



BNP PARIBAS FORTIS SA/NV

**CONSOLIDATED INTERIM FINANCIAL
STATEMENTS**

First half 2021



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 report for the first half-year of 2021 includes the Interim Report of the Board of Directors, the Statement of the Board of Directors, the composition of the Board, the Consolidated Interim Financial Statements and the notes to the Consolidated Interim Financial Statements for the first half-year of 2021.

The BNP Paribas Fortis Consolidated Interim Financial Statements for the first half-year of 2021, including the 2020 comparative figures, have been prepared at 30 June 2021 in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. It includes condensed financial statements (balance sheet, profit and loss account, statement of net income and changes in fair value of assets and liabilities recognised directly in equity, statement of changes in shareholders' equity, minority interests and statement of cash flows) and selected explanatory notes. The BNP Paribas Fortis Consolidated Interim Financial Statements should be read in conjunction with the audited BNP Paribas Fortis Consolidated Financial Statements 2020, which are available on <http://www.bnpparibasfortis.com>.

As an issuer of listed debt instruments and in accordance with the EU Transparency Directive, BNP Paribas Fortis SA/NV is subject to obligations regarding periodic financial reporting, including half-yearly interim financial statements and an intermediate report by the Board of Directors.

All amounts in the tables of the consolidated interim financial statements are denominated in millions 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 interim financial statements to the BNP Paribas Fortis SA/NV consolidated situation unless stated otherwise.

All information contained in the BNP Paribas Fortis interim financial statements for the first half-year of 2021 relates to the BNP Paribas Fortis statutory 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 interim financial statements for the first half-year of 2021 is available on the website: www.bnpparibasfortis.com.

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REPORT OF THE BOARD OF DIRECTORS

This section provides a summary of the evolutions in the first half-of 2021 and elaborates on the following key developments:

1. Economic context;
2. Results of the first half-of 2021 and the balance sheet as at 30 June 2021;
3. Status of liquidity and solvency;
4. Principal risks and uncertainties.

Economic context

After a highly chaotic year caused by the COVID-19 crisis that began in March 2020, the global economy got off to a subdued start in 2021 as the pace of vaccine rollouts varied between countries. While the United States and United Kingdom showed good speed and flexibility in vaccinating their populations, that was not the case in Europe, where bottlenecks quickly appeared, preventing rollouts beginning in earnest until March or April. High-risk groups were able to receive a vaccine in the first few months of 2021, but there were delays vaccinating the rest of the population.

This explains why consumer confidence indicators remained gloomy almost throughout Europe in early 2021, whereas they improved sharply in the US and UK. After the retail industry and high-contact professions partly reopened in February, a number of European countries including Belgium entered a new lockdown in March after new coronavirus variants appeared among populations with insufficient vaccination rates. As a result, growth figures for the first quarter of 2021 were very disappointing overall. On average, eurozone GDP fell 1.3% compared with the first quarter of 2020, and by 0.3% relative to the fourth quarter of 2020.

In Belgium, surprisingly, GDP rose by 1.1% sequentially in the first quarter, although it was down 0.5% year-on-year. Belgium's relatively good Q1 figure resulted from an upturn in domestic demand, combined with a significant decrease in imports. It should also be noted that investment remained fairly strong among both households, who were very keen to buy properties, and companies.

Governments continued to provide large-scale support to their economies, maintaining most of the assistance programmes adopted when the crisis broke out in March 2020. Furlough plans were extended in early 2021, as were moratoriums on bank loans. It was also forbidden to declare a company bankrupt in the first few months of 2021, which explains why the bankruptcy rate remained low throughout Europe and why so few people lost their jobs in the first half of the year. However, it is clear that the current measures will not last indefinitely, leading to fears that bankruptcies and job losses will rise sharply again in certain sectors hard-hit by the crisis when support measures are withdrawn later in 2021.

On the plus side, the first few months of 2021 brought a sharp rebound in economic activity in China, where GDP rose by almost 35% year-on-year in the first quarter. The US adopted a raft of stimulus measures in February, driven in particular by the arrival of the new President, and so the world's two main economies are in a phase of rapid growth. This catch-up effect, combined with serious shortages caused by lockdowns and the COVID-19 crisis, lay behind the surge in many commodity prices in early 2021, causing inflation to stage a widely reported comeback almost everywhere in the world. In the US, inflation reached 5% in May, forcing the Fed to change the direction of its monetary policy sooner than expected. The Fed Chair announced that interest rates would probably rise in 2023 instead of 2024, and that the Fed would soon start to reduce its large-scale asset purchases, which have doubled the size of the Fed's balance sheet. This prompted the world's financial markets to realise that a US rate hike would be happening earlier than anticipated, and these announcements caused some turbulence in stock markets in early June, since investors were clearly not prepared to hear this message so soon.

However, the situation did not damage confidence levels among business leaders, which remained high worldwide. Stock markets quickly regained the momentum they have shown since the start of the COVID rally, and set a series of all-time highs throughout the first half.

2021 should be a year of recovery in all developed countries, with GDP growth rates expected to rise sharply. The extent of the rebound is hard to gauge currently, because the virus has not completely disappeared and many developing countries may suffer both from vaccine shortages and from the surge in food prices that has been taking place since the start of the year.

In Europe, the NextGen stimulus plan is coming into force in July: the aim is to provide EUR 750 billion of funding to countries submitting projects to invest in making their economies more efficient, digital and green. Belgium will receive EUR 5.9 billion, which will underpin its economic recovery and should improve its long-term growth potential because some of the money will be spent on infrastructure projects that had been previously been subject to repeated delays.

For 2021, we expect GDP growth in Belgium of around 5% after the spectacular 6.3% slump in 2020. We see inflation rising to potentially 1.9% as opposed to only 0.4% in 2020.

Given the abundance of liquidity in the European financial markets, we do not expect interest rates to rise in the next few months.

Finally, we would highlight movements in the Belgian residential property market: the COVID-19 crisis has prompted many Belgians to rethink their lifestyles radically: they have rushed to buy properties located outside the major cities in order to gain more space and a garden. Property prices therefore started rising in May 2020 and have not stopped since. House prices increased by around 7% in 2020, and the market remained hot in the first half of 2021. According to industry experts, there are not enough properties to satisfy demand, which is why prices are rising. We do not expect this market trend to change, because interest rates are likely to remain extremely low and the context remains conducive to a rise in precautionary savings among consumers, who have been badly shaken by the COVID-19 crisis and are concerned about how it will play out in future.

Comments on the evolution of the results

BNP Paribas Fortis realised a net income attributable to equity holders of EUR 1,143 million in the first half of 2021, compared to EUR 804 million in the first half of 2020, up by EUR 339 million or 42%.

Please note that the comments in the present section have been written by referring to the financial statements and the respective notes. For a business oriented analysis, please refer to the Press Release of BNP Paribas Fortis available on the corporate website. This analysis focuses on the underlying evolution, which excludes scope changes (acquisition, sale and transfer of activities), foreign exchange impacts and one-off results. By excluding these effects, BNP Paribas Fortis showed an increasing underlying net income attributable to equity holders by 38% compared to the same period of 2020.

Operating income amounted to EUR 1,483 million in the first half of 2021, up by EUR 283 million or 24% compared to EUR 1,200 million in the first half of 2020. The increase was the result of higher revenues by EUR 171 million or 4%, limited increase of costs by EUR (21) million or 1% and a decrease of the cost of risk by EUR 133 million or (37%).

Non-operating items (share of earnings of equity-method entities and net gain on non-current assets) were up by EUR 72 million whereas the corporate income tax increased by EUR (43) million.

The comparison between the first half of 2021 and the first half of 2020 results was impacted by the following elements:

- the pandemic crisis in 2021 still affecting the Belgian, European and world economy;
- few scope changes, of which mainly one in the scope of Arval activities;
- foreign exchange variations, and more in particular the continuous depreciation of the Turkish lira against euro (from 7.15 EUR/TRY on average in the first half of 2020 to 9.52 EUR/TRY on average in the first half of 2021).

Based on the segment information, 51% of the revenues were generated by banking activities in Belgium, 32% by other domestic markets, 8% by banking activities in Luxembourg, 7% by banking activities in Turkey and 2% by other activities.

Net interest income reached EUR 2,347 million in the first half of 2021, a decrease of EUR (62) million or (3%) compared to the first half of 2020. Excluding the scope changes (EUR 1 million) and the foreign exchange effect of the Turkish lira (EUR (93) million), the net interest income increased by EUR 30 million.

In Belgium, the net interest income slightly decreased in a persistently low interest rate environment. Furthermore there was a positive evolution on the interest expenses on treasury borrowings with central banks. On the contrary, there was less interest income on customer loans (mainly term and mortgage loans) essentially due to lower interest rate margins.

Outside Belgium, the net interest income also decreased, with a negative evolution in Luxembourg and in Turkey. Excluding the scope changes and mainly the foreign exchange effect of the Turkish lira, the net interest income increased, including in Turkey and despite the decrease in Luxembourg in a persistently low interest rate environment.

Net commission income amounted to EUR 713 million in the first half of 2021, up by EUR 95 million or 15% compared to the first half of 2020. Excluding the scope changes (EUR (3) million) and the foreign exchange effect of the Turkish lira (EUR (16) million), net commission income increased by EUR 114 million. In Belgium there is an increase of the advisory and the assets management fees.

Outside Belgium, the net commission income decreased, with a negative evolution in Turkey and a very slight decrease in Luxembourg. Excluding the scope changes and mainly the foreign exchange effect of the Turkish lira, the net commission income increased, including in Turkey and mainly in Other Domestic Markets.

Net results on financial instruments at fair value through profit or loss stood at EUR 50 million, down by EUR (76) million compared to the first half of 2020. Excluding the foreign exchange effect of the Turkish lira (EUR 4 million), net results on financial instruments at fair value through profit or loss decreased by EUR (80) million. This decrease was mainly due to lower results on interest rate swaps and cross currency swaps in Turkey in a context of volatile markets.

Net results on financial instruments at fair value through equity amounted to EUR 27 million in the first half of 2021, increasing by EUR 16 million compared to the same period in 2020. The 2021 result was marked by higher capital gains income than in 2020, not only on the disposal of fixed-income securities, but also on dividends income, mainly in Belgium.

Net income from insurance activities totalled EUR 35 million in the first half of 2021. Greenval Insurance DAC, which is the single contributor to this caption, has been sold by BNP Paribas Ireland to Arval Service Lease in December 2020. Greenval Insurance DAC is a fleet motor insurance company registered in Ireland dedicated to customers of Arval.

Net income from other activities totalled EUR 977 million in the first half of 2021, increasing by EUR 163 million (or 20%) compared to the first half of 2020. The main contributor remains Other Domestic Markets where revenues were supported by the continuous growth of the financed fleet.

Salary and employee benefit expenses amounted to EUR (1,180) million in the first half of 2021 i.e. a decrease of EUR 26 million compared to the same period in 2020. However, excluding the scope changes (EUR (2) million) and the foreign exchange effect of the Turkish lira (EUR 30 million), there was an increase of EUR (2) million.

In Belgium and in Luxembourg, there were less staff expenses, mainly related to the evolution of the captions “basic salaries” and “social charges”, due to the continuous decrease of the FTEs.

Outside Belgium and Luxembourg, the increase in staff expenses was contained, with a slight decrease in Personal Finance. The increase in Other Domestic Markets was mainly due to the increase of the FTEs to support the growth of the businesses while the increase in Turkey was mainly due to the still high inflation.

Other operating expenses amounted to EUR (1,074) million in the first half of 2021, i.e. an increase of EUR (45) million compared to the same period in 2020. Excluding the scope changes (EUR (5) million) and the foreign exchange impact of the Turkish lira (EUR 18 million), other operating expenses increased by EUR (58) million.

In Belgium, the other operating expenses remained stable: decrease was mostly driven by lower IT costs while banking taxes and levies increased from EUR (312) million in the first half of 2020 to EUR (316) million in the first half of 2021.

Outside Belgium, the other operating expenses increased due to, among others, higher IT costs as well as higher banking taxes in Luxembourg and the inflation in Turkey,

Depreciation charges stood at EUR (185) million in the first half of 2021, versus EUR (183) million compared to previous year, i.e. an increase of EUR (2) million.

Cost of risk totalled EUR (227) million in the first half of 2021, i.e. a decrease of EUR 133 million compared to the first half of 2020. Excluding the foreign exchange impact of the Turkish lira (EUR 27 million), there was a decrease of EUR 106 million.

In Belgium, cost of risk decreased mainly thanks to specific files in stage 3, a positive evolution compared to last year.

Outside Belgium, cost of risk also decreased mainly thanks to net releases of provisions in stage 3. This decrease was partially offset by higher provisions in stages 1 and 2 related to, among others, sectors sensible to the covid-19 crisis and clients with moratoria.

Share of earnings of equity-method entities amounted to EUR 174 million in the first half of 2021, compared to EUR 105 million during the same period in 2020. The main contributors of the increase are AG Insurance and BNPP Asset Management.

Net gain on non-current assets amounted to EUR 7 million in the first half of 2021 versus EUR 4 million during the same period in 2020.

Corporate income tax in the first half of 2021 totalled EUR (319) million compared to EUR (276) million, an increase of EUR (43) million. Excluding the share of earnings of equity-method entities (reported net of income taxes), the effective tax rate stood at 21% in the first half of 2021 compared to 23% in the first half of 2020.

Net income attributable to minority interests amounted to EUR 202 million in the first half of 2021, compared to EUR 229 million in the first half of 2020.

Net income attributable to equity holders totalled EUR 1,143 million in the first half of 2021, compared to EUR 804 million during the same period in 2020.

Comments on the evolution of the balance sheet

The total balance sheet of BNP Paribas Fortis amounted to EUR 350.5 billion as at 30 June 2021, up by EUR 15.4 billion or 4.6% compared with EUR 335.1 billion at 31 December 2020.

Based on the segment information, 68% of the assets were contributed by banking activities in Belgium, 16% by other domestic markets, 8% by banking activities in Luxembourg, 4% by banking activities in Turkey and 4% by other segments.

Assets

Cash and amounts due from central banks amounted to EUR 68.1 billion, increased by EUR 18.0 billion compared to 31 December 2020. The increase is mainly related to the excess cash placed at the central banks in Belgium and in Luxembourg.

Financial instruments at fair value through profit or loss stood at EUR 14.6 billion, down by EUR (3.3) billion compared to 31 December 2020. The decrease of EUR (4.3) billion in 'Derivative financial instruments' was mainly related to the increase of the interest rate curve which impacted in a symmetrical way both the fair value of derivative financial instruments on the asset and liability side. There is an increase of the reverse repos of EUR 1.0 billion.

Derivatives used for hedging purposes decreased by EUR (1.3) billion and amounted to EUR 1.9 billion and 'Derivatives used for hedging purposes' on the liability side decreased by EUR (2.1) billion. It should be noted that 'Derivatives used for Hedging purposes' should be restated for the comparative period of 31 December 2020 by decreasing respectively assets and liabilities with the amount of EUR (0.8) billion. In December 2020, no netting of the fair value of the fixed and floating leg was applied on the macro hedge derivative with an external counterparty (contrary to 30 June 2021). As a result the restated decrease in assets amounts to EUR (0.5) billion and in liabilities EUR (1.3) billion is related to the increase of the interest rate curve.

Financial assets at fair value through equity decreased by EUR (0.9) billion to EUR 8.9 billion following the reimbursements and disposals of government bonds, mainly in Belgium, Luxembourg and Turkey.

Financial assets at amortised cost amounted to EUR 213.0 billion as at 30 June 2021, up by EUR 2.3 billion compared with EUR 210.7 billion as at 31 December 2020.

'Loans and advances to customers' amounted to EUR 193.3 billion, up by EUR 4.5 billion mainly related to the increase of the term loans, on demand accounts and mortgage loans granted by BNP Paribas Fortis and by BGL BNPP but also the loans granted by the factoring entities and finance leases granted by the leasing entities. Excluding the foreign exchange effect of the Turkish lira, loans and advances to customers also increased in Turkey, mainly consumer loans and credit cards. In addition, 'Loans and advances to credit institutions' decreased (EUR (1.2) billion) due to lower interbank loans and lower reverse repos at BNP Paribas Fortis and in Turkey. Debt securities at amortised cost decreased by EUR (1.0) billion especially in Belgium and in Luxembourg.

Current and deferred tax assets amounted to EUR 1.5 billion, down by EUR (0.1) billion compared to EUR 1.6 billion at 31 December 2020

Accrued income and other assets stood at EUR 10.2 billion as at 30 June 2020, down by EUR (0.2) billion compared to EUR 10.4 billion at 31 December 2020.

Equity-method investments stayed unchanged at EUR 3.7 billion.

Property, plant and equipment and Investment property amounted to EUR 25.2 billion as at 30 June 2021, up by EUR 1.3 billion compared to EUR 23.9 billion at 31 December 2020 mainly related to the growth of the financed fleet in Other Domestic Markets.

Liabilities and Equity

Deposits from central banks stood at EUR 3.8 billion, up by EUR 3.7 billion compared to EUR 0.1 billion at 31 December 2020, mainly in Belgium.

Financial instruments at fair value through profit or loss decreased by EUR (4.0) billion, totalling EUR 22.0 billion as at 30 June 2021 compared to EUR 26.0 billion at 31 December 2020. The decrease of EUR 4.0 billion in 'Derivative financial instruments' is mainly related to the increase of the interest rate curve which impacted in a symmetrical way both the fair value of derivative financial instruments on the asset and liability side.

Financial liabilities at amortised cost amounted to EUR 275.5 billion as at 30 June 2021, up by EUR 16.4 billion compared with EUR 259.1 billion at 31 December 2020.

'Deposits from customers' contributed for EUR 4.3 billion mostly attributable to an increase on current and saving accounts (EUR 5.8 billion), especially in Belgium and Luxembourg, partly offset by a decrease in term accounts (EUR (1.5) billion) in Belgium and in Turkey. Excluding the foreign exchange effect of the Turkish lira, deposits from customers on current, saving and term accounts also increased in Turkey.

'Deposits from credit institutions' increased by EUR 11.5 billion mainly due to an increase at BNP Paribas Fortis in repos and interbank borrowings following participation to the TLTRO III (Targeted Longer-Term Refinancing Operations).

'Debt securities' increased by EUR 1.6 billion, due to issuance of debt securities in Other Domestic Markets, BNP Paribas Fortis New York branch and Luxembourg.

'Subordinated debt' decreased by EUR 1.0 billion, due to reimbursements.

Accrued expenses and other liabilities stood at EUR 9.5 billion as at 30 June 2020, up by EUR 1.3 billion compared to EUR 8.2 billion at 31 December 2020.

Provisions for contingencies and charges came in at EUR 4.2 billion, slightly decreased by EUR (0.1) billion compared with the EUR 4.3 billion at 31 December 2020.

Shareholders' equity amounted to EUR 25.3 billion as at 30 June 2021, up by EUR 0.8 billion or 3.0% compared with EUR 24.5 billion at 31 December 2020. Retained earnings were impacted by the net income attributable to shareholders for the year 2021 which contributed for EUR 1.1 billion. BNP Paribas Fortis distributed dividends (EUR 475 million) related to the fiscal year of 2020.

Minority interests stood at EUR 5.2 billion as at 30 June 2021, stable compared to the situation end 2020 at EUR 5.3 billion.

Liquidity and solvency

To prevent potential impacts of the sanitary crisis on Group's liquidity, BNP Paribas Fortis has further strengthened the close monitoring of its liquidity position with dedicated committees involving the Executive Management of the Bank. During the period, with the Bank's liquidity position remaining strong and high liquidity excess, the Group developed its financing activity and therefore supported the economy.

BNP Paribas Fortis' liquidity remained sound, with customer deposits standing at EUR 198 billion and customer loans at EUR 193 billion.

Customer deposits consist of the 'due to customers' figure excluding 'repurchase agreements'. Customer loans are loans and receivables due from customers excluding 'debt securities at amortised cost' and 'reverse repurchase agreements'.

BNP Paribas Fortis' solvency stood well above the minimum regulatory requirements. At 30 June 2021, 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 17.7%. Total risk-weighted assets amounted to EUR 124.2 billion at 30 June 2021, of which EUR 98.2 billion are related to credit risk, EUR 1.3 billion to market risk and EUR 8.5 billion to operational risk, while counterparty risk, securitisation and equity risk worked out at EUR 1.7 billion, EUR 1.2 billion and EUR 13.3 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 the Chapter 'Risk management and capital adequacy' of the BNP Paribas Fortis consolidated financial statements 2020 and in the BNP Paribas Fortis Pillar 3 disclosure 2020.

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, as further described in note 6.a 'Contingent liabilities: legal proceedings and arbitration' to the BNP Paribas Fortis interim financial statements for the first half-year of 2021.

Since February 2020, Europe has been strongly affected by the COVID-19 epidemic. BNP Paribas Fortis monitors the situation closely and keeps accompanying in particular its clients during this difficult period.

Events after the reporting period is described in note 6.e 'Events after the reporting period' to the BNP Paribas Fortis interim financial statements for the first half-year of 2021.

STATEMENT OF THE BOARD OF DIRECTORS

In accordance with article 13 of the Royal Decree of 14 November 2007, we confirm that, to the best of our knowledge, as at 30 June 2021:

- a) the condensed set of financial statements, prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position of BNP Paribas Fortis and the undertakings included in the consolidation as of 30 June 2021 and of the result and cash-flows of the period then ended.
- b) the interim 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.
- c) The Board of Directors reviewed the BNP Paribas Fortis consolidated interim financial statements on 2 September 2021 and authorised their issue.

Brussels, 2 September 2021

The Board of Directors of BNP Paribas Fortis

COMPOSITION OF THE BOARD OF DIRECTORS

As at 25 June 2021, 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.

The current board member mandate has been renewed on 23 April 2020.

It will expire at the end of the 2024 annual general meeting of shareholders.

JADOT Maxime

Executive director. Chairman of the Executive Board.

Member of the Board of Directors since 13 January 2011.

The current board member mandate has been renewed on 18 April 2019.

It will expire at the end of the 2023 annual general meeting of shareholders.

ANSEEUW Michael

Executive director.

Member of the Board of Directors since 19 April 2018.

The board member mandate will expire at the end of the 2022 annual general meeting of shareholders.

d'ASPREMONT LYNDEN Antoinette

Independent non-executive director.

Member of the Board of Directors since 19 April 2012.

The current board member mandate has been renewed on 23 April 2020.

It will expire at the end of the 2024 annual general meeting of shareholders.

AUBERNON Dominique

Non-executive director.

Member of the Board of Directors since 21 April 2016.

The current board member mandate has been renewed on 23 April 2020.

It will expire at the end of the 2024 annual general meeting of shareholders.

BEAUVOIS Didier

Executive director.

Member of the Board of Directors since 12 June 2014.

The current board member mandate has been renewed on 18 April 2019.

It will expire at the end of the 2023 annual general meeting of shareholders.

BOOGMANS Dirk

Independent non-executive director.

Member of the Board of Directors since 1 October 2009.

The current board member mandate has been renewed on 23 April 2020.

It will expire at the end of the 2024 annual general meeting of shareholders.

de CLERCK Daniel

Executive director.

Member of the Board of Directors since 12 December 2019.

The board member mandate will expire at the end of the 2023 annual general meeting of shareholders.

DECRAENE Stefaan

Non-executive director.

Member of the Board of Directors since 18 April 2013.

The current board member mandate has been renewed on 23 April 2021.
It will expire at the end of the 2025 annual general meeting of shareholders.

DUTORDOIR Sophie

Independent non-executive director.

Member of the Board of Directors since 30 November 2010.

The current board member mandate has been renewed on 18 April 2019.

It will expire at the end of the 2023 annual general meeting of shareholders.

MERLO Sofia

Non-executive director.

Member of the Board of Directors since 21 April 2016.

The current board member mandate has been renewed on 23 April 2020.

It will expire at the end of the 2024 annual general meeting of shareholders.

VAN AKEN Piet

Executive director.

Member of the Board of Directors since 3 June 2016.

The current board member mandate has been renewed on 23 April 2020.

It will expire at the end of the 2024 annual general meeting of shareholders.

VAN WAEYENBERGE Titia

Independent non-executive director.

Member of the Board of Directors since 18 April 2019.

The board member mandate will expire at the end of the 2023 annual general meeting of shareholders.

VARÈNE Thierry

Non-executive director.

Member of the Board of Directors since 14 May 2009.

The current board member mandate has been renewed on 23 April 2020.

It will expire at the end of the 2024 annual general meeting of shareholders.

VERMEIRE Stéphane

Executive director.

Member of the Board of Directors since 19 April 2018.

The board member mandate will expire at the end of the 2022 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 fifteen (15) directors, of whom nine (9) are non-executive directors, (four (4) of them are appointed as independent directors in compliance with the criteria laid down in the Code on Companies and Associations) and six (6) of them are executive directors.

Accredited Statutory Auditor:

PwC Bedrijfsrevisoren BV / PwC Reviseurs d'Entreprises SRL, represented in 2021 by Mr. Jeroen BOCKAERT.

BNP PARIBAS FORTIS CONSOLIDATED INTERIM FINANCIAL STATEMENTS 30 JUNE 2021

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

Profit and loss account for the first half of 2021

<i>In millions of euros</i>	Note	First half 2021	First half 2020
Interest income ⁽¹⁾	2.a	3,494	3,477
Interest expense ⁽¹⁾	2.a	(1,147)	(1,068)
Commission income	2.b	1,111	986
Commission expense	2.b	(398)	(368)
Net gain or loss on financial instruments at fair value through profit or loss	2.c	50	126
Net gain or loss on financial instruments at fair value through equity	2.d	27	11
Net gain or loss on the derecognition of financial assets at amortised cost		-	-
Net income from insurance activities		35	-
Income from other activities	2.e	6,810	5,420
Expense on other activities	2.e	(5,833)	(4,606)
REVENUES		4,149	3,978
Salary and employee benefit expenses		(1,180)	(1,206)
Other operating expenses	2.f	(1,074)	(1,029)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		(185)	(183)
GROSS OPERATING INCOME		1,710	1,560
Cost of risk	2.g	(227)	(360)
OPERATING INCOME		1,483	1,200
Share of earnings of equity-method entities		174	105
Net gain on non-current assets		7	4
Goodwill	4.j	-	-
PRE-TAX INCOME		1,664	1,309
Corporate income tax	2.h	(319)	(276)
NET INCOME		1,345	1,033
<i>of which net income attributable to minority interests</i>		202	229
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS		1,143	804

⁽¹⁾ The requirements of IAS 1.82(a) are detailed under disclosure '2.a Net interest income'.

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

<i>In millions of euros</i>	First half 2021	First half 2020
Net income for the period	1,345	1,033
Changes in assets and liabilities recognised directly in equity	(1)	(342)
Items that are or may be reclassified to profit or loss	(61)	(351)
Changes in exchange rate items	(112)	(285)
Changes in fair value of financial assets at fair value through equity		
<i>Changes in fair value recognised in equity</i>	(20)	(16)
<i>Changes in fair value reported in net income</i>	(8)	(1)
Changes in fair value of investments of insurance activities		
<i>Changes in fair value recognised in equity</i>	3	(1)
<i>Changes in fair value reported in net income</i>	-	2
Changes in fair value of hedging instruments		
<i>Changes in fair value recognised in equity</i>	17	99
<i>Changes in fair value reported in net income</i>	(1)	(1)
Income tax	4	(19)
Changes in equity-method investments	56	(129)
Items that will not be reclassified to profit or loss	60	9
Changes in fair value of financial assets at fair value through equity		
<i>Changes in fair value recognised in equity</i>	(1)	(24)
<i>Items sold during the period</i>	-	-
Debt remeasurement effect arising from BNP Paribas Fortis issuer risk	6	32
Remeasurement gains (losses) related to post-employment benefit plans	60	18
Income tax	(16)	(10)
Changes in equity-method investments	11	(7)
Total	1,344	691
Attributable to equity shareholders	1,200	557
Attributable to minority interests	144	134

Balance sheet at 30 June 2021

In millions of euros	Note	30 June 2021	31 December 2020
Assets			
Cash and balances at central banks		68,104	50,074
Financial instruments at fair value through profit or loss		14,561	17,832
<i>Securities</i>	4.a	1,648	1,564
<i>Loans and repurchase agreements</i>	4.a	5,059	4,055
<i>Derivative financial instruments</i>	4.a	7,854	12,213
Derivatives used for hedging purposes (*)		1,890	3,178
Financial assets at fair value through equity		8,886	9,773
<i>Debt securities</i>	4.b	8,574	9,460
<i>Equity securities</i>	4.b	312	313
Financial assets at amortised cost		213,007	210,656
<i>Loans and advances to credit institutions</i>	4.d	7,379	8,531
<i>Loans and advances to customers</i>	4.d	193,258	188,742
<i>Debt securities</i>	4.d	12,370	13,383
Remeasurement adjustment on interest-rate risk hedged portfolios		2,062	2,712
Financial investments of insurance activities		254	235
Current and deferred tax assets	4.h	1,483	1,564
Accrued income and other assets	4.i	10,154	10,360
Equity-method investments		3,744	3,747
Property, plant and equipment and Investment property		25,231	23,914
Intangible assets		367	368
Goodwill	4.j	732	722
Total assets		350,475	335,135
Liabilities			
Deposits from central banks		3,802	71
Financial instruments at fair value through profit or loss		22,027	25,987
<i>Securities</i>	4.a	167	132
<i>Deposits and repurchase agreements</i>	4.a	12,602	12,540
<i>Issued debt securities</i>	4.a	3,111	3,135
<i>Derivative financial instruments</i>	4.a	6,147	10,180
Derivatives used for hedging purposes (*)		3,128	5,257
Financial liabilities at amortised cost		275,495	259,145
<i>Deposits from credit institutions</i>	4.f	62,284	50,820
<i>Deposits from customers</i>	4.f	198,119	193,770
<i>Debt securities</i>	4.g	13,381	11,815
<i>Subordinated debt</i>	4.g	1,711	2,740
Remeasurement adjustment on interest-rate risk hedged portfolios		891	1,449
Current and deferred tax liabilities	4.h	790	771
Accrued expenses and other liabilities	4.i	9,529	8,207
Technical reserves and other insurance liabilities		144	128
Provisions for contingencies and charges	4.k	4,169	4,282
Total liabilities		319,975	305,297
Equity			
<i>Share capital, additional paid-in capital and retained earnings</i>		25,218	23,808
<i>Net income for the period attributable to shareholders</i>		1,143	1,870
Total capital, retained earnings and net income for the period attributable to shareholders		26,361	25,678
Changes in assets and liabilities recognised directly in equity		(1,109)	(1,165)
Shareholders' equity		25,252	24,513
Minority interests	6.c	5,248	5,325
Total equity		30,500	29,838
Total liabilities & equity		350,475	335,135

(*) "Derivatives used for Hedging purposes" should be restated for the comparative period of 31 December 2020 by decreasing respectively assets and liabilities with the amount of EUR -799 million. In December 2020, no netting of the fair value of the fixed and floating leg was applied on the macro hedge derivative with the counterparty LCH (contrary to 30 June 2021). The effect of the retrospective application of the netting in the "Derivatives used for Hedging purposes" for the comparative period also results to the restatement of the captions "Total assets", "Total liabilities" and "Total liabilities and equity" by the amount of EUR -799 million.

Cash flow statement for the first half of 30 June 2021

<i>In millions of euros</i>	Note	First half 2021	First half 2020
Pre-tax income		1,664	1,309
Non-monetary items included in pre-tax net income and other adjustments		4,246	3,055
Net depreciation/amortisation expense on property, plant and equipment and intangible assets		2,122	2,077
Impairment of goodwill and other non-current assets		(7)	(2)
Net addition to provisions		234	294
Share of earnings of equity-method entities		(174)	(105)
Net income from investing activities		(7)	(5)
Net expense from financing activities		2	2
Other movements		2,076	794
Net increase in cash related to assets and liabilities generated by operating activities		10,151	20,758
Net increase in cash related to transactions with customers and credit institutions		14,097	28,089
Net increase (decrease) in cash related to transactions involving other financial assets and liabilities		1,160	(4,021)
Net decrease in cash related to transactions involving non-financial assets and liabilities		(4,873)	(3,189)
Taxes paid		(233)	(121)
Net increase in cash and equivalents generated by operating activities		16,061	25,122
Net increase in cash related to acquisitions and disposals of consolidated entities		241	-
Net decrease related to property, plant and equipment and intangible assets		(133)	(113)
Net increase (decrease) in cash and equivalents related to investing activities		108	(113)
Net increase (decrease) in cash and equivalents related to transactions with shareholders		(727)	29
Net increase (decrease) in cash and equivalents generated by other financing activities		(703)	1,215
Net increase (decrease) in cash and equivalents related to financing activities*		(1,430)	1,244
Effect of movement in exchange rates on cash and equivalents		(313)	(357)
Non-monetary impacts from non-current assets held for sale		-	-
Net increase in cash and equivalents		14,426	25,896
Balance of cash and equivalent accounts at the start of the period		51,533	5,573
Cash and amounts due from central banks		50,085	4,405
Due to central banks		(71)	(708)
On-demand deposits with credit institutions		2,828	2,990
On-demand loans from credit institutions	4.f	(1,308)	(1,113)
Deduction of receivables and accrued interest on cash and equivalents		(1)	-
Balance of cash and equivalent accounts at the end of the period		65,959	31,469
Cash and amounts due from central banks		68,113	32,027
Due to central banks		(3,802)	(2,571)
On-demand deposits with credit institutions		3,126	3,404
On-demand loans from credit institutions	4.f	(1,474)	(1,389)
Deduction of receivables and accrued interest on cash and equivalents		(3)	-
Net increase in cash and equivalents		14,426	25,896
Additional information:			
Interest paid		(1,308)	(1,041)
Interest received		3,458	3,454
Dividend paid/received		(485)	97

* Changes in liabilities arising from financing activities other than those arising from cash flows amount to EUR 27 million, due to foreign exchange and revaluation effect, for respectively EUR 29 million and EUR (5) million.

Statement of changes in shareholders' equity between 1 January 2020 and 30 June 2021

	Capital and retained earnings				Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss				Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss					Total Shareholders' equity	Minority interests (note 6.c)	Total consolidated equity
	Share capital	Subordinated equity instruments	Non distributed reserves	Total capital and retained earnings	Financial instruments designated as at fair value through equity	Own-credit valuation adjustment of debt securities designated as at fair value through profit or loss	Remeasurement gains (losses) related to post-employment benefits plans	Total	Exchange rate	Financial instruments at fair value through equity	Financial investments of insurance activities	Derivatives used for hedging purposes	Total			
<i>In millions of euros</i>																
Capital and retained earnings at 1 January 2020	11,905	500	11,441	23,846	199	(22)	(234)	(57)	(1,514)	41	787	(118)	(804)	22,985	5,170	28,155
Other movements	-	-	(13)	(13)	-	-	-	-	-	-	-	-	-	(13)	60	47
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(115)	(115)
Changes in assets and liabilities recognised directly in equity	-	-	-	-	(5)	23	6	24	(191)	(28)	(61)	9	(271)	(247)	(95)	(342)
Net income for the first half of 2020	-	-	804	804	-	-	-	-	-	-	-	-	-	804	229	1,033
Capital and retained earnings at 30 June 2020	11,905	500	12,232	24,637	194	1	(228)	(33)	(1,705)	13	726	(109)	(1,075)	23,529	5,249	28,778
Other movements	-	-	(8)	(8)	-	-	-	-	-	-	-	-	-	(8)	(88)	(96)
Acquisitions	-	-	(16)	(16)	-	-	-	-	-	-	-	-	-	(16)	-	(16)
Dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	31	31
Changes in assets and liabilities recognised directly in equity	-	-	-	-	2	(23)	(18)	(39)	(124)	49	38	18	(19)	(58)	(62)	(120)
Net income for the second half of 2020	-	-	1,066	1,066	-	-	-	-	-	-	-	-	-	1,066	195	1,261
Capital and retained earnings at 31 December 2020	11,905	500	13,274	25,679	196	(22)	(246)	(72)	(1,829)	62	764	(91)	(1,094)	24,513	5,325	29,838
Other movements	-	-	13	13	-	-	-	-	-	-	-	-	-	13	35	48
Dividends	-	-	(474)	(474)	-	-	-	-	-	-	-	-	-	(474)	(256)	(730)
Changes in assets and liabilities recognised directly in equity	-	-	-	-	1	5	53	59	(49)	(25)	36	36	(2)	57	(58)	(1)
Net income for the first half of 2021	-	-	1,143	1,143	-	-	-	-	-	-	-	-	-	1,143	202	1,345
Capital and retained earnings at 30 June 2021	11,905	500	13,956	26,361	197	(17)	(193)	(13)	(1,878)	37	800	(55)	(1,096)	25,252	5,248	30,500

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS 30 JUNE 2021

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED BY BNP PARIBAS FORTIS

1.a Accounting standards

1.a.1 Applicable accounting standards

The coronavirus outbreak characterised by the World Health Organisation as a pandemic on 11 March 2020 as well as measures introduced by governments and regulators to tackle the outbreak have affected the global supply chain as well as demand for goods and services and therefore had a significant impact on the global growth. At the same time, fiscal and monetary policies have been eased to sustain the economy.

The consolidated financial statements of BNP Paribas Fortis have been prepared on a going concern basis. The impacts of the pandemic, mitigated by all countercyclical measures such as government and financial support to customers, mainly relate to expected credit losses and asset valuation. These impacts were estimated against a background of uncertainty about the magnitude of the impact of the outbreak on local and global economies.

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 Union¹. Accordingly, certain provisions of IAS 39 on hedge accounting have been excluded and certain recent texts have not yet undergone the approval process.

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”.

- In relation to the IBOR and Eonia rates reform, at the end of 2018 the BNP Paribas Group launched a global programme, involving all business lines and functions. This programme aims at managing and implementing the transition from the old benchmark interest rates to the new ones in major jurisdictions and currencies (euro, pound sterling, United States dollar, Swiss franc and Japanese yen), while reducing the risks associated with this transition and meeting the deadlines set by the competent authorities. The Group contributed to market-wide workshops with central banks and supervisors.

The announcements by public authorities in the United Kingdom, the United States and the Libors administrator (ICE BA) at the end of November 2020 changed the transition period that was initially scheduled to be completed by the end of 2021. For the GBP Libor, a synthetic Libor may be published beyond the end of 2021 for use in certain contracts known as « tough legacy » contracts. In the United States, the decision was taken to continue publishing the USD Libor until mid-2023, as a legislative solution is being sought for some asset classes, including floating-rate bonds.

Based on the progress made in 2020, notably with the definition of a detailed plan, the Bank is confident in its operational capacity to manage the transition process of large volumes of transactions to the new benchmark rates.

In Europe, the Eonia-€STR transition, which is purely technical in view of the fixed link between these two indices, continued, while the maintenance of Euribor on a sine die basis was confirmed.

The reform of IBOR rates in other currencies exposes the bank to various risks that the programme aims to manage closely. These risks include in particular:

- change management risks, but also of litigation and conduct linked to negotiations with customers and market counterparties to amend existing contracts;
- operational risks related to changes in the Bank's IT systems and processes;
- economic risks in case of financial market disturbances linked to the various transitions induced by the IBOR reform;
- valuation risks in a scenario of reduced liquidity during the transition in certain derivative market segments.

¹ The full set of standards adopted for use in the European Union can be found on the website of the European Commission at: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting_en

In September 2019, the IASB published "Phase 1" amendments to IAS 39 and IFRS 7, amending the hedge accounting requirements so that hedges affected by the benchmark interest rate reform can continue despite the uncertainty before the hedged items or hedging instruments are amended to incorporate the reformed benchmark rates. These amendments, endorsed by the European Commission on 15 January 2020, have been applied by BNP Paribas Fortis since 31 December 2019.

In August 2020, the IASB published 'Phase 2' amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 introducing several changes applicable during the effective transition to the new benchmark interest rates. These amendments allow for changes in the contractual cash flows of financial instruments resulting from the IBOR reform to be treated as a simple reset of their variable interest rate, provided, however, that such changes are made on an economically equivalent basis. They also allow the continuation of hedging relationships, subject to amending their documentation to reflect changes in hedged instruments, hedging instruments, hedged risk, and/or the method for measuring effectiveness during the transition to the new reference rates. The measures introduced in this framework also include:

- the possibility of documenting an interest rate as a hedged risk component even if this rate is not immediately separately identifiable, provided that it can reasonably be expected to become so within 24 months;
- the possibility of resetting cumulative fair value changes to zero in the hedge ineffectiveness test; and
- the obligation in the framework of portfolio hedges to isolate in subgroups instruments referring to the new risk-free rates (RFR).

These amendments, adopted by the European Commission in December 2020, have been applied by BNP Paribas Fortis since 31 December 2020 to maintain its existing hedging relationships which have been modified as a result of the transition to the new RFRs.

BNP Paribas Fortis has documented hedging relationships in regard of reference interest rates in the scope of the reform, mainly Eonia, Euribor, and Libor rates. For these hedging relationships, the hedged items and hedging instruments will be progressively amended, where necessary, to incorporate the new rates. The 'Phase 1' amendments to IAS 39 and IFRS 7 are applicable when the contractual terms of the hedged instruments or of the hedging instruments have not yet been amended (i.e. with the inclusion of a "fallback" clause), or if they have been amended, when the terms and the date of the transition to the new reference interest rates have not been clearly stipulated. Conversely, the 'Phase 2' amendments are applicable when the contractual terms of the hedged instruments or of the hedging instruments have been amended, and the terms and date of transition to the new reference interest rates have been clearly stipulated.

Besides, the reform led to a change in the reference overnight interest rate applied for the remuneration of collateral. This was accomplished in particular in 2020 by the clearing houses for derivatives in euro and United States dollar, leading to changes in valuation curves. The net impact of these changes on the accounts of BNP Paribas Fortis is non-significant.

The introduction of other standards, amendments and interpretations that are mandatory as from 1 January 2021 had no effect on the half-year financial statements as at 30 June 2021.

BNP Paribas Fortis did not anticipate the application of the new standards, amendments, and interpretations adopted by the European Union, when the application in 2021 was optional.

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

IFRS 17 'Insurance Contracts', issued in May 2017, will replace IFRS 4 'Insurance Contracts' and will become mandatory for annual periods beginning on or after 1 January 2023², after its adoption by the European Union for application in Europe.

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;
- banking activities in Luxembourg;
- banking activities in Turkey;

² On 25 June 2020, the IASB published "Amendments to IFRS 17" including in particular the deferral of the mandatory initial application of IFRS 17 for two years

- other domestic markets;
- 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. 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

Exclusive control

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 holds, directly or indirectly, the majority of the voting rights (and if there are no contractual provisions that alter the power of these voting rights) or if the power to direct the relevant activities of the entity is conferred on it by contractual agreements.

Structured entities are entities established so that they are not governed by voting rights, for instance 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.

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 fair 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.

Joint control

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, the BNP Paribas Fortis accounts for its share of the assets, liabilities, revenues and expenses in accordance with the applicable IFRSs.

Significant influence

Companies over which BNP Paribas Fortis exercises significant influence or associates are accounted for by the equity method. Significant influence is the power to participate in the financial and operating policy decisions of a company without exercising control. Significant influence is presumed to exist when BNP Paribas Fortis holds, directly or indirectly, 20% or more of the voting rights of a company. Interests of less than 20% can be included in the consolidation scope if BNP Paribas Fortis effectively exercises significant influence. This is the case for example for entities developed in partnership with other associates, where BNP Paribas Fortis participates in strategic decisions of the enterprise through representation on the Board of Directors or equivalent governing body, or 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 recorded on associates is also included under 'equity-method investments'.

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 contracted a legal or constructive obligation, or has made payments on behalf of this entity.

Where BNP Paribas Fortis holds an interest in an associate, directly or indirectly through an entity that is a venture capital organisation, a mutual fund, an open-ended investment company or similar entity such as an investment-related insurance fund, it may elect to measure that interest at fair value through profit or loss.

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

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

1.c.3 Consolidation rules

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 financial instruments at fair value through equity are maintained in the consolidated financial statements.

Translation of accounts 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 differences' 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 eurozone, 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 exchange difference at the date of liquidation or sale, determined according to the step method, is recognised in the profit and loss account.

Should the percentage of interest change without leading to a modification in the nature of the investment, the exchange difference is reallocated between the portion attributable to shareholders and that attributable to minority interests, if the entity is fully consolidated; if the entity is consolidated under the equity method, it is recorded in profit or loss for the portion related to the interest sold.

1.c.4 Business combination 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 has been 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), had 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 cash-generating units, representing major business lines. This split is consistent with the organisational structure and management methods of BNP Paribas Fortis, and reflects the independence of each unit 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 units 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 Management, 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 Fortis 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.

1.d Translation of 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 liabilities³ expressed in foreign currencies

Monetary assets and liabilities expressed in foreign currencies are translated into the functional currency of the relevant entity at the closing rate. Foreign exchange 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 (i.e. date of initial recognition of the non-monetary asset) if they are measured at historical cost, and at the closing rate if they are measured at fair value.

Foreign exchange differences relating to non-monetary assets denominated in foreign currencies and recognised at fair value (equity instruments) are recognised in profit or loss when the asset is classified in 'Financial assets at fair value through profit or loss' and in equity when the asset is classified under 'Financial assets at fair value through equity'.

1.e Net interest income, commissions and income from other activities

1.e.1 Net interest income

Income and expenses relating to debt instruments measured at amortised cost and at fair value through shareholders' equity are recognised in the income statement using the effective interest rate method.

The effective interest rate is the rate that ensures the discounted value of estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period, is equal to the carrying amount of the asset or liability in the balance sheet. The effective interest rate measurement 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.

Commissions considered as an additional component of interest are included in the effective interest rate, and are recognised in the profit and loss account in 'Net interest income'. This category includes notably commissions on financing commitments when it is considered that the setting up of a loan is more likely than unlikely. Commissions received in respect of financing commitments are deferred until they are drawn and then included in the effective interest rate calculation and amortised over the life of the loan. Syndication commissions are also included in this category for the portion of the commission equivalent to the remuneration of other syndication participants.

1.e.2 Commissions and income from other activities

Commissions received with regards to banking and similar services provided (except for those that are integral part of the effective interest rate), revenues from property development and revenues from services provided in connection with lease contracts fall within the scope of IFRS 15 'Revenue from Contracts with Customers'.

This standard defines a single model for recognising revenue based on five-step principles. These five steps enable to identify the distinct performance obligations included in the contracts and allocate the transaction price among them. The income related to those performance obligations is recognised as revenue when the latter are satisfied, namely when the control of the promised goods or services has been transferred.

The price of a service may contain a variable component. Variable amounts may be recognised in the income statement only if it is highly probable that the amounts recorded will not result in a significant downward adjustment.

Commission

BNP Paribas Fortis records commission income and expense in profit or loss:

- either over time as the service is rendered when the client receives continuous service. These include, for example, certain commissions on transactions with customers when services are rendered on a continuous basis, commissions on financing commitments that are not included in the interest margin, because the probability that they give rise to the drawing up of a loan is low, commissions on financial collateral, clearing commissions on financial instruments, commissions related to trust and similar activities, securities custody fees, etc.

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

Commissions received under financial guarantee commitments are deemed to represent the initial fair value of the commitment. The resulting liability is subsequently amortised over the term of the commitment, in Commission Income.

- or at a point in time when the service is rendered, in other cases. These include, for example, distribution fees received, loan syndication fees remunerating the arrangement service, advisory fees, etc.

Income from other activities

Income from services provided in connection with lease contracts is recorded in profit or loss 'Income from other activities' as the service is rendered, i.e. in proportion to the costs incurred for maintenance contracts.

1.f Financial assets and financial liabilities

Financial assets are classified at amortised cost, at fair value through shareholders' equity or at fair value through profit or loss depending on the business model and the contractual features of the instruments at initial recognition.

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

Financial assets and liabilities are recognised in the balance sheet when BNP Paribas Fortis becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets made within a period established by the regulations or by a convention in the relevant marketplace are recognised in the balance sheet at the settlement date.

1.f.1 Financial assets at amortised cost

Financial assets are classified at amortised cost if the following two criteria are met: the business model objective is to hold the instrument in order to collect the contractual cash flows and the cash flows consist solely of payments relating to principal and interest on the principal.

Business model criterion

Financial assets are managed within a business model whose objective is to hold financial assets in order to collect cash flows through the collection of contractual payments over the life of the instrument.

The realisation of disposals close to the maturity of the instrument and for an amount close to the remaining contractual cash flows, or due to an increase in the counterparty's credit risk is consistent with a business model whose objective is to collect the contractual cash flows ('collect'). Sales imposed by regulatory requirements or to manage the concentration of credit risk (without an increase in the asset's credit risk) are also consistent with this business model when they are infrequent or insignificant in value.

Cash flow criterion

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

The criterion is not met in the event of a contractual characteristic that exposes the holder to risks or to the volatility of contractual cash flows that are inconsistent with those of a non-structured or 'basic lending' arrangement. It is also not satisfied in the event of leverage that increases the variability of the contractual cash flows.

Interest consists of consideration for the time value of money, for the credit risk, and for the remuneration of other risks (e.g. liquidity risk), costs (e.g. administration fees), and a profit margin consistent with that of a basic lending arrangement. The existence of negative interest does not call into question the cash flow criterion.

The time value of money is the component of interest - usually referred to as the 'rate' component - which provides consideration for only the passage of time. The relationship between the interest rate and the passage of time shall not be modified by specific characteristics that would likely call into question the respect of the cash flow criterion.

Thus, when the variable interest rate of the financial asset is periodically reset on a frequency that does not match the duration for which the interest rate is established, the time value of money may be considered as modified and, depending on the significance of that modification, the cash flow criterion may not be met. Some financial assets held by BNP Paribas Fortis present a mismatch between the interest rate reset frequency and the maturity of the index, or interest rates indexed on an average of benchmark rate. BNP Paribas Fortis has developed a consistent methodology for analysing this alteration of the time value of money.

Regulated rates meet the cash flow criterion when they provide a consideration that is broadly consistent with the passage of time and does not expose to risks or volatility in the contractual cash flows that would be inconsistent with those of a basic lending arrangement.

Some contractual clauses may change the timing or the amount of cash flows. Early redemption options do not call into question the cash flow criterion if the prepayment amount substantially represents the principal amount outstanding and the interest thereon, which may include a reasonable compensation for the early termination of the contract. For example, as regards loans to retail customers, the compensation limited to six months of interest or 3% of the capital outstanding is considered as reasonable. Actuarial penalties, corresponding to the discount value of the difference between the residual contractual cash flows of the loan, and their reinvestment in a loan to a similar counterparty or in the interbank market for a similar residual maturity are also considered as reasonable, even when the compensation can be positive or negative (i.e. so called 'symmetric' compensations). An option that permits the issuer or the holder of a financial instrument to change the interest rate from floating to fixed rate does not breach the cash flow criterion if the fixed rate is determined at origination, or if it represents the time value of money for the residual maturity of the instrument at the date of exercise of the option.

In the particular case of financial assets contractually linked to payments received on a portfolio of underlying assets and which include a priority order for payment of cash flows between investors ('tranches'), thereby creating concentrations of credit risk, a specific analysis is carried out. The contractual characteristics of the tranche and those of the underlying financial instruments portfolios must meet the cash flow criterion and the credit risk exposure of the tranche must be equal or lower than the exposure to credit risk of the underlying pool of financial instruments.

Certain loans may be 'non-recourse', either contractually, or in substance when they are granted to a special purpose entity. That is in particular the case of numerous project financing or asset financing loans. The cash flow criterion is met as long as these loans do not represent a direct exposure on the assets acting as collateral. In practice, the sole fact that the financial asset explicitly gives rise to cash flows that are consistent with payments of principal and interest is not sufficient to conclude that the instrument meets the cash flows criterion. In that case, the particular underlying assets to which there is limited recourse shall be analysed using the 'look-through' approach. If those assets do not themselves meet the cash flows criterion, an assessment of the existing credit enhancement has to be performed. The following aspects are considered: structuring and sizing of the transaction, own funds level of the structure, expected source of repayment, volatility of the underlying assets. This analysis is applied to 'non-recourse' loans granted by BNP Paribas Fortis.

The 'financial assets at amortised cost' category includes, in particular, loans granted by BNP Paribas Fortis, as well as, reverse repurchase agreements and securities held by BNP Paribas Fortis ALM Treasury in order to collect contractual flows and meeting the cash flows criterion.

Recognition

On initial recognition, financial assets are recognised at their fair value, including transaction costs directly attributable to the transaction as well as commissions related to the origination of the loans.

They are subsequently measured at amortised cost, including accrued interest and net of repayments of principal and interest during the past period. These financial assets are also subject from initial recognition to the measurement of a loss allowance for expected credit losses (note 1.f.4).

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

1.f.2 Financial assets at fair value through shareholders' equity

Debt instruments

Debt instruments are classified at fair value through shareholders' equity if the following two criteria are met:

- business model criterion: financial assets are held in a business model whose objective is achieved by both holding the financial assets in order to collect contractual cash flows and selling the financial assets ('collect and sale'). The latter is not incidental but is an integral part of the business model;
- cash flow criterion: the principles are identical to those applicable to financial assets at amortised cost.

The securities held by BNP Paribas Fortis ALM Treasury in order to collect contractual flows or to be sold and meeting the cash flow criterion are in particular classified in this category.

On initial recognition, financial assets are recognised at their fair value, including transaction costs directly attributable to the transaction. They are subsequently measured at fair value and changes in fair value are recognised, under a specific line of shareholders' equity entitled 'Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss'. These financial assets are also subject to the measurement of a loss allowance for expected credit losses on the same approach as for debt instruments at amortised cost. The counterparty of the related impact in 'Cost of risk' is recognised in the same specific line of shareholders' equity. On disposal, changes in fair value previously recognised in shareholders' equity are reclassified to profit or loss.

In addition, interest is recognised in the income statement using the effective interest method determined at the inception of the contract.

Equity instruments

Investments in equity instruments such as shares are classified on option, and on a case by case basis, at fair value through shareholders' equity (under a specific line). On disposal of the shares, changes in fair value previously recognised in equity are not recognised in profit or loss. Only dividends, if they represent remuneration for the investment and not repayment of capital, are recognised in profit or loss. These instruments are not subject to impairment.

Investments in mutual funds puttable to the issuer do not meet the definition of equity instruments. They do not meet the cash flow criterion either, and thus are recognised at fair value through profit or loss.

1.f.3 Financing and guarantee commitments

Financing and financial guarantee commitments that are not recognised as derivative instruments at fair value through profit or loss are presented in the note relating to Financing and guarantee commitments. They are subject to the measurement of a loss allowance for expected credit losses. These loss allowances are presented under 'provisions for contingencies and charges'.

1.f.4 Impairment of financial assets measured at amortised cost and debt instruments measured at fair value through shareholders' equity

The impairment model for credit risk is based on expected losses.

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

General model

BNP Paribas Fortis identifies three stages that correspond each to a specific status with regards to the evolution of counterparty credit risk since the initial recognition of the asset.

- 12-month expected credit losses ('Stage 1'): If at the reporting date, the credit risk of the financial instrument has not increased significantly since its initial recognition, this instrument is impaired at an amount equal to 12-month expected credit losses (resulting from the risk of default within the next 12 months);
- Lifetime expected credit losses for non-impaired assets ('Stage 2'): The loss allowance is measured at an amount equal to the lifetime expected credit losses if the credit risk of the financial instrument has increased significantly since initial recognition, but the financial asset is not considered credit impaired or doubtful;
- Lifetime expected credit losses for credit-impaired or doubtful financial assets ('Stage 3'): the loss allowance is also measured for an amount equal to the lifetime expected credit losses.

This general model is applied to all instruments within the scope of IFRS 9 impairment, except for purchased or originated credit-impaired financial assets and instruments for which a simplified model is used (see below).

The IFRS 9 expected credit loss approach is symmetrical, i.e. if lifetime expected credit losses have been recognised in a previous reporting period, and if it is assessed in the current reporting period that there is no longer any significant increase in credit risk since initial recognition, the loss allowance reverts to a 12-months expected credit loss.

As regards interest income, under 'stage' 1 and 2, it is calculated on the gross carrying amount. Under Stage 3, interest income is calculated on the amortised cost (i.e. the gross carrying amount adjusted for the loss allowance).

Definition of default

The definition of default is aligned with the Basel regulatory default definition, with a rebuttable presumption that the default occurs no later than 90 days past-due. This definition takes into account the EBA guidelines of 28 September 2016, notably those regarding the thresholds applicable for the counting of past-due and probation periods.

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

Credit-impaired or doubtful financial assets

Definition

A financial asset is considered credit-impaired or doubtful and classified in Stage 3 when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

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

- the existence of accounts that are more than 90 days past due;
- knowledge or indications that the borrower meets significant financial difficulties, 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 financial assets for financial difficulties').

Specific cases of purchased or originated credit-impaired assets

In some cases, financial assets are credit-impaired at their initial recognition.

For these assets, there is no loss allowance accounted for at initial recognition. The effective interest rate is calculated taking into account the lifetime expected credit losses in the initial estimated cash flows. Any change in lifetime expected credit losses since initial recognition, positive or negative, is recognised as a loss allowance adjustment in profit or loss.

Simplified model

The simplified approach consists in accounting for a loss allowance corresponding to lifetime expected credit losses since initial recognition, and at each reporting date.

BNP Paribas Fortis applies this model to trade receivables with a maturity shorter than 12 months.

Significant increase in credit risk

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

Assessment of deterioration is based on the comparison of the probabilities of default or the ratings on the date of initial recognition with those existing at the reporting date.

There is also, according to the standard, a rebuttable presumption that the credit risk of an instrument has significantly increased since initial recognition when the contractual payments are more than 30 days past due.

In the consumer credit specialised business, a significant increase in credit risk is also considered when a past due event has occurred within the last 12 months, even if it has since been regularised.

In the context of the health crisis, the granting of moratoria that meet the criteria defined in the EBA guidelines published on 2 April 2020, and amended on 2 December 2020, has not been considered, in isolation, as an indicator of a significant increase in credit risk leading to an automatic transfer to stage 2. The granting of "private" moratoria that meet equivalent criteria to those defined in the EBA guidelines published on 2 April 2020 (i.e. granted up to 30 September 2020) has followed the same treatment. Moratoria do not trigger the counting of past-due days as long as the new schedule of payment is respected.

The principles applied to assess the significant increase in credit risk are detailed in note 2.g 'Cost of risk'.

Measurement of expected credit losses

Expected credit losses are defined as an estimate of credit losses (i.e. the present value of all cash shortfalls) weighted by the probability of occurrence of these losses over the expected life of financial instruments. They are measured on an individual basis, for all exposures.

In practice, for exposures classified in Stage 1 and Stage 2, expected credit losses are measured as the product of the probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'), discounted at the effective interest rate of the exposure (EIR). They result from the risk of default within the next 12 months (Stage 1), or from the risk of default over the maturity of the facility (Stage 2). In the consumer credit specialised business, because of the specificity of credit exposures, the methodology used is based on the probability of transition to term forfeiture, and on discounted loss rates after term forfeiture. The measurement of these parameters is performed on a statistical basis for homogeneous populations.

For exposures classified in Stage 3, expected credit losses are measured as the value, discounted at the effective interest rate, of all cash shortfalls over the life of the financial instrument. Cash shortfalls represent the difference between the cash flows that are due in accordance with the contract, and the cash flows that are expected to be received.

The methodology developed is based on existing concepts and methods (in particular the Basel framework) on exposures for which capital requirement for credit risk is measured according to the IRBA methodology. This method is also applied to portfolios for which capital requirement for credit risk is measured according to the standardised approach. Besides, the Basel framework has been adjusted in order to be compliant with IFRS 9 requirements, in particular the use of forward-looking information.

Maturity

All contractual terms of the financial instrument (including prepayment, extension and similar options) over the life of the instrument are taken into account. In the rare cases where the expected life of the financial instrument cannot be estimated reliably, the residual contractual term must be used.

The standard specifies that the maximum period to consider when measuring expected credit losses is the maximum contractual period. However, for revolving credit cards and overdrafts, in accordance with the exception provided by IFRS 9 for these products, the maturity considered for expected credit losses measurement is the period over which the entity is exposed to credit risk, which may extend beyond the contractual maturity (notice period). For revolving credits and overdrafts to non-retail counterparties, the contractual maturity can be taken, for example if the next review date is the contractual maturity as they are individually managed.

Probabilities of Default (PD)

The Probability of Default is an estimate of the likelihood of default over a given time horizon.

The measurement of expected credit losses requires the estimation of both 1 year probabilities of default and lifetime probabilities of default:

- 1-year PDs are derived from long-term average regulatory 'through the cycle' PDs to reflect the current situation ('point in time' or 'PIT');
- lifetime PDs are determined from the rating migration matrices reflecting the expected rating evolution of the exposure until maturity, and the associated probabilities of default.

Loss Given Default (LGD)

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

The estimate of expected cash flows takes into account cash flows resulting from the sale of collateral held or other credit enhancements if they are part of the contractual terms and are not accounted for separately by the entity (for example, a mortgage associated with a residential loan), net of the costs of obtaining and selling the collateral.

For state-guaranteed loans that have been originated in the context of the health crisis, the guarantee is considered as integral to the loan agreement if it is embedded in the contractual clauses of the loan, or it was granted at origination of the loan, and if the expected reimbursement amount can be attached to a loan in particular (i.e. absence of pooling effect by the mean of a tranching mechanism, or the existence of a global cap for a whole portfolio). In such case, the guarantee is taken into account when measuring the expected credit losses. Otherwise, it is accounted for as a separate reimbursement asset.

The LGD used for IFRS 9 purposes is derived from the Basel LGD parameters. It is retreated for downturn and conservatism margins (in particular regulatory margins), except for margins for model uncertainties.

Exposure At Default (EAD)

The Exposure At Default (EAD) of an instrument is the anticipated outstanding amount owed by the obligor at the time of default. It is determined by the expected payment profile taking into account, depending on the product type: the contractual repayment schedule, expected early repayments and expected future drawings for revolving facilities.

Forward looking

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

The principles applied to take into account forward looking information when measuring expected credit losses are detailed in note 2.g 'Cost of risk'.

Write-offs

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

If the amount of loss on write-off is greater than the accumulated loss allowance, the difference is an additional impairment loss posted in 'Cost of risk'. For any receipt occurring when the financial asset (or part of it) is no longer recognised on the balance-sheet, the amount received is recorded as an impairment gain in 'Cost of risk'.

Recoveries through the repossession of the collateral

When a loan is secured by a financial or a non-financial asset serving as a guarantee and the counterparty is in default, BNP Paribas Fortis may decide to exercise the guarantee and, according to the jurisdiction, it may then become owner of the asset. In such a situation, the loan is written-off in counterparty of the asset received as collateral.

Once ownership of the asset is carried out, it is accounted for at fair value and classified according to the intent of use.

Restructuring of financial assets for financial difficulties

A restructuring due to the borrower's financial difficulties is defined as a change in the terms and conditions of the initial transaction that BNP Paribas Fortis is considering only for economic or legal reasons related to the borrower's financial difficulties.

For restructurings not resulting in derecognition of the financial asset, the restructured asset is subject to an adjustment of its gross carrying amount, to reduce it to the discounted amount, at the original effective interest rate of the asset, of the new expected future flows. The change in the gross carrying amount of the asset is recorded in the income statement in 'Cost of risk'.

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

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

As a reminder, in 2020, in response to the health crisis, several moratoria have been granted to clients. Those moratoria mostly consist in payment suspension of a few months, with interests that may or not continue to accrue during the suspension period. To that extent, the modification is generally considered as not substantial. The associated discount (linked to the absence of interest accruing, or interest accruing at a rate that is lower than the EIR of the loan) is thus accounted for in NBI, subject to the respect of certain criteria⁴. The moratorium is indeed, in such situation, considered as not being granted in response to the borrower encountering financial difficulties, but in response to a temporary liquidity crisis and the credit risk is not considered to have significantly increased.

Modifications to financial assets that are not due to a borrower's financial difficulties, or granted in the context of a moratorium (i.e. commercial renegotiations) are generally analysed as the early repayment of the former financial asset, which is then derecognised, followed by the set-up of a new financial asset at market conditions. They consist in resetting the interest rate of the loan at market conditions, with the client being in a position to change its lender and not encountering any financial difficulties.

1.f.5 Cost of risk

'Cost of risk' includes the following items of profit or loss:

- impairment gains and losses resulting from the accounting of loss allowances for 12-month expected credit losses and lifetime expected credit losses ('Stage 1' and 'Stage 2') relating to debt instruments measured at amortised cost or at fair value through shareholders' equity, loan commitments and financial guarantee contracts that are not recognised at fair value as well as lease receivables, contract assets and trade receivables;
- impairment gains and losses resulting from the accounting of loss allowances relating to financial assets (including those at fair value through profit or loss) for which there is objective evidence of impairment ('Stage 3'), write-offs on irrecoverable loans and amounts recovered on loans written-off.

It also includes expenses relating to fraud and to disputes inherent to the financing activity.

⁴ Moratoria qualified as «COVID-19 General moratorium Measure » (i.e. meeting the criteria defined in EBA Guidelines published on 2 April 2020) or similar measures that do not lead to a transfer in stage 3.

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

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

The trading portfolio includes instruments held for trading (trading transactions), including derivatives.

Other financial assets measured at fair value through profit or loss include debt instruments that do not meet the 'collect' or 'collect and sale' business model criterion or that do not meet the cash flow criterion, as well as equity instruments for which the fair value through shareholders' equity option has not been retained.

All those financial instruments are measured at fair value at initial recognition, with transaction costs directly posted in profit or loss. At reporting date, they are measured at fair value, with changes presented in 'Net gain/loss on financial instruments at fair value through profit or loss'. Income, dividends and realised gains and losses on disposal related to held-for-trading transactions are accounted for in the same profit or loss account.

Financial liabilities designated as at fair value through profit or loss

Financial liabilities are recognised under option in this category in the two following situations:

- for hybrid financial instruments containing one or more embedded derivatives which otherwise would have been separated and accounted for separately. An embedded derivative is such that its economic characteristics and risks are not closely related to those of the host contract;
- when 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 otherwise arise if they were to be classified in separate categories.

Changes in fair value due to the own credit risk are recognised under a specific heading of shareholders' equity.

1.f.7 Financial liabilities and equity instruments

A financial instrument issued or its various components are classified as a financial liability or equity instrument, in accordance with the economic substance of the legal contract.

Financial instruments issued by BNP Paribas Fortis are qualified as debt instruments if the entity in the Group of BNP Paribas Fortis issuing the instruments 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.

Equity instruments result from contracts evidencing a residual interest in an entity's assets after deducting all of its liabilities.

Debt securities and subordinated debt

Debt securities and subordinated debt are measured at amortised cost unless they are recognised at fair value through profit or loss.

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

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

Equity instruments

The term 'own equity instruments' refers to shares issued by 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 shareholders of BNP Paribas Fortis. Similarly, the liability corresponding to put options granted to minority shareholders in such subsidiaries, and changes in the value of that liability, are offset 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.

Financial instruments issued by BNP Paribas Fortis and classified as equity instruments (e.g. Undated Super Subordinated Notes) are presented in the balance sheet in 'Capital and retained earnings'.

Distributions from a financial instrument classified as an equity instrument are recognised directly as a deduction from equity. Similarly, the transaction costs of an instrument classified as equity are recognised as a deduction from 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 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 recognises the debt at its present value with an offsetting entry in shareholders' equity.

1.f.8 Hedge accounting

BNP Paribas Fortis retained the option provided by the standard to maintain the hedge accounting requirements of IAS 39 until the future standard on macro-hedging is entered into force. Furthermore, 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 in IAS 39 for these portfolio hedges, as adopted by the European Union, continue to apply.

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 underlying;
- 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 underlying. Retrospectively, a hedge will be disqualified from hedge accounting once a shortfall arises in the underlying 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, 'Changes in fair value recognised directly in equity'. 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 foreign exchange derivatives or any other non-derivative financial instrument.

1.f.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 and marginally some instruments disclosed in Level 2, 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.f.10 Derecognition of financial assets and financial liabilities

Derecognition of financial assets

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.

Derecognition of financial liabilities

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

Repurchase agreements and securities lending/borrowing

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

Securities temporarily acquired under reverse repurchase agreements are not recognised in the BNP Paribas Fortis balance sheet. The corresponding receivable is recognised at amortised cost under the appropriate 'Financial assets at amortised cost' category in the balance sheet, except in the case of reverse repurchase agreements contracted for trading purposes, for which the corresponding receivable is recognised in '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'.

1.f.11 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 that meet the two criteria set out in the accounting standard are offset in the balance sheet.

1.g 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. Rights-of-use related to leased assets (see note 1.h.2) are presented by the lessee within fixed assets in the same category as similar assets held.

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 and is recognised at cost.

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 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.h Leases

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

1.h.1 BNP Paribas Fortis as lessor

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.

Impairments of lease receivables are determined using the same principles as applied to financial assets measured at amortised cost.

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 its useful life. 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.h.2 BNP Paribas Fortis as lessee

Lease contracts concluded by BNP Paribas Fortis, with the exception of contracts whose term is shorter than or equal to 12 months and low-value contracts, are recognised in the balance-sheet in the form of a right of use on the leased asset presented under fixed assets, along with the recognition of a financial liability for the rent and other payments to be made over the leasing period. The right-of-use asset is amortised on a straight-line basis and the financial liabilities are amortised on an actuarial basis over the lease period. Dismantling costs corresponding to specific and significant fittings and fixtures are included in the initial right-of-use estimation, in counterparty of a provision liability.

The key hypothesis used by BNP Paribas Fortis for the measurement of rights of use and lease liabilities are the following:

- The lease term corresponds to the non-cancellable period of the contract, together with periods covered by an extension option if BNP Paribas Fortis is reasonably certain to exercise this option. In Belgium, the standard commercial lease contract is the so-called 'three, six, nine' contract for which the maximum period of use is nine years, with a first non-cancellable period of three years followed by two optional extension periods of three years each; hence, depending on the assessment, the lease term can be of three, six or nine years. When investments like fittings or fixtures are performed under the contract, the lease term is aligned with their useful lives. For tacitly renewable contracts, with or without an enforceable period, related right of use and lease liabilities are recognised based on an estimate of the reasonably foreseeable economic life of the contracts, minimal occupation period included.
- The discount rate used to measure the right of use and the lease liability is assessed for each contract as the interest rate implicit in the lease, if that rate can be readily determined, or more generally based on the incremental borrowing rate of the lessee at the date of signature. The incremental borrowing rate is determined considering the average term (duration) of the contract;
- When the contract is modified, a new assessment of the lease liability is made taking into account the new residual term of the contract, and therefore a new assessment of the right of use and the lease liability is established.

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

Where BNP Paribas Fortis decides to sell non-current assets or a group of assets and liabilities and it is highly probable that the sale will occur within 12 months, these assets are shown separately 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'. When BNP Paribas Fortis is committed to a sale plan involving loss of control of a subsidiary and the sale is highly probable within 12 months, all the assets and liabilities of that subsidiary are classified as held for sale.

Once classified in this category, non-current assets and the group 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.

In this case 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.j 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.k 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.

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.

1.l Provisions recorded under liabilities

Provisions recorded under liabilities (other than those relating to financial instruments and employee benefits) mainly relate to restructuring, claims and litigation, fines and penalties.

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.m Current and deferred tax

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.

As regards the assessment of uncertainty over income tax treatments, BNP Paribas Fortis adopts the following approach:

- BNP Paribas Fortis assesses whether it is probable that a taxation authority will accept an uncertain tax treatment;
- any uncertainty shall be reflected when determining the taxable profit (loss) by considering either the most likely amount (having the higher probability of occurrence), or the expected value (sum of the probability-weighted amounts).

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. This concerns in particular the tax effect of coupons paid on financial instruments issued by BNP Paribas Fortis and qualified as equity instruments, such as Undated Super Subordinated Notes.

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.n 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 those relating to 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.o 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:

- the analysis of the cash flow criterion for specific financial assets;
- the measurement of expected credit losses. This applies in particular to the assessment of significant increase in credit risk, the models and assumptions used to measure expected credit losses, the determination of the different economic scenarios and their weighting;
- the analysis of renegotiated loans, in order to assess whether they should be maintained on the balance-sheet or derecognised;
- the assessment of an active market, and the use of internally-developed models for the measurement of the fair value of financial instruments not quoted in an active market classified in 'Financial assets at fair value through equity' or in 'Financial instruments at fair value through profit or loss', whether as assets or liabilities, and more generally calculations of the fair value of financial instruments subject to a fair value disclosure requirement;
- the assumptions applied to assess the sensitivity to each type of market risk of the market value of financial instruments and the sensitivity of these valuations to the main unobservable inputs as disclosed in the notes to the financial statements;
- the appropriateness of the designation of certain derivative instruments such as cash flow hedges, and the measurement of hedge effectiveness;
- the impairment tests performed on goodwill and intangible assets;
- the impairment testing of investments in equity-method entities;
- the deferred tax assets;
- the measurement of uncertainty over income tax treatments and other provisions for contingencies and charges. In particular, while investigations and litigations are ongoing, it is difficult to foresee their outcome and potential impact. Provision estimation is established by taking into account all available information at the date of the preparation of the financial statements, in particular the nature of the dispute, the underlying facts, the ongoing legal proceedings and court decisions, including those related to similar cases. BNP Paribas Fortis may also use the opinion of experts and independent legal advisers to exercise its judgement.

2. NOTES TO THE PROFIT AND LOSS ACCOUNT FOR THE FIRST HALF OF 2021

2.a Net interest income

BNP Paribas Fortis includes in 'interest income' and 'interest expense' all income and expense calculated using the effective interest method (interest, fees and transaction costs) from financial instruments measured at amortised cost and financial instruments measured at fair value through equity.

These items also include the interest income and expense of non-trading financial instruments, the characteristics of which do not allow for recognition at amortised cost or at fair value through equity, as well as of financial instruments that the Bank has designated as at fair value through profit or loss. The change in fair value on financial instruments at fair value through profit or loss (excluding accrued interest) is recognised under 'Net gain 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 the case of a negative interest rates related to loans and receivables or deposits from customers and credit institutions, they are accounted for in interest expense or interest income respectively.

In millions of euros	First half 2021			First half 2020		
	Income	Expense	Net	Income	Expense	Net
Financial instruments at amortised cost	3,102	(850)	2,252	3,082	(756)	2,326
Deposits, loans and borrowings	2,473	(732)	1,741	2,541	(591)	1,950
Repurchase agreements	35	(16)	19	10	(46)	(36)
Finance leases	477	(39)	438	458	(33)	425
Debt securities	117	-	117	73	-	73
Issued debt securities and subordinated debts	-	(63)	(63)	-	(86)	(86)
Financial instruments at fair value through equity	52	-	52	71	-	71
Debt securities	52	-	52	71	-	71
Financial instruments at fair value through profit or loss (Trading securities excluded)	6	(16)	(10)	6	(18)	(12)
Cash flow hedge instruments	88	(91)	(3)	115	(162)	(47)
Interest rate portfolio hedge instruments	246	(185)	61	203	(125)	78
Lease liabilities	-	(5)	(5)	-	(7)	(7)
Net interest income/expense	3,494	(1,147)	2,347	3,477	(1,068)	2,409

Interest income on individually impaired loans amounted to EUR 6 million for the first half of 2021, compared with EUR 26 million for the first half of 2020.

BNP Paribas Fortis subscribed to the new TLTRO III (targeted longer-term refinancing operations) program, as modified by the Governing Council of the European Central Bank in March 2020 and in December 2020 (see note 4.f). BNP Paribas Fortis expects to achieve the lending performance thresholds that would enable it to benefit from a favourable interest rate (average rate of the deposit facility -50 basis points for the first two years and average rate of the deposit facility for the following year). This floating interest rate is considered as a market rate as it is applicable to all financial institutions meeting the lending criteria defined by the European Central Bank. The effective interest rate of these financial liabilities is determined for each reference period, its two components (reference rate and margin) being adjustable. It corresponds to the period's nominal interest rate for each period. If the criteria for an increase in lending is not met by BNP Paribas Fortis, the loss in discounted future cash flows would then be immediately recognised in profit or loss.

2.b Commission income and expense

In millions of euros	First half 2021			First half 2020		
	Income	Expense	Net	Income	Expense	Net
Customer transactions	52	(40)	12	47	(66)	(19)
Securities and derivatives transactions	452	(103)	349	421	(86)	335
Financing and guarantee commitments	79	(7)	72	77	(6)	71
Asset management and other services	386	(34)	352	309	(3)	306
Others	142	(214)	(72)	132	(207)	(75)
Net Commission income/expense	1,111	(398)	713	986	(368)	618
<i>Of which net commission income related to 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</i>	232	(1)	231	199	(4)	195
<i>Of which commission income and expense on financial instruments not measured at fair value through profit or loss</i>	211	(80)	131	181	(72)	109

2.c Net gain on financial instruments at fair value through profit or loss

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

These income items include dividends on these instruments and exclude interest income and expense from financial instruments designated as at fair value through profit or loss and instruments whose cash flows are not only repayments of principal and interest on the principal or whose business model is not to collect cash flows nor to collect cash flows and sell the assets, which are presented in 'interest income' (note 2.a).

In millions of euros	First half 2021	First half 2020
Trading Book	41	62
Interest rate and credit instruments	(5)	32
Equity financial instruments	76	(46)
Foreign exchange financial instruments	(49)	58
Loans and repurchase agreements	19	21
Other financial instruments	-	(3)
Financial instruments designated as at fair value through profit or loss	(71)	130
Other financial instruments at fair value through profit and loss	80	(53)
Debt instruments	-	(5)
Equity instruments	80	(48)
Impact of hedge accounting	-	(13)
Fair value hedging derivatives	421	(331)
Hedged items in fair value hedge	(421)	318
Net gain or loss on financial instruments at fair value through profit or loss	50	126

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

Net gains on the trading book in first halves of 2021 and 2020 include a non-material amount related to the ineffective portion of cash flow hedges.

Potential sources of ineffectiveness can be the differences between hedging instruments and hedged items, notably generated by mismatches in the terms of hedged and hedging instruments, such as the frequency and timing of interest rates resetting, the frequency of payment and the discounting factors, or when hedging derivatives have a non-zero fair value at inception date of the hedging relationship. Credit valuation adjustments applied to hedging derivatives are also sources of ineffectiveness.

Cumulated changes in fair value related to discontinued cash flow hedge relationships, previously recognised in equity and included in the 2021 profit and loss account were not material, whether the hedged item ceased to exist or not.

2.d Net gain on financial instruments at fair value through equity

In millions of euros	First half 2021	First half 2020
Net gain on debt instruments at fair value through equity	14	7
Net gain on debt instruments ⁽¹⁾	14	7
Net gain on equity instruments at fair value through equity	13	4
Dividend income on equity instruments	13	4
Net gain or loss on financial instruments at fair value through equity	27	11

⁽¹⁾ Interest income from debt instruments is included in 'Net interest income' (Note 2.a), and impairment losses related to potential issuer default are included in 'Cost of risk' (Note 2.g).

Unrealised gains and losses on debt securities previously recorded under 'Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss' and included in the pre-tax income, amount to a net gain of EUR 8 million for the first half of 2021 compared with EUR 1 million for the first half of 2020.

2.e Net income from other activities

In millions of euros	First half 2021			First half 2020		
	Income	Expense	Net	Income	Expense	Net
Net income from investment property	26	(6)	20	25	(8)	17
Net income from assets held under operating leases	6,198	(5,268)	930	5,045	(4,273)	772
Other net income	586	(559)	27	350	(325)	25
Total net income from other activities	6,810	(5,833)	977	5,420	(4,606)	814

2.f Other operating expenses

In millions of euros	First half 2021	First half 2020
External services and other operating expenses	(669)	(648)
Taxes and contributions ⁽¹⁾	(405)	(381)
Other operating expenses	(1,074)	(1,029)

⁽¹⁾ Contributions to European resolution funds, including exceptional contributions, amount to EUR (89) million for the first half of 2021 (EUR (68) million for the first half of 2020)

2.g Cost of risk

The group general model for impairment described in note 1.f.4 used by the Group relies on the following two steps:

- assessing whether there has been a significant increase in credit risk since initial recognition, and
- measuring impairment allowance as either 12-month expected credit losses or lifetime expected credit loss (i.e. loss expected at maturity).

Both steps shall rely on forward looking information.

Significant increase in credit risk

The assessment of increase in credit risk is done at instrument level based on indicators and thresholds that vary depending on the nature of the exposure and the type of the counterparty.

Wholesale (Corporates / Financial institutions / Sovereigns) and bonds

The indicator used for assessing increase in credit risk is the internal counterparty rating of the obligor of the facility.

The deterioration in credit quality is considered significant, and the facility is therefore placed in stage 2, if the difference between the counterparty rating at origination and the one as at the reporting date is equal or superior to 3 notches (for instance, a downgrade from 4- to 5-).

The low risk expedient permitted by IFRS 9 (i.e. whereby bonds with an investment grade rating at reporting date are considered as stage 1, and bonds with a non-investment grade rating at reporting date are considered as stage 2) is used only for debt securities for which no ratings are available at acquisition date.

SME Corporates facilities and Retail

As far as SME Corporates exposures are concerned, the indicator used for assessing increase in credit risk is also the internal counterparty rating of the obligor of the facility. Due to a higher volatility in the rating system applied, deterioration is considered significant, and the facility is therefore placed in stage 2, if the difference between the counterparty rating at origination and the one as at the reporting date is equal or superior to 6 notches.

For retail exposures, two alternative risk indicators of increase in credit risk can be taken into consideration:

- probability of default (PD): changes in the 1-year probability of default are considered as a reasonable approximation of changes in the lifetime probability of default. Deterioration in credit quality is considered significant, and the facility is therefore placed in stage 2, if the ratio (1 year PD at the reporting date / 1 year PD at origination) is higher than 4.
- existence of a past due within the last 12 months: in the consumer credit specialised business, the existence of a past due that has occurred within the last 12 months, even if regularised since, is considered as a significant deterioration in credit risk and the facility is therefore placed into stage 2.

Furthermore, for all portfolios (except consumer loan specialised business):

- the facility is assumed to be in stage 1 when its rating is better than or equal to 4- (or its 1 year PD is below or equal to 0.25%) at reporting date, since changes in PD related to downgrades in this zone are less material, and therefore not considered as "significant".
- when the rating is worse than or equal to 9+ (or the 1 year PD is above 10%) at reporting date considering the Group's practice in terms of credit origination, it is considered as significantly deteriorated and therefore placed into stage 2 (as long as the facility is not credit-impaired).

Forward Looking Information

The Group considers forward-looking information both when assessing significant increase in credit risk and when measuring Expected Credit Losses (ECL).

Regarding the assessment of significant increase in credit risk, beyond the rules based on the comparison of risk parameters between initial recognition and reporting date (cf. "significant increase in credit risk" section), the determination of significant increase in credit risk is supplemented by the consideration of more systemic forward looking factors (such as macroeconomic, sectorial and geographical risk drivers) that could increase the credit risk of some exposures. These factors can lead to tighten the transfer criteria into stage 2, resulting in an increase of ECL amounts for exposures deemed vulnerable to these forward looking drivers.

Regarding the measurement of expected credit losses, the Group has made the choice to use 3 macroeconomic scenarios by geographic area covering a wide range of potential future economic conditions:

- a baseline scenario, consistent with the scenario used for budgeting,
- an adverse scenario, corresponding to the scenario used quarterly in Group stress tests,
- a favourable scenario, allowing to capture situations where the economy performs better than anticipated.

The link between the macroeconomic scenarios and the ECL measurement is mainly achieved through a modelling of the probabilities of default and deformation of migration matrices based on internal rating (or risk parameter). The probabilities of default determined according to these scenarios are used to measure expected credit losses in each of these situations.

The weighting of the expected credit losses under each scenario is performed as follows:

- 50% for the baseline scenario,
- the weighting of the two alternative scenarios is computed using a relationship with the position in the credit cycle. In this approach, the adverse scenario receives a higher weight when the economy is in strong expansion than in lower growth period in anticipation of a potential downturn of the economy.

In addition, when appropriate, the ECL measurement can take into account scenarios of sale of the assets.

Macroeconomic scenarios:

The three macroeconomic scenarios are defined over a three-year projection horizon. They correspond to:

- a baseline scenario which describes the most likely path of the economy over the projection horizon. This scenario is updated on a quarterly basis and is prepared by the Group Economic Research department in collaboration with various experts within the Group. Projections are designed for each key market of the Group) using key macroeconomic variables (Gross Domestic Product - GDP - and its components, unemployment rate, consumer prices, interest rates, foreign exchange rates, oil prices, real estate prices, etc.) which are key drivers for modelling risk parameters used in the stress test process.

As from 31 December 2020, in addition to the geographic breakdown, prospective parameters are detailed at sector level to better reflect the heterogeneity of economic trajectories in conjunction with lockdown measures and the partial interruption in activity;

- an adverse scenario which describes the impact of the materialisation of some of the risks weighing on the baseline scenario, resulting in a much less favourable economic path than in the baseline scenario. The starting point consists of a shock on GDP. This shock is applied with variable magnitudes, but at the same time to economies as the crisis is considered to be a global crisis. Generally, these assumptions are broadly consistent with those proposed by the regulators. The calibration of shocks on other variables (unemployment, consumer prices, interest rates etc.) is based on models and expert judgment;
- a favourable scenario which reflects the impact of the materialisation of some of the upside risks for the economy, resulting in a much more favourable economic path. To achieve an unbiased estimation of provisions, the favourable scenario is designed in such a way that the probability of the shock on GDP growth (on average over the cycle) is equal to the probability of the corresponding shock in the adverse scenario. The magnitude of favourable GDP shocks generally corresponds to 80%-95% of the magnitude of adverse GDP shocks. Other variables (unemployment, inflation, interest rates) are defined in the same way as in the adverse scenario.

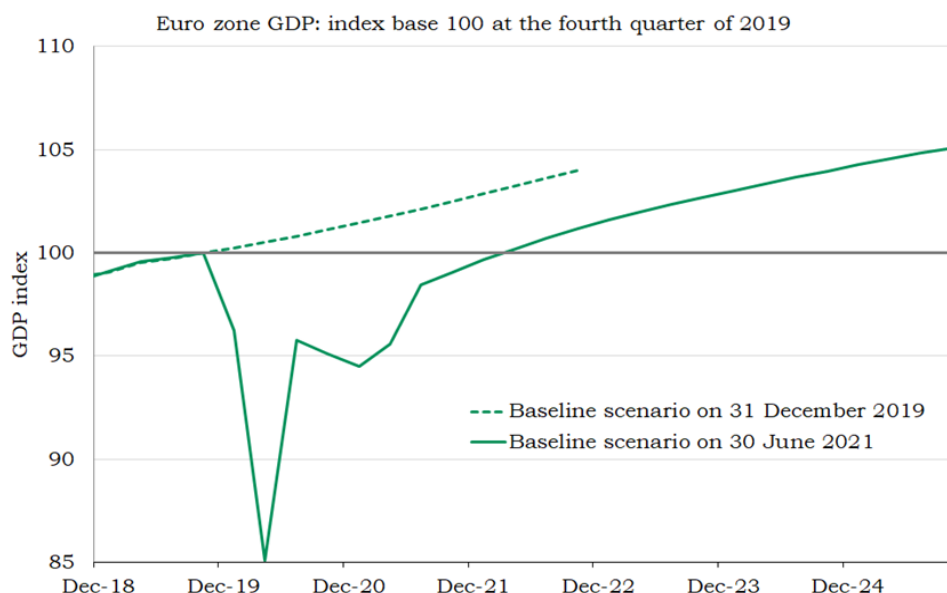
As at 30 June 2021, the favourable shocks to activity were substantially reduced. Most of the positive events, previously included in the favourable scenario, are now included in the baseline scenario. Furthermore, any stronger-than-expected rebound compared to the central scenario would be limited by constraints on the factors of production.

Factoring the specific features of the health crisis in the baseline scenario

After a historical drop in 2020, reflecting the strict containment measures implemented by governments in response to the increase in Covid-19 cases, activity is expected to rebound sharply in 2021, reflecting (i) a mechanical catch-up, (ii) government and central bank support measures, and (iii) positive developments in terms of vaccines rollout.

As illustrated by the slight GDP decline in euro area and its sharp rise in the United States in the first quarter of 2021, the magnitude of the expected rebound will notably vary among economies on the improvement in the health situation and the magnitude of fiscal measures. After a marked improvement in 2021, the pace of growth is expected to normalise from 2022 onwards. Activity is expected to return to its pre-crisis level in the years 2021 and 2022 in most mature economies.

The graph below presents a comparison between GDP projections used in the baseline scenario for the calculation of ECLs as at 31 December 2019 and 30 June 2021.



Return to the 4th quarter 2019 level of GDP

	30 June 2021
Belgium	2nd quarter 2022
France	2nd quarter 2022
Italy	2nd quarter 2023
Germany	3rd quarter 2021
Euro area	2nd quarter 2022
United States	2nd quarter 2021

These assumptions are close to the European Central Bank's scenario of June 2021 for the eurozone, which assumes that GDP will exceed its pre-crisis level from the third quarter of 2022.

With regard to the assumptions used for the Belgian economy, the return of the GDP to the pre-crisis level is expected at the 2nd quarter of 2022, in line with the current expectations of the National Bank of Belgium.

Adverse Scenario

The adverse scenario supposes the materialisation of certain risks for the economy, resulting in a much less favourable economic path than in the baseline scenario.

In the current context, the dominant risk is that the health crisis does not vanish as smoothly as expected in the baseline scenario and continues to weigh on the recovery.

Two main developments could lead to this negative outcome: a) a less favourable health crisis evolution than expected (new waves related to virus mutations or reduced vaccine effectiveness); b) a more severe economic fallout than assumed (higher unemployment and bankruptcy rates due to reduced government support measures).

The following risks appear strengthened in the context of the health crisis:

- **Extended crisis due to weaker demand:** the health crisis could trigger a more "classic", and therefore longer crisis, if it results in significant damage to the economy (e.g. higher unemployment rate, higher number of bankruptcies, etc.) which significantly affect domestic demand. This could notably occur when governments reduce or stop fiscal measures aimed at helping households and businesses during the crisis (e.g. job retention schemes, extended unemployment benefits, State-guaranteed loans), or if certain key sectors for a given region or country are severely impacted by the crisis (e.g. foreign tourism).
- **Pressure on financial institutions' profitability:** some borrowers may experience difficulties in their debt repayment, especially with the withdrawal or scaling back of government support measures. In addition, possible financial turbulences and extremely low interest rates might weigh on banking profitability.
- **New financial market corrections:** the health crisis has already had a major impact on the value of certain financial assets. Depending on how the health crisis evolves, additional corrections could affect some markets.
- **Tensions related to public finances:** given the extent of the contraction in activity and the amount of fiscal support provided by governments to compensate for this major shock on activity, debt-to-GDP ratios have substantially increased in some countries and will often reach unprecedented levels. Although current extremely accommodating monetary policies are limiting this risk

now, a sharp deterioration in public finance metrics could lead to future tensions on the financial markets and austerity measures in certain countries. Such developments could lead to a knock-on negative effect on activity. While the euro area looks more exposed to this risk than other areas for structural reasons, the ECB has shown in recent years that it has tools to limit the magnitude of such potential shocks.

- **Further difficulties in China:** in recent years, the Chinese economy has supported global trade and activity at a global scale. However, the health crisis has slowed down this momentum. Additional difficulties cannot be excluded, either in terms of activity or on other fronts (e.g. public finances, external balances, political tensions). Given the weight of the Chinese economy, these difficulties could impact global financial markets, global trade and commodities prices.
- **Emerging markets in difficulty:** some emerging markets are suffering from domestic economic and political imbalances, the strength of the US dollar and deteriorating international relations. The health crisis could also lead to possible capital outflows as well as delays in vaccination campaigns compared with mature economies.

Other risks, not directly linked to the health crisis, were also embedded in the adverse scenario:

- **Trade risks:** disagreements between the United States and China on issues of intellectual property protection, technology transfers or industrial policies are likely to persist. Following the health crisis, the United States and other mature economies are also likely to try to become less reliant on China in some areas deemed strategic. Tensions related to trade and globalisation are therefore likely to remain.
- **Geopolitical risks:** Middle East tensions have the potential to weigh on the global economy through shocks on commodities prices, financial markets and business confidence.

It is assumed that these latent risks will materialise as from the third quarter of 2021, triggered by an extension of the health crisis.

Among OECD countries, GDP levels in the adverse scenario are between 8.5% and 15% (5.8% and 12% at 31 December 2020) lower than in the baseline scenario at the end of the shock period (three years), depending on the country with a deviation of almost -10% (-7.1% at 31 December 2020) on average in the eurozone and slightly higher than -8% (-5.8% at 31 December 2020) in the United States.

Scenario weighting and cost of risk sensitivity:

At 30 June 2021, the weighting of the adverse scenario is 16% for the Group (34% for the favourable scenario), versus 14% at 31 December 2020 (36% for the favourable scenario), reflecting a position below the average of the credit cycle at 30 June 2021 in the context of the current health crisis and the associated lockdown measures.

The application of an equal weighting to the favourable and adverse scenarios (25%) provides an estimate of the sensitivity of the amount of expected credit losses for all financial assets at amortised cost or at fair value through equity and credit commitments. The application of an equal weighting to the favourable and adverse scenario (25%) would lead to a EUR 23 million increase, representing 3%, in expected losses. In Belgium, applying a weighting of 50% to the adverse scenario (0% to the favourable scenario) would lead to a EUR 55 million increase in expected loss. The application of these weightings does not change the classification of these facilities in the various stages at the closing date.

Adaptation of the ECL assessment process to factor in the specific nature of the health crisis:

The measurement of the impact of macroeconomic scenarios on expected credit losses has been adjusted to reflect the specificities of the current health crisis. Given the exceptional nature of the shock in the first semester of 2020 linked to the temporary lockdown measures and strong support provided by governments and central banks, macroeconomic parameters for each country or geographic area included in the pre-existing models (calibrated on past crises) have been adapted in order to extract the information on the medium-term impacts on macroeconomic environment and thus minimize excessive short-term volatility.

In the eurozone, the medium-term perspective adopted for the baseline scenario reduces the loss of income over the period; however for an amount much lower than that of the support programmes announced by governments and the European Central Bank.

Conservative adjustments were also taken into account when the models used were based on indicators that show unusual levels in the context of the health crisis and the support programmes, such as the increase in deposits and the decrease in past due events for retail customers and entrepreneurs.

In Belgium, the exposure to Transportation (aviation, cruises), Retail (non-food), Commercial Real Estate Retail Stores and Hotels, Tourism & Leisure amounts to 2%, 1%, 1% and 1% respectively of the total exposure (total loans and off-balance sheet commitments). These exposures are considered by the Bank as most exposed to the Covid19 crisis.

Cost of risk for the period

<i>In millions of euros</i>	First half 2021	First half 2020
Net allowances to impairment	(223)	(373)
Recoveries on loans and receivables previously written off	10	16
Losses on irrecoverable loans	(14)	(3)
Total cost of risk for the period	(227)	(360)

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

<i>In millions of euros</i>	First half 2021	First half 2020
Cash and balances at central banks	-	-
Financial instruments at fair value through profit or loss	5	2
Financial assets at fair value through equity	(7)	(4)
Financial assets at amortised cost	(201)	(370)
<i>of which loans and receivables</i>	(200)	(368)
<i>of which debt securities</i>	(1)	(2)
Other assets	5	(2)
Financing and guarantee commitments and other items	(29)	14
Total cost of risk for the period	(227)	(360)
Cost of risk on unimpaired assets and commitments	(144)	(78)
<i>of which Stage 1</i>	(7)	(44)
<i>of which Stage 2</i>	(137)	(34)
Cost of risk on impaired assets and commitments - Stage 3	(83)	(282)

Credit risk impairment

Change in impairment by accounting category and asset type during the period

<i>In millions of euros</i>	31 December 2020	Net allowance to impairment	Impairment provisions used	Effect of exchange rate movements and other items	30 June 2021
Assets impairment					
Amounts due from central banks	10	-	-	(1)	9
Financial instruments at fair value through profit or loss	19	(3)	-	(3)	13
Impairment of financial assets at fair value through equity	24	7	-	1	32
Financial assets at amortised cost	3,124	199	(116)	(56)	3,151
<i>of which loans and receivables</i>	3,121	198	(116)	(56)	3,147
<i>of which debt securities</i>	3	1	-	-	4
Other assets	19	(6)	-	1	14
Total impairment of financial assets	3,196	197	(116)	(58)	3,219
<i>of which Stage 1</i>	315	2	-	(6)	311
<i>of which Stage 2</i>	449	109	-	(1)	557
<i>of which Stage 3</i>	2,432	86	(116)	(50)	2,352
Provisions recognised as liabilities					
Provisions for commitments	217	32	-	1	250
Other provisions	19	(7)	-	15	27
Total provisions recognised for credit commitments	236	25	-	16	277
<i>of which Stage 1</i>	55	2	-	1	58
<i>of which Stage 2</i>	51	26	-	-	77
<i>of which Stage 3</i>	131	(4)	-	15	142
Total impairment and provisions	3,432	222	(116)	(42)	3,496

Change in impairment by accounting category and asset type during the previous period

<i>In millions of euros</i>	1 January 2020	Net allowance to impairment	Impairment provisions used	Effect of exchange rate movements and other items	30 June 2020
Assets impairment					
Amounts due from central banks	8	(1)	-	(1)	6
Financial instruments at fair value through profit or loss	29	-	-	1	30
Impairment of financial assets at fair value through equity	35	4	(10)	(1)	28
Financial assets at amortised cost	2,965	376	(131)	(88)	3,122
<i>of which loans and receivables</i>	2,963	374	(131)	(88)	3,118
<i>of which debt securities</i>	2	2	-	-	4
Other assets	11	4	-	-	15
Total impairment of financial assets	3,048	383	(141)	(89)	3,201
<i>of which Stage 1</i>	263	42	-	(7)	298
<i>of which Stage 2</i>	402	25	-	(8)	419
<i>of which Stage 3</i>	2,383	316	(141)	(74)	2,484
Provisions recognised as liabilities					
Provisions for commitments	221	(11)	-	-	210
Other provisions	29	-	(7)	(1)	21
Total provisions recognised for credit commitments	250	(11)	(7)	(1)	231
<i>of which Stage 1</i>	49	(1)	-	2	50
<i>of which Stage 2</i>	42	9	-	(1)	50
<i>of which Stage 3</i>	159	(19)	(7)	(2)	131
Total impairment and provisions	3,298	372	(148)	(90)	3,432

Change in impairment of amortised cost financial assets during the period

<i>In millions of euros</i>	Impairment on assets subject to 12-month Expected Credit Losses (Stage 1)	Impairment on assets subject to lifetime Expected Credit Losses (Stage 2)	Impairment on doubtful assets (Stage 3)	Total
At 31 December 2020	301	430	2,392	3,123
Net allowances to impairment	3	102	94	199
Financial assets purchased or originated during the period	70	63	-	133
Financial assets derecognised during the period ⁽¹⁾	(29)	(40)	(89)	(158)
Transfer to Stage 2	(18)	152	(24)	110
Transfer to Stage 3	(1)	(31)	132	100
Transfer to Stage 1	13	(77)	(5)	(69)
Other allowances/reversals without stage transfer ⁽²⁾	(32)	35	80	83
Impairment provisions used	-	-	(116)	(116)
Effect of exchange rate movements and other items	(6)	(5)	(44)	(55)
At 30 June 2021	298	527	2,326	3,151

⁽¹⁾ Including disposals

⁽²⁾ Including amortisation

Change in impairment of amortised cost financial assets during the previous period

<i>In millions of euros</i>	Impairment on assets subject to 12-month Expected Credit Losses (Stage 1)	Impairment on assets subject to lifetime Expected Credit Losses (Stage 2)	Impairment on doubtful assets (Stage 3)	Total
At 1 January 2020	252	382	2,330	2,964
Net allowances to impairment	40	23	313	376
Financial assets purchased or originated during the period	68	72	-	140
Financial assets derecognised during the period ⁽¹⁾	(33)	(63)	(74)	(170)
Transfer to Stage 2	(15)	116	(5)	96
Transfer to Stage 3	(2)	(74)	255	179
Transfer to Stage 1	8	(59)	(5)	(56)
Other allowances/reversals without stage transfer ⁽²⁾	14	31	142	187
Impairment provisions used	-	(1)	(130)	(131)
Effect of exchange rate movements and other items	(6)	(8)	(74)	(88)
At 30 June 2020	286	396	2,439	3,121

(1) Including disposals

(2) Including amortisation

2.h Corporate income tax

<i>In millions of euros</i>	First half 2021	First half 2020
Net current tax expense	(290)	(219)
Net deferred tax expense	(29)	(57)
Corporate income tax expense	(319)	(276)

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 3.4 million individuals, professionals, SMEs and private banking customers. It has a very strong presence in the local market, through a network of 424 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 Banking (CB) serves a wide range of clients, including small and medium-sized companies, Belgian and European corporates, financial institutions, institutional investors, public entities and local authorities. CB has a strong client base among large and medium-sized companies and is the market leader in these two categories, as well as a strong challenger in the public sector.

Providing a wide range of both traditional and bespoke specialised solutions and services, and drawing on the international network of the BNP Paribas Group in 68 countries, CB continues to meet the precise financing, transaction banking, investment banking and insurance needs of its clients.

Banking activities in Luxembourg

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.

Banking activities in Turkey

BNP Paribas Fortis operates in Turkey via Türk Ekonomi Bankası (TEB), in which it has a 48.7% 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 Domestic Markets

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

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 30 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.

Other

This segment mainly comprises BNP Paribas Asset Management, AG Insurance, Personal Finance and the foreign branches of BNP Paribas Fortis.

3.b Information by operating segment

Income and expense by operating segment

	First half 2021						First half 2020					
	Banking activities in Belgium	Banking activities in Luxembourg	Banking activities in Turkey	Other Domestic Markets	Other	Total	Banking activities in Belgium	Banking activities in Luxembourg	Banking activities in Turkey	Other Domestic Markets	Other	Total
<i>In millions of euros</i>												
Revenues	2,113	331	275	1,330	100	4,149	1,992	347	441	1,102	96	3,978
Operating expense	(1,393)	(198)	(189)	(620)	(39)	(2,439)	(1,405)	(188)	(217)	(571)	(37)	(2,418)
Cost of risk	(102)	2	(49)	(61)	(17)	(227)	(156)	(4)	(106)	(73)	(21)	(360)
Operating Income	618	135	37	649	44	1,483	431	155	118	458	38	1,200
Non-operating items	7	-	-	1	174	182	14	-	-	(3)	98	109
Pre-tax income	625	135	37	650	218	1,664	445	155	118	455	136	1,309

Assets and liabilities by operating segment

	30 June 2021						31 December 2020					
	Banking activities in Belgium	Banking activities in Luxembourg	Banking activities in Turkey	Other Domestic Markets	Other	Total	Banking activities in Belgium	Banking activities in Luxembourg	Banking activities in Turkey	Other Domestic Markets	Other	Total
<i>In millions of euros</i>												
Assets	239,476	29,448	14,254	55,870	11,427	350,475	226,308	28,029	16,246	53,280	11,272	335,135
<i>of which investments in associates and joint ventures</i>	<i>831</i>	<i>94</i>	<i>4</i>	<i>67</i>	<i>2,749</i>	<i>3,744</i>	<i>832</i>	<i>93</i>	<i>4</i>	<i>67</i>	<i>2,751</i>	<i>3,747</i>
Liabilities	223,147	23,589	13,171	51,567	8,501	319,975	210,786	21,980	15,117	49,091	8,323	305,297

4. NOTES TO THE BALANCE SHEET AT 30 JUNE 2021

4.a Financial assets, financial liabilities and derivatives at fair value through profit or loss

Financial assets and liabilities 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 -, of certain liabilities designated by the Bank as at fair value through profit or loss at the time of issuance and of non-trading instruments whose characteristics prevent their accounting at amortised cost or at fair value through equity.

	30 June 2021				31 December 2020			
	Trading Book	Financial instruments designated as at fair value through profit or loss	Other financial assets at fair value through profit or loss	Total	Trading Book	Financial instruments designated as at fair value through profit or loss	Other financial assets at fair value through profit or loss	Total
<i>In millions of euros</i>								
Securities	549	-	1,099	1,648	433	-	1,131	1,564
Loans and repurchase agreements	4,975	2	82	5,059	3,952	2	101	4,055
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	5,524	2	1,181	6,707	4,385	2	1,232	5,619
Securities	167	-	-	167	132	-	-	132
Deposits and repurchase agreements	12,437	165	-	12,602	12,369	171	-	12,540
Issued debt securities (note 4.g)	-	3,111	-	3,111	-	3,135	-	3,135
<i>Of which subordinated debt</i>	-	893	-	893	-	835	-	835
<i>Of which non subordinated debt</i>	-	2,218	-	2,218	-	2,300	-	2,300
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	12,605	3,276	-	15,880	12,501	3,306	-	15,807

Detail of these assets and liabilities is provided in note 4.c.

Financial liabilities designated as at fair value through profit or loss

Financial liabilities designated as at fair value through profit or loss mainly consist of issued debt securities, originated and structured on behalf of customers, where the risk exposure is managed in combination with the hedging strategy. These types of issued debt securities contain significant embedded derivatives, whose changes in value may be compensated by changes in the value of economic hedging derivatives.

The redemption value of debt issued and designated as at fair value through profit or loss at 30 June 2021 was EUR 3,269 million (EUR 3,362 million at 31 December 2020).

Other financial assets measured at fair value through profit or loss

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

- Debt instruments that do not meet the criteria defined by IFRS 9 to be classified as financial instruments at 'fair value through equity' or at 'amortised cost' :
 - their business model is not to 'collect contractual cash flows' nor 'collect contractual cash flows and sell the instruments'; and/or
 - their cash flows are not solely repayments of principal and interest on the principal amount outstanding ;
- Equity instruments that the Bank did not choose to classify as at 'fair value through equity'.

Derivative financial instruments

The majority of derivative financial instruments held for trading are related to transactions initiated for trading purposes. They may result from market-making or arbitrage activities. BNP Paribas Fortis actively trades in derivatives. Transactions include trades in 'ordinary' instruments such as interest rate swaps, and structured transactions with complex risk profiles tailored to meet the needs of its customers. The net position is in all cases subject to limits.

Some derivative instruments are also contracted to hedge financial assets or financial liabilities for which the Bank has not documented a hedging relationship, or which do not qualify for hedge accounting under IFRS.

<i>In millions of euros</i>	30 June 2021		31 December 2020	
	Positive market value	Negative market value	Positive market value	Negative market value
Interest rate derivatives	5,999	4,920	10,306	8,842
Foreign exchange derivatives	1,199	1,212	1,276	1,316
Credit derivatives	-	3	-	3
Equity derivatives	656	12	631	19
Other derivatives	-	-	-	-
Derivative financial instruments	7,854	6,147	12,213	10,180

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.

<i>In millions of euros</i>	30 June 2021				31 December 2020			
	Exchange-traded	Over-the-counter, cleared through central clearing houses	Over-the-counter	Total	Exchange-traded	Over-the-counter, cleared through central clearing houses	Over-the-counter	Total
Interest rate derivatives	69,358	32,975	512,806	615,139	56,697	35,009	648,320	740,026
Foreign exchange derivatives	13	9	117,314	117,336	125	-	101,798	101,923
Credit derivatives	-	-	21	21	-	-	21	21
Equity derivatives	77	-	1,667	1,744	101	-	1,878	1,979
Other derivatives	-	-	-	-	-	-	-	-
Derivative financial instruments	69,448	32,983	631,808	734,239	56,923	35,009	752,017	843,949

4.b Financial assets at fair value through equity

<i>In millions of euros</i>	30 June 2021		31 December 2020	
	Fair value	of which changes in value taken directly to equity	Fair value	of which changes in value taken directly to equity
Debt securities	8,574	11	9,460	47
Governments	3,571	14	4,208	52
Other public administrations	2,705	14	2,750	21
Credit institutions	1,548	8	1,716	10
Other	750	(25)	786	(36)
Equity securities	312	255	313	256
Total financial assets at fair value through equity	8,886	266	9,773	303

The option to recognise certain equity instruments at fair value through equity was retained in particular for shares held through strategic partnerships and shares that the Bank is required to hold in order to carry out certain activities.

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

The valuation methodologies have not been significantly changed following COVID-19.

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.

Future Hedging Costs adjustments (FHC): FHC adjustments apply to positions that require dynamic hedging throughout their lifetime, thus leading to additional bid/offer costs. Calculation methods capture these expected costs in particular based on the optimal hedging frequency.

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.

Funding valuation adjustment (FVA): 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 collateralized derivative instruments, they include an explicit adjustment to the interbank interest rate.

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).

As a result, the carrying value of issued debt securities designated as at fair value through profit or loss is increased by EUR 21 million as at 30 June 2021, compared with an increase in value of EUR 27 million as at 31 December 2020, i.e. a EUR (6) million variation recognised directly in equity that will not be reclassified to profit and loss.

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.f.9), 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	30 June 2021											
	Trading Book				Instruments at fair value through profit or loss not held for trading				Financial assets at fair value through equity			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Securities	506	41	3	550	402	145	552	1,099	7,719	918	248	8,885
Governments	120	-	-	120	-	-	-	-	3,399	131	-	3,530
Asset Backed Securities	-	-	-	-	-	134	-	134	-	570	-	570
Other debt securities	106	41	3	150	-	9	98	107	4,206	217	50	4,473
Equities and other equity securities	280	-	-	280	402	2	454	858	114	-	198	312
Loans and repurchase agreements	-	4,898	76	4,974	-	23	62	85	-	-	-	-
Loans	-	-	-	-	-	23	62	85	-	-	-	-
Repurchase agreements	-	4,898	76	4,974	-	-	-	-	-	-	-	-
Financial assets at fair value	506	4,939	79	5,524	402	168	614	1,183	7,719	918	248	8,886
Securities	166	1	-	167	-	-	-	-	-	-	-	-
Governments	166	-	-	166	-	-	-	-	-	-	-	-
Other debt securities	-	1	-	1	-	-	-	-	-	-	-	-
Equities and other equity securities	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings and repurchase agreements	-	12,367	70	12,437	-	165	-	165	-	-	-	-
Borrowings	-	19	-	19	-	165	-	165	-	-	-	-
Repurchase agreements	-	12,348	70	12,418	-	-	-	-	-	-	-	-
Issued debt securities (Note 4.g)	-	-	-	-	-	2,027	1,084	3,111	-	-	-	-
Subordinated debt (Note 4.g)	-	-	-	-	-	893	-	893	-	-	-	-
Non subordinated debt (Note 4.g)	-	-	-	-	-	1,134	1,084	2,218	-	-	-	-
Financial liabilities at fair value	166	12,368	70	12,605	-	2,192	1,084	3,276	-	-	-	-

In millions of euros	31 December 2020											
	Trading Book				Instruments at fair value through profit or loss not held for trading				Financial assets at fair value through equity			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Securities	382	49	3	434	327	292	511	1,130	8,512	1,013	248	9,773
Governments	116	-	-	116	-	-	-	-	3,975	207	-	4,182
Asset Backed Securities	-	-	-	-	-	182	-	182	-	603	-	603
Other debt securities	160	49	3	212	-	108	97	205	4,423	203	50	4,676
Equities and other equity securities	106	-	-	106	327	2	414	743	114	-	198	312
Loans and repurchase agreements	-	3,886	65	3,951	-	20	84	104	-	-	-	-
Loans	-	-	-	-	-	20	84	104	-	-	-	-
Repurchase agreements	-	3,886	65	3,951	-	-	-	-	-	-	-	-
Financial assets at fair value	382	3,935	68	4,385	327	312	595	1,234	8,512	1,013	248	9,773
Securities	121	11	-	132	-	-	-	-	-	-	-	-
Governments	121	-	-	121	-	-	-	-	-	-	-	-
Other debt securities	-	11	-	11	-	-	-	-	-	-	-	-
Equities and other equity securities	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings and repurchase agreements	-	12,369	-	12,369	-	171	-	171	-	-	-	-
Borrowings	-	19	-	19	-	171	-	171	-	-	-	-
Repurchase agreements	-	12,350	-	12,350	-	-	-	-	-	-	-	-
Issued debt securities (Note 4.g)	-	-	-	-	-	1,918	1,217	3,135	-	-	-	-
Subordinated debt (Note 4.g)	-	-	-	-	-	835	-	835	-	-	-	-
Non subordinated debt (Note 4.g)	-	-	-	-	-	1,083	1,217	2,300	-	-	-	-
Financial liabilities at fair value	121	12,380	-	12,501	-	2,089	1,217	3,306	-	-	-	-

In millions of euros	30 June 2021							
	Positive market value				Negative market value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Interest rate derivatives	-	5,939	60	5,999	-	4,870	50	4,920
Foreign exchange derivatives	-	1,191	8	1,198	-	1,205	7	1,213
Credit derivatives	-	-	-	-	-	3	-	3
Equity derivatives	-	656	-	656	-	12	-	12
Other derivatives	-	-	-	-	-	-	-	-
Derivative financial instruments not used for hedging purposes	-	7,786	68	7,854	-	6,090	57	6,147
Derivative financial instruments used for hedging purposes	-	1,890	-	1,890	-	3,128	-	3,128

In millions of euros	31 December 2020							
	Positive market value				Negative market value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Interest rate derivatives	-	10,199	107	10,306	-	8,772	70	8,842
Foreign exchange derivatives	-	1,270	6	1,276	-	1,313	3	1,316
Credit derivatives	-	-	-	-	-	3	-	3
Equity derivatives	-	631	-	631	-	19	-	19
Other derivatives	-	-	-	-	-	-	-	-
Derivative financial instruments not used for hedging purposes	-	12,100	113	12,213	-	10,107	73	10,180
Derivative financial instruments used for hedging purposes	-	3,178	-	3,178	-	5,257	-	5,257

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 2021, 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, short selling of these instruments, derivative instruments traded on organised markets (futures, options...). It includes shares of funds and UCITS, for which the net asset value is calculated on a daily basis, as well as debt representative of shares of consolidated funds held by third parties.

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 and the maturity of the repo transaction.

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, equity/foreign exchange (FX)/commodities forwards and options;
- Structured derivatives such as exotic FX options, mono- and multi-underlying equity/funds derivatives, single curve exotic interest rate derivatives and derivatives based on structured rates.

The above 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

Level 3 securities of the trading book mainly comprise units of funds and unlisted equity shares measured at fair value through profit or loss or through equity.

Unlisted private equities are systematically classified as Level 3, with the exception of UCITS with a daily net asset value which are classified in the Level 1 of the fair value hierarchy.

Shares and other unlisted variable income securities in Level 3 are valued using one of the following methods: a share of revalued net book value, multiples of comparable companies, future cash flows method, multi-criteria approach.

Repurchase agreements: mainly long-term or structured repurchase agreements on corporate bonds and ABSs: 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.

Debts issued designated as at fair value through profit or 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

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

Similarly, long-term transactions on equity baskets are also classified in Level 3, based on the absence of equity correlation observability on long maturities.

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

Structured derivatives classified in Level 3 predominantly comprise structured derivatives of which hybrid products (FX/Interest Rates hybrids, Equity hybrids), credit correlation products, prepayment-sensitive products, some stock basket optional products and some interest rate optional instruments. The main exposures are described below, with insight into the related valuation techniques and on the source of uncertainty:

- **Structured 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 structured derivatives are also classified in Level 3;
- **Hybrid FX/Interest rate products** essentially comprise a specific product family known as Power Reverse Dual Currency (PRDC). The valuation of PRDCs requires sophisticated modelling of joint behaviour of FX and interest rate, and is notably sensitive to the unobservable FX/ interest rate correlations. PRDCs valuations are corroborated with recent trade data and consensus data;
- **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;
- The valuation of **bespoke CDOs** requires correlation of default events. This information is inferred from the active index tranche market through a proprietary projection technique and involves proprietary extrapolation and interpolation techniques. Multi-geography CDOs further require an additional correlation assumption. Finally, the bespoke CDO model also involves proprietary assumptions and parameters related to the dynamic of the recovery factor. CDO modelling, is calibrated on the observable index tranche markets, and is regularly back-tested against consensus data on standardised pools. The uncertainty arises from the model risk associated with the projection and geography mixing technique, and the uncertainty of associated parameters, together with the recovery modelling;
- **N to Default baskets** are other forms of credit correlation products, modelled through standard copula techniques. The main inputs required are the pair-wise correlations between the basket components which can be observed in the consensus and the transactions. Linear baskets are considered observable;
- **Equity and equity-hybrid correlation products** are instruments whose pay-off is dependent on the joint behaviour of a basket of equities/indices leading to a sensitivity of the fair value measurement to the correlation amongst the basket components. Hybrid versions of these instruments involve baskets that mix equity and non-equity underlyings such as commodity indices or foreign exchange rates. Only a subset of the Equity/index correlation matrix is regularly observable and traded, while most cross-asset correlations are not active. Therefore, classification in Level 3 depends on the composition of the basket, the maturity, and the hybrid nature of the product. The correlation input is derived from a proprietary model combining historical estimators, and other adjustment factors, that are corroborated by reference to recent trades or external data. The correlation matrix is essentially available from consensus services, and when a correlation between two underlying instruments is not available, it might be obtained from extrapolation or proxy techniques.

These structured derivatives are subject to specific valuation adjustments to cover uncertainties linked to liquidity, parameters and model risk.

Valuation adjustments (CVA, DVA and FVA)

The 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, 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 insufficiently collateralized vanilla interest rate instruments with very long residual maturity.

The table below provides the range of values of main unobservable inputs for the valuation of Level 3 financial instruments. 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.

The main unobservable parameters used for the valuation of debt issued in Level 3 are equivalent to these of their economic hedge derivative. Information on those derivatives, displayed in the following table, is also applicable to these debts.

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					
Interest rate derivatives	60	50	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% to 8.8%	(a)
					Volatility of the year on year inflation rate	0.3% to 2.3%	
			Forward volatility products such as volatility swaps, mainly in euro	Interest rates option pricing model	Forward volatility of interest rates	0.3% to 0.6%	(a)

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

Table of movements in Level 3 financial instruments

For Level 3 financial instruments, the following movements occurred between 31 December 2020 and 30 June 2021:

	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 not held for trading	Financial assets at fair value through equity	Total	Financial instruments at fair value through profit or loss held for trading	Financial instruments designated as at fair value through profit or loss not held for trading	Total
<i>In millions of euros</i>							
At 31 December 2019	156	640	205	1,001	65	1,431	1,496
Purchases	-	60	-	60	-	-	-
Issues	-	-	-	-	-	79	79
Sales	-	(62)	-	(62)	-	-	-
Settlements ⁽¹⁾	15	(12)	1	4	9	(244)	(235)
Transfers to level 3	-	-	50	50	-	5	5
Transfers from level 3	(4)	-	-	(4)	-	(14)	(14)
Gains or (losses) recognised in profit or loss with respect to transactions expired or terminated during the period	-	(29)	-	(29)	-	(40)	(40)
Gains or (losses) recognised in profit or loss with respect to unexpired instruments at the end of the period	14	-	-	14	(1)	-	(1)
Changes in fair value of assets and liabilities recognised directly in equity	-	-	-	-	-	-	-
- Items related to exchange rate movements	-	(2)	(5)	(7)	-	-	-
- Changes in assets and liabilities recognised in equity	-	-	(3)	(3)	-	-	-
- Other	-	-	-	-	-	-	-
At 31 December 2020	181	595	248	1,024	73	1,217	1,290
Purchases	-	35	50	85	-	-	-
Issues	-	-	-	-	-	36	36
Sales	-	(26)	-	(26)	-	-	-
Settlements ⁽¹⁾	(11)	(21)	(59)	(91)	69	(145)	(76)
Transfers to Level 3	-	-	-	-	-	-	-
Transfers from Level 3	(2)	-	-	(2)	(2)	(8)	(10)
Gains or (losses) recognised in profit or loss with respect to transactions expired or terminated during the period	(10)	31	-	21	-	-	-
Gains or (losses) recognised in profit or loss with respect to unexpired instruments at the end of the period	(11)	-	-	(11)	(13)	(15)	(28)
Changes in fair value of assets and liabilities recognised directly in equity	-	-	-	-	-	-	-
- Items related to exchange rate movements	-	-	(2)	(2)	-	(1)	(1)
- Changes in assets and liabilities recognised in equity	-	-	11	11	-	-	-
At 30 June 2021	147	614	248	1,009	127	1,084	1,211

⁽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, and of market parameters related to repurchase agreements and credit transactions but also the effect of derivatives becoming only or mainly sensitive to observable inputs due to the shortening of their lifetime.

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 beginning 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 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 credit valuation adjustment (CVA), the explicit funding valuation adjustment (FVA) and the parameter and model uncertainty adjustments related to Level 3.

Regarding the credit valuation adjustment (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 valuation adjustments, two scenarios were considered: a favourable scenario where all or portion of the valuation adjustment is not considered by market participants, and an unfavourable scenario where market participants would require twice the amount of valuation adjustments considered by BNP Paribas Fortis for entering into a transaction.

In millions of euros	30 June 2021		31 December 2020	
	Potential impact on income	Potential impact on equity	Potential impact on income	Potential impact on equity
Fixed-income securities	+/-1	+/-0	+/-1	+/-1
Equities and other equity securities	+/-4	+/-2	+/-4	+/-2
Loans and repurchase agreements	+/-1		+/-2	
Derivative financial instruments	+/-11		+/-12	
Interest rate and foreign exchange derivatives	+/-11		+/-12	
Credit derivatives	+/-0		+/-0	
Equity derivatives	+/-0		+/-0	
Other derivatives	+/-0		+/-0	
Sensitivity of Level 3 financial instruments	+/-17	+/-2	+/-19	+/-3

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') primarily concerns the scope of financial instruments eligible for Level 3 and to a lesser extent some financial instruments eligible for Level 2 where valuation adjustments for uncertainties regarding parameters or models are important compared to the initial margin.

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 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. The 'Day one profit' is less than EUR 1 million.

4.d Financial assets at amortised cost

Detail of loans and advances by nature

In millions of euros	30 June 2021			31 December 2020		
	Gross value	Impairment (note 2.g)	Carrying amount	Gross value	Impairment (note 2.g)	Carrying amount
Loans and advances to credit institutions	7,441	(62)	7,379	8,590	(59)	8,531
On demand accounts	3,091	(1)	3,090	2,802	(1)	2,801
Loans ⁽¹⁾	3,371	(61)	3,310	4,406	(58)	4,348
Repurchase agreements	979	-	979	1,382	-	1,382
Loans and advances to customers	196,343	(3,085)	193,258	191,804	(3,062)	188,742
On demand accounts	4,222	(474)	3,748	3,535	(469)	3,066
Loans to customers	172,242	(2,123)	170,119	169,182	(2,104)	167,078
Finance leases	19,879	(488)	19,391	19,087	(489)	18,598
Repurchase agreements	-	-	-	-	-	-
Total loans and advances at amortised cost	203,784	(3,147)	200,637	200,394	(3,121)	197,273

(1) Loans and advances to credit institutions include term deposits made with central banks, which amounted to EUR 190 million as at 30 June 2021 (EUR 276 million as at 31 December 2020)

Detail of debt securities by type of issuer

In millions of euros	30 June 2021			31 December 2020		
	Gross value	Impairment (note 2.g)	Carrying amount	Gross value	Impairment (note 2.g)	Carrying amount
Governments	8,388	(4)	8,384	8,903	(3)	8,900
Other public administrations	2,243	-	2,243	2,660	-	2,660
Credit institutions	1,300	-	1,300	1,356	-	1,356
Other	442	-	442	467	-	467
Total debt securities at amortised cost	12,373	(4)	12,370	13,386	(3)	13,383

Detail of financial assets at amortised cost by stage

In millions of euros	30 June 2021			31 December 2020		
	Gross value	Impairment (note 2.g)	Carrying amount	Gross value	Impairment (note 2.g)	Carrying amount
Loans and advances to credit institutions	7,442	(63)	7,379	8,590	(59)	8,531
Stage 1	7,257	(2)	7,255	8,431	-	8,431
Stage 2	122	(1)	120	98	(1)	97
Stage 3	63	(60)	3	61	(58)	3
Loans and advances to customers	196,342	(3,084)	193,258	191,804	(3,062)	188,742
Stage 1	168,334	(292)	168,042	164,631	(298)	164,333
Stage 2	23,474	(526)	22,948	22,123	(429)	21,693
Stage 3	4,534	(2,266)	2,268	5,050	(2,335)	2,714
Debt securities	12,374	(4)	12,370	13,386	(3)	13,383
Stage 1	12,372	(4)	12,368	13,386	(3)	13,383
Stage 2	1	-	1	-	-	-
Stage 3	-	-	-	-	-	-
Total financial assets at amortised cost	216,158	(3,151)	213,007	213,780	(3,124)	210,656

Exposures subject to legislative and non-legislative moratoria

	30 June 2021															
	Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount	
	Performing				Non-performing			Performing				Non-performing			Inflows to non-performing exposures	
			Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)			Of which: exposures with forbearance measures	Of which: unlikely to pay that are not past-due or past-due <= 90 days			Of which: exposures with forbearance measures	Of which: instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)				Of which: exposures with forbearance measures
In millions of euros																
Loans and advances subject to moratorium	13,070	12,637	472	2,331	434	245	238	(202)	(105)	(28)	(82)	(97)	(43)	(42)		26
Of which Households	3,827	3,780	48	616	46	10	17	(27)	(20)	(3)	(17)	(7)	(1)	(1)		7
of which collateralised by residential immovable property	3,504	3,471	43	536	33	8	16	(12)	(9)	(1)	(8)	(2)	(1)	(1)		5
Of which Non-financial corporations	8,813	8,433	413	1,648	380	230	219	(171)	(82)	(25)	(63)	(89)	(42)	(41)		19
of which small and Medium-sized Enterprises	4,588	4,381	293	1,021	207	95	75	(122)	(60)	(22)	(48)	(61)	(23)	(19)		10
of which collateralised by commercial immovable property	2,558	2,385	120	416	173	150	145	(37)	(12)	(3)	(9)	(25)	(20)	(18)		10

In response to the sanitary crisis, several moratoria have been granted to clients. Those moratoria mostly consist in payment suspension of a few months. At 30 June 2021, the Group's exposure to loans subjects to moratoria⁵ stands at EUR 0.8 billion.

At 30 June 2021, loans subject to moratoria granted to households are expired and to non-financial corporations amount to EUR 0.8 billion.

The distribution of the residual maturities reflects the measures adopted in the countries where BNP Paribas Fortis operates. At 30 June 2021, the residual maturity of 96% of the moratoria was less than 3 months.

⁵ Moratoria qualified as 'COVID-19 General moratorium Measure' meeting the criteria defined in EBA Guidelines published on 2 April 2020, and amended 2 December 2020

Breakdown of exposures subject to legislative and non-legislative moratoria by residual maturity of moratoria

In millions of euros	30 June 2021								
	Number of obligors	Gross carrying amount							
			Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans and advances for which moratorium was offered	218,720	13,092							
Loans and advances subject to moratorium (granted)	218,445	13,070	1,392	12,226	317	140	276	77	35
of which: Households		3,827	260	3,782	16	1	-	-	27
of which: Collateralised by residential immovable property		3,504	63	3,476	-	-	-	-	27
of which: Non-financial corporations		8,813	1,132	8,013	300	139	276	77	7
of which: Small and Medium-sized Enterprises		4,588	1,036	3,841	282	135	249	74	6
of which: Collateralised by commercial immovable property		2,558	98	2,532	6	20	-	-	-

Loans and advances subject to public guarantee schemes

In millions of euros	30 June 2021			
	Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
		of which: forborne	Public guarantees received	Inflows to non-performing exposures
Newly originated loans and advances subject to public guarantee schemes	265	3	206	5
of which: Households	12			-
of which: Collateralised by residential immovable property	2			-
of which: Non-financial corporations	250	1	195	5
of which: Small and Medium-sized Enterprises	173			2
of which: Collateralised by commercial immovable property	34			1

At 30 June 2021, the amount of loans subject to public guarantee schemes granted by BNP Paribas Fortis stands at EUR 0.3 billion, mainly in Belgium and Turkey. Related guarantees stand at EUR 0.2 billion, with residual maturities essentially between 2 to 5 years. At 30 June 2021, the public guarantee schemes cover all the range of sectors.

In Belgium, most of the moratoria were granted in the framework of the Febelfin charters. In line with the EBA guidelines, moratoria granted under a general scheme are not classified automatically as exposures with forbearance measures, with the exception of moratoria having a total payment deferral period of more than 9 months.

4.e Impaired financial assets (Stage 3)

The following tables present the carrying amounts of impaired financial assets carried at amortised cost and of impaired financing and guarantee commitments, as well as related collateral and other guarantees.

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

<i>In millions of euros</i>	30 June 2021			
	Stage 3 assets			Collateral received
	Gross value	Impairment	Net	
Loans and advances to credit institutions (note 4.d)	63	(60)	3	6
Loans and advances to customers (note 4.d)	4,534	(2,266)	2,268	1,497
Debt securities at amortised cost (note 4.d)	-	-	-	-
Total amortised cost impaired assets (Stage 3)	4,597	(2,326)	2,271	1,503
Financing commitments given	255	(31)	224	118
Guarantee commitments given	259	(84)	175	65
Total off-balance sheet impaired commitments (Stage 3)	514	(115)	399	183

<i>In millions of euros</i>	31 December 2020			
	Stage 3 assets			Collateral received
	Gross value	Impairment	Net	
Loans and advances to credit institutions (note 4.d)	61	(58)	3	6
Loans and advances to customers (note 4.d)	5,050	(2,335)	2,715	1,687
Debt securities at amortised cost (note 4.d)	-	-	-	-
Total amortised cost impaired assets (Stage 3)	5,111	(2,393)	2,718	1,693
Financing commitments given	252	(19)	233	76
Guarantee commitments given	271	(92)	179	37
Total off-balance sheet impaired commitments (Stage 3)	523	(111)	412	113

4.f Financial liabilities at amortised cost due to credit institutions and customers

<i>In millions of euros</i>	30 June 2021	31 December 2020
Deposits from credit institutions	62,284	50,820
On demand accounts	1,474	1,308
Interbank borrowings ⁽¹⁾	51,073	48,790
Repurchase agreements	9,736	722
Deposits from customers	198,119	193,770
On demand deposits	95,011	91,296
Savings accounts	85,826	83,693
Term accounts and short-term notes	17,282	18,781
Repurchase agreements	-	-

⁽¹⁾ Interbank borrowings from credit institutions include term deposits from central banks, of which EUR 27.7 billion of TLTRO III at 30 June 2021 (EUR 25.2 billion at 31 December 2021).

4.g 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

<i>In millions of euros</i>	30 June 2021	31 December 2020
Negotiable certificates of deposit and other debt securities	10,032	8,792
Bond issues	3,349	3,023
Total debt securities at amortised cost	13,381	11,815

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

<i>In millions of euros</i>	30 June 2021	31 December 2020
Debt securities	2,218	2,300
Subordinated debt	893	835
Total debt securities and subordinated debt at fair value through profit or loss	3,111	3,135

Subordinated debt measured at amortised cost

<i>In millions of euros</i>	30 June 2021	31 December 2020
Redeemable subordinated debt	1,711	2,711
Undated subordinated debt	-	29
Total subordinated debt measured at amortised cost	1,711	2,740

The subordinated debt designated 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 undated 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 superseded the previous one.

On 11 August 2017, the European Central Bank accepted the request formulated by BNP Paribas to cancel the agreement to purchase CASHES.

As at 30 June 2021, the subordinated liability is eligible to Tier 1 capital for EUR 205 million (considering the transitional period).

4.h Current and deferred taxes

<i>In millions of euros</i>	30 June 2021	31 December 2020
Current taxes	56	87
Deferred taxes	1,427	1,477
Current and deferred tax assets	1,483	1,564
Current taxes	198	178
Deferred taxes	592	593
Current and deferred tax liabilities	790	771

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

<i>In millions of euros</i>	30 June 2021	31 December 2020
Guarantee deposits and bank guarantees paid	2,726	3,361
Collection accounts	42	54
Accrued income and prepaid expenses	1,145	887
Other debtors and miscellaneous assets	6,241	6,058
Total accrued income and other assets	10,154	10,360
Guarantee deposits received	1,073	1,017
Collection accounts	683	425
Accrued expense and deferred income	1,996	1,744
Lease liabilities	339	353
Other creditors and miscellaneous liabilities	5,438	4,667
Total accrued expense and other liabilities	9,529	8,207

4.j Goodwill

<i>In millions of euros</i>	30 June 2021
Carrying amount at start of period	722
Acquisitions	1
Exchange rate adjustments	9
Carrying amount at end of period	732
Gross value	896
Accumulated impairment recognised at the end of period	(164)

Goodwill by homogeneous group of businesses is as follows:

<i>In millions of euros</i>	Carrying amount		Impairment recognised during the period		Acquisitions of the period	
	30 June 2021	31 December 2020	First half 2021	First half 2020	First half 2021	First half 2020
BNP Paribas Fortis in Belgium	28	28	-	-	-	-
Alpha Credit	22	22	-	-	-	-
Factoring	6	6	-	-	-	-
BNP Paribas Fortis in Luxembourg	186	185	-	-	-	-
Leasing (BPLS)	148	147	-	-	-	-
Wealth Management	38	38	-	-	-	-
BNP Paribas Fortis in other countries	518	509	-	-	1	-
Arval	518	509	-	-	1	-
Total goodwill	732	722	-	-	1	-

4.k Provisions for contingencies and charges

<i>In millions of euros</i>	31 December 2020	Net additions to provisions	Provisions used	Changes in value recognised directly in equity	Effect of movements in exchange rates and other movements	30 June 2021
Provisions for employee benefits	3,633	70	(104)	(118)	(4)	3,477
Provisions for home savings accounts and plans	-	-	-	-	-	-
Provisions for credit commitments (Note 2.g)	247	-	-	-	43	290
Provisions for litigation	88	3	(3)	-	(1)	87
Other provisions for contingencies and charges	314	45	(44)	-	-	315
Total provisions for contingencies and charges	4,282	118	(151)	(118)	37	4,169

4.l Offsetting of financial assets and liabilities

The following tables present the amounts of financial assets and liabilities before and after offsetting. This information, required by IFRS 7 aims to enable the comparability with the accounting treatment applicable in accordance with generally accepted accounting principles in the United States (US GAAP), which are less restrictive than IAS 32 as regards offsetting.

'Amounts set off on the balance sheet' have been determined according to IAS 32. Thus, a financial asset and a financial liability are offset and the net amount presented on the balance sheet when and only when, 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'.

30 June 2021	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
<i>In millions of euros</i>						
Assets						
Financial instruments at fair value through profit or loss	18,146	(1,695)	16,451	(7,168)	(3,380)	5,903
<i>Securities</i>	1,648	-	1,648	-	-	1,648
<i>Loans and repurchase agreements</i>	6,754	(1,695)	5,059	(1,470)	(3,070)	519
<i>Derivative financial instruments (including derivatives used for hedging purposes)</i>	9,744	-	9,744	(5,698)	(310)	3,736
Financial assets at amortised cost	213,154	(147)	213,007	(284)	(594)	212,129
<i>of which repurchase agreements</i>	1,126	(147)	979	(284)	(594)	101
Accrued income and other assets	10,154	-	10,154	-	(1,506)	8,648
<i>of which guarantee deposits paid</i>	2,726	-	2,726	-	(1,506)	1,220
Other assets not subject to offsetting	110,862	-	110,862	-	-	110,862
TOTAL ASSETS	352,317	(1,842)	350,475	(7,452)	(5,480)	337,543

30 June 2021						
	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
<i>In millions of euros</i>						
Liabilities						
Financial instruments at fair value through profit or loss	26,850	(1,695)	25,155	(6,688)	(12,820)	5,647
<i>Securities</i>	167	-	167	-	-	167
<i>Deposits and repurchase agreements</i>	14,297	(1,695)	12,602	(990)	(11,351)	261
<i>Issued debt securities</i>	3,111	-	3,111	-	-	3,111
<i>Derivative financial instruments (including derivatives used for hedging purposes)</i>	9,275	-	9,275	(5,698)	(1,469)	2,108
Financial liabilities at amortised cost	275,642	(147)	275,495	(765)	(8,770)	265,960
<i>of which repurchase agreements</i>	9,883	(147)	9,736	(765)	(8,770)	201
Accrued expense and other liabilities	9,529	-	9,529	-	(277)	9,252
<i>of which guarantee deposits received</i>	1,073	-	1,073	-	(277)	796
Other liabilities not subject to offsetting	9,796	-	9,796	-	-	9,796
TOTAL LIABILITIES	321,817	(1,842)	319,975	(7,453)	(21,867)	290,655

31 December 2020						
	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
<i>In millions of euros</i>						
Assets						
Financial instruments at fair value through profit or loss	22,521	(1,511)	21,010	(9,921)	(2,377)	8,712
<i>Securities</i>	1,564	-	1,564	-	-	1,564
<i>Loans and repurchase agreements</i>	5,566	(1,511)	4,055	(1,151)	(2,087)	817
<i>Derivative financial instruments (including derivatives used for hedging purposes)(*)</i>	15,391	-	15,391	(8,770)	(290)	6,331
Financial assets at amortised cost	210,656	-	210,656	(392)	(711)	209,553
<i>of which repurchase agreements</i>	1,382	-	1,382	(392)	(711)	279
Accrued income and other assets	10,360	-	10,360	-	(3,152)	7,208
<i>of which guarantee deposits paid</i>	3,361	-	3,361	-	(3,152)	209
Other assets not subject to offsetting	93,109	-	93,109	-	-	93,109
TOTAL ASSETS	336,646	(1,511)	335,135	(10,313)	(6,240)	318,582

31 December 2020						
	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
<i>In millions of euros</i>						
Liabilities						
Financial instruments at fair value through profit or loss	32,755	(1,511)	31,244	(10,229)	(13,336)	7,679
<i>Securities</i>	132	-	132	-	-	132
<i>Deposits and repurchase agreements</i>	14,051	(1,511)	12,540	(1,459)	(10,337)	744
<i>Issued debt securities</i>	3,135	-	3,135	-	-	3,135
<i>Derivative financial instruments (including derivatives used for hedging purposes)(*)</i>	15,437	-	15,437	(8,770)	(2,999)	3,668
Financial liabilities at amortised cost	259,145	-	259,145	(84)	(595)	258,466
<i>of which repurchase agreements</i>	722	-	722	(84)	(595)	43
Accrued expense and other liabilities	8,207	-	8,207	-	(589)	7,618
<i>of which guarantee deposits received</i>	1,017	-	1,017	-	(589)	428
Other liabilities not subject to offsetting	6,701	-	6,701	-	-	6,701
TOTAL LIABILITIES	306,808	(1,511)	305,297	(10,313)	(14,520)	280,464

(*) "Derivatives used for Hedging purposes" should be restated for the comparative period of 31 December 2020 by decreasing respectively assets and liabilities with the amount of EUR -799 million. In December 2020, no netting of the fair value of the fixed and floating leg was applied on the macro hedge derivative with the counterparty LCH (contrary to 30 June 2021). The effect of the retrospective application of the netting in the "Derivatives used for Hedging purposes" for the comparative period also results to the restatement of the captions "Total assets", "Total liabilities" and "Total liabilities and equity" by the amount of EUR -799 million.

5. COMMITMENTS GIVEN OR RECEIVED

5.a Financing commitments given or received

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

In millions of euros	30 June 2021	31 December 2020
Financing commitments given		
- to credit institutions	138	196
- to customers	52,318	55,026
Confirmed financing commitments	41,015	43,206
Other commitments given to customers	11,303	11,820
Total financing commitments given	52 456	55 222
of which Stage 1	46,936	50,267
of which Stage 2	5,266	4,703
of which Stage 3	255	252
Financing commitments received		
- from credit institutions	4,318	7,269
- from customers	241	212
Total financing commitments received	4 559	7 480

5.b Guarantee commitments given by signature

In millions of euros	30 June 2021	31 December 2020
Guarantee commitments given		
- to credit institutions	2,863	2,751
- to customers	16,144	15,451
Property guarantees	-	-
Sureties provided to tax and other authorities, other sureties	12,937	12,215
Other guarantees	3,207	3,236
Total guarantee commitments given	19,007	18,202
of which Stage 1	16,510	16,316
of which Stage 2	2,238	1,615
of which Stage 3	259	271

5.c Securities commitments

In connexion with the settlement date accounting for securities, commitments representing securities to be delivered or securities to be received are the following:

In millions of euros	30 June 2021	31 December 2020
Securities to be delivered	168	137
Securities to be received	140	133

6. ADDITIONAL INFORMATION

6.a Contingent liabilities: legal proceedings and arbitration

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.

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.

After the acquisition and merger of ABN AMRO Bank (Luxembourg) S.A. in H2 2018, the bank absorbed ABN AMRO Bank (Luxembourg) S.A.'s custody operations. In the context of these operations, some funds, for which ABN AMRO Bank (Luxembourg) S.A. acted as custodian between 19 April 2012 and 31 March 2015, issued BGL BNP Paribas with a court summons.

At this stage, no provision has been set aside with respect to these cases, but the bank has decided to protect its interests in these proceedings by exercising the liability guarantee agreed as part of the acquisition.

Moreover, the bank has decided to wind up these operations and has been obliged to terminate custody contracts and the associated banking relationships. As at 30 June 2021, no legal cases had been brought against the bank following these measures.

6.b Business combinations and other changes of the consolidation scope

Operations realised in 2021

No material transactions occurred for the first half of 2021.

Operations without impact in the Interim Financial Statements 2021

Bpost bank SA/NV

Bpost bank is a retail bank selling banking (daily banking, save & invest, lending) and insurance products (provided by AG Insurance) to its client base of almost 1 million clients, predominantly in Belgium. Bpost bank is a 50/50 joint-venture between BNP Paribas Fortis and Bpost.

On 31 March 2021, BNP Paribas Fortis submitted a formal binding offer for the acquisition of the 50% of Bpost bank owned by Bpost and transaction documents were signed by both parties. The legal closing of the transaction is pending the satisfaction of condition precedents.

Operations realised in 2020

Greenval Insurance DAC

Greenval Insurance DAC is a fleet motor insurance company registered in Ireland dedicated to customers of Arval.

Following the approval received from the Irish Regulatory authorities, Greenval Insurance DAC has been sold by BNP Paribas Ireland to Arval Service Lease in December 2020.

The transaction generated a negative impact in Shareholder's Equity amounting to EUR (16) million and an impact of EUR 314 million in total balance sheet (EUR 235 million in Assets "Financial Investments of Insurance activities" and EUR 125 million in Liabilities "Technical Reserves and other Insurance liabilities").

Arval Fuhrparkmanagement GmbH

Arval Fuhrparkmanagement GmbH, former "UniCredit Leasing Fuhrparkmanagement" was the fleet leasing & management subsidiary of UniCredit Bank Austria with a fleet of 6,000 vehicles.

Arval Austria has signed in July the agreement with UniCredit to purchase 100% of the shares of UniCredit Leasing Fuhrparkmanagement GmbH allowing Arval Austria to further strengthen its position in the market.

The transaction generated a goodwill of EUR 5.2 million in Arval Austria. The impact balance sheet is EUR 112 million.

Allfunds UK Ltd

BNPP Asset Management Holding consolidated via equity method acquired 6,3% of the new entity Allfunds UK Ltd, a European market leader in fund distribution platforms.

The transaction generated an impact in total balance sheet EUR 54.9 million.

Changes in the consolidation scope

Axepta BNPP Benelux

Axepta BNPP Benelux provides card payment solutions (acquiring of credit and debit card payment transactions) to merchants in Belgium.

In January 2019 BNP Paribas Fortis incorporated BNPP Fortis Merchant Payment Services NV/SA (renamed as "Axepta BNPP Benelux"). As of Q3 2020 Axepta BNPP Benelux is fully consolidated.

The full consolidation generates no material result impact in 2020. The impact on the balance sheet is EUR 12 million.

6.c Minority interests

<i>In millions of euros</i>	Capital and retained earnings	Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss	Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss	Minority interests
Capital and retained earnings at 1 January 2020	5,712	65	(607)	5,170
Other movements	60	-	-	60
Dividends	(115)	-	-	(115)
Changes in assets and liabilities recognised directly in equity	(1)	(16)	(78)	(95)
Net income for the first half of 2020	229	-	-	229
Capital and retained earnings at 30 June 2020	5,885	49	(685)	5,249
Other movements	(88)	-	-	(88)
Dividends	31	-	-	31
Changes in assets and liabilities recognised directly in equity	1	(4)	(59)	(62)
Net income for the second half of 2020	195	-	-	195
Capital and retained earnings at 31 December 2020	6,024	45	(744)	5,325
Other movements	35	-	-	35
Dividends	(256)	-	-	(256)
Changes in assets and liabilities recognised directly in equity	-	3	(61)	(58)
Net income for the first half of 2021	202	-	-	202
Capital and retained earnings at 30 June 2021	6,005	48	(805)	5,248

Main minority interests

The assessment of the material nature of minority interests is based on the contribution of the subsidiaries to the BNP Paribas Fortis' balance sheet (before elimination of intra-group transactions) and to the BNP Paribas Fortis' result.

<i>In millions of euros</i>	30 June 2021	First half 2021						
	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	58,332	801	266	250	50%	175	167	249
Other minority interests						26	(24)	7
TOTAL						202	143	256

	31 December 2020	First half 2020						
	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
<i>In millions of euros</i>								
Contribution of the entities belonging to the BGL BNP Paribas Group	56,516	785	275	250	50%	179	137	111
Other minority interests						50	(3)	4
TOTAL						229	134	115

Internal restructuring that led to a change in minority shareholders' interest in the equity of subsidiaries

No significant internal restructuring operation occurred during 2021, nor during 2020.

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 136 million at 30 June 2021, compared with EUR 189 million at 31 December 2020.

6.d 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 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 BNP Paribas Fortis is provided in note 6.h 'Scope of consolidation'. Transactions and outstanding balances between fully-consolidated entities of BNP Paribas Fortis are eliminated.

Tables below show transactions carried out with entities consolidated under the equity method.

Outstanding balances of related party transactions

In millions of euros	30 June 2021			31 December 2020		
	Entities of the BNP Paribas Group	Joint ventures	Associates ⁽¹⁾	Entities of the BNP Paribas Group	Joint ventures	Associates ⁽¹⁾
ASSETS						
Demand accounts	2,208	-	34	1,593	-	33
Loans	3,635	102	217	4,714	93	230
Securities	53	-	98	72	-	97
Other assets	220	-	113	303	-	111
Total assets	6,116	102	462	6,682	93	471
LIABILITIES						
Demand accounts	500	108	266	511	99	461
Other borrowings	22,953	22	1,128	21,622	30	1,408
Other liabilities	244	-	23	501	-	25
Total liabilities	23,697	130	1,417	22,634	129	1,894
FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS						
Financing commitments given	522	33	68	523	43	63
Guarantee commitments given	6,551	2,124	40	5,920	2,106	82
Total	7,073	2,157	108	6,443	2,149	145

⁽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,...) and financial instruments (equities, bonds,...).

Related-party profit and loss items

In millions of euros	First half 2021			First half 2020		
	Entities of the BNP Paribas Group	Joint ventures	Associates ⁽¹⁾	Entities of the BNP Paribas Group	Joint ventures	Associates ⁽¹⁾
Interest income	174	3	2	166	3	3
Interest expense	(330)	(2)	(2)	(372)	(2)	(4)
Commission income	79	1	289	61	2	266
Commission expense	(54)	-	(6)	(58)	-	(4)
Services provided	1	-	-	1	-	-
Services received	(5)	-	(2)	(44)	-	(2)
Lease income	21	-	5	33	-	6
Total	(114)	2	286	(213)	3	265

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

BNP Paribas Fortis entities managing certain post-employment benefit plans offered to employees

BNP Paribas Fortis funds a number of pension schemes managed by AG Insurance in which BNP Paribas Fortis has a 25% equity interest.

6.e Events after the reporting period

In July 2021, parts of Europe have been strongly affected by one of the worst flooding disasters in recent history. In Belgium, especially the Eastern and Southern regions have been hit severely. The different impacts are still unclear, but BNP Paribas Fortis monitors the situation closely and keeps accompanying in particular its clients during this difficult period.

The Board of Directors intends to propose at the General Shareholder's Meeting in the fourth quarter 2021 the distribution of an (intermediary) dividend of EUR 0.84 per share, which will be paid out of the reserves.

6.f Fair value of financial instruments carried at amortised cost

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

- these fair values are an estimate of the value of the relevant instruments as of 30 June 2021. 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.

30 June 2021 <i>In millions of euros</i>	Estimated fair value				Carrying value
	Level 1	Level 2	Level 3	Total	
FINANCIAL ASSETS					
Loans and advances to credit institutions and customers ⁽¹⁾	-	14,352	170,823	185,176	181,247
Debt securities at amortised cost (note 4.d)	10,569	1,725	89	12,382	12,369
FINANCIAL LIABILITIES					
Deposits from credit institutions and customers	-	260,626	-	260,626	260,402
Debt securities (note 4.g)	-	13,230	-	13,230	13,381
Subordinated debt (note 4.g)	-	1,713	-	1,713	1,711

31 December 2020	Estimated fair value				Carrying value
<i>In millions of euros</i>	Level 1	Level 2	Level 3	Total	
FINANCIAL ASSETS					
Loans and advances to credit institutions and customers ⁽¹⁾	-	14,357	169,360	183,717	178,675
Debt securities at amortised cost (note 4.d)	11,640	1,864	146	13,650	13,383
FINANCIAL LIABILITIES					
Deposits from credit institutions and customers	-	244,845	-	244,845	244,590
Debt securities (note 4.g)	-	11,394	-	11,394	11,815
Subordinated debt (note 4.g)	-	2,740	-	2,740	2,740

⁽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 debt securities at amortised cost, 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.f.9). In the case of loans, liabilities and debt securities at amortised cost 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.

6.g 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). The Bank is thus exposed to credit, counterparty or market risk according to the accounting category of the financial asset issued by the Sovereign State.

Exposure to sovereign debt mainly consists of bonds.

The Bank holds sovereign bonds as part of its liquidity management process. Liquidity management is based amongst others 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' sovereign bond portfolio is shown in the table below:

Banking book In millions of euros	30 June 2021	31 December 2020
Eurozone		
Belgium	7,175	7,762
Italy	878	934
Spain	726	771
France	161	383
The Netherlands	265	341
Austria	181	182
Luxembourg	281	218
Finland	66	67
Portugal	3	56
Total eurozone	9,736	10,714
Other countries in European Economic Area (EEA)	-	
Czech Republic	50	52
Others	2	1
Total other EEA	52	53
Other countries	-	-
Turkey	2,145	2,325
Others	30	26
Total other countries	2,175	2,351
Total	11,963	13,118

6.h Scope of consolidation

		30 June 2021				31 December 2020			
Name	Country	Method	Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
Consolidating company									
BNP Paribas Fortis	Belgium								
Belgium									
AG Insurance	Belgium	Equity	25.0%	25.0%		Equity	25.0%	25.0%	
Alpha Crédit SA	Belgium	Full	100.0%	99.9%		Full	100.0%	99.9%	
Arval Belgium NV SA	Belgium	Full 2	100.0%	99.9%		Full	100.0%	99.9%	
Axepta BNPP Benelux	Belgium	Full	100.0%	99.9%		Full	100.0%	99.9%	E1
Bancontact Paytoniq Company	Belgium	Equity	22.5%	22.5%		Equity	22.5%	22.5%	
Banking Funding Company SA	Belgium	Equity	33.5%	33.5%		Equity	33.5%	33.5%	
Belgian Mobile ID	Belgium	Equity	12.2%	12.2%	V3	Equity	15.0%	15.0%	
BNP Paribas 3 Step IT (Belgium Branch)	Belgium	Full	100.0%	12.8%		Full	100.0%	12.8%	
BNP Paribas Fortis Factor NV SA	Belgium	Full	100.0%	99.9%		Full	100.0%	99.9%	
BNP Paribas Fortis Private Equity Belgium NV	Belgium	Full	100.0%	99.9%		Full	100.0%	99.9%	
BNP Paribas Fortis Private Equity Expansion	Belgium	Full	100.0%	99.9%		Full	100.0%	99.9%	
BNP Paribas Fortis Private Equity Management	Belgium	Full	100.0%	99.9%		Full	100.0%	99.9%	
BNP Paribas Lease Group Belgium	Belgium	Full	100.0%	25.0%		Full	100.0%	25.0%	
BNPP Fortis Film Finance	Belgium	Full	99.0%	99.0%		Full	99.0%	99.0%	
bpost bank	Belgium	Equity 1	50.0%	50.0%		Equity 1	50.0%	50.0%	
CNH Industrial Capital Europe Belgium Branch	Belgium	Full	100.0%	12.5%		Full	100.0%	12.5%	
Credissimo	Belgium	Full	100.0%	99.9%		Full	100.0%	99.9%	
Credissimo Hainaut SA	Belgium	Full	99.7%	99.7%		Full	99.7%	99.7%	
Crédit pour Habitations Sociales	Belgium	Full	81.7%	81.7%		Full	81.7%	81.7%	
Eos Aremas Belgium S.A./N.V.	Belgium	Equity	49.9%	49.9%		Equity	49.9%	49.9%	
Es-Finance	Belgium	Full	100.0%	99.9%		Full	100.0%	99.9%	
Fortis Lease Belgium	Belgium	Full	100.0%	25.0%		Full	100.0%	25.0%	
FScholen	Belgium	Equity 1	50.0%	50.0%		Equity 1	50.0%	50.0%	
Immobilière Sauvenière S.A.	Belgium	Full	100.0%	99.9%		Full	100.0%	99.9%	
Private Equity Investments (a)	BE/FR/LU	FV				FV			
Isabel SA NV	Belgium	Equity	25.3%	25.3%		Equity	25.3%	25.3%	
Locadif	Belgium	Full 2	100.0%	99.9%		Full	100.0%	99.9%	
Microstart	Belgium	Full	42.3%	76.8%	V3	Full	70.3%	76.8%	
Sowo Invest SA NV	Belgium	Full	87.5%	87.5%		Full	87.5%	87.5%	
Belgium - Special Purpose Entities									
Bass Master Issuer NV	Belgium	Full				Full			
Esmée Master Issuer	Belgium	Full				Full			
FL Zeebrugge	Belgium	Full				Full			
Belgium - Structured entities									
Epimede	Belgium	Equity				Equity			

		30 June 2021				31 December 2020				
Name	Country	Method		Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
Luxembourg										
Arval Luxembourg SA	Luxembourg	Full	2	100.0%	99.9%	V3	Full	100.00%	99.90%	
BGL BNP Paribas	Luxembourg	Full		50.0%	50.0%		Full	50.00%	50.00%	
BNP Paribas Fortis Funding S.A.	Luxembourg	Full		100.0%	99.9%		Full	100.00%	99.90%	
BNP Paribas Lease Group Luxembourg S.A.	Luxembourg	Full		100.0%	50.0%		Full	100.00%	50.00%	
BNP Paribas Leasing Solutions	Luxembourg	Full		50.0%	25.0%		Full	50.00%	25.00%	
Cardif Lux Vie	Luxembourg	Equity		33.3%	16.7%		Equity	33.30%	16.70%	
Cofhylux S.A.	Luxembourg	Full		100.0%	50.0%		Full	100.00%	50.00%	
Luxhub SA	Luxembourg	Equity		28.0%	14.0%		Equity	28.00%	14.00%	
Visalux	Luxembourg	Equity		25.3%	12.6%		Equity	25.30%	12.70%	
Rest of the world										
BNPP Leasing Solutions GmbH (Ex - All In One Vermietung GmbH)	Austria	Full		100.0%	25.0%	S4	Full	100.00%	25.00%	E3
Aprolis Finance	France	Full		51.0%	12.8%		Full	51.00%	12.80%	
Artegy	France	Full		100.0%	25.0%		Full	100.00%	25.00%	
Artel	France	Full	2	100.0%	99.9%		Full	100.00%	99.90%	
Arval AB	Sweden	Full	2	100.0%	99.9%		Full	100.00%	99.90%	
Arval AS	Denmark	Full	2	100.0%	99.9%		Full	100.00%	99.90%	
Arval AS Norway	Norway	Full	2	100.0%	99.9%		Full	100.00%	99.90%	
Arval Austria GmbH	Austria	Full	2	100.0%	99.9%		Full	100.00%	99.90%	
Arval Benelux BV	The Netherlands	Full	2	100.0%	99.9%		Full	100.00%	99.90%	
Arval Brasil LTDA	Brazil	Full	2	100.0%	99.9%	S3	Full	100.00%	99.90%	
Arval BV	The Netherlands	Full	2	100.0%	99.9%		Full	100.00%	99.90%	
Arval CZ SRO	Czech Republic	Full	2	100.0%	99.9%		Full	100.00%	99.90%	
Arval Deutschland GmbH	Germany	Full	2	100.0%	99.9%		Full	100.00%	99.90%	
Arval Fleet Services	France	Full	2	100.0%	99.9%		Full	100.0%	99.9%	
Arval Fuhrparkmanagement GmbH	Austria						Full	100.0%	99.9%	
Arval Hellas Car Rental SA	Greece	Full	2	100.0%	99.9%		Full	100.0%	99.9%	
Arval India Private Ltd	India						Full	100.0%	99.9%	
Arval LLC	Russia	Full	2	100.0%	99.9%		Full	100.0%	99.9%	
Arval Magyarorszag KFT	Hungary	Full	2	100.0%	99.9%	Full	100.0%	99.9%		
Arval Maroc SA	Morocco	Full	2	66.7%	66.7%	Full	66.7%	66.7%		
Arval Oy	Finland	Full	2	100.0%	99.9%	Full	100.0%	99.9%		
Arval Relsa SPA	Chile	Equity	2	50.0%	50.0%	Equity 1	50.0%	50.0%		
Arval Schweiz AG	Switzerland	Full	2	100.0%	99.9%	Full	100.0%	99.9%		
Arval Service Lease	France	Full	2	100.0%	99.9%	Full	100.0%	99.9%		
Arval Service Lease Aluger Operational Automoveis SA	Portugal	Full	2	100.0%	99.9%	Full	100.0%	99.9%		
Arval Service Lease Italia SPA	Italy	Full	2	100.0%	99.9%	Full	100.0%	99.9%		
Arval Service Lease Polska SP ZOO	Poland	Full	2	100.0%	99.9%	Full	100.0%	99.9%		
Arval Service Lease Romania SRL	Romania	Full	2	100.0%	99.9%	Full	100.0%	99.9%		
Arval Service Lease SA	Spain	Full	2	100.0%	99.9%	Full	100.0%	99.9%		

		30 June 2021				31 December 2020				
Name	Country	Method		Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
Arval Slovakia SRO	Slovakia	Full	2	100.0%	99.9%		Full	100.0%	99.9%	
Arval Trading	France	Full	2	100.0%	99.9%		Full	100.0%	99.9%	
Arval UK Group Ltd	United Kingdom	Full	2	100.0%	99.9%		Full	100.0%	99.9%	
Arval UK Leasing Services Ltd	United Kingdom	Full	2	100.0%	99.9%		Full	100.0%	99.9%	
Arval UK Ltd	United Kingdom	Full	2	100.0%	99.9%		Full	100.0%	99.9%	
Bantas Nakit AS	Turkey	Equity	1	33.3%	16.7%		Equity 1	33.3%	16.7%	
BGL BNP Paribas S.A. (Germany Branch)	Germany	Full		100.0%	50.0%		Full	100.0%	50.0%	
BNL Leasing SPA	Italy	Equity		26.2%	6.5%		Equity	26.2%	6.5%	
BNP Paribas 3 STEP IT	France	Full		51.0%	12.8%		Full	51.0%	12.8%	
BNP Paribas 3 Step IT (Germany Branch)	Germany	Full		100.0%	12.8%		Full	100.0%	12.8%	
BNP Paribas 3 Step IT (Italy Branch)	Italy	Full		100.0%	12.8%		Full	100.0%	12.8%	
BNP Paribas 3 Step IT (Netherlands Branch)	The Netherlands	Full		100.0%	12.8%		Full	100.0%	12.8%	
BNP Paribas3 Step It (United kingdom Branch)	United Kingdom	Full		100.0%	12.8%		Full	100.0%	12.8%	
BNP Paribas Commercial Finance Limited	United Kingdom	Full		100.0%	99.9%		Full	100.0%	99.9%	
BNP Paribas Factor AS	Denmark	Full		100.0%	99.9%		Full	100.0%	99.9%	
BNP Paribas Factor Gmbh	Germany	Full		100.0%	99.9%		Full	100.0%	99.9%	
BNP Paribas Finansal Kiralama A.S.	Turkey	Full		100.0%	26.1%		Full	100.0%	26.1%	
BNP Paribas Fortis (Spain branch)	Spain	Full		100.0%	100.0%		Full	100.0%	100.0%	
BNP Paribas Fortis (U.S.A branch)	USA	Full		100.0%	100.0%		Full	100.0%	100.0%	
BNP Paribas Fortis Yatirimlar Holding AS	Turkey	Full		100.0%	100.0%		Full	100.0%	100.0%	
BNP Paribas Lease Group	France	Full		100.0%	25.0%		Full	100.0%	25.0%	
BNP Paribas Leasing Solutions IFN S.A.	Romania	Full		99.9%	24.9%		Full	99.9%	24.9%	
BNP Paribas Lease Group Leasing Solutions S.P.A.	Italy	Equity		26.2%	6.5%		Equity	26.2%	6.5%	
BNP Paribas Lease Group Milan Branch	Italy	Full		100.0%	25.0%		Full	100.0%	25.0%	
BNP Paribas Lease Group PLC	United Kingdom	Full		100.0%	25.0%		Full	100.0%	25.0%	
BNP Paribas Lease Group Rentals Limited	United Kingdom					S1	Full	100.0%	25.0%	
BNP Paribas Lease Group (Germany Branch)	Germany	Full		100.0%	25.0%		Full	100.0%	25.0%	
BNP Paribas Lease Group Sa (Portugal Branch)	Portugal	Full		100.0%	25.0%		Full	100.0%	25.0%	
BNP Paribas Lease Group Sa (Spain Branch)	Spain	Full		100.0%	25.0%		Full	100.0%	25.0%	
BNP Paribas Lease Group Sp. Z.O.O	Poland	Full		100.0%	25.0%		Full	100.0%	25.0%	
BNP Paribas Leasing Solutions Ltd.	United Kingdom	Full		100.0%	25.0%		Full	100.0%	25.0%	
BNP Paribas Leasing Solutions N.V.	The Netherlands	Full		100.0%	25.0%		Full	100.0%	25.0%	
BNP Paribas Leasing Solutions Suisse SA	Switzerland	Full		100.0%	25.0%		Full	100.0%	25.0%	
BNPP Asset Management Holding	France	Equity		33.3%	30.9%		Equity	33.3%	30.9%	
BNPP Bank Polska SA	Poland	Equity		24.1%	24.1%		Equity	24.1%	24.1%	
BNPP Factor AB	Sweden	Full		100.0%	99.9%		Full	100.0%	99.9%	
BNPP Factor NV	The Netherlands	Full		100.0%	99.9%		Full	100.0%	99.9%	
BNPP Factoring Support	The Netherlands	Full		100.0%	99.9%		Full	100.0%	99.9%	
BNPP Fleet Holdings Ltd	United Kingdom	Full	2	100.0%	99.9%		Full	100.0%	99.9%	
BNPP Lease Group GmbH & Co KG	Austria					S4	Full	100.0%	25.0%	
BNPP Leasing Solution AS	Norway	Full		100.0%	25.0%		Full	100.0%	25.0%	
BNPP Leasing Solutions AB	Sweden	Full		100.0%	25.0%	E1				

Name	Country	30 June 2021				31 December 2020			
		Method	Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
BNPP Rental Solutions Ltd	United Kingdom	Full	100.0%	25.0%		Full	100.0%	25.0%	
BNPP Rental Solutions SPA	Italy	Full	100.0%	25.0%		Full	100.0%	25.0%	
Claas Financial Services	France	Full	51.0%	12.8%		Full	51.0%	12.8%	
Claas Financial Services (Germany Branch)	Germany	Full	100.0%	12.8%		Full	100.0%	12.8%	
Claas Financial Services (Italy Branch)	Italy	Full	100.0%	12.8%		Full	100.0%	12.8%	
Claas Financial Services Ltd	United Kingdom	Full	51.0%	12.8%		Full	51.0%	12.8%	
Claas Financial Services (Poland Branch)	Poland	Full	100.0%	12.8%		Full	100.0%	12.8%	
Claas Financial Services (Spain Branch)	Spain	Full	100.0%	12.8%		Full	100.0%	12.8%	
Cent ASL	France	Full	2	100.0%	100.0%	E2			
CNH Industrial Capital Europe GmbH	Austria	Full		100.0%	12.5%	Full	100.0%	12.5%	
CNH Industrial Capital Europe	France	Full		50.1%	12.5%	Full	50.1%	12.5%	
CNH Industrial Capital Europe BV	The Netherlands	Full		100.0%	12.5%	Full	100.0%	12.5%	
CNH Industrial Capital Europe (Italy Branch)	Italy	Full		100.0%	12.5%	Full	100.0%	12.5%	
CNH Industrial Capital Europe Ltd	United Kingdom	Full		100.0%	12.5%	Full	100.0%	12.5%	
CNH Industrial Capital Europe (Poland Branch)	Poland	Full		100.0%	12.5%	Full	100.0%	12.5%	
CNH Industrial Capital Europe (Germany Branch)	Germany	Full		100.0%	12.5%	Full	100.0%	12.5%	
CNH Industrial Capital Europe (Spain Branch)	Spain	Full		100.0%	12.5%	Full	100.0%	12.5%	
Cofiparc	France	Full	2	100.0%	99.9%	Full	100.0%	99.9%	
Fortis Lease	France	Full		100.0%	25.0%	Full	100.0%	25.0%	
Fortis Lease Deutschland GmbH	Germany	Full		100.0%	25.0%	Full	100.0%	25.0%	
Fortis Lease Iberia SA	Spain	Full		100.0%	41.0%	Full	100.0%	41.0%	
Fortis Lease Portugal	Portugal	Full		100.0%	25.0%	Full	100.0%	25.0%	
Fortis Lease UK Ltd	United Kingdom	Full		100.0%	25.0%	Full	100.0%	25.0%	
Fortis Vastgoedlease B.V.	The Netherlands	Full		100.0%	25.0%	Full	100.0%	25.0%	
Greenval Insurance DAC	Ireland	Full	2	100.0%	99.9%	Full	2	100.0%	99.9%
Heffiq Heftruck Verhuur BV	The Netherlands	Full		50.1%	12.5%	Full		50.1%	12.5%
JCB Finance	France	Full		100.0%	12.5%	Full		100.0%	12.5%
JCB Finance Holdings Ltd	United Kingdom	Full		50.1%	12.5%	Full		50.1%	12.5%
JCB Finance (Italy Branch)	Italy	Full		100.0%	12.5%	Full		100.0%	12.5%
JCB Finance (Germany Branch)	Germany	Full		100.0%	12.5%	Full		100.0%	12.5%
Louveo	France	Full	2	100.0%	99.9%	Full		100.0%	99.9%
Manitou Finance Ltd.	United Kingdom	Full		51.0%	12.8%	Full		51.0%	12.8%
MGF	France	Full		51.0%	12.8%	Full		51.0%	12.8%
MGF (Germany Branch)	Germany	Full		100.0%	12.8%	Full		100.0%	12.8%
MGF (Italy Branch)	Italy	Full		100.0%	12.8%	Full		100.0%	12.8%
Public Location Longue Durée	France	Full	2	100.0%	99.9%	Full		100.0%	99.9%
RD Leasing IFN SA	Romania	Full		100.0%	25.0%	Full		100.0%	25.0%
Same Deutz Fahr Finance	France	Full		100.0%	25.0%	Full		100.0%	25.0%
TEB Arval Arac Filo Kiralama A.S.	Turkey	Full	2	100.0%	74.9%	Full		100.0%	74.9%
TEB ARF Teknoloji Anonim Sirketi	Turkey	Full		100.0%	48.7%	E2			
TEB Faktoring A.S.	Turkey	Full		100.0%	48.7%	Full		100.0%	48.7%
TEB Holding A.S.	Turkey	Full		50.0%	49.9%	Full		50.0%	49.9%
TEB Sh A	Serbia	Full		100.0%	49.9%	Full		100.0%	49.9%
TEB Yatirim Menkul Degerler A.S.	Turkey	Full		100.0%	48.7%	Full		100.0%	48.7%
Turk Ekonomi Bankasi A.S.	Turkey	Full		76.2%	48.7%	Full		76.2%	48.7%
Rest of the World - Special Purpose Entities									
Folea Grundstücksverwaltungs und Vermietungs GmbH & Co	Germany	Full				Full			

(a) At 30 June 2021 and 31 December 2020, 12 Private Equity investment entities.

New entries (E) in the scope of consolidation

E1 Passing qualifying thresholds

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

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 Jointly controlled entities under proportional consolidation in the prudential scope.
Entities consolidated under the equity method in the prudential scope.

2 Entities consolidated under the equity method in the prudential scope.

Full - Full consolidation

Equity - Equity Method

FV - Investment in associates measured at Fair Value through P&L

REPORT OF THE ACCREDITED STATUTORY AUDITOR

BNP PARIBAS FORTIS SA/NV STATUTORY AUDITOR'S REPORT TO THE BOARD OF DIRECTORS ON THE REVIEW OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

Introduction

We have reviewed the accompanying Consolidated Interim Financial Statements of BNP Paribas Fortis SA/NV ("the Company"). The Consolidated Interim Financial Statements comprise the profit and loss account for the first half of 2021, the statement of net income and change in assets and liabilities recognised directly in equity, the balance sheet at 30 June 2021, the cash flow statement for the first half of 2021, the statement of changes in shareholders' equity between 1 January 2020 and 30 June 2021, and notes 1 to 6.

The Board of Directors is responsible for the preparation and presentation of these Consolidated Interim Financial Statements in accordance with IAS 34, as adopted by the European Union. Our responsibility is to express a conclusion on the Consolidated Interim Financial Statements, based on our review.

Scope of our review

We conducted our review in accordance with the International Standard on Review Engagements ('ISRE') 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists in making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the International Standards on Auditing ('ISA') and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Consolidated Interim Financial Statements of BNP Paribas Fortis SA/NV have not been prepared, in all material respects, in accordance with IAS 34 as adopted by the European Union.

Sint-Stevens-Woluwe, 2 September 2021

The Statutory Auditor

PwC Reviseurs d'Entreprises SRL / Bedrijfsrevisoren BV

represented by

Jeroen Bockaert

Reviser d'Entreprises / Bedrijfsrevisor