**	**7,572**	**237,645**

In millions of euros 31 December 2015	Not determined	Overnight or demand	Up to 1 month (excl. overnight)	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Cash and amounts due from central banks		16,505						16,505
Financial assets at fair value through profit or loss	12,966							12,966
Derivatives used for hedging purposes	1,907							1,907
Available-for-sale financial assets	1,280		2,626	1,599	2,516	14,729	9,979	32,729
Loans and receivables due from credit institutions	63	2,203	1,853	450	2,868	4,298	1,329	13,064
Loans and receivables due from customers		9,959	13,516	9,765	20,735	57,728	64,937	176,640
Re-measurement adjustment on interest-rate risk hedged portfolios	1,218							1,218
Held-to-maturity financial assets			1	37	35	341	168	582
Financial assets by maturity	**17,434**	**28,667**	**17,996**	**11,851**	**26,154**	**77,096**	**76,413**	**255,611**
Due to central banks		1,175						1,175
Financial liabilities at fair value through profit or loss	13,123		34	205	802	1,988	1,172	17,324
Derivatives used for hedging purposes	4,120							4,120
Due to credit institutions		1,421	8,856	2,342	4,297	4,936	757	22,609
Due to customers		132,091	13,798	22,006	3,058	2,875	2,333	176,161
Debt securities			2,115	1,766	4,322	2,641	289	11,133
Subordinated debt	107		10	778	615	2,412	1,162	5,084
Re-measurement adjustment on interest-rate risk hedged portfolios	1,067							1,067
Financial liabilities by maturity	**18,417**	**134,687**	**24,813**	**27,097**	**13,094**	**14,852**	**5,713**	**238,673**

7.i Fair value of financial instruments carried at amortised cost

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

- These fair values are an estimate of the value of the relevant instruments as of 31 December 2016. They are liable to fluctuate from day to day as a result of changes in various parameters, such as interest rates and credit quality of the counterparty. In particular, they may differ significantly from the amounts 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 instrument to BNP Paribas Fortis 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;

- The fair values shown below do not include the fair values of finance lease transactions, 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. Consequently, these fair values should not be regarded as the actual contribution of the instruments concerned to the overall valuation of BNP Paribas Fortis.

In millions of euros	Note	31 December 2016				
		Estimated fair value				Carrying value
		Level 1	Level 2	Level 3	Total	
FINANCIAL ASSETS						
Loans and receivables due from credit institutions	4.f	-	14,687	-	14,687	14,687
Loans and receivables due from customers [1]	4.g	448	5,008	156,727	162,183	157,478
Held-to-maturity financial assets	4.j	429	134	-	563	525
FINANCIAL LIABILITIES						
Due to credit institutions	4.f	-	34,872	-	34,872	34,867
Due to customers	4.g	-	163,823	-	163,823	163,316
Debt securities	4.i	-	13,420	-	13,420	13,539
Subordinated debt	4.i	-	4,424	-	4,424	4,348

(1) Finance leases excluded

In millions of euros	Note	31 December 2015				
		Estimated fair value				Carrying value
		Level 1	Level 2	Level 3	Total	
FINANCIAL ASSETS						
Loans and receivables due from credit institutions	4.f	-	13,064	-	13,064	13,064
Loans and receivables due from customers [1]	4.g	534	12,586	154,530	167,650	163,851
Held-to-maturity financial assets	4.j	474	152	-	626	582
FINANCIAL LIABILITIES						
Due to credit institutions	4.f	-	22,835	-	22,835	22,609
Due to customers	4.g	-	176,849	-	176,849	176,161
Debt securities	4.i	-	11,232	-	11,232	11,133
Subordinated debt	4.i	-	5,228	-	5,228	5,084

(1) Finance leases excluded

The valuation techniques and assumptions used by BNP Paribas Fortis ensure that the fair value of financial assets and liabilities carried at amortised cost is measured on a consistent basis throughout the Bank. 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, 'Summary of significant accounting policies applied by BNP Paribas Fortis'. The description of the fair value hierarchy levels is also presented in the accounting principles (Note 1.d.9). 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) or of most regulated savings products, fair value equates to the carrying amount. These instruments have been classified in Level 2, except for loans to customers which are classified in Level 3.

7.j Scope of consolidation

		31 December 2016					31 December 2015				
Name	**Country**	**Method**		**Voting (%)**	**Interest (%)**	**Ref.**	**Method**		**Voting (%)**	**Interest (%)**	**Ref.**
Consolidating company											
BNP Paribas Fortis	**Belgium**										
Belgium											
Ace Equipment Leasing	Belgium					S3	Full		99.80%	24.95%	V4
Ag Insurance	Belgium	Equity		25%	25%		Equity		25%	25%	
Alpha Card S.C.R.L.	Belgium	Equity		49.99%	49.99%		Equity		49.99%	49.99%	
Alpha Crédit S.A.	Belgium	Full		99.99%	100%		Full		99.99%	99.99%	
Arval Belgium SA	Belgium	Full		100%	99.99%	E3					
Belgian Mobile Wallet	Belgium					S3	Equity		20%	20%	V2-V3
BNP Paribas Fortis Factor Nv SA	Belgium	Full		99.99%	99.99%		Full		99.99%	99.99%	
BNP Paribas Fortis Private Equity Belgium N.V.	Belgium	Full		99.99%	99.99%		Full		99.99%	99.99%	
BNP Paribas Fortis Private Equity Expansion	Belgium	Full		100%	99.99%		Full		100%	99.99%	
BNP Paribas Fortis Private Equity Management	Belgium	Equity	1	100%	99.99%		Equity	1	100%	100%	
BNP Paribas Lease Group Belgium	Belgium	Full		99.99%	25%		Full		99.99%	24.99%	
Bpost Banque - Bpost Bank	Belgium	Equity	2	50%	50%		Equity	2	50%	50%	
CNH Industrial Capital Europe Belgium Branch	Belgium	Full		100%	12.53%		Full		100%	12.52%	
Demetris N.V.	Belgium	Equity	1	99.99%	99.99%		Equity	1	99.99%	99.99%	
Eos Aremas Belgium S.A./N.V.	Belgium	Equity		49.97%	49.97%		Equity		49.97%	49.97%	
Es-Finance	Belgium	Full		99.99%	99.99%		Full		100%	100%	
Fortis Lease Belgium	Belgium	Full		100%	25%		Full		100%	25%	
Immobilière Sauvenière S.A.	Belgium	Equity	1	99.99%	99.99%		Equity	1	99.99%	99.99%	
Locadif	Belgium	Full		99.99%	99.99%	E3					
Belgium - Special Purpose Entities											
Bass Master Issuer Nv	Belgium	Full					Full				
Esmée Master Issuer	Belgium	Full					Full				
Luxembourg											
Arval Luxembourg SA	Luxembourg	Equity		100%	99.99%	E3					

New entries (E) in the scope of consolidation

E1 Passing qualifying thresholds as defined by BNP Paribas Fortis (see note 1.c.1)
E2 Incorporation
E3 Purchase, gain of control or significant influence

Removals (S) from the scope of consolidation

S1 Cessation of activity (including dissolution, liquidation)
S2 Disposal, loss of control or loss of significant influence
S3 Entities removed from the scope because < qualifying thresholds (see note 1.c.1)
S4 Merger, Universal transfer of assets and liabilities

Variance (V) in voting or ownership interest

V1 Additional purchase
V2 Partial disposal
V3 Dilution
V4 Increase in %

Miscellaneous

D1 Consolidation method change not related to fluctuation in voting or ownership interest

Prudential scope of consolidation

1 Controlled but non material entities consolidated under the equity method as associates (see note 1.c.1)
2 Jointly controlled entities under proportional consolidation for prudential purposes.

Full - Full consolidation
Equity - Equity Method

		31 December 2016					31 December 2015				
Name	**Country**	**Method**		**Voting (%)**	**Interest (%)**	**Ref.**	**Method**		**Voting (%)**	**Interest (%)**	**Ref.**
BGL BNP Paribas	Luxembourg	Full		50%	50%		Full		50%	50%	
BGL BNP Paribas Factor S.A.	Luxembourg					S4	Full		100%	50%	
BNP Paribas Fortis Funding S.A.	Luxembourg	Full		99.99%	99.99%		Full		99.99%	99.99%	
BNP Paribas Lease Group Luxembourg S.A.	Luxembourg	Full		100%	50%		Full		99.99%	49.99%	
BNP Paribas Leasing Solutions	Luxembourg	Full		50%	25%		Full		50%	25%	
Cardif Lux Vie	Luxembourg	Equity		33.33%	16.67%		Equity		33.33%	16.67%	
Cofhylux S.A.	Luxembourg	Full		100%	50%		Full		100%	50%	
Plagefin S.A.	Luxembourg	Full		100%	50%		Full		100%	50%	
Luxembourg - Special Purpose Entities											
Alleray S.A.R.L.	Luxembourg					S1	Full				
Société Immobilière De Monterey S.A.	Luxembourg					S2	Full				
Rest of the world											
Albury Asset Rentals Limited	United Kingdom	Full		100%	25%		Full		100%	25%	
All In One Vermietung Gmbh	Austria					S3	Equity	1	100%	25%	
All In One Vermietungsgesellschaft Fur Telekommunikationsanlagen Mbh	Germany	Equity	1	100%	25%		Equity	1	100%	25%	
Alpha Murcia Holding B.V.	Netherlands	Equity	1	100%	100%		Equity	1	100%	100%	
Aprolis Finance	France	Full		50.99%	12.75%		Full		50.99%	12.75%	
Aprolis Finance (Romania branch)	Romania										S1
Arius	France	Full		100%	25%		Full		100%	25%	
Artegy	France	Full		100%	25%		Full		100%	25%	
Artel	France	Equity		100%	99.99%	E3					
Arval AB	Sweden	Equity		100%	99.99%	E3					
Arval AS	Denmark	Equity		100%	99.99%	E3					
Arval Austria GmbH	Austria	Equity		100%	99.99%	E3					
Arval Benelux BV	Netherlands	Full		100%	99.99%	E3					
Arval Brasil Ltda	Brazil	Full		99.99%	99.99%	E3					
Arval BV	Netherlands	Full		100%	99.99%	E3					
Arval CZ SRO	Czech Republic	Full		100%	99.99%	E3					
Arval Deutschland GmbH	Germany	Full		100%	99.99%	E3					
Arval Fleet Services (ex- General Electric Capital Fleet Services Fr)	France	Full		100%	99.99%	E3					

New entries (E) in the scope of consolidation

E1 Passing qualifying thresholds as defined by BNP Paribas Fortis (see note 1.c.1)
E2 Incorporation
E3 Purchase, gain of control or significant influence

Removals (S) from the scope of consolidation

S1 Cessation of activity (including dissolution, liquidation)
S2 Disposal, loss of control or loss of significant influence
S3 Entities removed from the scope because < qualifying thresholds (see note 1.c.1)
S4 Merger, Universal transfer of assets and liabilities

Variance (V) in voting or ownership interest

V1 Additional purchase
V2 Partial disposal
V3 Dilution
V4 Increase in %

Miscellaneous

D1 Consolidation method change not related to fluctuation in voting or ownership interest

Prudential scope of consolidation

1 Controlled but non material entities consolidated under the equity method as associates (see note 1.c.1)
2 Jointly controlled entities under proportional consolidation for prudential purposes.

Full - Full consolidation
Equity - Equity Method

		31 December 2016				31 December 2015			
Name	Country	Method	Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
Arval Fleet Services BV (ex- GE Fleet Services BV)	Netherlands	Full	100%	99.99%	E3				
Arval Hellas Car Rental SA	Greece	Equity	100%	99.99%	E3				
Arval India Private Ltd	India	Equity	100%	99.99%	E3				
Arval Italy Fleet Services SRL	Italy	Full	100%	99.99%	E3				
Arval Juitong (ex- Arval China Co Ltd)	China	Equity	39.99%	39.99%	E3				
Arval Magyarorszag KFT	Hungary	Equity	100%	100%	E3				
Arval OOO	Russia	Full	99.99%	99.99%	E3				
Arval Oy	Finland	Equity	100%	99.99%	E3				
Arval Schweiz AG	Switzerland	Equity	100%	99.99%	E3				
Arval Service Lease	France	Full	99.99%	99.99%	E3				
Arval Service Lease Aluger Operational Automoveis SA	Portugal	Equity	99.99%	99.99%	E3				
Arval Service Lease Italia SPA	Italy	Full	100%	99.99%	E3				
Arval Service Lease Polska SP ZOO	Poland	Full	100%	99.99%	E3				
Arval Service Lease Romania SRL	Romania	Equity	100%	99.99%	E3				
Arval Service Lease SA	Spain	Full	99.99%	99.99%	E3				
Arval Slovakia	Slovakia	Equity	100%	99.99%	E3				
Arval Trading	France	Equity	100%	99.99%	E3				
Arval UK Group Ltd	United Kingdom	Full	100%	99.99%	E3				
Arval UK Leasing Services Ltd (Ex- GE Commercial Finance Fleet Services Ltd)	United Kingdom	Full	100%	99.99%	E3				
Arval UK Ltd	United Kingdom	Full	100%	99.99%	E3				
Bank BGŻ BNP Paribas SA	Poland	Equity	28.35%	28.35%		Equity	28.35%	28.35%	E3
BGL BNP Paribas S.A. Zweignierderlassung Deutschland	Germany	Full	100%	50%		Full	100%	50%	
BNP Paribas Bank Polska S.A.	Poland								S4
BNP Paribas Commercial Finance Limited	United Kingdom	Full	100%	100%		Full	100%	100%	
BNP Paribas Factor A/S	Denmark	Equity 1	100%	100%		Equity 1	100%	100%	E1
BNP Paribas Factor Deutschland B.V.	Germany	Full	100%	100%		Full	100%	100%	
BNP Paribas Factor Gmbh	Germany	Full	100%	100%		Full	100%	100%	
BNP Paribas Factoring Coverage Europe Holding N.V.	Netherlands	Full	100%	100%		Full	100%	100%	
BNP Paribas Finansal Kiralama A.S.	Turkey	Full	99.99%	26.08%		Full	99.99%	26.06%	V1
BNP Paribas Fortis (Austria branch)	Austria	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Czech Republic branch)	Czech republic	Full	100%	100%		Full	100%	100%	

New entries (E) in the scope of consolidation

E1 Passing qualifying thresholds as defined by BNP Paribas Fortis (see note 1.c.1)
E2 Incorporation
E3 Purchase, gain of control or significant influence

Removals (S) from the scope of consolidation

S1 Cessation of activity (including dissolution, liquidation)
S2 Disposal, loss of control or loss of significant influence
S3 Entities removed from the scope because < qualifying thresholds (see note 1.c.1)
S4 Merger, Universal transfer of assets and liabilities

Variance (V) in voting or ownership interest

V1 Additional purchase
V2 Partial disposal
V3 Dilution
V4 Increase in %

Miscellaneous

D1 Consolidation method change not related to fluctuation in voting or ownership interest

Prudential scope of consolidation

1 Controlled but non material entities consolidated under the equity method as associates (see note 1.c.1)
2 Jointly controlled entities under proportional consolidation for prudential purposes.

Full - Full consolidation
Equity - Equity Method

		31 December 2016				31 December 2015			
Name	**Country**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**
BNP Paribas Fortis (Denmark branch)	Denmark	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Finland branch)	Finland	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Germany branch)	Germany				S1	Full	100%	100%	
BNP Paribas Fortis (Netherlands branch)	Netherlands	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Norway branch)	Norway	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Romania branch)	*Romania*	*Full*	*100%*	*100%*		*Full*	*100%*	*100%*	
BNP Paribas Fortis (Spain branch)	*Spain*	*Full*	*100%*	*100%*		*Full*	*100%*	*100%*	
BNP Paribas Fortis (Sweden branch)	*Sweden*	*Full*	*100%*	*100%*		*Full*	*100%*	*100%*	
BNP Paribas Fortis (U.S.A branch)	*United States*	*Full*	*100%*	*100%*		*Full*	*100%*	*100%*	
BNP Paribas Fortis (UK branch)	*United Kingdom*								*S1*
BNP Paribas Fortis Yatirimlar Holding Anonim Sirketi	*Turkey*	*Full*	*99.99%*	*99.99%*		*Full*	*100%*	*100%*	
BNP Paribas Investment Partners	*France*	*Equity*	*33.33%*	*30.85%*		*Equity*	*33.33%*	*30.85%*	
BNP Paribas Lease Group (Rentals) Limited	*United Kingdom*	*Full*	*100%*	*25%*		*Full*	*100%*	*25%*	
BNP Paribas Lease Group Bplg	*France*	*Full*	*100%*	*25%*		*Full*	*100%*	*25%*	
BNP Paribas Lease Group Ifn S.A.	*Romania*	*Equity 1*	*99.94%*	*24.99%*		*Equity 1*	*100%*	*24.99%*	
Bnp Paribas Lease Group Kft.	*Hungary*	*Equity 1*	*100%*	*25%*		*Equity 1*	*100%*	*25%*	
BNP Paribas Lease Group Leasing Solutions S.P.A.	*Italy*	*Equity*	*26.17%*	*6.54%*		*Equity*	*26.17%*	*6.54%*	
BNP Paribas Lease Group Lizing Rt	*Hungary*	*Equity 1*	*100%*	*25%*		*Equity 1*	*100%*	*25%*	
BNP Paribas Lease Group Milan Branch	*Italy*	*Full*	*100%*	*25%*		*Full*	*100%*	*25%*	
BNP Paribas Lease Group PLC	*United Kingdom*	*Full*	*100%*	*25%*		*Full*	*100%*	*25%*	
BNP Paribas Lease Group S.A. Zweigniederlassung Deutschland	*Germany*	*Full*	*100%*	*25%*		*Full*	*100%*	*25%*	
BNP Paribas Lease Group Sa Portugal Branch	*Portugal*	*Full*	*100%*	*25%*		*Full*	*100%*	*25%*	
BNP Paribas Lease Group Sa Sucursal En Espana	*Spain*	*Full*	*100%*	*25%*		*Full*	*100%*	*25%*	
BNP Paribas Lease Group Sp.Z.O.O	*Poland*	*Equity 1*	*100%*	*25%*		*Equity 1*	*100%*	*25%*	
BNP Paribas Leasing Solutions Immobilier Suisse	*Switzerland*								*S4*
BNP Paribas Leasing Solutions Limited	*United Kingdom*	*Full*	*100%*	*25%*		*Full*	*100%*	*25%*	
BNP Paribas Leasing Solutions N.V.	*Netherlands*	*Full*	*100%*	*25%*		*Full*	*100%*	*25%*	
BNP Paribas Leasing Solutions Suisse Sa	*Switzerland*	*Equity 1*	*100%*	*25%*		*Equity 1*	*100%*	*25%*	
BNPP Fleet Holdings Ltd	*United Kingdom*	*Full*	*100%*	*100%*	*E3*				
BNPP Rental Solutions Ltd (Ex- Artegy Ltd)	*United Kingdom*	*Equity 1*	*100%*	*25%*		*Equity 1*	*100%*	*25%*	
Claas Financial Services	*France*	*Full*	*60.11%*	*15.03%*		*Full*	*60.11%*	*15.03%*	
Claas Financial Services Germany Branch	*Germany*	*Full*	*100%*	*15.03%*		*Full*	*100%*	*15.03%*	

New entries (E) in the scope of consolidation

E1 Passing qualifying thresholds as defined by BNP Paribas Fortis (see note 1.c.1)
E2 Incorporation
E3 Purchase, gain of control or significant influence

Removals (S) from the scope of consolidation

S1 Cessation of activity (including dissolution, liquidation)
S2 Disposal, loss of control or loss of significant influence
S3 Entities removed from the scope because < qualifying thresholds (see note 1.c.1)
S4 Merger, Universal transfer of assets and liabilities

Variance (V) in voting or ownership interest

V1 Additional purchase
V2 Partial disposal
V3 Dilution
V4 Increase in %

Miscellaneous

D1 Consolidation method change not related to fluctuation in voting or ownership interest

Prudential scope of consolidation

1 Controlled but non material entities consolidated under the equity method as associates (see note 1.c.1)
2 Jointly controlled entities under proportional consolidation for prudential purposes.

Full - Full consolidation
Equity - Equity Method

		31 December 2016					31 December 2015				
Name	**Country**	**Method**		**Voting (%)**	**Interest (%)**	**Ref.**	**Method**		**Voting (%)**	**Interest (%)**	**Ref.**
Claas Financial Services Inc	*United States*					*S2*	*Full*		*100%*	*15.03%*	
Claas Financial Services Italy Branch	*Italy*	*Full*		*100%*	*15.03%*		*Full*		*100%*	*15.03%*	
Claas Financial Services Ltd	*United Kingdom*	*Full*		*51%*	*12.75%*		*Full*		*51%*	*12.75%*	
Claas Financial Services Sas Branch In Poland	*Poland*	*Full*		*100%*	*15.03%*		*Full*		*100%*	*15.03%*	
Claas Financial Services, S.A.S., S.E. Spain Branch	*Spain*	*Full*		*100%*	*15.03%*		*Full*		*100%*	*15.03%*	
CNH Industrial Capital Europe Gmbh	*Austria*	*Full*		*100%*	*12.53%*		*Full*		*100%*	*12.52%*	
CNH Industrial Capital Europe	*France*	*Full*		*50.10%*	*12.53%*		*Full*		*50.10%*	*12.52%*	
CNH Industrial Capital Europe Bv	*Netherlands*	*Full*		*100%*	*12.53%*		*Full*		*100%*	*12.52%*	
CNH Industrial Capital Europe Italy Branch	*Italy*	*Full*		*100%*	*12.53%*		*Full*		*100%*	*12.52%*	
CNH Industrial Capital Europe Ltd	*United Kingdom*	*Full*		*100%*	*12.53%*		*Full*		*100%*	*12.52%*	
CNH Industrial Capital Europe Poland Branch	*Poland*	*Full*		*100%*	*12.53%*		*Full*		*100%*	*12.52%*	
CNH Industrial Capital Europe SA.S Germany Branch	*Germany*	*Full*		*100%*	*12.53%*		*Full*		*100%*	*12.52%*	
CNH Industrial Capital Europe Sucursal En Espana	*Spain*	*Full*		*100%*	*12.53%*		*Full*		*100%*	*12.52%*	
Cofiparc	*France*	*Full*		*100%*	*99.99%*	*E3*					
Commercial Vehicle Finance Limited	*United Kingdom*	*Full*		*100%*	*25%*		*Full*		*100%*	*25%*	
Cronos Holding Company Limited	*Bermuda*										*S3*
Fb Transportation Capital Llc	*United States*					*S1*	*Full*		*100%*	*100%*	
Fortis Funding Llc	*United States*					*S3*	*Full*		*100%*	*100%*	
Fortis Lease	*France*	*Full*		*99.99%*	*25%*		*Full*		*99.99%*	*24.99%*	
Fortis Lease Deutschland Gmbh	*Germany*	*Equity*	*1*	*100%*	*25%*		*Equity*	*1*	*100%*	*25%*	
Fortis Lease Iberia Sa	*Spain*	*Equity*	*1*	*100%*	*41.04%*		*Equity*	*1*	*100%*	*41.04%*	
Fortis Lease Operativ Lizing Zartkoruen Mukodo Reszvenytarsasag	*Hungary*					*S1*	*Equity*	*1*	*100%*	*25%*	
Fortis Lease Portugal	*Portugal*	*Equity*	*1*	*100%*	*25%*		*Equity*	*1*	*100%*	*25%*	
Fortis Lease Romania Ifn Sa	*Romania*										*S4*
Fortis Lease Uk Ltd	*United Kingdom*	*Equity*	*1*	*100%*	*25%*		*Equity*	*1*	*100%*	*25%*	
Fortis Vastgoedlease B.V.	*Netherlands*	*Equity*	*1*	*100%*	*25%*		*Equity*	*1*	*100%*	*25%*	
HFGL Limited	*United Kingdom*					*S1*	*Full*		*100%*	*25%*	
Humberclyde Commercial Investments Limited	*United Kingdom*	*IG*		*100%*	*25%*		*Full*		*100%*	*25%*	
Humberclyde Commercial Investments Limited N°1	*United Kingdom*					*S1*	*Full*		*100%*	*25%*	
Inkasso Kodat Gmbh & Co. Kg	*Germany*	*Equity*	*1*	*100%*	*100%*		*Equity*	*1*	*100%*	*100%*	
Jcb Finance	*France*	*Full*		*100%*	*12.53%*		*Full*		*100%*	*12.53%*	

New entries (E) in the scope of consolidation

- E1 Passing qualifying thresholds as defined by BNP Paribas Fortis (see note 1.c.1)
- E2 Incorporation
- E3 Purchase, gain of control or significant influence

Removals (S) from the scope of consolidation

- S1 Cessation of activity (including dissolution, liquidation)
- S2 Disposal, loss of control or loss of significant influence
- S3 Entities removed from the scope because < qualifying thresholds (see note 1.c.1)
- S4 Merger, Universal transfer of assets and liabilities

Variance (V) in voting or ownership interest

- V1 Additional purchase
- V2 Partial disposal
- V3 Dilution
- V4 Increase in %

Miscellaneous

- D1 Consolidation method change not related to fluctuation in voting or ownership interest

Prudential scope of consolidation

1. Controlled but non material entities consolidated under the equity method as associates (see note 1.c.1)
2. Jointly controlled entities under proportional consolidation for prudential purposes.

Full - Full consolidation
Equity - Equity Method

Name	Country	31 December 2016				31 December 2015			
		Method	Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
Jcb Finance Holdings Ltd	*United Kingdom*	*Full*	*50.10%*	*12.53%*		*Full*	*50.10%*	*12.53%*	
JCB Finance S.A.S. Italy Branch	*Italy*	*Full*	*100%*	*12.53%*		*Full*	*100%*	*12.53%*	
JCB Finance S.A.S. Zweigniederlassung Deutschland	*Germany*	*Full*	*100%*	*12.53%*		*Full*	*100%*	*12.53%*	
Kronenburg Vastgoed N.V.	*Netherlands*								*S3*
Locatrice Italiana S.P.A.	*Italy*	*Equity*	*100%*	*25%*		*Equity*	*100%*	*25%*	*V3*
Manitou Finance Limited	*United Kingdom*	*Full*	*51%*	*12.75%*		*Full*	*51%*	*12.75%*	
Mff	*France*	*Full*	*51%*	*12.75%*		*Full*	*51%*	*12.75%*	
Public Location Longue Durée	*France*	*Equity*	*100%*	*99.99%*	*E3*				
RD Portofoliu SRL	*Romania*	*Equity 1*	*100%*	*25%*		*Equity 1*	*100%*	*25%*	*E2*
Same Deutz Fahr Finance	*France*	*Full*	*100%*	*25%*		*Full*	*100%*	*25%*	
Same Deutz Fahr Finance Limited	*United Kingdom*	*Full*	*100%*	*25%*		*Full*	*100%*	*25%*	
Société Alsacienne De Développement Et D'Expansion	*France*				*S2*	*Full*	*100%*	*50%*	
Srei Equipment Finance Limited	*India*				*S2*	*Equity 2*	*50%*	*12.50%*	
Stichting Effecten Dienstverlening	*Netherlands*								*S3*
Sygma Bank Polska SA (Spolka Akcyjna)	*Poland*				*S4*	*Equity*	*28.35%*	*28.35%*	*E3*
Teb Arval Arac Filo Kiralama A.S.	*Turkey*	*Full*	*99.99%*	*74.99%*	*V3*	*Equity*	*25%*	*25%*	
Teb Faktoring A.S.	*Turkey*	*Full*	*100%*	*48.72%*		*Full*	*100%*	*48.72%*	*V1*
Teb Holding A.S.	*Turkey*	*Full*	*50%*	*49.99%*		*Full*	*50%*	*50%*	
Teb Portfoy Yonetimi A.S.	*Turkey*	*Full*	*79.63%*	*39.02%*		*Full*	*79.63%*	*39.11%*	*V1*
Teb Sh A	*Serbia*	*Full*	*100%*	*49.99%*		*Full*	*100%*	*50%*	
Teb Yatirim Menkul Degerler A.S.	*Turkey*	*Full*	*100%*	*48.72%*		*Full*	*100%*	*48.72%*	*V1*
The Economy Bank Nv	*Netherlands*								*S3*
TKB BNP Paribas Investment Partners Holding BV	*Netherlands*								*S2*
Turk Ekonomi Bankasi A.S.	*Turkey*	*Full*	*76.22%*	*48.72%*		*Full*	*76.22%*	*48.72%*	*V1*
Von Essen Gmbh	*Germany*	*Full*	*100%*	*100%*		*Full*	*100%*	*100%*	
Rest of the world - Special Purpose Entities									
Scaldis Capital Limited	*Jersey*	*Full*				*Full*			
Scaldis Capital Llc	*United States*								*S1*
Scaldis Capital Ltd	*Ireland*				*S3*	*Full*			
Tcg Fund I, L.P.	*Cayman Islands*								*S1*

New entries (E) in the scope of consolidation

- E1 Passing qualifying thresholds as defined by BNP Paribas Fortis (see note 1.c.1)
- E2 Incorporation
- E3 Purchase, gain of control or significant influence

Removals (S) from the scope of consolidation

- S1 Cessation of activity (including dissolution, liquidation)
- S2 Disposal, loss of control or loss of significant influence
- S3 Entities removed from the scope because < qualifying thresholds (see note 1.c.1)
- S4 Merger, Universal transfer of assets and liabilities

Variance (V) in voting or ownership interest

- V1 Additional purchase
- V2 Partial disposal
- V3 Dilution
- V4 Increase in %

Miscellaneous

- D1 Consolidation method change not related to fluctuation in voting or ownership interest

Prudential scope of consolidation

1. Controlled but non material entities consolidated under the equity method as associates (see note 1.c.1)
2. Jointly controlled entities under proportional consolidation for prudential purposes.

Full - Full consolidation
Equity - Equity Method

7.k Fees paid to the statutory auditors

The breakdown of the fees paid to the statutory auditors for the year 2016 and 2015 is as follows:

Year to 31 Dec. 2016	Deloitte		PwC Audit		TOTAL	
Excluding tax, in thousands of euros	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Audit						
Statutory audits and contractual audits, including:	811	42%	2,613	80%	**3,424**	**65%**
- BNP Paribas Fortis	*663*	*34%*	*786*	*24%*	*1,449*	*28%*
- Consolidated subsidiaries	*148*	*8%*	*1,827*	*56%*	*1,975*	*38%*
Other reviews and services directly related to the statutory audit mandate, including:	82	5%	335	10%	**417**	**8%**
- BNP Paribas Fortis	*32*	*2%*	*241*	*7%*	*273*	*5%*
- Consolidated subsidiaries	*50*	*3%*	*94*	*3%*	*144*	*3%*
Total audit	**893**	**46%**	**2,948**	**90%**	**3,841**	**73%**
Non Audit						
Tax and legal	-	0%	21	1%	**21**	**0%**
- BNP Paribas Fortis	*-*	*0%*	*-*	*0%*	*-*	*0%*
- Consolidated subsidiaries	-	0%	21	1%	21	0%
Others	1,064	55%	304	10%	**1,368**	**26%**
- BNP Paribas Fortis	*1,051*	*54%*	*282*	*9%*	*1,333*	*25%*
- Consolidated subsidiaries	*13*	*1%*	*22*	*1%*	*35*	*1%*
Total non-audit	**1,064**	**54%**	**325**	**10%**	**1,389**	**27%**
TOTAL	**1,957**	**100%**	**3,273**	**100%**	**5,230**	**100%**

Year to 31 Dec. 2015	Deloitte		PwC Audit		TOTAL	
Excluding tax, in thousands of euros	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Audit						
Statutory audits and contractual audits, including:	817	38%	2,816	87%	**3,633**	**67%**
- BNP Paribas Fortis	*650*	*30%*	*815*	*25%*	*1,465*	*27%*
- Consolidated subsidiaries	*167*	*8%*	*2,001*	*62%*	*2,168*	*40%*
Other reviews and services directly related to the statutory audit mandate, including:	246	11%	111	3%	**357**	**7%**
- BNP Paribas Fortis	*96*	*4%*	*42*	*1%*	*138*	*3%*
- Consolidated subsidiaries	*150*	*7%*	*69*	*2%*	*219*	*4%*
Total audit	**1,063**	**49%**	**2,927**	**90%**	**3,990**	**74%**
Non Audit						
Tax and legal	-	0%	19	1%	**19**	**0%**
- BNP Paribas Fortis	*-*	*0%*	*-*	*0%*	*-*	*0%*
- Consolidated subsidiaries	-	0%	19	1%	19	0%
Others	1,095	51%	292	9%	**1,387**	**26%**
- BNP Paribas Fortis	*1,081*	*50%*	*289*	*9%*	*1,370*	*25%*
- Consolidated subsidiaries	*14*	*1%*	*3*	*0%*	*17*	*0%*
Total non-audit	**1,095**	**51%**	**311**	**10%**	**1,406**	**26%**
TOTAL	**2,158**	**100%**	**3,238**	**100%**	**5,396**	**100%**

Fees paid to auditors that are not members of the network of one of the auditors certifying the Consolidated Financial Statements and the Non-consolidated Financial Statements of BNP Paribas Fortis, shown in the table above, amount to EUR 2,510,000 for the year 2016.

7.l Events after the reporting period

There have been no material events since the balance sheet date that would require adjustments to the Consolidated Financial Statements as at 31 December 2016.

RISK MANAGEMENT AND CAPITAL ADEQUACY

INTRODUCTION

The information presented in this chapter reflects the entirety of the risks carried by BNP Paribas Fortis. It provides a comprehensive description of BNP Paribas Fortis' risk management organisation and a quantitative and qualitative overview of BNP Paribas Fortis' risk exposure at year-end 2016.

BNP Paribas Fortis' risk measures are presented according to the Basel III Pillar 3 principles. These risks are calculated using methods approved by the Belgian banking regulator, i.e. the National Bank of Belgium (NBB), and are measured and managed as consistently as possible with the BNP Paribas Risk methodologies.

Further details on the BNP Paribas Group's approach to the measuring and managing of risks resulting from banking activities can be found in the Registration Document and the BNP Paribas Annual Financial Report 2016.

1 RISK MANAGEMENT ORGANISATION

1.a Mission and organisation

Risk management is key in the banking business. At BNP Paribas Group, operating methods and procedures throughout the organisation are geared towards addressing risks effectively. The entire process is supervised primarily by the RISK department, which is responsible for measuring and controlling risks at Group level. RISK is independent from the Core Business divisions, Business Lines and territories and reports directly to Group Executive Management.

The guiding principles of the mission and organisation of BNP Paribas Fortis' Risk department are aligned:

- with the mission of BNP Paribas RISK namely to:
  - advise the Bank's management on risk appetite and policy;
  - provide a 'second pair of eyes' so that risks taken by the Bank are aligned with its policies and are compatible with its profitability and solvency objectives;
  - report to and alert Bank management, Core Business division heads and the special committee of the Board of Directors on the status of the risks to which the Bank is exposed;
  - ensure compliance with banking regulations in the risk area, in liaison with other relevant group functions.
- and with its organisational principles:
  - a single integrated RISK entity, which is responsible for risk aspects across all businesses;
  - independent of business-line management;
  - organised with local and global reporting lines (matrix principle).

The BNP Paribas Fortis RISK department was integrated into BNP Paribas RISK function in November 2009. The Chief Risk Officer (CRO) of BNP Paribas Fortis is a Member of the Executive Board and also has a reporting line to the BNP Paribas Head of Risk Domestic Markets. The CRO has no hierarchical link to the heads of businesses or of countries. This structure is designed to:

- ensure objective risk control;
- ensure that swift, objective and complete information is provided in the event of increased risk;
- maintain a single set of high-quality risk management standards throughout the Bank;
- ensure that the Bank's risk professionals implement and further develop methods and procedures of the highest quality in line with its international competitors' best practices.

The CRO heads the various RISK functions:

- Enterprise Risk Architecture is responsible for the regulatory affairs, risk analytics and modelling, risk strategic analysis, reporting and provisioning, risk ALM – treasury and liquidity;
- Risk CIB is tasked to provide full transparency and a dynamic analysis of market & counterparty risks to all BNPP Fortis businesses and is responsible for the management of credit risks on Financial Institutions, on Sovereigns and on Corporates belonging to BNP Paribas Fortis CIB;
- Risk Belgian Retail Banking is responsible for the management of credit risks arising from all Business Lines within the perimeter of BNP Paribas Fortis (Retail & Private Banking Belgium, Corporate & Public Bank Belgium);
- Risk Function COO is responsible for risk systems, operational permanent control (ensuring second-line control of the RISK function and of business continuity), the Risk Operating Office (coordinating the non-core support functions), change management projects and communication;
- Risk IRC (Risk Independent Review & Control) is responsible for the independent review for credit, market, counterparty, insurance and operational risk;
- Risk ORC (Operational Risk & Control) BNP Paribas Fortis Belgium provides reasonable assurance of the existence and the efficient functioning of an operational permanent control framework within BNP Paribas Fortis in Belgium that meets the supervisory requirements of BNP Paribas Fortis as well as those of BNP Paribas Group.

Outside Belgium, alongside the existing local and global reporting lines, the CROs of companies that remain within the BNP Paribas Fortis perimeter report to the CRO of BNP Paribas Fortis in order to ensure compliance with internal and external rules.

The key principle of the Bank's overall risk governance (covering all risk types including credit, market, counterparty, liquidity risk, operational risk, etc.) is the double-walled defence, as stated in the BNP Paribas Fortis Risk Policy as reviewed by the Executive Board and the Audit, Risk & Compliance Committee.

The primary responsibility for risk lies with the businesses (first line of defence), which are responsible for the approval, monitoring and management of the risks arising from their activities.

The RISK function provides a 'second pair of eyes', helping to ensure that the risks taken by the Bank are compliant and compatible with its policies; it represents the second line of defence in accordance with the mission stated above, contributing strongly to joint decision making with the businesses and increasing the emphasis on risk monitoring and controls.

1.b BNP Paribas Fortis Risk committees

- Audit Committee (AC): in accordance with article 27 of the Banking Law, BNP Paribas Fortis is required to set up a separate audit committee to assist the board of directors with audit related matters. Prior to the entering into force of the Banking Law, the audit committee was part of the Audit, Risk and Compliance Committee (the 'ARCC'). The competences of the audit committee are set forth in the Banking Law and are listed herewith: finance, internal control and risk management, internal audit and external audit. The audit committee shall, upon request of the board of directors, assist (and make recommendations to) the board of directors in all audit and accounting related matters.

- Risk Committee (RC): in accordance with article 27 of the Banking Law, BNP Paribas Fortis is required to set up a separate risk committee to assist the board of directors with risk (related) matters. Prior to the entering into force of the Banking Law, the risk committee was part of the ARCC. The risk committee shall, upon request of the board of directors, assist (and make recommendations to) the board of directors in all risk (related) matters. In addition, several special competences of the risk committee are set forth in article 29 of the Banking Law and are listed herewith: (i) risk tolerance, (ii) price setting and (iii) remuneration policy.

- Central Credit Committee: the highest Credit Committee of BNP Paribas Fortis, which acts in line with the authority of the delegations held by its members (CEO and Heads of Business Lines, together with the CRO and other senior Risk representatives); it ensures that customer-level credit decisions are taken within the desired credit risk profile, the formulated credit policies and the Bank's legal lending limits.

- Capital Markets Risk Committee: defines and enforces the Risk strategy, policies, methods and thresholds for capital markets, including investment portfolios, at activity and transaction level.

- Risk Policy Committee: defines the risk profile at portfolio level, approves policies, reviews exposures and examines risks in the light of market conditions, business strategy and profitability, and enforces risk decisions.

- Bank Assets and Liabilities Committee: manages the liquidity position of the bank and the interest rate risk and foreign exchange risk in the Banking Book.

- Committee on Impairments and Provisions: makes final decisions on consolidated provisions and impairments.

- Exceptional Transactions Committees: validates and approves exceptional transactions.

- New Activity Committees: validates and approves new activities and products, including any significant changes in current activities.

2 RISK MEASUREMENT AND CATEGORIES

2.a Risk measurement

Risk measurement is a crucial step in the risk management process.

To assess and measure risks, BNP Paribas Fortis uses several qualitative and/or quantitative methodologies. These range from regular reporting on matters such as concentration and quantitative and qualitative portfolio overviews to more sophisticated quantitative risk models for estimating internal risk parameters. The latter include probability of default, loss given default, exposure at default and expected loss (for credit risk) and Value at Risk (for market risk).

The development and review of these models, and their validation, are subject to Bank-wide standards in order to ensure adequacy and consistency.

The monitoring of the observed risk parameters, stress tests and model-based expectations are then compared to a framework of limits and risk guidelines.

Ultimately, all these risk measurements, together with stress tests, are then consolidated in Risk dashboards, which provide a general overview for senior management. These aggregation documents are intended to provide a basis for well-founded decisions and are subject to on-going improvement.

2.b Risk taxonomy

The risk categories reported below evolve in line with methodological developments at BNP Paribas and regulatory requirements.

Credit and counterparty risk

Credit risk is the risk of incurring a loss on financial assets (existing or potential due to commitments given) resulting from a change in the credit quality of the Bank's debtors, which may ultimately result in default. The probability of default and the expected recovery on the loan or receivable in the event of default are key components of the credit quality assessment.

Credit risk is measured at portfolio level, taking into account correlations between the values of the loans and receivables making up the portfolio.

Counterparty risk is the credit risk embedded in payments or transactions between counterparties. Those transactions typically include bilateral contracts such as over-the-counter (OTC) derivative contract, which expose the Bank to the risk of counterparty default. The amount of this risk may vary over time in line with changing market parameters, which in turn impacts the replacement value of the relevant transactions or portfolio.

Market risk

Market risk is the risk of incurring a loss of value (or a loss of interest income in the case of interest rate risk due to banking intermediation activities) due to adverse changes in market prices or parameters (rates), whether quoted in the market or not.

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

Non-quoted parameters are those based on working assumptions such as parameters contained in models or based on statistical or economic analyses, non-ascertainable in the market.

Liquidity is an important component of market risk. In times of limited or no liquidity, instruments or goods may not be tradable or may not be tradable at their estimated value. This may arise, for example, due to low transaction volumes, legal restrictions or a strong imbalance between demand and supply for certain assets.

The market risk relating to banking activities encompasses the risk of loss on equity holdings on the one hand, and the interest rate and foreign exchange risks stemming from banking intermediation activities on the other hand.

Operational risk

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

Internal processes giving rise to operational risk may involve employees and/or IT systems. External events include, but are not limited to: floods, fire, earthquakes and terrorist attacks. Credit or market events such as default or fluctuations in value do not fall within the scope of operational risk.

Operational risk encompasses human resources risks, legal risks, tax risks, information system risks, misprocessing risks, risks relating to published financial information and the financial implications resulting from compliance and reputational risk.

Compliance and reputational risk

Compliance risk is the risk of legal, administrative or disciplinary sanctions, together with the significant financial loss that a bank may suffer as a result of its failure to comply with all the laws, regulations, codes of conduct and standards of good practice applicable to banking and financial activities, including instructions given by an executive body, particularly in the application of guidelines issued by a supervisory body.

By definition, compliance risk is a sub-category of operational risk. However, as certain implications of compliance risk involve more than a purely financial loss and may actually damage the institution's reputation, the Bank treats compliance risk separately.

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

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

Asset-liability management risk

Asset-liability management risk is the risk of incurring a loss as a result of mismatches in interest rates, maturities or nature between assets and liabilities. Asset-liability management risk arises in non-trading portfolios and primarily relates to global interest rate risk.

Liquidity and refinancing risk

Liquidity and refinancing risk is the risk of the Bank being unable to fulfil its obligations at an acceptable price in a given place and currency.

3 CAPITAL ADEQUACY

Framework

As a credit institution, BNP Paribas Fortis is subject to regulatory supervision.

The Belgian Banking Act of 25 April 2014 on the status and the supervision of credit institutions aligns the Belgian legislation in accordance with the new EU regulatory framework. The Capital Requirements Directive (CRD IV) is the legal framework for the supervision of credit institutions in all Member States of the European Union and is the basis of the Single Supervisory Mechanism (SSM), composed of the European Central Bank (ECB) and the national competent authorities, such as the National Bank of Belgium (NBB). The Capital Requirements Regulation (CRR) was published under reference number 575/2013 on June 26th 2013 in the Official Journal of the European Union and is in force as of June 27th 2013, while the supervised entities within its scope are subject to it as of January 1st 2014.

As such BNP Paribas Fortis is supervised, at consolidated and statutory level, by the ECB and the NBB. BNP Paribas Fortis' subsidiaries may also be subject to regulation by various supervisory authorities in the countries where these subsidiaries operate.

Regulators require banks to hold a minimum level of qualifying capital under the 1st Pillar of the Basel III framework.

Since January 1st 2014, BNP Paribas Fortis has been computing its qualifying capital and its risk-weighted assets under the CRR/CRD IV.

The NBB (previously the CBFA, which was the former Belgian supervisor) has granted to BNP Paribas Fortis its approval for using the advanced approaches for calculating the risk-weighted assets under Basel II (and, hence, Basel III): Advanced Internal Ratings Based Approach for credit and market risk and Advanced Measurement Approach for operational risk.

Some subsidiaries of BNP Paribas Fortis have not received such approval and therefore use the Standardised Approach for calculating risk-weighted assets.

Breakdown of regulatory capital

Qualifying capital for regulatory purpose is calculated at consolidated level based on IFRS accounting standards, taking into account prudential filters and deductions imposed by the regulator, as described in the CRR/CRD IV and transposed into the new Belgian Banking Law published in April 2014.

The table below details the composition of the regulatory capital of BNP Paribas Fortis :

In millions of euros	31 December 2016	
	Basel III (transitional**)	of which transitional arrangements *
Common Equity Tier 1 (CET1) capital : instruments and reserves		
Capital instruments and the related share premium accounts	11,905	-
Retained earnings	7,188	-
Accumulated other comprehensive income (and other reserves)	299	-
Funds for general banking risk	-	-
Minority interests (amount allowed in consolidated CET 1)	3,236	1,362
Independently reviewed interim profits net of any foreseeable charge or dividend	1,727	-
COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	**24,355**	**1,362**
Common Equity Tier 1 (CET1) : regulatory adjustments	(4,532)	456
COMMON EQUITY TIER 1 (CET1) CAPITAL	**19,823**	**1,818**
Additional Tier 1 (AT1) capital: instruments	348	38
Additional Tier 1 (AT1) capital: regulatory adjustments	-	-
ADDITIONAL TIER 1 (AT1) CAPITAL	**348**	**38**
TIER 1 CAPITAL (T1 = CET1 + AT1)	**20,171**	**1,856**
Tier 2 (T2) capital: instruments and provisions	2,471	60
Tier 2 (T2) capital: regulatory adjustments	(266)	(4)
TIER 2 (T2) CAPITAL	**2,205**	**56**
TOTAL CAPITAL (TC = T1 + T2)	**22,376**	**1,912**

(*) By virtue of regulation (EU) N° 575/2013

(**) The new regulatory requirements are progressively implemented (phase-in) as from the 1st of January 2014 until the 1st of January 2019, which means that capital adequacy ratios are presented on a 'phase-in' or 'fully-loaded' basis.

The table below shows the key capital indicators (phase-in) :

In millions of euros	31 December 2016	31 December 2015
Common equity Tier 1 Capital (CET1)	19,823	18,152
Tier 1 Capital	20,171	18,401
Total Capital	22,376	21,215
Risk weighted commitments		
Credit risk	120,708	105,629
Securitisation	1,842	2,382
Counterparty Risk	2,325	2,335
Equity Risk	7,277	6,360
Market risk	2,099	2,167
Operational risk	11,025	8,681
TOTAL RISK WEIGHTED COMMITMENTS	**145,276**	**127,554**
CET 1 ratio	13.6%	14.2%
Tier 1 ratio	13.9%	14.4%
Total capital ratio	15.4%	16.6%

The table below shows the leverage ratio (phase-in) :

In millions of euros	31 December 2016	31 December 2015
On-Balance Exposure (Excl. Repo & Derivatives)	**290,266**	**266,590**
Repo's and Derivatives	**5,765**	**8,306**
o/w Securities Financing Transactions	2,818	5,800
o/w Derivatives - Market Value	2,251	3,289
o/w Derivatives - Add-On	3,382	3,455
o/w other	(2,686)	(4,238)
Off-Balance Exposure (adjusted for conversion to credit equivalent. art.429 CRR)	**49,009**	**40,234**
TOTAL EXPOSURE	**345,040**	**315,130**
Regulatory adjustments	(4,532)	(4,597)
Tier 1 capital	20,171	18,401
Leverage Ratio	5.92%	5.93%

The table below shows the Risk-Weighted Assets and Capital Requirements :

In millions of euros	31 December 2016 Basel III		31 December 2015 Basel III		Variation	
	Risk-weighted assets	Capital Requirement	Risk-weighted assets	Capital Requirement	Risk-weighted assets	Capital Requirement
CREDIT RISK	**120,708**	**9,657**	**105,629**	**8,450**	**15,079**	**1,207**
Credit risk: IRB approach	**57,652**	**4,611**	**52,629**	**4,210**	**5,023**	**401**
Central governments and central banks	992	79	974	78	18	1
Corporates	39,250	3,140	34,598	2,768	4,652	372
Institutions	2,550	204	2,630	210	(80)	(6)
Retail	*14,707*	*1,176*	*14,291*	*1,143*	*416*	*33*
Real estate loans	*10,276*	*822*	*10,061*	*805*	*215*	*17*
Revolving exposures	*77*	*6*	*76*	*6*	*1*	*-*
Other exposures	*4,354*	*348*	*4,154*	*332*	*200*	*16*
Other non-credit-obligation assets	153	12	136	11	17	1
Credit risk: Standardised approach	**63,056**	**5,046**	**53,000**	**4,240**	**10,056**	**806**
Central governments and central banks	6,245	500	6,008	481	237	19
Corporates	26,058	2,085	22,277	1,782	3,781	303
Institutions	4,221	338	4,105	328	116	10
Retail	17,575	1,406	17,220	1,378	355	28
Real estate loans	*816*	*65*	*135*	*11*	*681*	*54*
Revolving exposures	*147*	*12*	*151*	*12*	*(4)*	*-*
Other exposures	*16,612*	*1,329*	*16,934*	*1,355*	*(322)*	*(26)*
Other non-credit-obligation assets	8,957	717	3,390	271	5,567	446
BANKING BOOK SECURITISATION POSITIONS	**1,842**	**147**	**2,382**	**191**	**(540)**	**(44)**
Securitisation positions: IRB approach	1,842	147	2,382	191	(540)	(44)
Securitisation positions: Standardised approach	-	-	-	-	-	-
COUNTERPARTY RISK	**2,325**	**186**	**2,335**	**187**	**(10)**	**(1)**
Counterparty risk: IRB approach	**1,931**	**154**	**2,005**	**160**	**(74)**	**(6)**
CVA charge	297	24	321	26	(24)	(2)
Other counterparty risk	1,634	130	1,684	134	(50)	(4)
Central governments and central banks	*6*	*-*	*5*	*-*	*1*	*-*
Corporates	*1,334*	*107*	*1,316*	*105*	*18*	*2*
Institutions	*292*	*23*	*362*	*29*	*(70)*	*(6)*
Retail	*2*	*-*	*1*	*-*	*1*	*-*
Counterparty risk: Standardised approach	**394**	**32**	**330**	**27**	**64**	**5**
CVA charge	100	8	82	7	18	1
Other counterparty risk	294	24	248	20	46	4
Central governments and central banks	*-*	*-*	*-*	*-*	*-*	*-*
Corporates	*172*	*14*	*158*	*13*	*14*	*1*
Institutions	*114*	*9*	*84*	*7*	*30*	*2*
Retail	*8*	*1*	*6*	*-*	*2*	*1*
EQUITY RISK	**7,277**	**582**	**6,360**	**509**	**917**	**73**
Internal model	-	-	-	-	-	-
Simple weighting method	2,752	220	2,261	181	491	39
Standardised approach	4,525	362	4,099	328	426	34
MARKET RISK	**2,099**	**168**	**2,167**	**173**	**(68)**	**(5)**
Internal model	1,599	128	1,698	135	(99)	(7)
VaR	*425*	*34*	*489*	*39*	*(64)*	*(5)*
Stressed VaR	*850*	*68*	*889*	*70*	*(39)*	*(2)*
Incremental Risk Charge	*324*	*26*	*320*	*26*	*4*	*-*
Comprehensive Risk Measure	*-*	*-*	*-*	*-*	*-*	*-*
Standardised approach	500	40	469	38	31	2
Trading Book securitisation positions	-	-	-	-	-	-
OPERATIONAL RISK	**11,025**	**881**	**8,681**	**694**	**2,344**	**187**
Advanced Measurement Approach (AMA)	7,191	575	5,782	462	1,409	113
Standardised approach	1,393	111	697	56	696	55
Basic indicator approach	2,441	195	2,202	176	239	19
TOTAL	**145,276**	**11,621**	**127,554**	**10,204**	**17,722**	**1,417**

Pillar 2 Process

The second Pillar of the Basel Accord, as transposed in CRD IV, provides that the supervisor shall determine whether the policies, strategies, procedures and arrangements implemented by BNP Paribas Fortis on the one hand, and the capital held on the other hand, are adequate for risk management and risk coverage purposes. This evaluation exercise by the supervisors to determine the adequacy of mechanisms and capital with respect to bank risk levels is designated in the regulations under the acronym SREP (Supervisory Review Evaluation Process).

The ICAAP (Internal Capital Adequacy Assessment Process) is the annual process by which institutions assess the adequacy of their capital with their internal measurements of the levels of risk generated by their usual activities.

The ICAAP feeds the annual SREP.

BNP Paribas Fortis' ICAAP is organized around two main axes: review of the adequacy of the permanent equity compared to the internal own funds requirement, and capital planning.

The review of the adequacy of the permanent equity compared to the internal own funds requirement relies on an exhaustive review of the Pillar 1 risks specified by the Basel regulation as well as the Pillar 2 risks as defined in the Risk Appetite Framework of BNP Paribas Fortis.

This review is performed under a double constraint:

- a regulatory constraint, as described in the CRD IV / CRR, by which all Pillar 1 risks are required to be covered by regulatory own funds;
- an internal constraint, for which all Pillar 1 and Pillar 2 risks are subject to quantitative approaches, completed, if necessary, by qualitative assessments and dedicated monitoring frameworks.

Capital planning is based on the most recent actual and estimated financial data available. These data are used to project future capital requirements, in particular by factoring in the Bank's goal of maintaining a first-class credit rating to protect its origination capability, its business development targets and anticipated regulatory changes.

Capital planning consists of comparing the capital ratio targets defined by BNP Paribas Fortis with projections of future capital consumption, and testing their robustness in a stressed macroeconomic environment.

The SREP and ICAAP definitions as well as the conditions for their interaction were until 2014 defined in the "Guidelines on the Application of the Supervisory Review Process under Pillar 2" of 25 January 2006 published by the CEBS.

This directive was supplemented on 19 December 2014 by the EBA with "Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP)". These guidelines offer supervisors a common and detailed methodology that enables them to successfully complete the SREP according to a European standard. The EBA SREP guidelines are applicable since 1 January 2016, with transitional provisions until 2019.

4 CREDIT AND COUNTERPARTY CREDIT RISK

4.a Credit risk

4.a.1 Exposure to credit risk

The following table shows all BNP Paribas Fortis' financial assets, including fixed-income securities, which are exposed to credit risk. Credit risk exposure does not include collateral and other security taken by the Bank in its lending business or purchases of credit protection.

Exposure to credit risk by Basel asset class

In millions of euros	31 December 2016			31 December 2015		
	IRBA	Standardised Approach	Total	IRBA	Standardised Approach	Total
Central governments and central banks	51,633	10,691	62,324	46,428	12,335	58,763
Corporates	114,570	31,248	145,818	112,625	28,594	141,219
Institutions *	20,746	12,284	33,030	20,080	10,568	30,648
Retail	78,563	33,063	111,626	74,966	32,030	106,996
Securitisation positions	3,923	-	3,923	4,636	-	4,636
Other non-credit-obligation assets **	352	11,823	12,175	329	3,456	3,785
Total exposure	**269,787**	**99,109**	**368,896**	**259,064**	**86,983**	**346,047**

(*) Institutions asset class comprises credit institutions and investment firms, including those recognised in other countries. It also includes some exposures to regional and local authorities, public sector agencies and multilateral development banks that are not treated as central government authorities.

(**) Other non-credit-obligation assets include tangible assets, accrued income and residual values.

The table above shows the entire prudential scope based on the asset classes defined in accordance with Article VI.2 of the CBFA Regulation of 17 October 2006 on capital requirements for credit institutions and investment firms.

The increase in total exposure is mainly driven by the acquisition of Arval Service Lease. This increase is spread over other assets, corporate, institutions and retail.

For Retail, besides the increase due to Arval Service Lease, the growth is mainly driven by the mortgage loans portfolio in Belgium and, to a lesser extent, by Alpha Credit consumer loans portfolio (both in the IRB-approach).

The increase in sovereign is mainly due to a deposit by BNPP Fortis Netherland branch at the Dutch national bank.

4.a.2 General credit policy and control and provisioning procedures

BNP Paribas Fortis' lending activities are governed by the Global Credit Policy, which applies to all BNP Paribas Group entities. It is approved by the BNP Paribas Group Risk Committee, chaired by the Chief Executive Officer and endorsed by the BNP Paribas Fortis Executive Board, chaired by the Chief Executive Officer. The policy is underpinned by core principles relating to compliance with the Group's ethical standards, clear definition of responsibilities (Business and RISK), and the existence and implementation of procedures and requirements for a thorough analysis of risks. It is cascaded in the form of specific policies tailored to each type of business or counterparty. The framework for the governance of credit risks within the Bank is further detailed in a specific, transversal approach which is built upon key credit routing principles, rules governing the granting of delegations of authority and the role of the Central Credit Committee, which is the highest-level credit committee at the Bank. It also reiterates and reinforces the key principle that the RISK Function is independent from the Businesses.

4.a.3 The credit lifecycle

Decision-making procedures

The basis for effective credit risk management is the identification of both existing and potential credit risk inherent in any product or activity. This process includes the gathering of all relevant information concerning the products offered, the counterparties involved and all other elements that may influence credit risk. In particular, before making any commitments, BNP Paribas Fortis carries out an in-depth review of any known development plans of the client and ensures that the Bank has thorough knowledge of all the structural aspects of the client's operations and that adequate monitoring will be feasible.

Assessing the credit risk of a proposed transaction consists of:

- analysis of the probability that the client will fail to meet his obligations, which also translates into a risk classification on the Bank's rating scale
- analysis of the possibilities of fulfilling the client's obligations by other means in the event that the client fails to meet his obligations himself
- formulation of a credit proposal which brings all these facets to the attention of the decision makers.

Authorised persons or committees composed of designated Business and Risk representatives take a joint decision based on the credit proposal. Credit proposals must comply with the Bank's Global Credit Policy and with any specific policies, and must in all cases comply with the applicable laws and regulations.

A system of discretionary lending limits has been established, under which all lending decisions must be approved by formally designated members of the Business and the RISK department. The underlying principle is the need to achieve an appropriate balance, in terms of overall profitability, between two opposite drivers, i.e. maximising the decision-making autonomy of the businesses on the one hand and reducing unexpected counterparty credit risk on the other.

Approvals are systematically given in writing, either by means of a signed approval form or in the minutes of formal meetings of a Credit Committee. Discretionary lending limits correspond to aggregate commitments by business group and vary according to internal credit ratings and the specific nature of the business concerned. In addition, an industry expert or designated specialist may also be required to sign off on the loan application for certain sectors or industries. In Retail banking, simplified procedures are applied, based on statistical decision-making aids, for standard products and limited amounts.

Monitoring procedures

All BNP Paribas Fortis entities are subject to comprehensive risk monitoring and reporting. This is carried out by Control and Reporting units which are responsible for ensuring that lending commitments comply with the loan approval decision, that credit risk reporting data are reliable and that risks accepted by the Bank are effectively monitored. Exception reports are produced (at varying intervals depending on the business) and various tools are used to provide early warnings of potential escalations of credit risks. Monitoring is carried out at different levels, generally reflecting the organisation of discretionary lending limits. The monitoring teams report to the RISK department. Monitoring teams are closely involved in the organisation of the Watchlist and Impairment Committees which meet at monthly intervals to examine all higher risk, sensitive or problem loans in excess of a certain amount. Its responsibilities include guidance on strategy and giving its opinion on any adjustments to impairment provisions, based on the recommendations of the relevant Business and the RISK department.

Impairment procedures

The BNP Paribas Fortis provisioning process is aligned with the BNP Paribas Group process and is organised on a monthly basis. The provisioning process encompasses one or more decisional levels and the routing depends on the concerned Business, its Delegation Framework and the amount of the change in provision. The provision for impairment is determined in accordance with applicable accounting standards. The amount of the impairment loss is based on the present value of probable net recoveries, taking into account the possible realisation of collateral received.

In addition, a collective impairment figure is established for each Business on a statistical basis. The BNP Paribas Fortis Committee on Impairments and Provisions meets on a quarterly basis to approve the amount of the impairment. This is based on simulations of losses to maturity on portfolios of loans whose credit quality is considered to have weakened, but where the customers concerned have not been identified as in default (i.e. loans not covered by specific impairment). The simulations carried out by the RISK department use the parameters of the internal rating system described below.

The aforementioned Committee takes the final decision on all aspects of cost of risk, including specific provisions for impairment and collective impairments. Decisions on the structured credits portfolio are taken by the same Committee.

4.a.4 Internal rating system

BNP Paribas Fortis has chosen to adopt the most advanced approach – the 'Advanced Internal Ratings Based Approach' (AIRBA) as described in the Basel II accord – and received approval from the CBFA on 3 March 2008 for using this approach to calculate capital requirements under Basel II (now Basel III). Projects designed to achieve convergence with the BNP Paribas Group are currently in progress with a view to harmonising methods, processes and systems, while remaining compliant with regulatory requirements.

The Bank has a comprehensive internal rating system for determining risk-weighted assets used to compute capital adequacy ratios. A periodic assessment and control process has been deployed to ensure that the system is appropriate and correctly implemented. For corporate loans, the system is based on three parameters: the counterparty's probability of default expressed via a rating; loss given default, which depends on the structure of the transaction; and the credit conversion factor (CCF), which estimates the portion of off-balance sheet exposure at risk.

There are twenty counterparty ratings. Seventeen cover performing clients with credit assessments ranging from 'excellent' to 'very concerning', and three relate to clients classified as in default, as per the definition published by the banking regulator.

Ratings are determined at least once a year, in connection with the annual review of the client's total exposure, drawing on the combined expertise of Business Line staff and Senior Credit Officers from the RISK department, the latter having the final say. High quality tools have been developed to support the rating process, including analysis assistance and credit scoring systems. The decision to use these tools and the choice of technique depends on the nature of the risk.

Various quantitative and other methods are used to check rating consistency and the robustness of the rating system. Loans to private customers and very small businesses are rated using statistical analyses of groups of risks with the same characteristics. The RISK department has overall responsibility for the quality of the entire system. This responsibility is fulfilled either by directly designing the system, validating it and/or verifying its performance.

'Loss given default' is determined either using statistical models for books with the highest degree of granularity or using expert judgment based on comparative values. Basel III defines 'loss given default' as the loss that the Bank would suffer in the event of the counterparty's default.

For each transaction, it is measured using the recovery rate for a senior unsecured exposure to the counterparty concerned, adjusted for the effects of any risk mitigation techniques (collateral and other security). Amounts recoverable against collateral and other security are estimated each year on a prudent basis and discounts are applied for realising security in a period of economic slowdown.

Exposure at default has been modelled by the Bank, when the regulation allows it. Conversion factors are used to measure the off-balance sheet exposure at risk in the event of borrower default.

Each of the three credit risk parameters is back-tested annually to check the system's performance for each of the Bank's business segments. Back-testing consists of comparing estimated and actual results for each parameter.

For back-testing ratings, the default rate of populations in each rating category, or each group of risks with similar characteristics for Retail banking operations, is compared with the actual default rate observed on a year-by-year basis. An analysis by rating policy, rating, rating method, etc. is carried out to identify any areas where the models might be underperforming. The stability of the rating and its population is also verified. The Bank has also developed back-testing techniques tailored to low-default portfolios to assess the appropriateness of the system, even where the number of actual defaults is very low.

Back-testing of the overall recovery rates is based mainly on analysing recovery flows on exposures in default. When an exposure has been written off, each amount recovered is discounted back to the default date and calculated as a percentage of the exposure. When an exposure has not yet been written off, the amount of provisions made is used as a proxy for the exposure that will not be recovered. The recovery rate determined in this way is then compared with the initial forecast rate. As with the rating, recovery rates are analysed on an overall basis and by rating policy. Variances on an item-by-item and average basis are analysed taking into account the bimodal distribution of recovery rates. The results of these tests show that the Bank's estimates are consistent with economic downturn conditions and are conservative on an average basis.

The credit conversion factor is also back-tested annually.

The result of all back-testing work is presented annually to the bodies responsible for overseeing the rating system and risk practitioners. These results and ensuing discussions are used to help set priorities in terms of developing methodology and deploying tools.

Internal estimates of risk parameters are used in the Bank's day-to-day management in line with Basel III recommendations. For example, apart from calculating capital requirements, they are used when making new loans or reviewing existing loans to measure profitability, determine collective impairment, monitor and ensure active risk management, and for internal and external reporting.

4.a.5 Portfolio policy

In addition to carefully selecting and assessing individual risks, BNP Paribas Fortis follows a portfolio-based policy designed to diversify risks among borrowers, industries and countries. As part of this policy, BNP Paribas Fortis may use credit risk transfer instruments (such as securitisation programmes or credit derivatives) to hedge individual risks, reduce portfolio concentration or cap potential losses under crisis scenarios.

4.a.6 Risk mitigation techniques

Collateral and other security

Risk mitigation is the result of reducing the credit risk by hedging or by obtaining collateral. Hedging is any financial technique designed to reduce or eliminate the financial risk engendered by products and/or activities. Security (collateral) is any commitment made or privilege given by a counterparty or third party to which the Bank can seek recourse in the event of the counterparty's default in order to reduce loan losses, or any other agreement or arrangement having a similar effect. The lending activity is never based purely on collateral or hedging. Risk mitigation factors are always regarded as an alternative solution.

The BNP Paribas Global Credit Policy, which also applies to BNP Paribas Fortis, sets out how transactions should be structured in order to mitigate risk. Collateral and other security are taken into account at fair value, and only accepted as the main source of repayment in exceptional cases such as for example commodities financing. Cash generated by operations is regarded as the primary source of the borrower's ability to repay. Guarantors are subject to the same rigorous upfront assessment process as primary debtors.

Banking regulations set clear guidelines for assessing the risk-mitigating effect of collateral and other security under the Basel III advanced approaches. The Bank's diversified business base means that loans are secured by many different types of collateral and security charges over inventory, accounts receivable or real estate. Risk assessments also take into account direct guarantees issued by the counterparty's parent company or other guarantors such as financial institutions. Other guarantees assessed by the Bank include credit derivatives, export credit agencies and credit enhancers. Acceptance of these types of guarantees is governed by strict criteria. A guarantee is considered as mitigating a risk only when the guarantor is rated higher than the counterparty. The value of collateral or other security is only taken into account in measuring exposure if there is no strong correlation with the risk on the first-rank debtor.

IRB approach – Sovereign/Corporates/Institutions

The following table gives the breakdown by Basel asset class - Sovereign, Corporates and Institutions - of the risk mitigation resulting from collateral and guarantees relating to the portfolio of loans and credit commitments for all Business Lines using the advanced IRB Approach.

	31 December 2016				31 December 2015			
	Basel III				Basel III			
		Risk mitigation				Risk mitigation		
In millions of euros	Total exposure	Guarantees and credit derivatives	Collateral	Total guarantees and collateral	Total exposure	Guarantees and credit derivatives	Collateral	Total guarantees and collateral
Central governments and central banks	51,633	448	1,078	1,526	46,428	1,392	9	1,401
Corporates	114,570	16,941	12,301	29,242	112,625	17,763	8,137	25,900
Institutions	20,746	1,765	142	1,907	20,080	2,001	59	2,060
Total	**186,949**	**19,154**	**13,521**	**32,675**	**179,133**	**21,156**	**8,205**	**29,361**

Standardised approach – Sovereign/Corporates/ Institutions

The following table gives the breakdown by Basel asset class – Sovereign, Corporates and Institutions - of the risk mitigation resulting from collateral and guarantees relating to the portfolio of loans and credit commitments for all Business Lines using the standardised approach.

	31 December 2016				31 December 2015			
	Basel III				Basel III			
		Risk mitigation				Risk mitigation		
In millions of euros	Total exposure	Guarantees and credit derivatives	Collateral	Total guarantees and collateral	Total exposure	Guarantees and credit derivatives	Collateral	Total guarantees and collateral
Central governments and central banks	10,691	-	-	-	12,335	-	-	-
Corporates	31,248	7	136	143	28,594	-	90	90
Institutions	12,284	-	-	-	10,568	-	-	-
Total	**54,223**	**7**	**136**	**143**	**51,497**	**-**	**90**	**90**

Purchases of credit protection

Optimisation of credit portfolio management requires the use of efficient hedging techniques to avoid concentration or unwanted exposure in the loan or debt security portfolio. For this purpose, BNP Paribas Fortis uses mainly single name credit default swaps (CDS). CDS counterparties are carefully selected and virtually all contracts benefit from collateral agreements.

Asset securitisation

Asset securitisation is the process of creating a marketable financial instrument that is backed by the cash flow or value of specific financial assets. During the securitisation process, assets (e.g. consumer loans, receivables, mortgages) are selected and pooled together into a special purpose vehicle (SPV) which issues securities that can be sold to investors. Detailed information on asset securitisation is provided in section 4.c 'Securitisation' of this chapter and in 4.e 'Reclassification of financial instruments initially recognised at fair value through profit or loss held for trading purposes or as available-for-sale assets'.

Diversification of exposure to credit risk

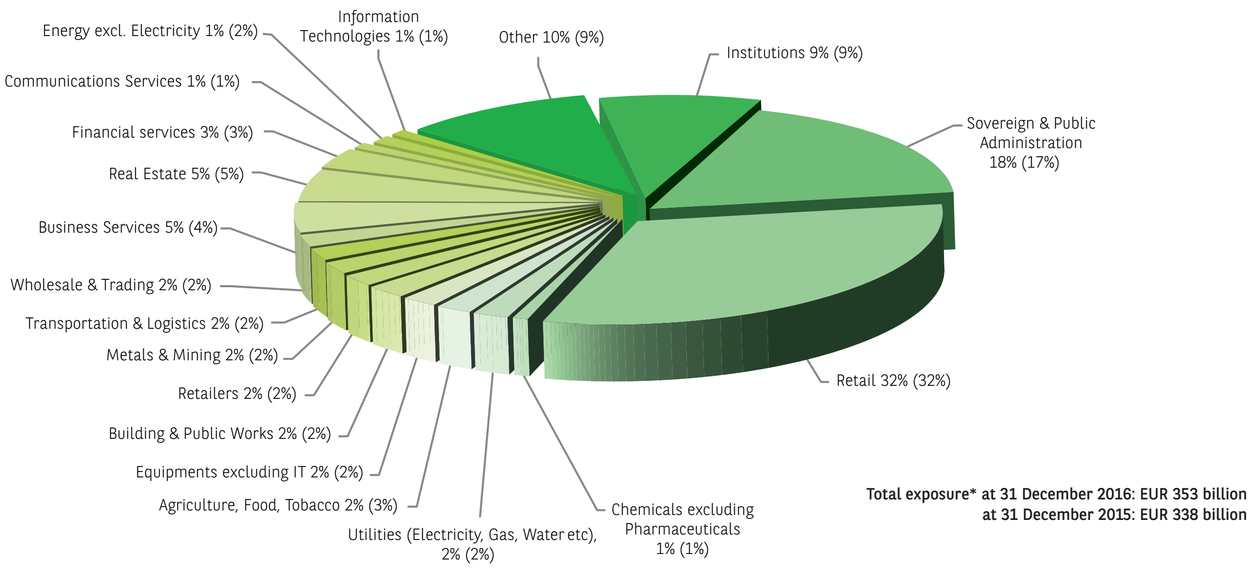
Credit risk concentration is any exposure to a counterparty or an aggregate of exposures to a number of positively correlated counterparties (i.e. tendency to default under similar circumstances) with the potential to produce a significant amount of capital loss due to a bankruptcy or failure to pay. Avoidance of concentrations is therefore fundamental to BNP Paribas Fortis' credit risk strategy of maintaining granular, liquid and diversified portfolios.

In order to identify potential linkages between exposures to single counterparties, BNP Paribas Fortis applies the concept of 'Total Group Authorisation'. This implies that groups of connected counterparties are deemed to be a 'Business Group' for the management of credit risk exposure.

To manage the diversity of credit risk, BNP Paribas Fortis' credit risk management policy seeks to spread credit risk across different sectors and countries. The table below shows the industry concentration of BNP Paribas Fortis' customer credit portfolio at 31 December 2016.

Breakdown of credit risk by Basel III Asset Class and by corporate industry at 31 December

	31 December 2016		31 December 2015	
In millions of euros	**Exposure**	**%**	**Exposure**	**%**
Agriculture, Food, Tobacco	7,644	5%	10,190	7%
Financial services	11,529	8%	10,670	8%
Chemicals excluding Pharmaceuticals	2,709	2%	2,404	2%
Construction	6,857	5%	6,701	5%
Retailers	6,875	5%	6,584	5%
Equipment excluding IT	6,346	4%	5,832	4%
Real estate	17,119	11%	17,408	12%
Metals & Mining	5,470	4%	5,698	4%
Wholesale & Trading	6,792	5%	5,853	4%
Business services	16,361	11%	14,397	10%
Transportation & Logistics	6,952	5%	7,335	5%
Utilities (electricity, gas, water, etc.)	6,707	5%	5,854	4%
Other	44,457	30%	42,293	30%
TOTAL	**145,818**	**100%**	**141,219**	**100%**



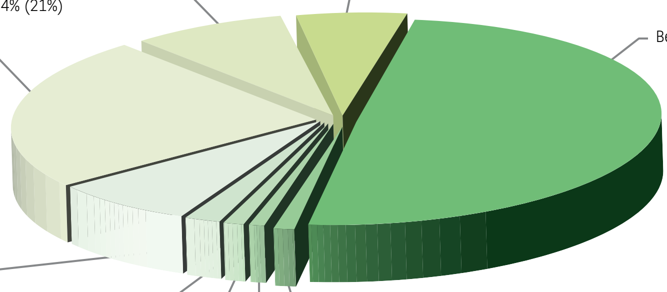
[*] Total exposure excluding counterparty risk, equity, other non-credit-obligation assets and securitisation positions. Percentages between brackets reflect the breakdown as at 31 December 2015.

Country concentration risk is the sum of all exposures to obligors in the country concerned. The table below shows the geographical concentration of BNP Paribas Fortis' customer credit portfolio at 31 December 2016.

Geographical breakdown of credit risk at 31 December 2016 by counterparty's country of location

	31 December 2016					
	Basel III					
In millions of euros	**Central governments and central banks**	**Corporates**	**Institutions**	**Retail**	**TOTAL**	**%**
Europe	**60,357**	**136,046**	**32,004**	**111,365**	**339,772**	**0%**
Belgium	28,955	57,521	12,805	74,711	173,992	0%
Netherlands	13,286	13,451	731	1,116	28,584	0%
Luxembourg	5,573	9,799	154	5,582	21,108	0%
France	1,451	5,982	15,102	4,025	26,560	0%
Turkey	4,202	9,630	795	14,896	29,523	0%
Other European countries	6,890	39,663	2,417	11,035	60,005	0%
North America	**902**	**3,855**	**233**	**25**	**5,015**	**0%**
Asia & Pacific	**230**	**617**	**432**	**66**	**1,345**	**0%**
Rest of the World	**835**	**5,300**	**361**	**170**	**6,666**	**0%**
TOTAL	62,324	145,818	33,030	111,626	352,798	0%

In millions of euros	31 December 2015					
	Basel III					
	Central governments and central banks	Corporates	Institutions	Retail	TOTAL	%
Europe	**56,257**	**130,773**	**29,663**	**106,391**	**323,084**	**95%**
Belgium	32,251	58,476	12,579	70,790	174,096	52%
Netherlands	7,363	12,824	663	912	21,762	6%
Luxembourg	4,148	7,693	315	6,237	18,393	5%
France	1,627	5,439	11,153	3,268	21,487	6%
Turkey	5,105	9,782	1,675	16,751	33,313	10%
Other European countries	5,763	36,559	3,278	8,433	54,033	16%
North America	**1,121**	**5,159**	**180**	**-**	**6,460**	**2%**
Asia & Pacific	**350**	**1,508**	**343**	**553**	**2,754**	**1%**
Rest of the World	**1,035**	**3,779**	**462**	**49**	**5,325**	**2%**
TOTAL	58,763	141,219	30,648	106,993	337,623	100%



Total exposure* at 31 December 2016: EUR 353 billion
at 31 December 2015: EUR 338 billion

[*] Total exposure excludes counterparty credit risk, equity, other non-credit-obligation assets and securitisation positions. Percentages between brackets reflect the breakdown as at 31 December 2015.

4.a.7 Credit risk rating

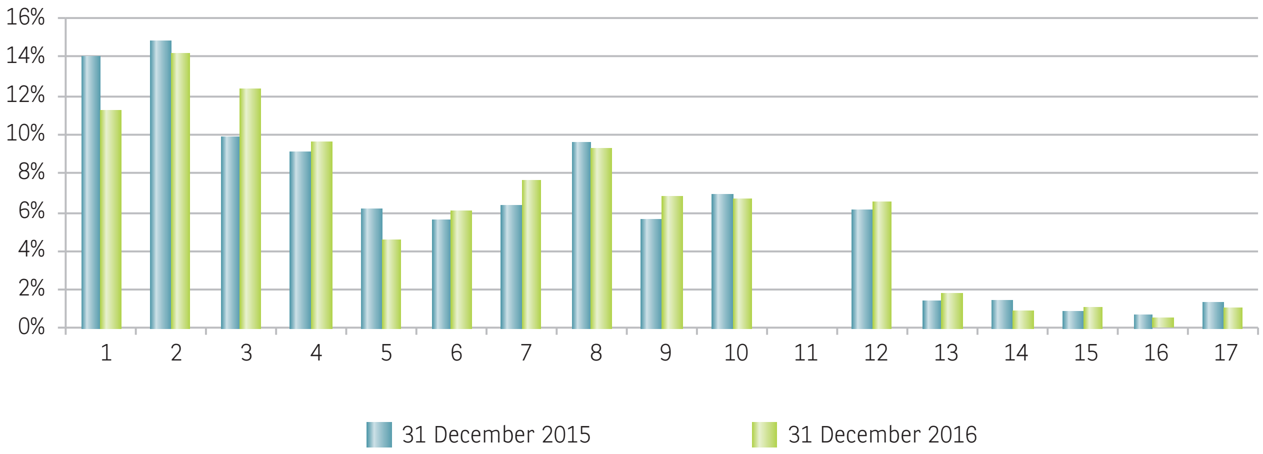
Credit risk rating is a classification that results from the Risk Rating Assignment Process, which is based on a qualified assessment and formal evaluation. This classification is the result of an analysis of each obligor's financial history and an estimate of its ability to meet debt obligations in the future.

To that end, BNP Paribas Fortis has drawn up a 'Master Scale', ranging from 1 to 20, which provides an indication of the probability that a counterparty will default within one year. Master Scale ratings from 1 to 6 are considered investment grade, from 7 to 17 non-investment grade and from 18 to 20 impaired.

IRBA: Corporate exposures by credit rating

The chart below shows a breakdown by credit rating of performing loans and commitments in the Corporate loan book for the entire Bank's Business Lines, measured using the internal ratings-based approach (IRBA). This exposure represents EUR 111.6 billion of the gross credit risk at 31 December 2016, compared with EUR 109.7 billion at 31 December 2015.

Breakdown of IRBA - individually rated - Corporate exposures by credit rating



Retail banking operations

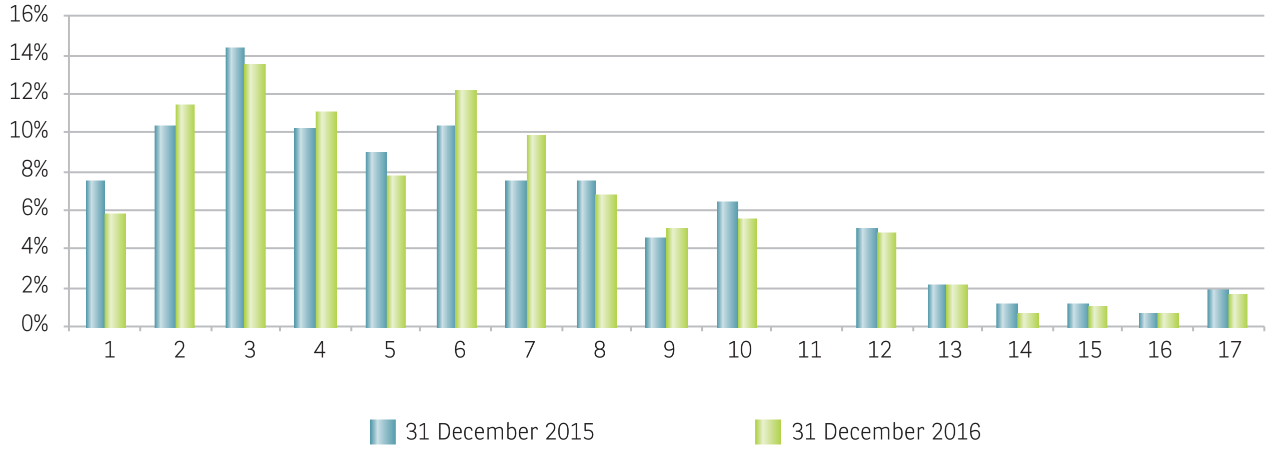
Retail banking operations are carried out through the BNP Paribas Fortis retail network. The Belgian field of operations is embedded in structured and automated credit processes, complying with the Basel III Internal Rating Based Advanced approach.

All the advanced Basel III parameter estimates (PD, EAD, LGD) are reviewed and/or updated yearly. The explanatory variables for the Retail part of the portfolio mainly rely on internal behavioural data. These parameters are computed monthly on the basis of the latest available information and made available without any manual intervention.

Classical scoring techniques are used for screening customers at application time, always remaining in line with the Basel III parameters.

The chart below shows a breakdown by credit rating of performing loans and commitments in the Retail loan book for the entire Bank's Business Lines, measured using the internal ratings-based approach. This exposure represents EUR 77.2 billion of the gross credit risk at 31 December 2016, compared with EUR 73.8 billion at 31 December 2015.

Breakdown of IRBA - individually rated - Retail exposures by credit rating



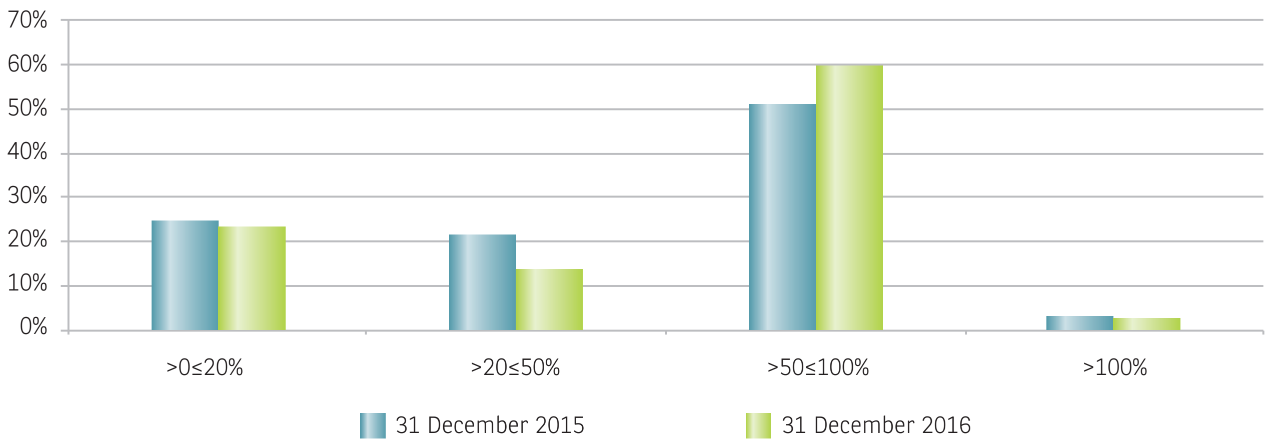
Standardised approach

BNP Paribas Fortis also applies the standardised approach or the 'Unrated Standardised Approach' (USTA) to legal entities or business units, inter alia those that are classified under 'Permanent exemptions'.

The entities classified under 'Permanent exemptions' are those legal entities or business units that are earmarked as non-material based on the eligibility criteria or processes defined by BNP Paribas Fortis. Permanent exemptions will remain as long as the eligibility criteria or processes for non-materiality continue to be met.

The chart below provides information on the exposure to the Corporate loan book (including institutions and governments) measured using the standardised approach and broken down by risk weight buckets.

Breakdown of Corporate (*) exposure by weighting via the standardised approach



(*) The 'Corporate' loan book shown in the chart above includes corporates, central governments and central banks, and institutions

4.b Counterparty credit risk

Counterparty credit risk (CCR) is the translation of the credit risk embedded in the financial transactions, investments and/or settlement between counterparties. The transactions encompass bilateral contracts - i.e. over-the-counter (OTC) – and cleared contracts through a clearing house. The amount at risk changes over the contract's lifetime together with the risk factors that impact the potential future value of the transactions.

Counterparty credit risk lies in the fact that a counterparty may default on its obligations to pay the Bank the full present value of a transaction or portfolio for which the Bank is a net receiver. Counterparty credit risk is linked to the replacement cost of a derivative or portfolio in the event of the counterparty default. Hence, it can be seen as a market risk in case of default or a contingent risk. Counterparty credit risk arises from both bilateral activities of BNP Paribas Fortis with clients and cleared activities through clearing houses or an external clearer.

4.b.1 Counterparty credit risk valuation

Counterparty exposure calculation

The exposure to counterparty credit risk is measured using two approaches:

Modelled exposure – Internal model approach

With regard to modelled exposure to counterparty credit risk, the exposure at default (EAD) for counterparty credit risk is calculated based on the Effective Expected Positive Exposure (EEPE) indicator. The EEPE is measured using an internal exposure valuation model to determine exposure profiles. The model was developed by the Group and approved by the supervisor.

The principle of the model is to simulate the main risk factors, such as commodities and equities prices, interest rates and foreign exchange rates, affecting the counterparty exposure, based on their initial respective values. The Bank uses Monte-Carlo simulations to generate thousands of time trajectories (corresponding to thousands of potential market scenarios) to define potential changes in risk factors. The diffusion processes used by the model are calibrated on the most recent historic data set over a four-year period.

Based on all the risk factor simulations, the model assesses the value of the positions from the simulation date to the transaction maturity date (from one day to more than thirty years for the longest-term transactions) to generate an initial set of exposure profiles.

Transactions may be hedged by a Master Agreement, which can include Credit Support Annexe(s) (CSA). For each counterparty, the model aggregates the exposures taking into consideration any potential master agreements and credit support annexes, as well as the potentially risky nature of the collateral exchanged.

Based on the breakdown of exposure to the counterparty, the model determines the following in particular:

- the average risk profile, the Expected Positive Exposure (EPE), from which the EEPE (Effective Expected Positive Exposure) is calculated:

  The Expected Positive Exposure (EPE) profile is calculated as the average of the breakdown of counterparty exposures at each point in the simulation, with the negative portions of the trajectories set to zero (the negative portions correspond to situations where BNP Paribas Group is a risk for the counterparty. The EEPE is calculated as the first-year average of the non-decreasing EPE profile: at each simulation date, the value taken is the maximum of the EPE value and the value on the previous simulation date.

- the Potential Future Exposure (PFE) profile:

  The Potential Future Exposure (PFE) profile is calculated as a 90% percentile of the breakdown of exposure to the counterparty at each point in the simulation. This percentile is raised to 99% for hedge fund counterparties. The highest Potential Future Exposure value (MaxPFE) is used to monitor maximum limits.

The internal model for counterparty credit risk has been updated to comply with the Capital requirements Regulation (CRR) effective from 1 January 2014:

- extension of the margin periods of risk;
- inclusion of the specific correlation risk;
- determination of a stressed Effective EPE calculated based on a calibration reflecting a particular period of stress.

Non-modelled exposure – Standardised approach
For non-modelled counterparty credit risk exposures, the exposure at default is based on market price evaluation (Net Present Value + Add On). The Add-On is calculated conform the requirements of the Capital Requirement Directive (CRD).

Limit / Monitoring Framework
Limits reflecting the risk appetite (Risk Appetite Statement) of the bank are defined for the counterparty credit risk. For each counterparty, the highest exposure value of the PFE profile (MAX PFE) calculated by the system is compared on a daily basis to the counterparty limit to ensure compliance with the credit decisions.

In addition, this system can simulate ad-hoc transactions and measure their marginal impact on the counterparty portfolio.

Limits are defined and calibrated as part of the risk approval process. They are approved in committees with different levels of authority, the highest authority level being the General Management Credit Committee.

These measures are complemented by sets of directives (covering contingent market risk sensitivities per counterparty which are extracted from the market risk system) which provide further tools in the monitoring of counterparty credit risk and the prevention of systemic risk concentrations.

Mitigation of Counterparty credit risk

Netting agreements
Netting is used by the Bank in order to mitigate counterparty credit risk associated with derivatives trading. The main instance where netting occurs is in case of trade-termination: if the counterparty defaults, all the trades are terminated at their current market value and all the positive and negative market values are summed to obtain a single amount (net) to be paid to or received from the counterparty. The balance ('close-out netting') may be collateralised with cash, securities or deposits.

The Bank also applies settlement netting in order to mitigate counterparty credit risk in case of currency settlements. This corresponds to the netting of all payments and receipts between the Bank and a counterparty in the same currency, to be settled the same day. The netting results in a single amount (for each currency) to be paid either by the Bank or by the counterparty.

Transactions affected by this are processed in accordance with bilateral or multilateral agreements respecting the general principles of the national or international framework. The main forms of bilateral agreement are those issued by the National Bank of Belgium (NBB), and on an international basis by the International Swaps and Derivatives Association (ISDA).

Trade clearing through central counterparties
Trade clearing is part of BNP Paribas Fortis' usual Capital Market activities. As a clearing member, BNP Paribas Fortis contributes to the risk management framework of the central clearing counterparties (CCPs) through the payment of a default fund contribution as well as daily margin calls. The rules which define the relationships between BNP Paribas Fortis and the CCPs of which it is a member are described in each CCP's rule book.

This scheme enables the reduction of notional amounts through the netting of the portfolio and a transfer of the risk from several counterparties to a single one with a robust risk management framework.

Credit Value Adjustments
The valuation of financial OTC trades carried out by BNP Paribas Fortis as part of its trading activities includes credit value adjustments (CVAs). CVA is an adjustment of the trading portfolio valuation to take into account the counterparty credit risk. CVA is the fair value of any expected loss arising from counterparty exposure based on the potential positive value of the portfolio, the counterparty default probability and the estimated recovery rate at default.

Counterparty credit risk exposures on derivative instruments cover all derivative portfolio exposures of BNP Paribas Fortis, all underlyings and all Business Lines combined.

The credit value adjustment is not only a function of the expected exposure but also the credit risk level of the counterparty, which is linked to the level of the Credit Default Swaps (CDS) spreads used in the default probability calculation.

In order to reduce the risk associated with the credit quality deterioration embedded in a financial operations portfolio, BNP Paribas Fortis may use a dynamic hedging strategy, involving the purchase of market instruments such as credit derivative instruments.

To protect banks against the risk of losses due to CVA variations, CRR introduced a dedicated capital charge on the VaR on CVA. This charge aims at capitalising the risk of loss caused by changes in the credit spread of a counterparty to which BNP Paribas Fortis is exposed.

Stress tests and unfavourable correlation risk

The BNP Paribas Fortis counterparty credit risk stress testing framework is aligned with the market risk framework (see section Market risk related to trading activities). As such, the counterparty stress testing framework is implemented in conjunction with the market risk stress testing and employs consistent market shifts where scenarios are shared. Testing also comprises factors specific to counterparty credit risk such as deteriorations in counterparty credit quality and shocks or the volatility used in the counterparty credit risk forward simulation pricing engine.

Such risk analysis is present within the management reporting framework which shares some common forums with the market risk reporting set up such as the CMRC, core risk committee for market and counterparty credit risk. Both counterparty and market risk stress testing frameworks are governed by the Stress Testing Steering Committee.

Wrong Way Risk (or unfavourable correlation risk) is the case of exposure to a counterparty being inversely correlated with the counterparty's credit quality.

Such risk can be split into two parts:

- General Wrong Way Risk (GWWR), which corresponds to the risk that the likelihood of default by counterparties is positively correlated with general market risk factors;

- Specific Wrong Way Risk (SWWR), which corresponds to the risk arising when future exposure to a specific counterparty is positively correlated with the counterparty's probability of default due to the collateral provided as part of the transactions with the counterparty.

GWWR is identified using stress tests. In addition, when a legal link between the exposures underlyings and the counterparty is established, the SWWR is subject to prescribed regulatory capital treatment.

As per the stress testing framework and policy, the General Wrong Way Risk (GWWR) monitoring and analysis approach combines top-down and bottom-up aspects:

- For the top-down approach, the GWWR policy defines the generic rules and criteria to be used to detect GWWR. These criteria are based on the countries of incorporation of the counterparties, the region of which they are part, the industries in which they are involved and stressing market and macro-economic parameters appropriately. Derivative, Stuctured Finance Transactions and Collateral positions that counterparties have with BNP Paribas Fortis have been defined as the situations where GWWR should be analysed and reported.

- The GWWR framework relies upon a robust bottom-up approach with the expertise of the counterparty credit analysts specifically needed to define more specifically the most impacting scenarios at portfolio level (the approach consists of the use of stressed market parameters reflecting extreme but realistic conditions).

4.b.2 Exposure to counterparty credit risk

The table below shows the exposure to counterparty credit risk (measured as exposure at the time of default) by Basel asset class on derivatives contracts and securities lending/borrowing transactions, after the impact of any netting agreements.

Counterparty credit risk exposure at default by asset class (excl. CCP and CVA charges)

EAD	31 December 2016			31 December 2015		
In millions of euros	**IRBA****	**Standardised Approach**	**Total**	**IRBA**	**Standardised Approach**	**Total**
Central governments and central banks	4,129	-	4,129	535	-	535
Corporates	4,601	91	4,692	3,309	76	3,385
Institutions *	1,579	402	1,981	2,173	272	2,445
Retail	2	11	13	1	8	9
Total exposure	**10,311**	**504**	**10,815**	**6,018**	**356**	**6,374**

(*) Institutions asset class comprises credit institutions and investment firms, including those recognised in other countries. It also includes some exposures to regional and local authorities, public sector agencies and multilateral development banks that are not treated as central government authorities.

(**) For the IRBA approach, exposures correspond to the ones used to compute the capital charge. Since 2014, this is the Stressed EAD.

For counterparty credit risk, the share of exposures under the IRB approach represents 95% at 31 December 2016, stable compared with 31 December 2015.

4.b.3 Exposures at default

The exposure at default (EAD) is primarily measured with the aid of the internal models (see § Counterparty exposure calculation). For the perimeter not covered by internal models (mainly the subsidiary TEB), EAD is calculated using the market price valuation method (Net Present Value + Add-On).

In order to provide a better vision of cleared and non-cleared perimeters, the following table summarises, in terms of exposures, the part of each pair (category, perimeter) in percentage of the total. An indication of the Bank's business volume on derivative financial instruments booked in the trading portfolio is presented in note 4.a to the consolidated financial statements.

Counterparty credit risk exposure at default by product

EAD	31 December 2016					31 December 2015				
In millions of euros	**Counterparty credit risk (excl. CCP and CVA charges)**		**CCP(*)**		**Total**	**Counterparty credit risk (excl. CCP and CVA charges)**		**CCP(*)**		**Total**
OTC derivatives	6,780	99%	100	1%	6,880	5,379	100%	-	0%	5,379
Securities financing transactions	4,035	74%	1,453	26%	5,488	995	47%	1,144	53%	2,139
Listed derivatives	-	0%	25	100%	25	-	0%	335	100%	335
Total	**10,815**	**87%**	**1,578**	**13%**	**12,393**	**6,374**	**80%**	**1,479**	**20%**	**7,853**

(*) Excl. Default fund contribution

For the perimeter covered by the internal model for bilateral activities (i.e. excluding clearing), the EAD increased in December 2016 compared to December 2015 driven by SWWR securities financing transactions.

Counterparty credit risk exposure at default by approach (excl. CCP and CVA charges)

In millions of euros	31 December 2016						
	Internal model (EEPE)(*)			NPV(**) + Add-on			
	IRBA	Standardised approach	Sub-total	IRBA	Standardised Approach	Sub-total	Total
Derivatives	6,112		6,112	164	504	668	6,780
Securities financing transactions and deferred settlement transactions	4,024		4,024	12		12	4,036
Total	**10,136**	**-**	**10,136**	**176**	**504**	**680**	**10,816**

In millions of euros	31 December 2015						
	Internal model (EEPE)(*)			NPV(**) + Add-on			
	IRBA	Standardised approach	Sub-total	IRBA	Standardised Approach	Sub-total	Total
Derivatives	4,899		4,899	124	356	480	5,379
Securities financing transactions and deferred settlement transactions	980		980	14		14	994
Total	**5,879**	**-**	**5,879**	**138**	**356**	**494**	**6,373**

(*) Effective Expected Positive Exposure

(**) Net Present Value

Risk-weighted assets linked to counterparty risk are computed by multiplying EAD by an appropriate weighting according to the approach used (standardised or IRB).

As a general rule, when EAD is modelled and weighted according to the IRB Approach, the LGD (Loss Given Default) is not adjusted according to the existing collateral-guarantees since they are already taken into account in the "Effective Expected Positive Exposure" computation.

The table below presents the distribution of OTC derivatives portfolio by rating. For each element, the table gives the part of netted transactions (by number of transactions).

Counterparty credit risk exposure at default by rating

Rating	%	o/w netted part
AAA	0%	83%
AA	50%	100%
A	6%	92%
BBB	35%	96%
BB	7%	93%
B	0%	84%
Other	2%	98%

4.b.4 Capital requirement and risk-weighted assets

Counterparty credit risk weighted assets reflect three regulatory requirements:

Counterparty credit risk capital requirement and risk-weighted assets

In millions of euros	RWAs			Capital requirements		
	31 December 2016	31 December 2015	Variation	31 December 2016	31 December 2015	Variation
Central Counterparty (CCP)	85	49	36	7	4	3
CVA charge	396	402	(6)	32	32	-
Counterparty credit risk - excl. CCP and CVA charges	1,815	1,821	(6)	145	145	-
Central governments and central banks	*6*	*5*	*1*	*-*	*-*	*-*
Corporates	*1,425*	*1,392*	*33*	*114*	*111*	*3*
Institutions	*374*	*417*	*(43)*	*30*	*33*	*(3)*
Retail	*10*	*7*	*3*	*1*	*1*	*-*
COUNTERPARTY CREDIT RISK	**2,296**	**2,272**	**24**	**184**	**181**	**3**

Bilateral counterparty credit risk

The capital requirements for exposure to counterparty risk, excluding CCP and CVA, correspond to the capital requirements for exposure to bilateral counterparty credit risk. It is computed on the non-cleared part of the OTC derivatives and securities financing transactions portfolio. This capital requirement is the maximum of the charge computed from current EADs and of the one computed from the stressed calibration period.

The following table presents the split of the bilateral CCR charge between OTC Derivatives and SFT (Securities Financing Transactions):

Counterparty credit risk (excl. CCP and CVA charges) by product

In millions of euros	31 December 2016		31 December 2015	
	RWAs	Capital requirements	RWAs	Capital requirements
OTC Derivatives	1,780	142	1,795	144
Securities financing transactions and deferred settlement transactions	36	3	26	2
TOTAL	**1,816**	**145**	**1,821**	**146**

Counterparty credit risk for exposures to a central counterparty

The clearing CCR charge is the result of an extension of the bilateral CCR perimeter to clearing activities; it covers the cleared part of the OTC derivatives and repos portfolio as well as the listed derivatives portfolio.

It is equal to the sum of the following three elements:

- a charge resulting from BNP Paribas Fortis's exposure to clearing houses;
- a charge resulting from its exposure to clients (in the context of client clearing);
- a charge resulting from BNP Paribas Fortis's exposure to external clearers, when BNP Paribas Fortis is not a clearing member of the CCP.

The table below presents the breakdown of the clearing CCR capital requirement between each of these elements:

In millions of euros	31 December 2016		31 December 2015	
	RWAs	Capital requirements	RWAs	Capital requirements
Central Counterparty (CCP)	85	7	49	4
External client	-	-	-	-
External clearing member	-	-	-	-
TOTAL	85	7	49	4

Credit valuation adjustment risk (CVA)

Using the standardised approach, the capital requirement for credit valuation adjustment risk (CVA) is calculated according to the Supervisory Formula Approach.

Using the advanced approach, the CVA risk capital charge is the sum of two elements:

- CVA VaR charge, which represents the own funds requirement measured from a VaR computation on CVA sensitivities to credit spreads;
- CVA SVaR charge, which represents the own funds requirement measured from a stressed VaR computation on CVA sensitivities to credit spreads.

CVA risk capital charge:

In millions of euros	31 December 2016		31 December 2015	
	RWAs	Capital requirements	RWAs	Capital requirements
Standardised approach	**100**	**8**	**82**	**7**
Advanced approach	**297**	**24**	**321**	**26**
CVA VaR charge	*72*	*6*	*65*	*5*
CVA SVaR charge	*224*	*18*	*256*	*20*
TOTAL	397	32	403	33

4.b.5 Notional amount of derivative instruments

(See note 4.a to the consolidated financial statements at 31 December 2016).

4.c Securitisation

Asset securitisation is the process of creating a marketable financial instrument that is backed by the cash flow or value of specific financial assets. During the securitisation process, assets (e.g. consumer loans, receivables, mortgages) are selected and pooled together into a special purpose vehicle (SPV) which issues securities that can be sold to investors.

Proprietary securitisation (Originator under Basel III)

To support its business development, while meeting regulatory capital requirements, BNP Paribas Fortis has launched securitisation programmes. Securitisation of own assets can provide long term funding, liquidity or a capital management tool depending on the requirements. The related securitisation vehicles are fully consolidated and, hence, the securitised assets are reported on-balance in the Consolidated Financial Statements.

BNP Paribas Fortis has created a special purpose vehicle (SPV) called Bass Master Issuer NV/SA to securitise residential mortgage loans originally granted by BNP Paribas Fortis, and a SPV called Esmée Master Issuer NV/SA designed to securitise loans to self-employed people and small and medium-sized enterprises originally granted by BNP Paribas Fortis. Exposures in Bass Master Issuer NV/SA and Esmée Issuer NV/SA are excluded from the table below as bonds issued under these programmes have not so far been sold to third parties and are therefore not regarded as efficient under the current Basel requirements.

BNP Paribas Fortis NV/SA transfers monthly interest and principal repayments on the securitised loans to both Bass Master Issuer NV/SA and Esmée Master Issuer NV/SA. To the extent permitted under the provisions of the programme, the two SPVs use the capital receipts to purchase new loans from BNP Paribas Fortis NV/SA. The interest payments which Bass Master Issuer NV/SA and Esmée Master Issuer NV/SA receive are hedged on a quarterly basis against the interest payable on the issued bonds.

As at 31 December 2016, the total notional amount of the notes issued by Bass Master Issuer programme amounted to EUR 28.3 billion, and EUR 10.4 billion for the notes issued by Esmée Master Issuer programme.

As at 31 December 2016, the outstanding amount of residential mortgage loans in Bass Master Issuer NV/SA is EUR 27.3 billion and the outstanding amount of loans made to self-employed people and small and medium-sized enterprises in Esmée Master Issuer NV/SA is EUR 9.7 billion.

Additional information on the structure of Bass and Esmée can be found on the BNP Paribas Fortis' website: www.bnpparibasfortis.com/investors/securitization.

Securitisation arranged for clients

During 2016, securitisation was provided as a financing alternative for the Bank's clients. In particular, financing via Matchpoint Finance plc ('Matchpoint'), an asset-backed commercial paper (ABCP) vehicle sponsored by BNP Paribas, gave BNP Paribas Fortis' corporate and institutional clients access to an alternative funding source via the capital markets.

Matchpoint's eligible asset purchases are structured to justify an A-1/P-1 rating level. Throughout 2016, Matchpoint's commercial paper was rated in the highest short-term rating category by Standard & Poor's and Moody's: respectively A-1 and P-1.

The legacy vehicle, Scaldis Capital Limited, holding a pool of amortising securities, is fully financed by BNP Paribas Fortis.

Securitisation as investor

BNP Paribas Fortis has made investments in a wide variety of ABS/MBS (asset-backed securities/mortgage-backed securities), with a clear focus on differentiating deal ticket size and diversification by asset type and geographical distribution, ranging from European prime residential mortgage-backed securities (RMBS), to US student loans, credit cards, commercial MBS, collateralised loan obligations (CLOs), consumer ABS, SME and small business loans. Redemptions from these assets are no longer reinvested in the ABS/MBS portfolio.

BNP Paribas Fortis' structured credits are overweight in investment grade securities (88% of the portfolio is investment grade). BNP Paribas Fortis' credit risk exposures arising from these transactions as of year-end 2016 and the valuation methods applied are described in 4.e 'Reclassification of financial instruments initially recognised at fair value through profit or loss held for trading purposes or as available-for-sale assets'.

The Bank's activities in each of these roles are described below:

In millions of euros BNP Paribas Fortis role	31 December 2016	31 December 2015
Originator	-	-
Sponsor	1,166	1,406
Investor	2,757	3,230
Total exposure	**3,923**	**4,636**

Securitisation risk management

Securitisation transactions arranged by BNP Paribas Fortis on behalf of clients are highly technical and specific in nature. They are therefore subject to a specific risk management system, which comprises:

- independent analysis and monitoring by dedicated teams within the RISK department;
- specific processes (with specific committees, approval procedures, credit and rating policies) in order to ensure a consistent, tailored approach.

5 MARKET RISK

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

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

Non-observable factors are those based on working assumptions such as parameters contained in models or based on statistical or economic analyses, non-ascertainable in the market.

In the bond portfolios, the credit instruments are valued on the basis of the interest rates and the credit spreads, which are considered as market parameters like interest rates and foreign exchange risk. The risk on the issuer of the instruments is also a market risk, called issuer risk.

Liquidity is an important component of market risk. In times of limited or no liquidity, instruments or securities may not be tradable or may not be tradable at their estimated value. This may arise, for example, due to low transaction volumes, legal restrictions or a strong imbalance between demand and supply for certain assets.

The market risk related to banking activities encompasses the risk of loss on equity holdings as well as the interest rate and foreign exchange risks stemming from banking intermediation activities.

Market risk is split into two parts:

- market risk linked to trading activities and corresponding to trading instruments and derivative contracts;
- market risk linked to banking activities.

5.a Capital requirement and risk weighted assets for market risk (excluding equity risk)

Market Risk Capital Requirement and Risk-Weighted Assets

In millions of euros	RWAs			Capital requirements		
	31 December 2016	31 December 2015	Variation	31 December 2016	31 December 2015	Variation
Internal model	**1,598**	**1,698**	**(100)**	**128**	**136**	**(8)**
VAR	425	489	(64)	34	39	(5)
Stressed VAR	849	889	(40)	68	71	(3)
Incremental Risk Change (IRC)	324	320	4	26	26	-
Comprehensive Risk Measure (CRM)	-	-	-	-	-	-
Standardised approach	500	469	31	40	38	2
Trading book securitisation positions	-	-	-	-	-	-
MARKET RISK	**2,098**	**2,167**	**(69)**	**168**	**174**	**(6)**

The market risk calculated using the standardised approach covers the market risk of some entities of the Bank that are not covered by internal models. The standardised approach is used to calculate foreign exchange risk for the banking book (See section 5.7 Market risk related to banking activities). Equity risk-weighted assets are also presented in this section.

5.b Market risk related to trading activities

5.b.1 Introduction

Market risk arises from trading activities carried out by the Corporate and Investment Banking business and encompasses different risk factors:

- Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates;
- Foreign exchange risk is the risk that the value of an instrument will fluctuate due to changes in foreign exchange rates;
- Equity risk arises from changes in the market prices and volatility of equity shares and/or equity indices;
- Commodities risk arises from changes in the market prices and volatility of commodities and/or commodity indices;
- Credit spread risk arises from the change in the credit quality of an issuer and is reflected in changes in the cost of purchasing protection on that issuer;
- Option products carry by nature volatility and correlation risks, for which risk parameters can be derived from option market prices observed in an active market.

The trading activities of BNP Paribas Fortis are justified by the economic relations with the direct customers of the business lines, or indirectly as market-maker.

5.b.2 Market risk management organisation

The market risk management system tracks and controls market risks as well as controlling financial instrument valuation whilst ensuring that the control functions remain totally independent from the business Lines.

Within RISK, three departments are responsible for monitoring market risk:

- Risk Global Markets (RISK GM) covers the market risk activities of Global Markets;
- Enterprise Risk Architecture (RISK ERA - ALMT) covers the ALM Treasury activities;
- Risk International Retail Banking (RISK IRB) covers international retail market activities.

This mission consists of defining, measuring and analysing risk factors and sensitivities, as well as measuring and controlling Value at Risk (VaR), the global indicator of potential losses. RISK ensures that all business activity complies with the limits approved by the various committees and approves new activities and major transactions, reviews and approves position valuation models and conducts a monthly review of market parameters (MAP review) in association with the Valuation and Risk Control Department (V&RC).

Market risk and financial instrument valuation monitoring is structured around several formal committees:

- The Capital Markets Risk Committee (CMRC) is the main committee governing the risks related to capital markets. It is responsible for addressing, in a consistent manner, the issues related to market and counterparty risk. The CMRC sets the high level trading limits and follows the evolution of the main exposures and stress risk. It meets once every quarter and is chaired by either the CEO or by the Head of Corporate and Investment Banking.
- The Product and Financial Control Committee (PFC) is the arbitration and decision-making Committee regarding financial instrument valuation matters. It meets quarterly to discuss the conclusions of the CIB Financial Control teams and their work to enhance control effectiveness and the reliability of the measurement and recognition of the results of market transactions. It is chaired by the Group Chief Financial Officer and brings together the Directors of Group Finance-Accounting, Corporate Investment Banking and RISK.

- At business unit level, the Valuation Review Committee (VRC) meets monthly or quarterly to examine and approve the results of the Market parameters review (MAP review) and any changes in reserves. The Valuation Review Committee also acts as referee in any disagreements between trading and the control functions. The committee is chaired by a Senior Trader and other members include representatives from Trading, RISK, Group Valuation and Risk Control and Finance. Any disagreement is escalated to the PFC.

- The Valuation Methodology Committee (VMC) meets two to three times a year per business line to monitor model approvals and reviews, follow up relevant recommendations and present model governance improvements.

5.b.3 Valuation control

Financial instruments in the prudential Trading Book are valued and reported at market or model value through P&L, in compliance with applicable accounting standards. Such can also be the case for certain financial instruments classified in the Banking Book.

Portfolio valuation control is performed in accordance with the Charter of Responsibility for Valuation, which defines the division of responsibilities. These governance policies and practice apply to all Capital Markets and Treasury activities, including the main ALM centre.

In addition to the Charter of Responsibilities, the relevant valuation controls are detailed in specific policies. We detail below the main processes that together form the valuation control governance.

Transaction booking control

This control comes under the responsibility of the Middle-Office within the Operations Department. However, certain complex transactions are controlled by RISK.

Market parameter (MAP) review – Independent Price Verification

Price verification is managed jointly by Valuation and Risk Control (V&RC) and RISK. A comprehensive formal review of all the market parameters is performed at month-end. The types of parameters controlled by V&RC are essentially the parameters for which an automatic control against external sources can be implemented (security prices, vanilla parameters); this may include the use of consensus price services. The RISK function of the Group is in charge of controlling valuation methodologies as well as the most complex parameters, which are highly dependent on the choice of models.

The general principles of the Market parameter reviews are described in the Charter of Responsibility on Valuation and in specialised global policies such as the Global Marking and Independent Price Verification Policy and MAP review principles. The specific methodologies are described in documents known as the MAP books organised by product lines and regularly updated. The parameters are described in the Market Data Cartography which is maintained by V&RC. The responsibilities of RISK and V&RC are defined for each point in time and conclusions of the Market Parameter reviews are documented in the MAP review finding documents.

The outcome of the market parameter review is the estimation of valuation adjustments communicated to Middle Office and Finance who enter it in accounting records. The results are communicated to the Trading management during Valuation Review Committee meetings, where a final decision or escalation is made. The opinion of the Control functions prevails. Any significant persistent disagreement can nevertheless be escalated to the PFC.

Models approval and reviews

For operations whose nature is common to BNP Paribas and BNP Paribas Fortis, BNP Paribas Fortis uses BNP Paribas models. Should BNP Paribas Fortis have specific products or activities not monitored outside BNP Paribas Fortis, RISK BNP Paribas Fortis would, in close cooperation with RISK BNP Paribas, draw up official valuation methodologies and reserve policies. In this case, RISK BNP Paribas Fortis would also be responsible for the 'models/products' mapping. The whole BNP Paribas model control framework must guarantee that the use of models is compliant with the IFRS standard relating to the fair value measurement of financial instruments.

Reserve and other valuation adjustments

RISK defines and calculates "reserves". These are adjustments to the market or model value affecting both the accounting valuation and regulatory capital. They can be considered either as the exit cost of a position or as premium for risks that cannot be diversified or hedged, as appropriate.

The reserves cover mainly:

- bid-offer and liquidity spreads
- model or market parameter uncertainties
- the elimination of non hedgeable risks (smoothing digital or barrier pay-offs).

A general valuation adjustment policy exists. Reserve methodologies are documented by RISK for each product line and these documents are updated regularly. The analysis of reserve variations is reported at the monthly VRC.

Reserve methodologies are regularly improved and any change is deemed to be a Valuation Model Event. Reserve improvements are generally motivated by the conclusion of a model review or by calibration with market information during the market parameter review process.

Additional Prudent Valuation Adjustments (PVA) are calculated in accordance with the last version of the Regulatory Technical Standards (RTS) published by the EBA on 23 January 2015. The RTS requires banks to estimate the price of their fair-valued positions using at least a 90% level of confidence.

There are different categories of PVA, the main ones being linked to close-out costs, market price uncertainty, concentration risk and model risk. Based on these PVA, BNP Paribas computes Additional Valuation Adjustments (AVA) including reserves already taken into account in the Fair Value as well the diversification mechanism described in the RTS.

From a prudential perspective, AVA are deducted from the common equity Tier 1 capital.

Day-one profit or loss

Some transactions are valued using 'non-observable' parameters. IAS 39 requires the recognition of any day-one P&L for non-observable transactions to be deferred where the initial model value has to be calibrated with the transaction price.

RISK works with Group Finance, Middle Offices, and Business Lines on the process of identifying and handling these profit and loss items, in order to determine whether a type of parameter or transaction is observable or not in accordance with the observability rules, which are duly documented.

The P&L impact of the P&L deferral is calculated by the Middle Office.

Observability rules are also used for the financial disclosures required by IFRS 7.

During 2016, no day-one-profit was booked for transactions at BNP Paribas Fortis.

5.b.4 Market risk exposure

Market risk is first analysed by systematically measuring portfolio sensitivity to various market parameters. The results of these sensitivity analyses are compiled at various aggregate position levels and compared with market limits.

Risk monitoring setup and limit setting

BNP Paribas Fortis uses an integrated system to follow trading positions on a daily basis and manage VaR calculations. This system tracks not only the VaR, but also detailed positions and sensitivities to market parameters based on various simultaneous criteria (such as by currency, product or counterparty). This system is also configured to include trading limits, reserves and stress tests.

Responsibility for limit setting and monitoring is delegated at three levels, which are, in order of decreasing importance, CMRC, Business Line and Activity. Hence delegation exists from CMRC level right down to trading heads. Limits may be changed either temporarily or permanently, in accordance with the level of delegation and the prevailing procedures. Appropriate escalation mechanisms are in place to ensure that the independent view from the RISK department regarding the level of limits is heard.

Core risk analysis and reporting to Executive Management

Risk reports, through various risk analyses and dashboards, to Executive Management and Business Lines Senior Management on its risk analysis work (limits, VaR monitoring, core risk analysis, etc). The MCLAR (Market, Counterparty and Liquidity Analysis and Reporting) team within RISK ERA (Enterprise Risk Architecture) is responsible for compiling and circulating main global risk reports.

The following risk reports are generated on a regular basis:

- Bi-weekly 'Main Position' reports for each Business Line, summarising all positions and highlighting items needing particular attention; these reports are mainly intended for Business Line managers;

- Monthly risk dashboard covering Capital Markets' market and counterparty risks;

- Quarterly risk 'dashboard' covering the key market, credit, liquidity and counterparty risks;

- Supporting documentation for the core Capital Markets Risk Committee comprising markets and risk event summaries, global counterparty exposure summary, VaR/Stressed VaR evolution, market and counterparty risk stress testing and capital evolution summaries, and market and counterparty risk back-testing.

Value at Risk (VaR)

The VaR is a statistical measure indicating the worst loss for a given portfolio over a given time period within a given confidence interval under normal market conditions. It is not a maximum loss figure and may be exceeded in some cases, for example in the event of abnormal market conditions.

The BNP Paribas Fortis VaR methodology aims at accurately computing a 1-day Value at Risk at a 99% confidence level. The BNP Paribas Fortis VaR calculation uses an internal model which has been approved by the banking supervisor.

The VaR calculation is based on a Monte-Carlo approach, which not only performs normal or log-normal simulations but also accounts for abnormality often observed in financial markets as well as correlation between risk factors. A one year rolling window of historical market data with equal weighting (updated monthly) is used to calibrate the simulation.

The main groups of simulated factors include: interest rates, credit spreads, exchange rates, equity prices, commodities prices, and associated implied volatilities. Risk factors returns are either relative or absolute.

The precise valuation method used varies depending not upon the product but upon the type of risk the Bank is capturing. Generally speaking, the methods used are either sensitivity-based or full-revaluation-based on P&L grid interpolation so as to incorporate both linear and - especially for derivatives - non-linear effects. In both cases, BNP Paribas Fortis computes general and specific risk as a whole, including the diversification effect through the correlation between risk factors.

The algorithms, methodologies and sets of indicators are reviewed and improved regularly to take into account the evolution of the capital market.

Following agreement with the Belgian and French regulators (NBB and ACPR), the BNP Paribas internal model has been extended since the third quarter of 2011 to BNP Paribas Fortis.

The VaR is a measure that does not take into account losses above the confidence interval and is not applicable to losses linked to intraday market movements. Risk measures like the SVaR and IRC complete the monitoring framework and the market risk management within BNP Paribas Fortis.

Evolution of the VaR (one-day, 99%)

The VaR figures set out below are calculated from the internal model for market risk, which uses parameters that comply with the regulation in place. They are based on a one-day time horizon and a 99% confidence interval.

In 2016, total average VaR was EUR 3.1 million (with a minimum of EUR 1.5 million and a maximum of EUR 5.2 million), after taking into account the EUR (0.7) million netting effect between the different types of risks. These amounts break down as follows:

Value at risk (1-day, 99%):

In millions of euros	31 December 2016				31 December 2015	
Type of risk	**Average**	**Minimum**	**Maximum**	**End of year**	**Average**	**End of year**
Interest rate risk	2.9	1.4	5.0	2.1	1.8	2.1
Credit risk	0.6	0.3	1.2	0.5	0.5	0.5
Foreign exchange risk	0.3	0.1	1.2	0.2	0.5	0.4
Equity price risk	-	-	-	-	-	-
Commodity price risk	-	-	-	-	-	-
Netting effect	(0.7)	(0.3)	(2.2)	(0.7)	(1.0)	(0.8)
Total value at risk	**3.1**	**1.5**	**5.2**	**2.1**	**1.9**	**2.2**

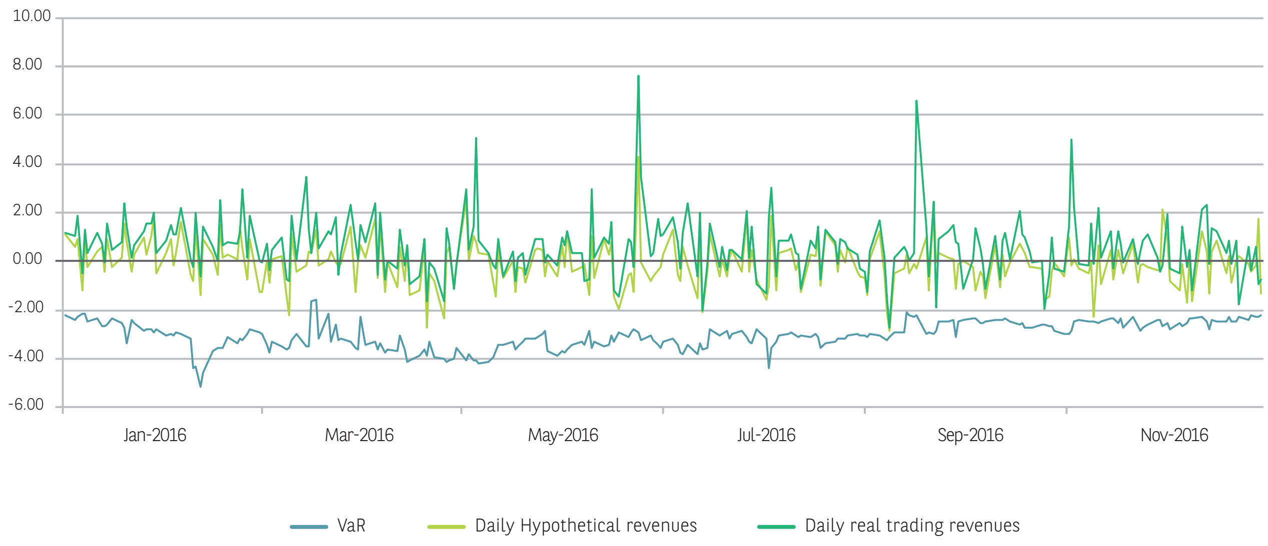
RISK continuously tests the accuracy of the internal model through a variety of techniques including a regular comparison over a long period between the daily losses on market activities with the VaR (1 day).

This backtesting consists to compare the daily VaR in the trading book with the actual result generated. According to regulations, BNP Paribas completes this framework ("real backtesting") by a comparison of daily VaR and "hypothetical" results generated by the trading portfolio ("hypothetical backtesting"). The "hypothetical" result includes all the components of the actual result except intra-day income, fees and commissions. A backtesting event is reported when a loss, real or hypothetical, exceeds the amount of daily VaR. The confidence interval used to calculate the daily VaR is 99%, which corresponds theoretically to two to three events observed per year.

The number of events is computed at least quarterly and is equal to the higher of the number of overshootings (excesses) for the hypothetical and real changes in the portfolio's value.

In 2016, no real and hypothetical backtesting overshootings were observed.

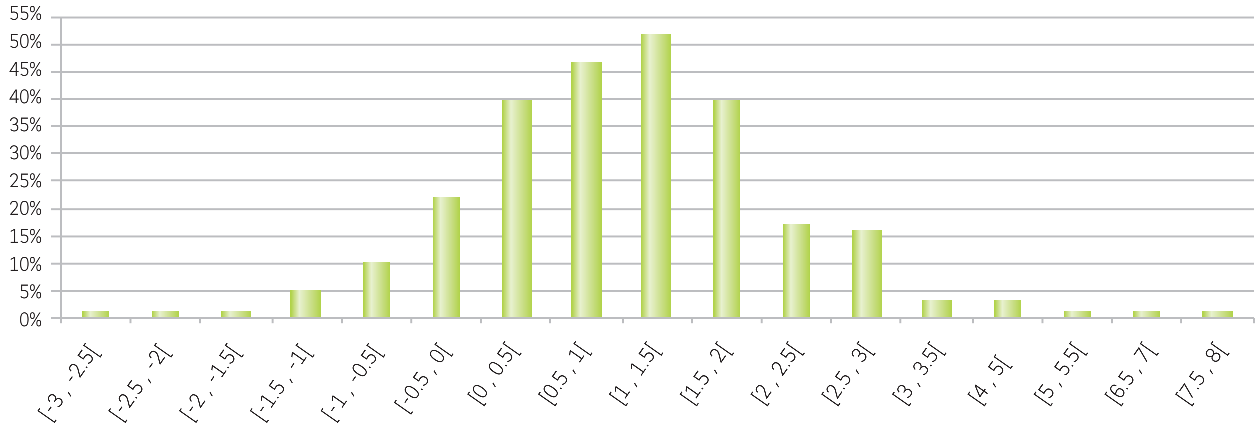
Graph: comparison between (1-day, 99%) VaR and daily P&L revenue



Distribution of daily income

The following histogram presents the distribution of the daily trading revenues of BNP Paribas Fortis. It indicates the numbers of trading days during which the revenue reached each of the levels indicated on the horizontal axis in million euros.

Distribution of daily trading revenue over 2016 (in millions of euros)



Trading activities generated a positive result for more than 85% of the trading days of 2016.

Evolution of the VaR (ten-day, 99%)

The VaR figures set out below are calculated from an internal model, which uses parameters that comply with the method recommended by the Basel Committee for determining estimated value at risk ('Supplement to the Capital Accord to Incorporate Market Risks'). They are based on a ten-day time horizon and a 99% confidence interval.

In 2016, total average VaR for BNP Paribas Fortis was EUR 9.7 million (with a minimum of EUR 5.1 million and a maximum of EUR 16.2 million), after taking into account the EUR (2.3) million netting effect between the different types of risks. These amounts break down as follows:

Value at risk (10-day, 99%)

In millions of euros	31 December 2016				31 December 2015	
Type of risk	Average	Minimum	Maximum	End of year	Average	End of year
Interest rate risk	9.1	4.5	15.7	6.8	5.8	6.7
Credit risk	1.9	1.1	3.7	1.5	1.6	1.5
Foreign exchange risk	1.0	0.3	3.7	0.8	1.5	1.4
Equity price risk	-	-	-	-	-	-
Commodity price risk	-	-	-	-	-	-
Netting effect	(2.3)	(0.8)	(6.9)	(2.1)	(2.7)	(2.4)
Total value at risk	**9.7**	**5.1**	**16.2**	**7.0**	**6.2**	**7.2**

Stressed VaR

A Stressed VaR (SVaR) is calibrated over a one-year period including a crisis period. This period is a 12 full months period and applies to the entire Bank's perimeter. Exhaustive risk factors history must be available so as to compute the risk metrics, and the period must be still relevant when applied to current trading book. This choice is reviewed quarterly by an expert committee. The period is chosen according to a qualitative approach among the three scenarios leading to the maximal stressed risk.

02 January 2008 to 31 December 2008 has been considered as the current reference period for the calibration of Stressed VaR.

BNP Paribas Fortis uses the same methodology as to compute the VaR, considering the market parameters on this reference period.

Stressed value at risk (one-day, 99%)

In millions of euros	31 December 2016				31 December 2015	
1 day	Average	Minimum	Maximum	End of year	Average	End of year
Stressed value at risk	4,4	3,3	5,6	4,9	4.8	4.8

Stressed value at risk (ten-day, 99%)

In millions of euros	31 December 2016				31 December 2015	
10 day	Average	Minimum	Maximum	End of year	Average	End of year
Stressed value at risk	13,8	10,4	17,6	15,4	15.2	15.2

Incremental Risk Charge (IRC)

The IRC approach measures losses due to default and ratings migration at the 99.9% confidence interval over a capital horizon of one year, assuming a constant level of risk to this horizon.

This approach is used to capture the incremental default and migration risks on all non-securitised products.

The model is currently used in the Risk Management processes. It has been approved by both the French and Belgian banking supervisors.

The calculation of IRC is based on the assumption of a constant level of risk to the one-year capital horizon, implying that the trading positions or sets of positions can be rebalanced within this horizon in a manner that maintains the initial risk level, measured by the VaR or by the profile exposure by credit rating and concentration. This rebalancing frequency is called the 'liquidity horizon'.

The model is built around a ratings-based simulation for each obligor, which captures both the risk of the default and the risk of rating migration. The dependence among obligors is based on a multi-factor asset return model. The valuation of the portfolios is performed in each simulated scenario. The model uses a constant one-year liquidity horizon.

Incremental risk charge capital requirement

In millions of euros	31 December 2016				31 December 2015	
Type of risk	Average	Minimum	Maximum	End of year	Average	End of year
Total IRC	20,6	11,7	29,0	23,4	37.6	14.6

Comprehensive risk measure (Correlation portfolio)
The comprehensive risk measure (CRM) is a charge for structured credit correlation products in the Trading Books. The CRM is not applicable to BNP Paribas Fortis.

Securitisation positions in Trading Books outside correlation portfolio
This additional capital charge for re-securitisation is not applicable to BNP Paribas Fortis.

Market Risk stress testing framework
A range of stress tests are performed to simulate the impact of extreme market conditions on the value of the global Trading Books. Stress tests cover all market activities, applying a range of stressed market conditions.

Scenarios

The fundamental basic approach of the current Trading Book stress testing framework combines 'bottom-up' and 'top-down' stress testing:

- Macro Scenarios ('top-down') comprise the evaluation of a set of global level stress tests. These scenarios assess the impact of severe market movements on BNP Paribas Fortis' trading positions in relation to large global or major regional market shock events. They can be based on historical events or forward-looking hypothetical scenarios. Scenarios include events such as an emerging markets crisis, credit crunch or stock market crash.

  The official macro stress test scenarios currently comprise a range of eight different stress tests. The results of these scenarios are reviewed at every Capital Markets Risk Committee session.

  - Scenario 1: unexpected rate hike, driving short-term rates higher with a flattening of the interest rate curve;
  - Scenario 2: stock market crash, with a 'flight to quality', leading to a drop in trading and a steepening of the interest rate curve;
  - Scenario 3: generic emerging market crisis designed to test the global risk of these markets;
  - Scenario 4: credit crunch, leading to a general risk-aversion;
  - Scenario 5: euro crisis: low GDP expectations or threat of a country leaving the euro and a significant weakening of the currency;
  - Scenario 6: Energy crisis scenario driven by geopolitical turmoil with severe consequences for energy markets;
  - Scenario 7: US crisis scenario, mostly based on a structural US crisis spreading round the globe;
  - Scenario 8: Risk-on scenario: rally in equity and emerging markets, low realised volatility and drop in implied volatility in all markets (effectively a return to risky assets).

- Micro Level Scenarios ('bottom-up', at Group level): instead of looking at the effect on the global portfolio, these types of scenarios aim to highlight risk exposures on specific trading desks, regions or risk concentrations. This bottom-up approach enables the use of more complex stress scenarios and hence allows the detection of areas of potential losses such as complex market dislocations or idiosyncratic risk, which may not be easily identified under the global macro scenarios. This process facilitates the classification of risk areas into those where there may be lower liquidity and those where the risk may be more structural in nature.

Process

It is the analysis and possible combination of the above scenarios which enables an Adverse Scenario for the trading books to be constructed. These official macro stress scenarios are presented at each Capital Markets Risk Committee along with the Adverse Scenario.

Stress testing is governed by the Capital Markets Stress Testing Steering Committee (STSC). The Committee meets monthly and sets the direction of all internal risk departmental stress scenario developments, infrastructure, analysis and reporting. The STSC governs all internal stress testing matters relating to both market and counterparty credit risk and decides upon the detailed composition of the CMRC official Stress Tests.

Stress testing is the core element of tail risk analysis, which is also captured through Stressed Value a Risk, the Incremental Risk Charge and the Comprehensive Risk Measure. Furthermore, the risk of a rare event used in the form of the 'average loss in addition to VaR' (Expected Shortfall) in allocating capital in respect of market risk between Business Lines is an additional element allowing tail risk in the management and monitoring of market risk to be taken into account.

5.c Market risk relating to banking activities

Market risk relating to banking activities encompasses the risk of loss on equity positions on the one hand, and the interest rate and currency risks stemming from banking intermediation activities on the other. Only equity and currency risk give rise to a weighted assets calculation under Pillar 1; interest rate risk in relation to banking activities falls under Pillar 2.

Interest rate and currency risks in respect of banking intermediation activities mainly relate to Retail banking activities, the Bank's specialised financing subsidiaries, the CIB financing businesses and investments, funding and hedging transactions made by BNP Paribas Fortis. These risks are managed by the ALM & Treasury Department.

At Group level, ALM & Treasury reports directly to the Group Functions. Strategic decisions are made by the Asset and Liability Committee (ALCO), which oversees ALM & Treasury activities. Such committees have been set up at Group and Operating Entity level.

5.c.1 Equity risk

Equity interests held by the Bank outside the Trading Book refers to securities which convey a residual, subordinated claim on the assets or income of the issuer or have a similar economic substance. They include:

- listed and unlisted equities and units in investment funds
- options embedded in convertible and mandatory convertible bonds
- equity options
- super subordinated notes
- commitments given and hedges related to equity interests
- interests in companies accounted for by the equity method.

Modelling equity risk

In accordance with the Capital Requirements Directive, banks using the Internal Risk Based Approach are required to apply a separate treatment to the equity exposures held in their Banking Book. BNP Paribas Fortis therefore applies the Simple Risk Weight approach, except for following equity exposure:

(i) All investments held prior to 1 January 2008 (excluding LBO positions) are covered by the grandfather clause and are assigned a standard weighting of 150%.

(ii) Significant financial interests included within the large threshold from CET1 items are assigned a flat 250% weighting. These interests relate to available-for-sale securities in credit or financial institutions and insurance companies in which the Bank holds a stake of more than 10%, as well as credit or financial institutions consolidated under the equity-method.

The Simple Risk Weight approach is based on long-term market observations and sets out separate risk weights covering unexpected losses:

- 190% of exposure value for private equity exposures in sufficiently diversified portfolios;
- 290% of exposure value for exchange-traded equity exposure;
- 370% of exposure value for other equity exposures.

In addition, expected losses for equity exposure are deducted from own funds. The model has been approved by the banking supervisor for measuring the capital requirement for equity risk as part of the Basel II approval process.

Exposure to equity risk*

In millions of euros	31 December 2016	31 December 2015
Simple risk weight method	**1,215**	**1,067**
190% weighted	445	474
290% weighted	161	107
370% weighted	609	486
Standardised approach	**2,100**	**1,939**
Total	**3,315**	**3,006**

(*) fair value (on and off balance sheet)

5.c.2 Currency risk (Pillar 1)

Calculation of risk-weighted assets

Currency risk relates to all transactions whether part of the Trading Book or not. This risk is treated in the same way under Basel I, Basel II and Basel III.

Except for BNP Paribas Fortis Belgium's currency exposure, which is calculated using the BNP Paribas Fortis internal model approved by the banking supervisor, exposure to currency risk is now determined under the Standardised approach, using the option provided by the banking supervisor to limit the scope to operational currency risk.

BNP Paribas Fortis entities calculate their net position in each currency, including the euro. The net position is equal to the sum of all asset items less all liability items plus off-balance sheet items (including the net forward currency position and the net delta-based equivalent of the currency option book), minus structural, non-current assets (long-term equity interests, property, plant and equipment, and intangible assets). These positions are converted into euros at the exchange rate prevailing at the reporting date and aggregated to give the Bank's overall net open position in each currency. The net position in a given currency is 'long' when assets exceed liabilities and 'short' when liabilities exceed assets. For each entity, the net currency position is balanced in the relevant currency (i.e. its reporting currency) such that the sum of long positions equals the sum of short positions.

The rules for calculating the capital requirements for currency risk are as follows:

- Matched positions in currencies of Member States participating in the European Monetary System are subject to a capital requirement of 1.6% of the value of the matched positions.
- Positions in closely correlated currencies are subject to a capital requirement of 4% of the matched amount.
- Other positions, including the balance of unmatched positions in the currencies mentioned above, are subject to a capital requirement of 8% of their amount.

Currency risk and hedging of earnings generated in foreign currencies

BNP Paribas Fortis' exposure to operational currency risks stems from net earnings in currencies other than the euro. BNP Paribas Fortis' policy is to hedge on a monthly basis all its non-EUR earnings against EUR. Earnings generated locally in a currency other than the operation's functional currency are hedged locally. Net earnings generated by foreign subsidiaries and branches and positions relating to portfolio impairment are managed and hedged centrally on a regular basis.

Currency risk and hedging of net investments in foreign operations

BNP Paribas Fortis' currency position on investments in foreign operations arises mainly from branch capital allocations and equity interests denominated in foreign currencies.

BNP Paribas Fortis' policy is to borrow the investment currency in order to protect the investment against currency risk. Such borrowings are documented as hedges of net investments in foreign operations. However, for some (more illiquid) currencies for which borrowing is difficult, the investment may also be financed by purchasing the currency against euros. This kind of decision is taken by the ALCO.

5.c.3 Interest rate risk (Pillar 2)

5.c.3.1 Interest rate risk management framework

ALM Treasury is responsible for the management of the interest rate risk of the Banking Book.

The Banking Book includes all interest bearing assets and liabilities of all the Business Lines of BNPP Fortis (including the ALM Treasury own investment and hedging transactions) with the exception of authorized trading activities (being client hedging and market making).

Transactions initiated by each BNP Paribas Fortis Business Line are systematically transferred to ALM Treasury by internal analytical contracts booked in the management accounts or by loans and borrowings.

The main decisions regarding the interest rate risk management of the Banking Book are taken at monthly ALCO meetings. These meetings are attended by the management of the Business Lines, ALM Treasury, Finance and the RISK department.

The Bank's strategy for managing global interest rate risk is based on closely monitoring the sensitivity of the Bank's interest earnings to changes in interest rates, factoring in all interest rate risks; the aim is to ensure the stability and regularity of the net interest margin. This management process requires an accurate assessment of the risks incurred so that the Bank can determine and implement the relevant hedging strategies.

Interest rate risk is mitigated using a range of different instruments, the most important of which are derivatives - primarily interest rate swaps and options. Interest rate swaps are used to change the linear risk profile, which is mainly due to long-term fixed-rate assets and liabilities. Options are used to reduce non-linear risk, which is mainly caused by embedded options sold to clients, e.g. caps and prepayment options on mortgages.

5.c.3.2 Measurement of interest rate risk

Interest rate positions are measured taking into account the specific features of the risks managed. BNP Paribas Fortis has, in line with the Group framework, defined the concepts of standard risks, modelled risks and structural risks in relation to the different nature of the transactions or portfolios in the banking book.

Types of Interest Rate Risk:

Standard risk is generated by balance sheet elements for which the theoretical micro-hedge of such risk is directly derived from the contractual characteristics of the underlying transactions.

Modelled risk corresponds to transactions where the theoretical micro-hedge cannot simply be derived from the contractual characteristics of the underlying transactions and requires modelling. This is for example the case for savings accounts (modelling of a risk-replicating portfolio) and for prepayments of mortgages (modelling of future global prepayment behaviour).

The structural rate risk is related to net equity and the non-cyclical part of non-interest-bearing current accounts; the reinvestments of those zero-cost balance sheet items generate regular revenues but these are sensitive to interest rate levels. However it is not possible to define a single hedging strategy to fully neutralise the exposure.

The interest rate risk on the Banking Book is measured and monitored through the following metrics and indicators:

Interest Rate Gaps

In the static fixed rate gaps we measure for each future time-bucket the mismatch between fixed rate assets and liabilities. The optional effects, in particular linked to behavioural options, are translated into these gaps by their delta equivalent exposures (linear representation).

The maturity split is determined on the basis of the contractual terms of the transactions for standard risks and historical observations of customer behaviour for modelled risks. The maturities of non-interest-bearing current accounts and of net equity are defined according to a more conventional approach in order to take into account a management benchmark throughout the Group.

When in a time-bucket there are:

- more assets than liabilities, then the risk is on the upside of rates as the Bank would lose income if an overnight rate rise makes it more costly to fund the excess assets;

- more liabilities than assets, then the risk is on the downside of rates as the Bank would lose income due to the lower return on reinvestment of excess liabilities.

Earnings Indicators

Interest rate risk in the Banking Book is also measured on a going-concern basis, incorporating dynamic changes in balance sheet items, through an indicator of net interest income sensitivity to interest rate changes.

The existence of partial or zero correlations between customer interest rates and market rates coupled with volume sensitivity to interest rates generates a risk to future revenues, linked to interest rate changes, looked at dynamically (including new origination).

This is one of the key indicators used by the Bank in its analysis of overall interest-rate risk. The sensitivity of revenues is calculated across the entire Banking Book including the customer banking intermediation businesses, equity and for all currencies. It relies on reasonable activity assumptions over the same horizon as the indicator.

Value Indicators

The Basel Committee on Banking Supervision imposes on banks a requirement to calculate the Sensitivity of the Economic Value of Equity as part of the June 2004 Basel II Framework. According to the text, in order to 'facilitate supervisors' monitoring of interest rate risk exposures across institutions, banks have to provide the results of their internal measurement systems, expressed in terms of delta of economic value of equity in relation to Tier1 + Tier2 capital, due to a standardised parallel interest rate shock of +/- 200bp.

5.c.3.3 Interest Rate Risk limits

The interest rate risk metrics and indicators span the entire banking book.

The fixed interest rate gaps are subject to interest rate risk limits across all time horizons. These limits are calibrated based on the nature of the risks (standard, modelled or structural). Limits are reviewed on an annual basis.

The net interest income sensitivity indicator is subject to a warning threshold relative to the overall sensitivity level. BNP Paribas Fortis has introduced a system to monitor the impact of stress scenarios defined at Group level on business revenue.

The interest earnings sensitivity is limited: an instantaneous downward parallel shock of 50bp over a one-year horizon would have led to a decrease of EUR 37 million in Net Banking Income at 31 December 2016.

Moreover, a specific sub-limit is defined for the scope of operations that do not qualify for hedge accounting under IFRS.

In compliance with the regulatory requirements, a limit on the sensitivity of the economic value of equity for a parallel shock of 200bp has also been set.

Since the financial transactions in the Banking Book are not intended to be sold, they are not managed on the basis of their fair value. As a consequence the sensitivity of the economic value of equity is only a reporting indicator, calculated in line with the regulatory requirements.

The sensitivity of the economic value of equity (internal calculation method) for an instantaneous parallel shock of +200 bp is (4.2)% of Equity at 31 December 2016.

5.c.3.4 Accounting treatment of interest rate hedges

Hedges for the purpose of interest rate risk in the Banking Book consist mainly of interest rate derivative financial instruments (swaps and options).

Depending on the hedging objective, derivative financial instruments used for hedging purposes are qualified either as fair value hedges or cash flow hedges. Each hedging relationship is formally documented at inception. The documentation describes the hedging strategy, identifies the hedged item and the hedging instrument, and the nature of the hedged risk; it also describes the methodology used to test the expected (prospective) and actual (retrospective) effectiveness of the hedge.

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

Fair value hedges of interest rate risks relate either to identified fixed-rate assets or liabilities, or to portfolios of fixed-rate assets or liabilities. Derivatives are contracted to reduce the exposure of the fair value of these instruments to changes in interest rates.

Individual assets hedging consist mainly of available-for-sale securities; individual liabilities hedging consist mainly of fixed income securities issued by the BNP Paribas Fortis.

Hedges of portfolios of financial assets and liabilities, constructed by currency, relate to:

- fixed-rate loans (property loans, equipment loans, consumer credit and export loans);
- fixed-rate deposits (mainly demand deposits).

To identify the hedged amount, the residual balance of the hedged item is split into maturity bands, and a separate amount is designated for each band. The maturity split is determined on the basis of the contractual terms of the transactions and historical observations of customer behaviour (prepayment assumptions and estimated default rates).

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

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

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

Cash Flow Hedge

In terms of interest rate risk, BNP Paribas Fortis uses derivative instruments to hedge fluctuations in income and expenses arising on floating-rate assets and liabilities. Highly probable forecast transactions are also hedged. Hedged items are split into maturity bands by currency and benchmark interest rate. After factoring in prepayment assumptions and estimated default rates, BNP Paribas Fortis uses derivatives to hedge some or all of the risk exposure generated by these floating-rate instruments.

The effectiveness of these hedging relationships is documented and assessed on the basis of forecast maturity bands.

Amounts shown in the table represent by time bucket, the notional amounts of assets and liabilities subject to forecast cash flows designated as hedged items in cash flow hedge accounting relationships.

	31 December 2016	
In millions of euros	**Assets**	**Liabilities**
Less than 1 year	3,212	-
1 to 3 years	1,998	-
3 to 5 years	425	1,000
More than 5 years	738	-

6 SOVEREIGN RISKS

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

BNP Paribas Fortis holds sovereign bonds as part of its liquidity management process. Liquidity management is based a.o. on holding bonds which are eligible as collateral for refinancing by central banks; a substantial share of this "liquidity buffer" consists of highly rated debt securities issued by governments, supra-national authorities and agencies, representing a low level of risk. A part of this same portfolio has interest rate characteristics that contribute to the banking book interest rate risk hedging strategies.

BNP Paribas Fortis' euro sovereign bond portfolio is shown in the table below:

Banking Book In millions of euros	31 December 2016	31 December 2015
Eurozone		
Belgium	11,388	13,421
Netherlands	3,916	4,078
Austria	1,121	953
Italy	1,088	1,112
France	761	1,050
Spain	600	556
Luxembourg	214	209
Germany	145	112
Finland	54	12
Countries receiving support		
Portugal	274	330
Ireland	143	138
Total eurozone	**19,704**	**21,971**

7 OPERATIONAL RISK

Risk management framework

Regulatory framework

In line with the BNP Paribas Group framework, BNP Paribas Fortis has implemented an all-embracing, single, operational Risk Management framework for the entire Bank, which complies with the Basel III criteria laid down in the Advanced Measurement Approach ('AMA'). This approach supports the organisation by offering better management of risk through heightened operational risk awareness. It ensures effective measurement and monitoring of the operational risk profile.

Key players and governance

An appropriate risk management structure has been created around a model with three levels of defence, which places the primary responsibility for operational risk management and mitigation with the Businesses. The role of second line of defence is assumed by the Risk Management functions. Their role is to ensure that the operational Risk Management framework is properly embedded, that the operational risks that are identified, assessed, measured and managed reflect the true risk profile and that the resulting levels of own funds are adequate. The third line of defence is provided by the General Inspection (internal audit) department, which provides assurance that risk structures and policies are being properly implemented.

The main governance bodies for the areas of Operational Risk & Internal Control are the Internal Control Committees (ICCs).

BNP Paribas Fortis has four ICCs, each chaired by a member of the Executive Committee. In addition, there is also an ICC at the level of the Executive Committee.

The role of the ICCs covers the management of the operational permanent control framework and the management of operational risks and non-compliance risks. Operational risks and non-compliance risks include reputational risk, fraud risk, financial reporting risk, tax risk, legal risk, risk of not complying with laws, regulations and policies, operational risks related to people, processes, systems and the external environment, and business risk. The role of the ICCs includes, but is not limited to:

- creating an organised overall view of the operational permanent control framework and the management of BNP Paribas Fortis' operational risks and non-compliance risks;
- analysing and taking decisions on these subjects;
- providing a level of warning, alert and escalation for any weaknesses observed;
- demonstrating and evidencing the involvement of the Executive Board and Executive Committee in the management of these issues and follow-up on actions undertaken.

The objective of the ICCs is to allow the businesses and functions to signal the most significant operational risks, risks of non-compliance and weaknesses in the permanent control environment, highlight the associated action plan, and provide an overview of the status of the measures taken.

The Advanced Measurement Approach for Operational Risk Management

A framework encompassing the four elements is required for an Advanced Measurement Approach:

- Loss data collection ('Historical Incidents') is the first building block of the Operational Risk Management framework. Operational losses that occur throughout the organisation are systematically collected in a central database.
- BNP Paribas Fortis supplements this internal loss data with external loss data sources, using both consortium and public databases to supplement its internal loss database for risk analysis.
- A third element of the framework consists of forward-looking risk assessments ('Potential Incidents'), which serve to draw up the Bank's risk profile and are used as primary input for calculating capital requirements. Potential Incidents (PIs) provide an insight into different kinds of operational risks:
  - Those risks that are closely related to the internal organisation and control environment. These risk events, despite the fact they may occur frequently, have a rather low impact on the organisation.
  - More systemic or low frequency-high impact operational risks. This captures the operational risks to which the organisation is subject due to the type of activities in which it engages and the business environment in which it operates.

Potential incidents are examined within each Business and support Function and result in a description of the identified risks, an analysis of the causal drivers of these risks and a description and assessment of the control environment. Lastly, the residual risk exposure is quantified.

- Operational risk triggers (key risk indicators or key performance indicators) are followed up to provide alerts on apparent changes in the operational risk profile due to internal or business environment factors.

Operational Control and Mitigation

BNP Paribas Fortis has a variety of tools to control and mitigate operational risk. Potential Incidents, Historical Incidents and key risk indicator movements enable the formalisation of actions to further control operational risks. These actions often relate to organisational and process contexts. Centrally coordinated operational risk mitigation techniques include business continuity management, information security measures, insurance and a governance structure including Exceptional Transactions Committees and New Activities Committees whose task is to decide on exceptional transactions and new activities.

8 COMPLIANCE AND REPUTATIONAL RISK

Compliance mission

The overall mission of the Compliance department is to provide reasonable assurance of the consistency and effectiveness of the compliance of BNP Paribas Fortis' activities and to safeguard the Bank's reputation through advice, oversight and independent controls.

The Compliance department's role, as a second line of defence, is to supervise the effective management of compliance risk. This involves policy-setting, providing advice, performing controls, providing assurance that the Bank is complying with rules and regulations and raising the awareness of colleagues of the need to follow key compliance principles:

- financial security: anti-money laundering, combating corruption and the financing of terrorism, financial sanctions and disclosure to financial intelligence units;
- customer protection: includes ensuring the appropriateness of products and services offered to clients and identifying/eliminating any conflicts of interest;
- employee integrity: covers codes of conduct, gifts policy, conflicts of interest and a personal transactions policy;
- market integrity: market abuse, conflicts of interest;
- data protection.

The Compliance department sets policies and gives binding advice in these areas. The advice from Compliance may be escalated to a higher level until consensus is found, so as to ensure appropriate issue resolution.

Compliance organisational setup

At BNP Paribas Group level, the organisation setup of the Compliance function has been reviewed in 2015. The Compliance function is organised as an independent, integrated and decentralized function. BNP Paribas Fortis' Chief Compliance Officer reports to BNP Paribas' Head of Domestic Markets Compliance and has a dotted line to BNP Paribas Fortis' Chief Executive Officer.

Compliance has direct, independent access to the Board's Risk Committee and Audit Committee, and is a permanent invitee to both Committees. The Chief Compliance Officer is a member of the Bank's Executive Committee.

Basic principles

The management of compliance and reputational risks is based on the following fundamental principles:

- Individual responsibility: compliance is everyone's responsibility, not solely the responsibility of the Compliance department.
- Exhaustive and comprehensive approach: the scope of compliance extends to all banking activities. In this respect, the Compliance department has unrestricted access to all required information.
- Independence: Compliance staff exercise their mission in a context which guarantees their independence of thought and action.
- Primacy of Group policies over local policies as far as is consistent with national law.

9 LIQUIDITY

Liquidity risk is the risk of the Bank being unable to fulfil current or future foreseen or unforeseen cash or collateral requirements, across all time horizons, from the short to the long term.

This risk may stem from the reduction in funding sources, draw down of funding commitments, a reduction in the liquidity of certain assets, or an increase in cash or collateral margin calls. It may be related to the bank itself (reputation risk) or to external factors (risks in some markets).

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

9.a Liquidity risk management policy

Objectives

The objectives of the Bank's liquidity management policy are to secure a balanced financing structure for the development of the BNP Paribas Fortis business activities, and ensure it is sufficiently robust to cope with crisis situations.

The liquidity risk management framework relies on:

- management indicators:
  - by volume, to ensure that businesses or activities comply with their liquidity targets set in line with the Bank's financing capacity;
  - by price, based on internal liquidity pricing;
- the definition of monitoring indicators which enable assessment of the Bank's liquidity position under normal conditions and in crisis situations, the efficiency of actions undertaken and compliance with regulatory ratios;
- the implementation of liquidity risk management strategies based on diversification of funding sources with maturities in line with needs, and the constitution of liquidity reserves.

The Bank's liquidity policy defines the management principles that apply across all BNP Paribas Fortis entities and businesses and across all time horizons.

Governance

As for all risks, the Chief Executive Officer is granted authority by the Board of Directors to manage the Bank's liquidity risk. The Chief Executive Officer delegates this responsibility to the Asset & Liability Committee (ALCo).

The Risk Committee reports quarterly to the Board of Directors on liquidity policy principles and the Bank's liquidity position.

The Asset & Liability Committee is responsible for:

- defining the Bank's liquidity risk profile;
- monitoring compliance with regulatory liquidity ratios;
- deciding and monitoring management indicators and calibrating the quantitative thresholds set for the bank's businesses;
- deciding and monitoring the liquidity risk indicators and associating quantitative thresholds to them where necessary;
- deciding and overseeing implementation of liquidity risk management strategies, including monitoring of business lines, in normal and stressed conditions.

In particular, the Asset & Liability Committee is informed about funding programmes and programmes to build up liquidity reserves, simulations in crisis conditions (stress test), and about all events that may arise in crisis situations. The Asset & liability Committee is tasked with defining the management approach in periods of crisis (emergency plan).

The Asset & Liability Committee meets every month under normal conditions and with higher frequency in stressed conditions.

The permanent members of the Asset & Liability Committee are the Chief Operating Officer with responsibility for functions (Chairman), the COOs or Deputy COOs heading up core businesses, the Head of Global Markets, The Chief Risk Officer and or his deputy, the Chief Financial Officer, the head of ALM Treasury, the head of ALM Treasury BNP Paribas Group, the head of ALM Domestic Markets BNP Paribas Group, the head of ALM, the head of Management Control and the Chief Financial Officer of Domestic Markets BNP Paribas.

Across the Bank, ALM Treasury is responsible for the operational implementation of the Asset & Liability Committee liquidity management decisions. The Asset & Liability Committees in entities or groups of entities are responsible for local implementation of the strategy decided by the Bank's Asset & Liability Committee to manage the bank's liquidity risk.

ALM Treasury is responsible for managing liquidity for the entire Bank across all maturities. In particular, it is responsible for funding and short-term issuance (certificates of deposit, commercial paper, etc.), for senior and subordinated debt issuance (MTNs, bonds, medium/long- term deposits, covered bonds, etc.), and loan securitisation programmes for the Bank. ALM Treasury is tasked with providing internal financing to the Bank's core businesses, operational entities and business lines, and investing their surplus cash. It is also responsible for building up and managing liquidity reserves, which comprise assets that can be easily sold in the event of a liquidity squeeze.

The Risk Function participates in the Asset & Liability Committee and the local ALCo's and oversees implementation by ALM Treasury of the relevant decisions made by these committees. It provides second-line control by reviewing the models and risk indicators (including liquidity stress tests), monitoring risk indicators and ensuring compliance with the limits assigned.

The Finance Function is responsible for producing the standardised regulatory liquidity indicators, as well as the internal monitoring indicators. Finance oversees the consistency of the internal monitoring indicators defined by the bank's ALM Committee. The Finance Function takes part in the Asset & Liability Committee and the local ALCo's.

9.b Liquidity risk management and supervision

Business lines' internal monitoring indicators

The monitoring indicators relate to the funding needs of the Bank's businesses under both normal and stressed conditions. These monitoring indicators are part of the Bank's budget planning exercise with set objectives that are routinely monitored (monthly).

Funding requirements of the Group's businesses

The funding requirements associated with the activity of the Bank's businesses are managed in particular by measuring the difference between commercial funding requirements (customer loans and overdrafts, trading assets) and commercial funding resources (customer deposits, sale of the Bank's debt securities to customers, trading liabilities, etc.). This indicator makes it possible to measure the business lines' liquidity consumption under a normal business scenario. It is supplemented with an indicator that makes it possible to measure the business lines' funding requirements over a one-month period under a stress test using assumptions defined by the European regulation (Liquidity Coverage Ratio). In addition to this commercial funding requirement indicator, the Bank closely monitors the liquidity reserves and the refinancing provided by ALM Treasury, as well as the Bank's structural resources, under normal conditions and regulatory stress tests. The business lines' total funding requirements, along with the net resources provided by ALMT, and the Bank's structural resources under regulatory stress tests, make up the Liquidity Coverage Ratio. The management of each of these components enables the Bank to achieve the targeted LCR. The business lines' liquidity consumption is thus integrated in the Bank's budget process, wherein each business line estimates its future liquidity needs, in keeping with its profitability targets and capital consumption objectives. During the iterative budget process, liquidity consumption objectives are allotted to the business lines, taking into account the funding provided by ALM Treasury and structural resources, in line with the Bank's overall target. The effective liquidity consumption and funding are then monitored and adjusted, if required, throughout the year in order to meet the Bank's target.

Internal liquidity pricing

All of the Bank's assets and liabilities are subject to internal liquidity pricing, the principles of which are decided by the Bank's Asset & Liability Committee and aim to take account of trends in the cost of market liquidity and the balance between assets and liabilities.

Monitoring indicators

Wholesale funding indicators

Funding sources depend on conditions in the debt markets and are raised from various types of debt investors. Funding sources are also diversified by geographical area and currency.

Funding sources are diversified through the use of various distribution networks, entities and collateralised or non-collateralised financing programmes.

The financing structure can also be strengthened by extending maturities, and targeting more stable funding sources.

Encumbrance of the Bank's assets and assets received by the Bank

Assets on the balance sheet and assets received in guarantee used as pledges, guarantees or enhancement of a Bank's transaction and which cannot be freely withdrawn are considered to be encumbered. The following are the main transactions with asset encumbrance:

- Repos and securities lending operations;
- Guarantees given to CCPs;
- Collateralised deposits;
- Guarantees given to central banks as part of monetary policy;
- Assets in portfolios hedging the issue of guaranteed bonds.

Encumbered securities are given as collateral in repurchase agreements, derivatives transactions or securities exchanges. The other assets correspond to the following: firstly, loans under monetary policy constraints or provided as collateral for structured debt; secondly, cash given as collateral against derivatives.

The ratio of encumbered assets to the assets on the Bank's balance sheet was 5.0% as at 31 December 2016.

Assets

In billions of euros	31 December 2016			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
ASSETS	**15**		**288**	
Equity instruments	-	-	2	2
Debt securities	4	4	34	34
Other assets	11		252	

Collateral received

In billions of euros	31 December 2016	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
COLLATERAL RECEIVED	**2**	**8**
Equity instruments	-	-
Debt securities	2	8
Other collateral received	-	-
OWN DEBT SECURITIES ISSUED OTHER THAN OWN COVERED BONDS OR ABS	**-**	**-**

Encumbered assets / collateral received and associated liabilities

In billions of euros	31 December 2016	
	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
CARRYING AMOUNT OF SELECTED FINANCIAL LIABILITIES	**13**	**15**

Medium- to long-term position

The medium- and long-term liquidity positions are measured regularly at the bank level to evaluate the medium-and long-term resources and uses. In order to do this, each balance sheet item is reviewed by financial maturity using the models and agreements proposed by ALM Treasury and reviewed by the Risk Function.

Stress tests and liquidity reserve

Liquidity stress tests are performed regularly on various maturities (1 day to 3 months) and are based on market factors and/or factors specific to the Bank. The availability of sufficient reserves in the liquidity buffer to cope with a liquidity crisis is regularly measured at Bank level.

The liquidity reserve comprises deposits with central banks, available securities that can be immediately sold on the market or through a repurchase agreement, and available securities and loans that can be refinanced with central banks. The global liquidity reserve (counterbalancing capacity) is calculated net of the payment systems' intraday needs.

One of the ways to strengthen the Bank's liquidity position is to transform less liquid assets into liquid assets by securitising loans (see section 4.c 'Securitisation').

REPORT OF THE ACCREDITED STATUTORY AUDITORS

Joint statutory auditors' report to the general shareholders' meeting of BNP Paribas Fortis sa/nv on the consolidated financial statements for the year ended 31 December 2016

In accordance with legal requirements, we report to you on the performance of our mandate of statutory auditors. This report includes our report on the Consolidated Financial Statements for the year ended 31 December 2016 as defined below, as well as our report on other legal and regulatory requirements. These Consolidated Financial Statements comprise the consolidated profit and loss account, the consolidated statement of net income and changes in assets and liabilities recognised directly in equity, the consolidated balance sheet as at 31 December 2016, the consolidated cash flow statement for the year then ended, the consolidated statement of changes in shareholders' equity and the minority interests, as well as the summary of significant accounting policies and other explanatory notes.

Report on the Consolidated Financial Statements – Unqualified opinion

We have audited the Consolidated Financial Statements of BNP Paribas Fortis SA/NV ("the Company") and its subsidiaries (jointly "the Group") for the year ended 31 December 2016, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. The total of the consolidated balance sheet amounts to EUR 297,790 (000,000) and the consolidated profit and loss account shows a net income for the year (group share) of EUR 1,727 (000,000).

Board of directors' responsibility for the preparation of the Consolidated Financial Statements

The board of directors is responsible for the preparation and fair presentation of Consolidated Financial Statements in accordance with International Financial Reporting Standards, as adopted by the European Union, and with legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of Consolidated Financial Statements which are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) as endorsed in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the statutory auditor's judgment, including his assessment of the risks of material misstatement in the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of the Consolidated Financial Statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We have obtained from the board of directors and the Company's officials the explanations and information necessary for performing our audit.

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

Unqualified Opinion

In our opinion, the Consolidated Financial Statements give a true and fair view of the group's net equity and consolidated financial position as at 31 December 2016 and of its consolidated financial performance and its consolidated statement of cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Emphasis of Matter regarding certain pending legal proceedings

Without further qualifying our opinion, we draw the attention to the fact that, as described in note 7.a to the Consolidated Financial Statements as of 31 December 2016, as a result of 2008 events having impacted the Fortis group, a number of claimants have initiated legal actions against the former Fortis group, including the Company, and/or certain members of its boards of directors and management. The ultimate outcome of these matters and the potential consequences for the Company and its directors cannot presently be determined, and therefore no provisions have been recorded in the Consolidated Financial Statements.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the board of directors' report on the Consolidated Financial Statements.

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we provide the following additional statement which does not impact our opinion on the Consolidated Financial Statements:

- The board of directors' report on the Consolidated Financial Statements, prepared in accordance with article 119 of the Companies' Code and to be deposited in accordance with article 100 of the Companies' Code, includes, both in terms of form and content, the information required by law, is consistent with the Consolidated Financial Statements and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

Brussels, 4 April 2017

The Joint Statutory Auditors

PwC Reviseurs d'Entreprises sccrl/ Bedrijfsrevisoren bcvba

Represented by

D. Walgrave

Reviseur d'Entreprises / Bedrijfsrevisor

Deloitte Reviseurs d'Entreprises sc sous forme d'une scrl / Bedrijfsrevisoren bv ovv cvba

Represented by

Y. Dehogne	B. De Meulemeester
Reviseur d'Entreprises / Bedrijfsrevisor	Reviseur d'Entreprises / Bedrijfsrevisor

BNP PARIBAS FORTIS ANNUAL REPORT 2016 (NON-CONSOLIDATED)

REPORT OF THE BOARD OF DIRECTORS

In conformity with Article 119 of the Belgian Companies Code and to avoid repetition, BNP Paribas Fortis has combined the non-consolidated report and the consolidated report of the Board of Directors. The consolidated report of the Board of Directors can be found at the beginning of the Annual Report.

Comments on the evolution of the balance sheet

The **total balance** sheet at 31 December 2016 amounted to EUR 214 billion, an increase of EUR 10 billion or 5% compared with 31 December 2015.

The mainly evolutions are in followings captions :

Cash in hand, balances with central banks and giro offices increased by EUR 6.5 billion, mainly due to the rise of assets of the Amsterdam branch at the National Bank of the Netherlands (EUR 6.1 billion).

Amounts receivable from credit institutions increased by EUR 2 billion or 10% compared at the end of 2015.

Amounts receivable from customers represented EUR 99.3 billion at 31 December 2016, an increase of EUR 0.5 billion.

Since 2008, this heading no longer contains the mortgage loans and term loans securitised via 'Special Purpose Vehicles', respectively EUR 27.3 billion and EUR 9.7 billion at the end of 2016. The securities representing the participation of the Bank in the 'Special Purpose Vehicles' are included under the heading 'Debt securities and other fixed-income securities'.

In Belgium, term loans increased by EUR 2.8 billion, spread over different type of loans like investment and structured finance credits. Mortgage loans increased by EUR 1.9 billion, thanks to new production in a low interest rate environment. Reverse repurchase agreements decrease by EUR (2.6) billion, other assets by EUR (0.6) billion.

At foreign branches, advances on current accounts decreased by EUR (0.2) billion and are mainly located at the branch of Amsterdam. The term loans decreased by EUR (0.8) billion.

Debt securities and other fixed-income securities totalled EUR 61.9 billion at 31 December 2016. This portfolio decreased by EUR (0.7) billion or 1%, mainly in Belgium.

The amount of EUR 61.9 billion consists mostly of an investment portfolio of EUR 60.3 billion containing bonds issued by public authorities (EUR 17.8 billion, decreasing by EUR 2.2 billion compared to 2015 following the maturity of government bonds), by financial institutions (EUR 1.0 billion), by 'Special Purpose Vehicles' (EUR 37.3 billion, increasing by 2,1 billion due to a new securitisation in 2016) and by other issuers (EUR 4.2 billion). The trading portfolio amounted to EUR 1.6 billion.

Financial fixed assets amounted to EUR 10.3 billion at 31 December 2016, an increase of 2.0 billion compared to the situation at 31 December 2015. The evolution concerns mainly the acquisition of Arval Service Lease (EUR 2.3 billion).

Amounts owed to credit institutions totalled EUR 15.7 billion at 31 December 2016, an increase of EUR 0.6 billion compared to 2015.

Amounts payable to clients stood at EUR 153.0 billion at 31 December 2016. This represents an increase of EUR 5.5 billion or 4%. The evolution resulted principally from an increase in current accounts (EUR 5.5 billion in Belgium and EUR 3.3 billion in Amsterdam branch), in special deposits (EUR 1.1 billion) and saving accounts (EUR 1.2 billion). This increases are compensed by a decrease in term deposits (mainly in Belgium EUR (1.0) billion) and in repurchase agreements (EUR (3.7) billion).

Debts evidenced by certificates totalled EUR 11.9 billion at 31 December 2016, representing an increase by EUR 0.8 billion. The increase is mainly linked to more commercial papers issues by New-York branch.

Subordinated liabilities amounted to EUR 5.3 billion at 31 December 2016, a decrease of EUR 0.9 billion, compared at 31 December 2015. The decrease is linked to the call of a Tier 2 subordinated debt issued by BNP Paribas Fortis in 2006, counterbalanced by a new issuance of Tier 2 instrument of EUR 0.5 billion in the fourth quarter of 2016, in addition, there was also EUR (0.3) billion decrease in other subordinated debts.

Shareholders' equity stood at EUR 17.3 billion at 31 December 2016, an increase of EUR 4.3 billion or 33%. This increase is due to the capital increase in the framework of Arval acquisition (EUR 2.3 billion) and to the amount of profit (EUR 2.0 billion).

Comments on the evolution of the income statement

The **year's result** showed a net profit of EUR 2,003 million, compared to EUR 1,580 million in 2015.

The **interest margin** (Headings I and II) amounted to EUR 2,861 million in 2016, a decrease of EUR (25) million. This variation is explained by a decrease of EUR (7) million located in Belgium and a decrease of EUR (18) million at the foreign branches.

The decrease in Belgium is mainly due to the decrease of interest charges and income following interest rate cut.

The decline at the foreign branches is mainly in the branch of New York and Madrid.

Income from variable-income securities (Heading III) amounted to EUR 802 million in 2016, an increase of EUR 421 million to 2015, mainly due to an increase in dividends received from participating interests.

Commissions (Headings IV and V) amounted to EUR 1,009 million. The decrease of EUR (42) million is the net of a EUR (48) million decrease in Belgium and a EUR 6 million increase at the foreign branches.

In Belgium, the evolution is mainly due to the decrease in securities and financial instruments (EUR (40) million) for which there was less activity in 2016 than in 2015.

Profit on financial operations (Heading VI) amounted to EUR 273 million, up by EUR 79 million.

The disposal of investment securities, mainly government bonds, generated a profit of EUR 175 million in 2016 compared to EUR 25 million in 2015. This result was compensated by the breakage fees paid on the derivatives which were hedging the interest rate risk on those securities. Furthermore, there was also an increase in results on foreign exchange transactions.

General administrative expenses (Heading VII) came to EUR (2,526) million, a decrease of EUR 69 million compared to 2015.

Remuneration, social charges and pensions decreased by EUR 54 million following the reduction in the number of FTEs.

Other administrative expenses decreased by EUR 14 million.

Depreciation and amounts written off on formation expenses, intangible and tangible fixed assets (Heading VIII) amounted to EUR (119) million, a decrease of EUR 9 million on 2015.

Amounts written off on the amounts receivable and the investment portfolio (Headings IX and X) totalled EUR 27 million, versus EUR (119) million in 2015, an increase of EUR 146 million.

In Belgium, impairments amount to EUR 23 million in 2016, versus EUR (106) millions in 2015, meaning an increase of EUR 129 million.

In the foreign branches, impairments amount to EUR 4 million in 2016, versus EUR (13) million in 2015, meaning an increase of EUR 17 million (mainly in the branch of Madrid).

Provisions for risks and charges (Headings XI and XII) showed a net reversal of EUR 29 million in 2016 against an allocation of EUR (7) million in 2015. This evolution is mainly linked to provision in 2015 for trading activities litigations.

Other operating income (Heading XIV) amounted to EUR 205 million, down by EUR 35 million compared to 2015. This evolution is partially related to the re-invoicing of costs to entities of BNP Paribas Group.

Other operating charges (Heading XV) amounted to EUR (417) million for 2016, up by EUR (50) million compared to 2015. This evolution is mainly explained by the increase of banking taxes.

Extraordinary income (Heading XVII) came to EUR 112 million in 2016, a decrease of EUR (19) million compared to 2015. The evolution resulted mainly from the reversal of impairments on financial fixed assets (EUR (14) million of which EUR 99 million on Ageas in Belgium in 2016 and in 2015, EUR 62 million on Ageas and EUR 51 million on Von Essen Bank in Frankfurt branch.

Extraordinary charges (Heading XVIII) came to EUR (255) million in 2016, an increase by EUR (153) million compared to 2015. The evolution resulted mainly from impairments on financial fixed assets (EUR (80) million, of which EUR (113) million on Bank BGŻ BNP Paribas) and the provisions for transformation costs (EUR (75) million).

Income taxes (Heading XX) showed a EUR 0 million in 2016, following a EUR 13 million in 2015. The tax level was influenced by the provisions for transformation costs in Belgium, and by the specific tax regimes at the foreign branches.

PROPOSED APPROPRIATION OF THE RESULT FOR THE ACCOUNTING PERIOD

Profit for the year for appropriation	EUR	2,003.0	million
Profit brought forward from the previous year	EUR	2,231.9	million
Profit to be appropriated	EUR	4,234.9	million
Appropriation to statutory reserve	EUR	100.2	million
Profit to be carried forward	EUR	4,113.2	million
Other allocations	EUR	21.5	million

In accordance with the aforementioned appropriation of the result for the financial year 2016, the Board of Directors of BNP Paribas Fortis SA/NV will request the approval of the General Meeting of Shareholders not to distribute a dividend.

INFORMATION RELATED TO ARTICLE 523 OF THE BELGIAN COMPANIES CODE

Remuneration and benefits awarded to the BNP Paribas Fortis executive directors.

Meeting of the board of directors on 3 March 2016

"The chairman reports on the discussions held at the remuneration committee of March 3.

In accordance with the articles of association and/or the internal Governance Memorandum, the Remco has reviewed and discussed the remuneration of the members of the Executive Board, of the chairman of the Executive Board and of the Executive Committee.

(...)

Prior to any deliberation, the Chairman explained that, **in compliance with art. 523 of the Companies Code**, all Executive Directors had informed the Board and the Statutory Auditors of the Company that each of them has interests of a patrimonial nature conflicting with the interests of the Company with respect to the decision to approve the Executive Board Remuneration. For this reason, the Executive Directors left the meeting room and hence abstained from taking part in the deliberations and decision making with respect to the Executive Board Remuneration.

(...)

The remaining (non-executive) Directors took further note of the information provided and after due consideration, approved the Executive Board Remuneration as follows:

For the Chairman of the Executive Board, a total remuneration for the year 2015, including benefits in kind and Director's fees, of EUR 1,661,346.

For the remaining four members of the Executive Board, a total remuneration for the year 2015, including benefits in kind and Director's fees of EUR 3,886,634.

(...)

Following this decision, the Executive Directors re-entered the meeting room."

Resolution of the board of directors of BNP Paribas Fortis granting an indemnity to Mr. P. Van Aken

Meeting of the board of directors of 26 August 2016

" During meetings that took place in 2009, 2010, 2011, 2012, 2013 and 2014 the Board of Directors of the Bank decided that the potential liability incurred by its Directors in the exercise of their mandate should be indemnified by the Bank in certain instances.

The Chairman explains that the Bank should consider also granting an indemnity to Mr. P. Van Aken to protect him from the liability that he may incur as Director of the Bank. The Chairman refers to the considerations underlying the decisions of the Board of 2009, 2010, 2011, 2012, 2013 and 2014, which remain relevant to date. The Chairman therefore proposes that the Bank undertakes to indemnify Mr. P. Van Aken in all instances where he acted in good faith and in a manner he believed to be in the best interest of the Bank, except where the liability of the Director would arise out of a fraud or wilful misconduct or where such liability would be covered by an insurance policy (whether or not subscribed by the Bank) benefiting to such Director.

The Chairman enacted that, **in compliance with article 523 of the Company Code**, prior to any deliberation, Mr. P. Van Aken informed the other Directors and the Auditors of the Bank that he has to be considered as having an interest conflicting with the decisions to be taken by the Board in connection with this item of the agenda given that he would benefit personally from the indemnity described above.

Mr. P. Van Aken left the meeting room and did not participate to the deliberation and the resolution of the Board recorded in paragraphs 5 and 6 below.

The other Directors acknowledged that the indemnity described above would be in line with market practices in Belgium considering the specificities of the Bank. This indemnity would be in the best interest of the Bank since the latter needs to be able to attract and maintain Directors and to benefit from their valuable contribution. Furthermore, the other Directors benefit from a similar indemnity and not granting such indemnity to this Director would be a difference in treatment that cannot be justified and that would make it very difficult to attract and maintain Directors going forward. The Directors participating in the deliberation further acknowledged that there should be no financial consequences for the Bank arising from this indemnity other than those resulting from any payment made by the Bank thereunder.

The other Directors then proceeded with the deliberation. They discussed the indemnification undertaking and unanimously decided that the **Bank shall indemnify and shall hold harmless Mr. P. Van Aken to the fullest extent permitted by applicable law**, against or from all liabilities, expenses, damages or other amounts reasonably incurred or borne by him in connection with any proceeding or claim brought by a third party (including, without limitation, a shareholder of the Bank acting for his own account) against him as Director of the Bank in respect of any decision, action or omission which was made or occurred (or which is claimed to have been made or to have occurred) before, on or after the date of this meeting, provided however that:

a) he acted in good faith and in a manner he believed to be in the best interest of the Bank; and

b) this indemnification undertaking shall not be applicable (i) in respect of liabilities, expenses, damages or other amounts arising out of a fraud or wilful misconduct of a director; nor (ii) if, and to the extent that, any such liabilities, expenses, damages or other amounts are covered by an insurance policy (whether or not subscribed by the Bank) benefiting the relevant Director."

INFORMATION REGARDING RELATED PARTY TRANSACTIONS

Board procedure

Background

The Board of Directors, upon advice of the GNRC and in line with its internal governance principles, adopted on 15 December 2011 a 'Board Procedure for Related Party Transactions' (the 'Procedure') that is inspired from but not identical to article 524 of the Companies Code.

In the framework of related party transactions, as defined in the Procedure and hereinafter further described as the "Jack" and "Harald" transactions, the Board of Directors decided during its meetings of March 3, 2016 (Harald transaction) and April 30, 2015 (Jack transaction) to establish a Special Board Committee (SBC). The Board appointed three independent non-executive directors as members of the SBC:

- Mr. Dirk Boogmans (independent and non-executive director, acting as Chairman of the SBC);
- Mrs. Sophie Dutordoir (independent and non-executive director);
- Mrs. Antoinette d'Aspremont Lynden (independent and non-executive director).

As the Jack and Harald transactions, within the meaning of the Procedure, have been considered as being a related party transaction between various affiliates of the Company/ the Bank, the Board of Directors invited the SBC to deliver a written reasoned opinion (the 'Opinion') with regard to both transactions.

The Procedure provides inter alia (i) that the SBC is assisted by an independent financial advisor and any other person it deems necessary, and (ii) that one of the BNP Paribas group's statutory auditors issues, prior to the Board of Directors meeting taking the relevant decision, an opinion on the accuracy of the (financial) data in the Opinion of the SBC.

Scope of the Opinion

In accordance with the Procedure, any decisions that concern (i) transactions between the Company and an affiliated company thereof, with the exception of its subsidiaries or (ii) transactions between a subsidiary of the Company and an affiliated company of such subsidiary, but which is not a subsidiary of the Company, must prior to any decision by the Board of Directors, be submitted to the application of the Procedure and entail the SBC to render a written reasoned Opinion in which it:

i. describes the nature of the transaction;

ii. gives an assessment of the economic benefit or disadvantage of the transaction for the Company and for its shareholders;

iii. describes the financial consequences of the transaction for the Company; and

iv. assesses whether or not the decision or transaction is such that it may cause a disadvantage to the Company that, in the light of the Company's strategy, is manifestly abusive ('kennelijk onrechtmatig'/'manifestement abusif'). If the Special Board Committee is of the opinion that the decision or transaction is not manifestly abusive, but could still be detrimental to the Company, the Special Board Committee must clarify which benefits the Company derives from the decision or transaction that compensate for such disadvantage.

Composition of the Special Board Committee

In respect of each decision falling within the scope of the Procedure, the SBC must be composed of minimum three (3) non-executive directors who do not represent the majority shareholder. The majority of the members of the Special Board Committee must be independent directors (within the meaning of article 526ter of the Companies Code). In order to meet this requirement, the SBC that was established for the Transaction was composed of the directors mentioned here above.

Mr. Dirk Boogmans, Mrs. Sophie Dutordoir and Mrs. Antoinette d'Aspremont Lynden confirmed that they are independent directors within the meaning of article 526ter Companies Code.

Independent financial & legal advisor designated by the SBC in accordance with the Procedure

In accordance with the Procedure, the SBC is assisted by an independent financial advisor and any other person it deems necessary.

For both transactions, the SBC appointed UBS, with registered office at 1 Finsbury Avenue, EC2M 2PP London (United Kingdom) and registered with the Companies House under the number 02035362, as independent financial expert and EUBELIUS CVBA, with registered office at 99 Louizalaan, 1050 Brussels (Belgium) and registered with the Crossroads Bank for Enterprises under the number 0460.946.968 as independent legal expert to assist the SBC in the performance of its task and the provision of its Opinion.

Basis for the Opinions – Activities of the Special Board Committee

The SBC' Opinion has been prepared, inter alia, on the basis of the information provided by:

- for the Harald transaction: the management of the Company and BNP Paribas S.A.
- for the Jack transaction: the management of the Company, BNP Paribas S.A. and Arval Service Lease S.A.

For both transactions, the management of the Company has inter alia confirmed to the Special Board Committee that the documents and information provided to the Special Board Committee in order for it to perform its tasks and assessment of the concerned transaction were complete, true, accurate and not misleading, that no material information had been left behind.

With regard to the Jack transaction, the SBC held eight meetings in 2016, and seven meetings were held in 2016 with regard to the Harald transaction. During these meetings the Special Board Committee consulted, exchanged information and views with the Company, the BNP Paribas management, the independent financial advisor (UBS), the independent legal advisor (Eubelius Advocaten) and one member of the joint Company's statutory auditor.

Transactions

Description

Jack transaction

Arval Service Lease S.A. (Arval) is a fully-owned subsidiary of BNP Paribas S.A. created in 1989. It specialises in the full-service, long term leasing of multi-brand vehicles, essentially individual cars and small commercial vehicles. It targets mainly corporates and is developing the SME segment. It is also implementing shorter term and flexible solutions to meet an evolving demand. Arval is operating in 28 countries and present in 48 countries, directly or through ventures or partnerships.

Due to leading efficiency and high share of full service offering, Arval has proven over the years to be a profitable player in Europe. The Arval business delivers a high profitability, while keeping a low cost income ratio.

It is an investment in a sound, sizeable and profitable activity, core to the BNP Paribas group, that is expected to contribute significantly and positively to the profitability of the Company. It should also enable the Company to make a more profitable use of its liquidity.

With a different risk profile and business cycle than the rest of the bank, Arval is expected to have a positive diversification effect on the global risk profile of the Company.

This transaction concerns:

- the contribution in kind by BNP Paribas S.A. of 100% minus five shares in Arval Service Lease S.A. to the share capital of the Company.
- the sale of five shares in Arval Service Lease S.A. by a number of subsidiaries of BNP Paribas S.A. to a subsidiary of the Company;
- the funding of most of the new business of the Arval group, which will be provided by the Company from the date of closing of the Jack Transaction.

Harald transaction

This transaction concerns the transfer of the activities, assets and liabilities of eight European CIB branches of the Company to BNP Paribas; branches located in Austria, Czech Republic, Denmark, Finland, the Netherlands, Norway, Romania and Sweden. It involves also the transfer to BNP Paribas of the funding commitments of the Company towards the transferred businesses.

In a low growth and low rates environment with increasing regulatory pressure, the group launched a profound transformational program for the Corporate & Institutional Banking ("CIB") operating model ("CIB of Tomorrow"), involving every business, function and coverage worldwide. The program aims at improving the efficiency of CIB, in particular through optimised organisation of business lines (simplification, standardisation, mutualisation of platforms and support functions etc.).

In such environment, the flow business of the eight CIB entities subject to the transaction is not profitable per se and impacts negatively the profitability of the Company.

The aim of the transaction is mainly to facilitate the implementation of the CIB of Tomorrow program, to reduce inefficiencies and to eliminate non profitable business at the Company level.

Price setting for the Transactions

Jack transaction - Parity ratio

As the Jack transaction consisted in a contribution in kind, both Arval and the Company have been valued in order to determine the parity ratio. The main valuation methodologies retained were the Dividend Discount Model ("DDM method") as well as trading multiples of comparable companies and precedent transaction multiples for similar companies, as relevant. The DDM is a valuation method based on discounting the theoretical dividends available whilst maintaining a minimum Common Equity Tier I / solvency ratio. The cost of equity and long-term growth rate are key assumptions under this model.

The retained values led to a parity ratio of 14.5%, representing the percentage of Arval in the total estimated value of the Company post contribution.

This parity has led to the proposal to issue 81.953.055 new BNP Paribas Fortis shares against the contribution of 3.320.635 Arval shares.

The valuation of the Jack transaction has been analysed by and discussed with UBS acting as independent financial advisor and assisting the SBC with its assessment of the Jack transaction.

PwC Bedrijfsrevisoren cvba, burgerlijke vennootschap met handelsvorm - PwC Reviseurs d'Entreprises scrl, société civile à forme commerciale, has acted as statutory auditor of BNP Paribas Fortis and has issued - prior to the Board of Directors taking the relevant decision – a report on the accuracy of the financial data contained in the Opinion of the SBC.

Harald transaction

Given the earnings profile of the different branches, the classical Dividend Discount Model ("DDM") was used as the methodology to value the activities of the Netherlands branch, while a rundown valuation approach was retained for the activities of the seven other branches.

As for previous transactions, the resulting price for the activities of each branch has been expressed as the Net Tangible Book Value at effective economic transfer date plus the agreed goodwill or minus the agreed badwill. The effective economic transfer date has been set at 31 December 2016 for all the branches.

The agreed price for each branch has been determined following a contradictory valuation process in accordance with the Procedure.

The valuation of the Harald transaction has been analysed by and discussed with UBS acting as independent financial advisor and assisting the SBC with its assessment of the Jack transaction.

PwC Bedrijfsrevisoren cvba, burgerlijke vennootschap met handelsvorm - PwC Reviseurs d'Entreprises scrl, société civile à forme commerciale, has acted as statutory auditor of BNP Paribas Fortis and has issued - prior to the Board of Directors taking the relevant decision – a report on the accuracy of the financial data contained in the Opinion of the SBC.

Decision making

Jack transaction

On October 27, 2016 the Board of Directors of BNP Paribas Fortis decided:

- to pursue the proposed transaction and,
- to convene of an extraordinary general shareholders' meeting with as main point on the agenda, the approval of the contribution in kind of Arval Service Lease S.A. by BNP Paribas S.A. to BNP Paribas Fortis against the issuance of new BNP Paribas Fortis shares representing 14.5% of the entity post-contribution.

On December 8, 2016 an extraordinary general shareholders' meeting approved the contribution in kind of Arval Service Lease S.A. by BNP Paribas S.A. to BNP Paribas Fortis against the issuance of new BNP Paribas Fortis shares representing 14.5% of the entity post-contribution.

Opinion of the Special Board Committee – Financial consequences

"The parity proposed by the management for the contribution in kind of the majority shareholding in Arval Service Lease is within the parity range determined by UBS, based on and subject to the terms set out in the UBS Valuation Report, as at the date of said report. The purchase price of the minority shareholdings in Arval Service Lease will also be in line with this parity[1].

Therefore, the Committee is of the view that the terms and conditions of the proposed Transaction are fair."

Opinion of the Special Board Committee – Conclusion

"The Committee is of the opinion that the proposed Transaction is compatible with the corporate interest of the Company, taking into account the rationale of the proposed Transaction and the potential benefits that may be derived from it.

Based on the considerations mentioned above and after having reviewed the financial, legal and tax terms and conditions of the proposed Transaction with the independent experts, UBS and Eubelius, the Committee has come to the conclusion that the proposed Transaction will not cause a prejudice to the Company that is abusive given the strategy of the Company. The Committee also believes that the proposed Transaction is unlikely to result in adverse consequences that would not be compensated for by benefits for the Company. "

Decision of the shareholders

The board of directors unanimously endorsed the proposal of the Jack transaction after which it submitted the proposal for approval to the shareholders who – having obtained all necessary approvals for the Bank – approved the Jack transaction during an extraordinary shareholders meeting held on December 8, 2016.

The Bank provided the shareholders:

- with a special report of the board of directors established in accordance with article 602 of the Companies Code.
- with a report of the statutory auditors of the Bank established in accordance with article 602 of the Companies Code.

Note: The Jack Transaction was considered as 'strategic' within the meaning of article 36/3,§3 of the law of 22 February 1998 governing 'le statut organique/organiek statuut' of the National Bank of Belgium, and of article 77 of the Banking Law. The European Central Bank has approved the Jack Transaction on 3 November 2016.

Harald transaction

The Board of Directors of BNP Paribas Fortis approved the Harald transaction on May 17, 2016.

Opinion of the Special Board Committee – Financial consequences

"As a consequence of the proposed Transaction, the shareholders of the Company would, through their participation in the Company, benefit from the sale of the structurally lossmaking CIB Branches, and the subsequently created simplified structure at the Company.

Taking into account the financial situation of the CIB Branches, the Company will receive a fair price from BNPP for the CIB Branches."

[1] i.e. the price for the five shares of Arval not contributed by BNP Paribas but acquired from several of its subsidiaries.

Opinion of the Special Board Committee – Conclusion

"The Committee is of the opinion that the proposed Transaction is compatible with the corporate interest of the Company, taking into account the rationale of the proposed Transaction and the potential benefits that may be derived from it.

Based on the considerations mentioned above and after having reviewed the financial and legal terms and conditions of the proposed Transaction with the independent experts, UBS and Eubelius, the Committee has come to the conclusion that the proposed Transaction will not cause a prejudice to the Company that is abusive given the strategy of the Company. The Committee also believes that the proposed Transaction is unlikely to result in adverse consequences that would not be compensated for by benefits for the Company."

Decision of the Board of Directors

"On the basis of the foregoing, the additional information provided in the course of the meeting and the views expressed by the members of the Board, the Directors decide to approve the Harald transaction, substantially on the terms and conditions described in the Management Proposal and reflected in the opinion of the SBC in connection therewith.

The Board of Directors acknowledges that the closing of each sub-transaction is subject to the signing of such sub-transaction documentation, and the conditions precedent included in the documentation.../..."

Note: The National Bank of Belgium / European Central Bank has confirmed that the Harald-transaction is not to be considered as a strategic file within the meaning of article 77, 1° of the Belgian Act of 25 April 2014 on the legal status and supervision of credit institutions.

BNP PARIBAS FORTIS FINANCIAL STATEMENTS 2016 (NON-CONSOLIDATED)

BALANCE SHEET AFTER APPROPRIATION

		Notes	Codes	Current period	Previous period
ASSETS					
I.	**Cash in hand, balances with central banks and giro offices**		**10100**	**10,559,472**	**4,027,393**
II.	**Government securities eligible for refinancing with the central bank**		**10200**	**43,907**	**51,760**
III.	**Amounts receivable from credit institutions**	**5.1**	**10300**	**20,720,827**	**18,803,923**
	A. At sight		*10310*	*10,390,525*	*11,200,748*
	B. Other amounts receivable (at fixed term or period of notice)		*10320*	*10,330,302*	*7,603,175*
IV.	**Amounts receivable from customers**	**5.2**	**10400**	**99,318,554**	**98,805,091**
V.	**Bonds and other fixed-income securities**	**5.3**	**10500**	**61,915,715**	**62,573,225**
	A. Issued by public bodies		*10510*	*19,247,498*	*21,542,539*
	B. Issued by other borrowers		*10520*	*42,668,217*	*41,030,686*
VI.	**Shares and other variable-yield securities**	**5.4**	**10600**	**281,580**	**312,653**
VII.	**Financial fixed assets**	**5.5/5.6.1**	**10700**	**10,343,392**	**8,314,600**
	A. Participating interests in affiliated enterprises		*10710*	*7,063,496*	*4,882,825*
	B. Participating interests in other enterprises linked by participating interests		*10720*	*2,417,326*	*2,526,038*
	C. Other shares held as financial fixed assets		*10730*	*350,182*	*393,667*
	D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests		*10740*	*512,388*	*512,070*
VIII.	**Formation expenses and intangible fixed assets**	**5.7**	**10800**	**194,487**	**227,628**
IX.	**Tangible fixed assets**	**5.8**	**10900**	**962,287**	**983,509**
X.	**Own shares**		**11000**	**-**	**-**
XI.	**Other assets**	**5.9**	**11100**	**1,515,905**	**2,038,266**
XII.	**Deferred charges and accrued income**	**5.10**	**11200**	**8,195,861**	**8,020,072**
TOTAL ASSETS			**19900**	**214,051,987**	**204,158,120**

		Notes	Codes	Current period	Previous period
LIABILITIES					
BORROWINGS			**201/208**	**196,720,094**	**191,107,647**
I.	**Amounts owed to credit institutions**	**5.11**	**20100**	**15,707,805**	**15,059,749**
	A. At sight		*20110*	*818,513*	*3,131,334*
	B. Amounts owed as a result of the rediscounting of trade bills		*20120*	-	-
	C. Other debts with agreed maturity dates or periods of notice		*20130*	*14,889,292*	*11,928,415*
II.	**Amounts payable to clients**	**5.12**	**20200**	**153,013,250**	**147,471,746**
	A. Savings deposits		*20210*	*61,628,370*	*60,427,505*
	B. Other debts		*20220*	*91,384,880*	*87,044,241*
	1. At sight		*20221*	*68,859,656*	*59,125,335*
	2. At fixed term or period of notice		*20222*	*22,525,224*	*27,918,906*
	3. As a result of the rediscounting of trade bills		*20223*	-	-
III.	**Debts evidenced by certificates**	**5.13**	**20300**	**11,953,065**	**11,182,357**
	A. Debt securities and other fixed-income securities in circulation		*20310*	*3,369,202*	*4,520,585*
	B. Other		*20320*	*8,583,863*	*6,661,772*
IV.	**Other amounts payable**	**5.14**	**20400**	**3,753,094**	**4,577,336**
V.	**Accrued charges and deferred income**	**5.15**	**20500**	**5,736,051**	**5,315,853**
VI.	**Provisions and deferred taxes**		**20600**	**398,281**	**408,796**
	A. Provisions for risks and charges		*20610*	*398,281*	*408,796*
	1. Pensions and similar obligations		*20611*	*9,195*	*22,249*
	2. Fiscal charges		*20612*	*14,577*	*9,007*
	3. Other risks and charges	*5.16*	*20613*	*374,509*	*377,540*
	B. Deferred taxes		*20620*	-	-
VII.	**Fund for general banking risks**		**20700**	**871,681**	**871,681**
VIII.	**Subordinated liabilities**	**5.17**	**20800**	**5,286,867**	**6,220,129**
SHAREHOLDERS' EQUITY			**209/213**	**17,331,893**	**13,050,473**
IX.	**CAPITAL**	**5.18**	**20900**	**10,964,768**	**9,374,878**
	A. Subscribed capital		*20910*	*10,964,768*	*9,374,878*
	B. Uncalled capital (-)		*20920*	-	-
X.	**Share premium account**		**21000**	**940,582**	**230,475**
XI.	**Revaluation surpluses**		**21100**	**-**	**-**
XII.	**Reserves**		**21200**	**1,313,338**	**1,213,188**
	A. Statutory reserve		*21210*	*772,269*	*672,119*
	B. Reserves not available for distribution		*21220*	*36,988*	*36,988*
	1. In respect of own shares held		*21221*	-	-
	2. Other		*21222*	*36,988*	*36,988*
	C. Untaxed reserves		*21230*	*150,790*	*150,790*
	D. Reserves available for distribution		*21240*	*353,291*	*353,291*
XIII.	**Profits (losses (-)) brought forward**	(+)/(-)	**21300**	**4,113,205**	**2,231,932**
TOTAL LIABILITIES			**29900**	**214,051,987**	**204,158,120**

N°	BE 0403.199.702	F-estb 3

INCOME STATEMENT (presentation in vertical form)

			Notes	Codes	Current period	Previous period
I.	**Interest receivable and similar income**		**5.23**	**40100**	**3,984,893**	**4,120,140**
	A. Of which : from fixed-income securities			*40110*	*718,868*	*904,710*
II.	**Interest payable and similar charges**			**40200**	**1,123,477**	**1,233,669**
III.	**Income from variable-yield securities**		**5.23**	**40300**	**802,128**	**381,399**
	A. From shares and other variable-yield securities			*40310*	*49,508*	*82,521*
	B. From participating interests in affiliated enterprises			*40320*	*606,076*	*173,540*
	C. From participating interests in other enterprises linked by participating interests			*40330*	*141,342*	*121,271*
	D. From other shares held as financial fixed assets			*40340*	*5,202*	*4,067*
IV.	**Commissions receivable**		**5.23**	**40400**	**1,384,829**	**1,436,629**
	A. Brokerage and related commissions			*40410*	*516,123*	*552,507*
	B. Management, consultancy and conservation commissions			*40420*	*303,523*	*305,242*
	C. Other commissions received			*40430*	*565,183*	*578,880*
V.	**Commissions paid**			**40500**	**375,711**	**386,126**
VI.	**Profit (loss) on financial transactions**	(+)/(-)	**5.23**	**40600**	**272,923**	**194,011**
	A. On trading of securities and other financial instruments			*40610*	*98,359*	*169,020*
	B. On disposal of investment securities			*40620*	*174,564*	*24,991*
VII.	**General administrative expenses**			**40700**	**2,526,015**	**2,594,576**
	A. Remuneration, social security costs and pensions			*40710*	*1,425,375*	*1,479,437*
	B. Other administrative expenses			*40720*	*1,100,640*	*1,115,139*
VIII.	**Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets.**			**40800**	**119,345**	**128,113**
IX.	**Decrease in write downs on receivables and in provisions for off-balance sheet captions ‘I. Contingent liabilities’ and ‘II. Commitments which could give rise to a credit risk’**	(+)/(-)		**40900**	**37,698**	**87,206**
X.	**Decrease in write-downs on the investment portfolio of bonds, shares and other fixed-income or variable-yield securities.**	(+)/(-)		**41000**	**(64,746)**	**32,091**
XI.	**Utilization and write-backs of provisions for liabilities and charges other than those included in the off-balance sheet captions**	(+)/(-)		**41100**	**(68,356)**	**(74,105)**
XII.	**Provisions for risks and charges other than those included in the off-balance sheet captions.**			**41200**	**39,373**	**80,769**
XIII.	**Transfer from (Appropriation to) the fund for general banking risks**	(+)/(-)		**41300**	**-**	**-**
XIV.	**Other operating income**		**5.23**	**41400**	**205,430**	**240,289**
XV.	**Other operating charges**		**5.23**	**41500**	**416,732**	**366,475**
XVI.	**Profits (losses) on ordinary activities before taxes**	(+)/(-)		**41600**	**2,144,954**	**1,537,548**

N°	BE 0403.199.702	F-estb 3

			Notes	Codes	Current period	Previous period
XVII.	**Extraordinary income**			**41700**	**112,255**	**131,674**
	A.	*Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets*		*41710*	*-*	*1,884*
	B.	*Adjustments to write-downs on financial fixed assets*		*41720*	*99,845*	*114,087*
	C.	*Adjustments to provisions for extraordinary risks and charges*		*41730*	*-*	*-*
	D.	*Capital gains on disposal of fixed assets*		*41740*	*8,838*	*15,233*
	E.	*Other extraordinary income*	*5.25*	*41750*	*3,572*	*470*
XVIII.	**Extraordinary charges**			**41800**	**254,296**	**101,628**
	A.	*Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets*		*41810*	*-*	*-*
	B.	*Write-downs on financial fixed assets*		*41820*	*166,430*	*86,450*
	C.	*Provisions for extraordinary risks and charges (+/-)*		*41830*	*75,000*	*1,011*
	D.	*Capital losses on disposal of fixed assets*		*41840*	*5,689*	*11,042*
	E.	*Other extraordinary charges*	*5.25*	*41850*	*7,177*	*3,125*
XIX.	**Profits (Losses) for the period before taxes** (+/-)			**41910**	**2,002,913**	**1,567,594**
XIXbis.	**A.**	**Transfer to deferred taxes**		**41921**	**-**	**-**
	B.	**Transfer from deferred taxes**		**41922**	**-**	**-**
XX.	**Income taxes** (+/-)		**5.26**	**42000**	**(38)**	**(12,612)**
	A.	*Income taxes*		*42010*	*49,628*	*60,911*
	B.	*Adjustment of income taxes and write-back of tax provisions*		*42020*	*49,666*	*73,523*
XXI.	**Profits (Losses) for the period** (+/-)			**42100**	**2,002,951**	**1,580,206**
XXII.	**Transfer to (or from) untaxed reserves** (+/-)			**42200**	**-**	**-**
XXIII.	**Profit (Losses) for the period available for appropriation** (+/-)			**42300**	**2,002,951**	**1,580,206**

XVIII. STATEMENT OF CAPITAL AND SHAREHOLDING STRUCTURE

		Codes	Current period	Previous period
A.	**CAPITAL STATEMENT**			
1.	**Shareholders equity**			
	a. Subscribed capital			
	at the end of the previous financial year	20910P	xxxxxxxxxxxxxx	9,374,878
	at the end of the financial year	(20910)	10,964,768	-

		Codes	Amounts	Number of shares
	Changes during the financial year			
	b. Structure of the capital			
	Categories of shares			
	Common		10,964,768	565,194,208
	Registered shares	51801	xxxxxxxxxxxxxx	564,978,653
	Bearer and or dematerialized shares	51802	xxxxxxxxxxxxxx	195,555

		Codes	Uncalled capital	Called but unpaid capital
2.	**Capital not paid up**			
	a. Uncalled capital	(20920)	-	xxxxxxxxxxxxxx
	b. Called but unpaid capital	51803	xxxxxxxxxxxxxx	-
	c. Shareholders still owing capital payment		-	-

		Codes	Current period
3.	**Own shares**		
	a. Held by the reporting institution itself		
	* Amount of capital held	51804	-
	* Corresponding number of shares	51805	-
	b. Held by its subsidiaries		
	* Amount of capital held	51806	-
	* Corresponding number of shares	51807	-
4.	**Share issuance commitments**		
	a. Following the exercise of conversion rights		
	* Amount of convertible loans outstanding	51808	-
	* Amount of capital to be subscribed	51809	-
	* Maximum corresponding number of shares to be issued	51810	-
	b. Following the exercise of subscription rights		
	* Number of subscription rights outstanding	51811	-
	* Amount of capital to be subscribed	51812	-
	* Maximum corresponding number of shares to be issued	51813	-
5.	**Authorized capital not issued**	**51814**	**9,374,000**
6.	**Shares not representing capital**		
	a. Repartition		
	* Number of parts	51815	-
	* Number of votes	51816	-
	b. Breakdown by shareholder		
	* Number of parts held by the reporting institution itself	51817	-
	* Number of parts held by its subsidiaries	51818	-

B. SHAREHOLDERS STRUCTURE OF THE INSTITUTION AT YEAR END ACCORDING TO THE NOTIFICATIONS RECEIVED BY THE INSTITUTION

BNP Paribas Fortis SA holds its registered office at 1000 Brussels, Montagne du parc 3

On 31 December 2016, subscribed called capital amounted to EUR 10,964,767,634.40.

BNP Paribas was holder of 99.94% of the 565,194,208 BNP Paribas Fortis shares.

The remaining shares, representing 0.06% of the shareholding, are held by other minority shareholders.

REPORT OF THE ACCREDITED STATUTORY AUDITORS

Joint statutory auditors' report to the general shareholders' meeting of BNP Paribas Fortis sa/nv on the annual financial statements for the year ended 31 December 2016

As required by law and the Company's articles of association, we report to you in the context of our statutory auditors' mandate. This report includes our opinion on the Statutory Annual Financial Statements ("the Annual Financial Statements"), as defined below, for the year ended 31 December 2016, as well as our report on other legal and regulatory requirements. These Annual Financial Statements include the balance sheet as at 31 December 2016, the income statement for the year then ended, as well as the summary of accounting policies and other disclosures.

Report on the Annual Financial Statements – Unqualified opinion

We have audited the Annual Financial Statements of BNP Paribas Fortis SA/NV ("the Company") for the year ended 31 December 2016, prepared in accordance with the financial-reporting framework applicable in Belgium, which show a balance sheet total of EUR 214,051,987 (000) and a profit for the year of EUR 2,002,951 (000).

Board of directors' responsibility for the preparation of the Annual Financial Statements

The board of directors is responsible for the preparation and fair presentation of Annual Financial Statements in accordance with the financial-reporting framework applicable in Belgium, and for such internal control as the board of directors determines is necessary to enable the preparation of Annual Financial Statements which are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these Annual Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA) as endorsed in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Annual Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Financial Statements. The procedures selected depend on the statutory auditor's judgment, including his assessment of the risks of material misstatement in the Annual Financial Statements, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the Company's preparation and fair presentation of Annual Financial Statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the Annual Financial Statements.

We have obtained from the board of directors and the Company's officials the explanations and information necessary for performing our audit.

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

Unqualified Opinion

In our opinion, the Annual Financial Statements give a true and fair view of the Company's net equity and financial position as at 31 December 2016 and of its results for the year then ended in accordance with the financial-reporting framework applicable in Belgium.

Emphasis of Matter regarding certain pending legal proceedings

Without further qualifying our opinion, we draw the attention to the note 5.28.1 to the Annual Financial Statements as at 31 December 2016 regarding significant litigations, in which is described that as a result of 2008 events having impacted the Fortis group to which the Company belonged, a number of claimants have initiated legal actions against the former Fortis group, including the Company and/or certain members of its boards of directors and management. The ultimate outcome of these matters and the potential consequences for the Company and its directors cannot presently be determined, and therefore no provisions have been recorded in the Annual Financial Statements.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report, for the compliance with the applicable legal and regulatory requirements regarding bookkeeping, the Companies' Code and the Company's articles of association.

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we provide the following additional statements which do not impact our opinion on the annual accounts:

- The directors' report, prepared in accordance with articles 95 and 96 of the Companies' Code and to be deposited in accordance with article 100 of the Companies' Code, includes, both in terms of form and content, the information required by the Companies' Code, is consistent with the financial statements, and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate;

- The social balance, to be deposited in accordance with article 100 of the Companies' Code, includes, both in terms of form and content, the legally required information and does not present any material inconsistencies with the information we have at our disposition in our audit file;

- Without prejudice to formal aspects of minor importance, the accounting records were maintained in accordance with the legal and regulatory requirements applicable in Belgium;

- The appropriation of results proposed to the general meeting complies with the legal provisions and the provisions of the articles of association;

- There are no transactions undertaken or decisions taken in breach of the Company's articles of association or the Companies' Code that we have to report to you;

- As indicated in the report of the board of directors, the board of directors has, on 3 March 2016, formally approved the remuneration and benefits for the performance year 2015 of the members of the Executive Board. Article 523 of the Companies' Code was applied as a result of the conflict of interest with the Executive Directors. The financial consequences of this decision are reflected in the section 'Information related to Article 523 of the Belgian Companies code' in the Annual Report;

- As also indicated in the report of the board of directors, the board of directors has on 26 August 2016 (a) decided to indemnify the liability of the director P. Van Aken in all instances where he acted in good faith and in a manner he believed to be in the best interest of the Company, except where the liability of this director would arise out of a fraud or wilful misconduct or where such liability would be covered by an insurance policy and (b) applied article 523 of the Companies' Code as a result of the conflict of interest. Considering the fact that the indemnification of the liability of P. Van Aken is without limitation and depending on the occurrence of future events, if any, we are not in a position to evaluate the possible financial consequences of such a decision on the financial position of the Company.

Brussels, 4 April 2017

The Joint Statutory Auditors

PwC Reviseurs d'Entreprises sccrl / Bedrijfsrevisoren bcvba
Represented by
D. Walgrave
Reviseur d'Entreprises / Bedrijfsrevisor

Deloitte Reviseurs d'Entreprises sc sous forme d'une scrl / Bedrijfsrevisoren bv ovv cvba
Represented by
Y. Dehogne
Reviseur d'Entreprises / Bedrijfsrevisor

B. De Meulemeester
Reviseur d'Entreprises / Bedrijfsrevisor

OTHER INFORMATION

Monthly high and low for BNP Paribas Fortis shares at the weekly auctions in 2016

The monthly high and low for BNP Paribas Fortis shares at the weekly auctions of Euronext Brussels (Euronext expert Market) in 2016 were as follows (in EUR) :

Month	Low	High
January	27.20	27.21
February	29.90	29.90
March	27.22	27.25
April	27.20	27.22
May	27.28	27.38
June	27.35	27.42
July	26.20	27.25
August	26.10	27.25
September	26.76	27.00
October	25.50	25.60
November	25.50	25.50
December	25.60	25.60

External posts held by directors and effective leaders on the 31st of December 2016 that are subject to a legal disclosure requirement

Pursuant to the regulations of the National Bank of Belgium of 6 December 2011 regarding the exercise of external functions by leaders of regulated enterprises ('*reglement van de Nationale Bank van België van 6 december 2011 met betrekking tot de uitoefening van externe functies door leiders van gereglementeerde ondernemingen*' / '*règlement de la Banque Nationale de Belgique du 6 décembre 2011 concernant l'exercice de fonctions extérieures par les dirigeants d'entreprises réglementées*'), the Bank's board of directors has adopted '*Internal rules governing the exercise of external functions by directors and effective managers of BNP Paribas Fortis*'.

Inter alia, the regulations of the Belgian National Bank stipulate that certain external posts held by the Bank's effective leaders and directors in certain companies must be disclosed in the annual report.

The 'effective leaders' of BNP Paribas Fortis are as set forth in the list submitted to the Belgian National Bank, are kept up to date in accordance with applicable regulations and include the members of the executive board of BNP Paribas Fortis and leaders of foreign branches of BNP Paribas Fortis.

As regards 'external posts' – i.e., principally posts as director of a company – that are subject to disclosure, this involves posts held in companies other than family property companies, 'management companies', undertakings for collective investment or companies with which the Bank has close links as part of the Group.

Forename, Surname (Post) Company	Business Activity (Post)	Listed
Herman DAEMS **(Chairman of the board of directors)**		
- Domo Investment Group SA/NV	Chemicals (Chairman of the board of directors, acting as representative of Crossbow BVBA)	-
- Unibreda SA/NV	Insurance (Chairman of board of directors - independent director)	-
Max JADOT **(Chairman of the executive board)**		
- Bekaert SA/NV	Steel Industry (Director)	Euronext Brussels
Filip DIERCKX **(Vice chairman of the executive board)**		
- IVD SA/NV	Administrative Services (Chairman of the board of directors acting as representative of GINKGO Associates BVBA)	-
- SD Worx for Society SCRL/CVBA	Management & Administrative Services (Chairman of the board of directors)	-
- SD DIENSTEN SA/NV	Training & Management Services (Chairman of the board of directors)	-
- HR WORX SA/NV	Holding company (Chairman of the board of directors acting as representative of GINKGO Associates BVBA)	-
Dominique AUBERNON **(Director)**		
- EURONEXT NV	Stock exchange (Member of the supervisory board, member of the governance and nomination committee)	Euronext Paris
Dirk BOOGMANS **(Director)**		
- ASAP.be NV	Human resources (Director acting as representative of DAB Management)	-
- GIMV SA/NV	Investment Company (Director)	Euronext Brussels
- Vinçotte International SA/NV	Inspection, control and certification services (Director and chairman of the audit committee, acting as representative of DAB Management)	-
Antoinette d'ASPREMONT LYNDEN **(Director)**		
- Groupe Bruxelles Lambert SA/NV	Portfolio Company (Director and chairman of the audit committee)	Euronext Brussels
Stefaan DECRAENE **(Director)**		
- ARDO HOLDING	Holding Company (Director)	-
Sophie DUTORDOIR **(Director)**		
- Bpost SA/NV	Postal operator (Independent director and member of the audit committee, member of the remuneration and nomination committee and member of the special board committee of independent directors)	Euronext Brussels
- Poppeia SPRL/BVBA	Food (Executive director)	-
- Valeo SA	Automotive supplier (Director and member of the governance and remuneration committee)	Euronext Paris

Glossary

12-month expected credit losses
The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Active market
A market where homogeneous items are traded between willing buyers and sellers at any time and where the prices are available to the public.

Amortised cost
The amount at which a financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation/increase of any premium/discount, and minus any write-down for impairment.

Asset backed security (ABS)
Debt instrument that represents an interest in a pool of assets. The term 'ABS' is generally used to refer to securities in which underlying collateral consists of assets other than residential first mortgages, such as credit card and home equity loans, leases, or commercial mortgage loans.

Associate
A company in which BNP Paribas Fortis SA/NV has significant influence but which it does not control.

Basis point (bp)
One hundredth of a percentage point (0.01%).

Cash flow hedge
A hedge to mitigate the exposure to variability in cash flows of a recognised asset or liability, or forecast transaction,which is attributable to changes in variable rates or prices.

Clearing
Administrative settlement of securities, futures and options transactions through a clearing organisation and the financial institutions associated with it (clearing members).

Collateralised Loan Obligation (CLO)
A form of securitisation where payments from multiple middle sized and large business loans are pooled together and passed on to different classes of owners in various tranches.

Commercial mortgage-backed security (CMBS)
A type of bond which is backed by commercial property such as retail or office property, hotels, schools, industrial property and other commercial sites.

Controlled perimeter
The legal and regulatory consolidation scope of BNP Paribas Fortis SA/NV.

Core capital
Total available capital at group level (based on the banking definition of Tier 1 capital).

Credit default swap (CDS)
A credit derivative contract between two counterparties. The buyer of a credit swap receives credit protection, while the seller of the swap guarantees the creditworthiness the underlying financial instrument.

Credit spread
The yield differential between a credit-risk-free benchmark security or reference rate (e.g. government bonds) and corporate bonds or credits.

Credit Value Adjustment
Adjustment to the value of the Trading Book to take into account the counterparty risk.

Derivative
A financial instrument such as a swap, a forward, a future contract or an option (both written and purchased). This financial instrument has a value that changes in response to changes in underlying variables. It requires little or no net initial investment, and is settled at a future date.

Discounted cash flow method (DCF model)
An approach to valuation, whereby projected future cash flows are discounted at an interest rate that reflects the time value of money and a risk premium that reflects the extra return investors demand for the risk that the cash flow might not materialise.

Duration
A general measure of the sensitivity of the price (the value of the principal) of a fixed-income instrument, expressed as a percentage change with a 100-basis-point change in yield. In the calculation of 'duration of equity', the term also refers to the weighted average timing of cash flows from an asset or liability portfolio. It is computed on the basis of the net present values (NPV) of the cash flows (principal and interest).

Earnings at Risk
A measure of the sensitivity of future net income to hypothetical adverse changes in interest rates or equity market prices. Earnings at Risk assesses the impact of stress tests on the projected IFRS net income before tax. EaR represent a possible deviation from expected (pre-tax) earnings due to an adverse event over the next 12 months at a chosen confidence level. EaR covers both loss realisation and failure to generate revenues.

Embedded derivative
A derivative instrument that is embedded in another contract - the host contract. The host contract might be a debt or equity instrument, a lease, an insurance contract or a sale or purchase contract.

Employee benefits
All forms of consideration given by an entity in exchange for services rendered by employees, including their pay or salary.

Expected credit losses
The weighted average of credit losses with the respective risks of a default occurring as the weights.

Expected Loss (EL)
The Expected Loss is the expected annual level of credit losses over an economic cycle. Actual losses for any given year will vary from the EL, but EL is the amount that our bank should expect to lose on average over an economic cycle. Expected Loss should be viewed as a cost of doing business rather than as a risk in itself. Expected Loss is calculated as follows:
EL = EAD x PD x LGD

Exposure at Default (EAD)
Gives an estimate of the amount to which the bank is exposed in the event that the borrower defaults. EAD is one of the parameters used to compute the Expected Loss (EL).

Factoring
A form of corporate financing in which a company transfers outstanding debts to a factoring company that, for a fee, assumes responsibility for the debtor records, debt collection, risk coverage and financing.

Fair value
The amount for which an asset (liability) can be bought (incurred) or sold (settled), between knowledgeable, willing parties in an arm's length transaction.

Fair value hedge
A hedge of an exposure to changes in the fair value of a recognised asset or liability (or a portion thereof) or a firm commitment. The exposure is attributable to a particular risk and will affect reported net income.

Finance lease
A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Goodwill
This represents the excess of the fair value of the assets given, liabilities incurred or assumed, and equity instruments issued over BNP Paribas Fortis SA/NV's interest in the fair value of assets acquired and liabilities and contingent liabilities assumed.

Hedge accounting
Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

IFRS
International Financial Reporting Standards, used as a standard for all listed companies within the European Union as of 1 January 2005 to ensure transparent and comparable accounting and disclosure.

Impairment
A decline in value whereby the carrying amount of the asset exceeds the recoverable amount. In such a case, the carrying amount will be reduced to its recoverable amount through the income statement.

Intangible asset
An identifiable non-monetary asset without physical substance which is recognised at cost if and only if it will generate future economic benefits and if the cost of the asset can be measured reliably.

Investment property
Property held by BNP Paribas Fortis SA/NV to earn rental income or for capital appreciation.

Joint venture
A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Lifetime expected credit losses
The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Loss given Default (LGD)
The average amount to be lost in the event of default of the counterpart. LGD is a parameter used in the calculation of Expected Loss.

Macro hedge
A hedge used to eliminate the risk of a portfolio of assets.

Net investment hedge
A hedge used to reduce the financial risks of a reporting entity's share in the net assets of a foreign business activity by entering into transactions that provide an offsetting risk profile.

Notional amount
Amount of currency units, number of shares, a number of units of weight or volume or other units specified in a derivative contract.

Novation
Novation is the principle of either (a) replacing an obligation to perform with a new obligation, or (b) replacing a party to an agreement with a new party.

Nth-to-default credit derivatives
Credit derivatives that provide credit protection only for the nth defaulting reference exposure in a group of reference exposures.

Operating lease
A contract that allows the use of an asset against periodic payments, but does not convey rights similar to legal ownership of the asset and where the financial risks related to the asset are with the issuer of the lease contract.

Option
A contract sold by one party to another that offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security at an agreed-upon price during a certain period of time or on a specific date.

Private equity
Equity securities of companies that are not listed on a public exchange. Investors looking to sell their stake in a private company have to find a buyer in the absence of a marketplace.

Probability of Default (PD)
The probability that the counterparty will default over a one-year time horizon. PD is a parameter used in the calculation of Expected Loss.

Provision
Provisions are liabilities involving uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation to transfer economic benefits, such as cash flows, as a result of past events and a reliable estimate can be made at the balance sheet date.

Qualifying capital
The liability components that qualify as Tier 1 capital (equity) under banking supervision regulations.

Repurchase agreement (repo)
Agreement between two parties whereby one party sells the other a security at a specified price with a commitment to buy the security back at a later date for another specified price.

Residential mortgage-backed security (RMBS)
A type of bond which is backed by mortgages on residential rather than commercial real estate.

Reverse repurchase agreement (reverse repo)
The purchase of securities with an agreement to resell them at a higher price at a specific future date.

Securities lending (borrowing) transaction
A loan (borrowing) of a security from one counterparty to another, who must eventually return (be returned) the same security as repayment. The loan is often collateralised. Securities lending allows an entity in possession of a particular security to earn enhanced returns.

Settlement date
The date that an asset is delivered to or by an entity.

Structured credit instruments (SCI)
Securities created by repackaging cash flows from financial contracts. These instruments encompass asset-backed securities (ABS), mortgage-backed securities (MBS) and collateralised debt obligations (CDO). ABS are issues backed by loans (other than mortgages), receivables or leases, MBS are issues backed by mortgage loans and CDO are a class of asset-backed securities and another term for bonds backed by a pool of bonds (CBO), loans (CLO) or other assets such as swaps (CSO). Payment of the principal and interest of the CDO is financed with the cash flows generated by the underlying financial assets.

Subordinated bond (loan)
A loan (or security) that ranks below other loans (or securities) with regard to claims on assets or earnings.

Subsidiary
Any company, whose financial and operating policies BNP Paribas Fortis SA/NV, either directly or indirectly, has the power to govern, so as to obtain the benefits from its activities ('control').

Synthetic CDO
a collateralised debt obligation (CDO) in which the underlying credit exposures are taken by entering into a credit default swap agreement instead of buying actual financial assets.

Tier 1 ratio
Core capital of a bank expressed as a percentage of the risk-weighted balance sheet total.

Trade date
The date when BNP Paribas Fortis SA/NV becomes a party to the contractual provisions of a financial asset.

Value at Risk (VaR)
A technique which uses the statistical analysis of historical market trends and volatilities to estimate the likelihood that a given portfolio's losses will exceed a certain amount. For the assessment of the market risks related to its trading room activities, BNP Paribas Fortis SA/NV computes VaR using a 99% confidence interval over a 1 day time horizon. This calibration is designed to reflect the risks of trading activities under normal liquidity conditions.

Volatility swap
A volatility swap is a forward contract that allows investors to trade the future volatility of a specified underlying.

Abbreviations

2OPC	Oversight of Operational Permanent Control
ABS	Asset backed security
AC	Audit Committee
ACPR	Autorité de contrôle prudentiel et de résolution
AFS	Available for sale
AIRBA	Advanced Internal Ratings Based Approach
ALCO	Assets and Liabilities Committee
ALM	Asset and liability management
AMA	Advanced Measurement Approach
AQR	Asset Quality review
ARCC	Audit, Risk and Compliance Committee
AT1	Additional Tier 1
BGL	Banque Générale de Luxembourg
BNPP IP	BNP Paribas Investment Partners
BPLS	BNP Paribas Leasing Solutions
CASHES	Convertible and subordinated hybrid equity-linked securities
CBFA	Banking, Finance and Insurance Commission
CCF	Credit Conversion Factor
CCP	Central Counterparty
CDS	Credit default swap
CDO	Collateralised debt obligation
CET1	Common Equity Tier 1
CGU	Cash generating unit
CIB	BNP Paribas Fortis SA/NV Corporate and Investment Banking
CLO	Collateralised loan obligation
CMBS	Commercial mortgage-backed securities
CMRC	Capital Markets Risk Committee
CMS	Constant Maturity Swap
CODM	Chief Operating Decision Maker
CPBB	Corporate & Public Banking, Belgium
CRM	Central Risk Management
CRO	Chief Risk Officer
CRR/CRD IV	Capital Requirement Regulation / Capital Requirement Directive IV
CSO	Collateralised swap obligation
CSR	Corporate Social Responsibility
CTBE	Corporate and Transaction Banking Europe
CVA	Credit Value Adjustment
DDM	Discounted Dividend Model EAD
EAD	Exposure At Default
EaR	Earnings at Risk
EBA	European Banking Authority
ECB	European Central Bank
EL	Expected Loss
EEPE	Effective Expected Positive Exposure
EPE	Expected Positive Exposure
Euribor	Euro inter bank offered rate
FCF	Fortis Commercial Finance
FV	Fair Value
FVA	Funding Value Adjustment
FX	Foreign Exchange
GC	Group Compliance
GDP	Gross Domestic Product
GNC	Governance and Nomination Committee
GNRC	Governance, Nomination and Remuneration Committee
GWWR	General Wrong Way Risk
HTM	Held to maturity
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAAP	Internal Capital Adequacy Assessment Directive
ICC	Internal Control Committee
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPEV	International Private Equity and Venture Capital Valuation
IRBA	Internal Ratings Based Approach
IRC	Incremental Risk Change
ISDA	International Swaps and Derivatives Association
KPI	Key Performance Indicator
LGD	Loss Given Default
MBS	Mortgage-backed security
MCS	Mandatory Convertible Securities
MtM	Mark to Market
M&A	Mergers & Acquisitions
NBB	National Bank of Belgium / Nationale Bank van België
NPV	Net present value
OCA	Own-Credit Value Adjustment
OCI	Other comprehensive income
OFS	One Financial System
OMT	Outright Monetary Transactions
OTC	Over the counter
PD	Probability of Default
PFC	Product and Financial Control Committee

PFE	Potential Future Exposures
P/L	Profit or loss
RC	Risk Committee
RemCo	Remuneration Committee
Risk-IM	Risk – Investment & Markets
RMBS	Residential mortgage-backed securities
RPB	Retail & Private Banking
RPN	Relative Performance Note
RWA	Risk Weighted Assets
SCI	Structured Credit Instruments
SME	Small and medium-sized enterprises
SPE	Special purpose entity
SPV	Special purpose vehicle
SRI	Socially Responsible Investment
SSM	Single Supervisory Mechanism
STSC	Stress Testing Steering Committee
SVaR	Stressed Value at Risk
SWWR	Specific Wrong Way Risk
TEB	Türk Ekonomi Bankasi
USTA	Unrated Standardised Approach
VaR	Value at Risk
VRC	Valuation Review Committee
V&RC	Valuation and Risk Control

BNP Paribas Fortis SA/NV, Montagne du Parc 3 - B-1000 Brussels

BNP PARIBAS FORTIS

The bank
for a changing
world