BNP PARIBAS FORTIS SA/NV

ANNUAL REPORT 2017

BNP PARIBAS FORTIS

The bank
for a changing
world

INTRODUCTION

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

The BNP Paribas Fortis Annual Report 2017 contains both the audited Consolidated and Non-consolidated Financial Statements, preceded by the Report of the Board of Directors, the Statement of the Board of Directors and a section on Corporate Governance including the composition of the Board of Directors. The audited BNP Paribas Fortis Consolidated Financial Statements 2017, with comparative figures for 2016, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, are followed by the audited Non-consolidated Financial Statements 2017 of BNP Paribas Fortis SA/NV, prepared on the basis of the rules laid down in the Belgian Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

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

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

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

All information contained in the BNP Paribas Fortis Annual Report 2017 relates to the BNP Paribas Fortis statutory Consolidated and Non-consolidated Financial Statements and does not cover the contribution of BNP Paribas Fortis to the BNP Paribas Group consolidated results, which can be found on the BNP Paribas website: www.bnpparibas.com.

The BNP Paribas Fortis Annual Report 2017 is available on the website: www.bnpparibasfortis.com

CONTENTS

BNP PARIBAS FORTIS CONSOLIDATED ANNUAL REPORT 2017

REPORT OF THE BOARD OF DIRECTORS

A word from the Chairman and the CEO

With net profit of EUR 1.9 billion, BNP Paribas Fortis posted stable results for the year 2017. We were able to compensate for the downward pressure exerted on our revenues by the low interest rate environment with greater volumes, higher commission income and growth at TEB, Leasing Solutions and Personal Finance. At Retail Banking Belgium, we expanded our lending portfolio by 6.1% to EUR 101.9 billion, as we continued to finance the plans and projects of our Individual and Business clients. Our deposit volumes rose by 3.2% to reach EUR 119.8 billion. Overall, our cost of risk remained low during the year and we maintained our strong liquidity and solvency ratios.

On the operational front, we achieved greater efficiency and were able to limit cost increases to 1.5% in spite of higher banking taxes and rising inflation. Meanwhile we rolled out new initiatives at full speed, confirming our ability to invest in the development of the Bank in order to offer our customers a high-quality service and finance the economy in a sustainable manner.

In Retail, we have been forging ahead with the further rollout of our digital bank and our customers are showing high appreciation for the expanding range of our product and service offer. The proportion of direct sales rose to reach 31.2% of total sales at end 2017. Three quarters of all digital sessions – 321.5 million in 2017 (+28% versus 2016) – now take place via our Easy Banking app. 1.2 million customers use the app and our ambition is to increase that number considerably by the end of the year. By regularly adding new functionality, the app connects seamlessly with our advanced Easy Banking Web and Easy Banking Business platforms.

An essential element in our strategy is that we develop and integrate our digital channels in a hybrid banking model. The specialised advice provided at our branches and from our helpdesks, the feedback from users to us and to each other, and the ability to connect to our bank products from new digital tools, all played a significant role in helping to step up our level of service even further during the year. We now have an online Community based on the Easy Banking Centre, where individual customers and non-customers who use this service can ask questions and obtain answers through peer-to-peer support. In December 2017 we were already welcoming 50,000 unique visitors to this site. In addition, the integration of the Itsme® app means that clients now have an easy and secure method of identifying themselves on Easy Banking Web using their smartphones, with an Easy Banking app due to follow. Meanwhile our rollout of Google's Pay app, enables customers who hold our credit and/or debit cards to make contactless payments all over the world.

The new Be.Connected branch concept brings a further significant step forward in terms of quality in our Retail network. First introduced in Brussels, Be.Connected branches will function as digital touchpoints in city centres, where clients can find information on digital banking options. We also added improvements to our traditional approach, with an emphasis on personal contact with the client, by appointing 'digital advisors' to provide customers with coaching in digital matters. We created new job types, appointing staff specialising in mortgage lending, insurance and digital banking services so as to provide precise, targeted quality advice in response to our clients' requests.

In 2017 we also considerably broadened our range of services to entrepreneurs and business owners. Our new 'Companymakers' web platform simplifies and speeds up the process of setting up a company, a unique service on the Belgian market. We also introduced, in conjunction with Google, a 'Digital Maturity Assessment' designed to assess the online profile of any given business and put forward solutions to place the company more firmly on the 'digital map'. With our acquisition of Paysquare Belgium, we strengthened our competitive position in digital payment acceptance and the processing of electronic payment transactions (known as 'acquiring') with an attractive offer for private-sector firms and state-owned companies, merchants/retailers and self-employed professionals.

Meanwhile, sustainable banking is a strategic priority in our banking model and we intend to become a leader in this field as well, both in terms of our product range and the assistance we provide to our clients, with a view to speeding up the transition to a more sustainable economy. Our Corporate Banking activities play a key role here: in 2018 we will be setting up a Competence Centre to provide companies with proactive advice to help them develop a more sustainable approach to their businesses, focusing on four main themes: decarbonisation, human capital, the circular economy and smart cities. One example of how we intend to go forward along these lines is a credit facility granted to bpost, with 'sustainability' conditions based directly on the company's performance in the environmental and social sphere.

With a market share of 52% in the Socially Responsible Investment (SRI) segment, we succeeded in confirming our position as Belgium's market leader in this sphere, with our Private Banking & Wealth Management business in the vanguard. Assets under Management in the SRI segment rose 62% within the space of a year to reach EUR 9.93 billion. More than a third of all new investments in Retail and Private Banking are today made in SRI products. Moreover, almost half of all newly-signed portfolio management contracts are invested in at least one SRI product. Thanks to strong growth in the BNP Paribas Fortis Private SRI fund (with today EUR 5.78 billion worth of assets and more than 28,000 investors), it is now the largest strategic SRI fund in the eurozone.

In order to respond more efficiently to all challenges and the changes taking place, the Bank is now adopting the 'Agile' approach, with the emphasis on empowerment and autonomous working. Our Bank has continued to invest in remaining compliant with all regulations. In 2017, there was a particular focus on protecting clients' interests and on MIFID I and II.

We would like to take this opportunity to express our gratitude to all our staff for their flexibility and their strong commitment to the further development of the Bank. We would also like to thank our customers for the trust and confidence that they continue to place in BNP Paribas Fortis.

Max Jadot Chief Executive Officer	Herman Daems Chairman of the Board of Directors

Stable results in a low interest rate environment

The economic context in 2017

The eagerly-awaited recovery in the world economy continued to progress during 2017, as global GDP rose by 3.6%, compared with 3.2% in 2016. Inflation, triggered mainly by rising oil and raw materials prices, took off almost everywhere, entirely removing the fears of deflation which had been ever-present during 2015 and 2016. Unsurprisingly, the recovery appeared earliest, and was most sustained, in the United States, prompting the Federal Reserve (the US Central Bank) to raise its target interest rate several times since early 2016, with three separate rises in 2017. These moves took the benchmark rate from 0.25% to 1.5% in the space of two years.

The recovery was however rather more timid in Europe and it was only after the victory of Emmanuel Macron in the French presidential elections in May that the wind changed direction. Most of the confidence indicators showed a recovery in the wake of the elections and GDP in the eurozone actually rose by 2.5% in 2017, the strongest increase for a very long time. The unemployment rate, which stood at over 12% not long ago, began to fall, and by end-2017 only 8.5% of the working population were registered as unemployed.

Meanwhile Germany has been taking advantage of the economic upturn, posting record exports and achieving a return to virtually full employment, a situation unheard of for the last 25 years. Consequently, the country's public finances continued to improve, with a surplus of EUR 38 billion – equivalent to 1.2% of GDP – recorded in 2017. For the first time in over 20 years, the German national debt even began to fall in absolute terms. Expectations of a boost to the purchasing power of German citizens are also fuelling high hopes among exporting firms in neighbouring countries.

Belgium is often less subject to sharp economic swings than its neighbours, thanks to its system of unemployment benefits and automatic wage-indexation, which serve as automatic stabilisers. This meant that Belgium enjoyed higher growth than the eurozone average between 2011 and 2013, a difficult period marked by the sovereign debt crisis. However, since 2014, we have seen the reverse phenomenon in operation: in 2017, Belgian GDP rose by just 1.7% versus an average of 2.5% for the eurozone as a whole.

Belgium has traditionally tended to see higher inflation than its neighbours because the government often raises indirect taxes in order to bolster the budget. The year 2017 was no exception: Belgium's average rate of inflation was 2.2%, compared with a rate of barely 1.5% for the eurozone.

The Belgian banking sector continued to play its part in financing economic activity, steadily stepping up lending in various segments. Lending to individual borrowers maintained the momentum seen in recent years, with total outstandings at a record level of over EUR 160 billion. Lending to businesses has taken longer to recover after the crisis years but has been on the rise again for the last two years, with outstandings reaching EUR 110 billion in 2017.

Real estate retained its appeal in 2017, leading to further price rises for residential property. Average property prices rose by around 4–5% during the year. However, the real estate market remains in balance and if we compare price developments with wage rises among ordinary citizens, we are forced to conclude that the Belgian market is much more stable than in neighbouring countries. This undoubtedly explains the unfailing attraction of real estate investment for Belgian people.

Lastly, one cannot speak of the economic environment in 2017 without highlighting the remarkable performance shown by the stock markets. The international situation remained highly conducive to securities investments, with abundant liquidity available all over the world and rock-bottom interest rates. The US stock markets rose to new heights, driven by good economic figures in the United States plus expectations of tax reforms, which are likely to give a further boost to corporate results. Since Emmanuel Macron was elected President in France, all European stock markets have also taken off. However, while the US and Japanese stock markets now stand at record levels, things are slightly different in Europe, where the recovery began later and therefore still has some way to go, especially in terms of improvements in European confidence indicators.

The future promises to be rather more complicated, as monetary policy is gradually changing direction all over the world. As a consequence, Europe is seeing lower capital inflows and liquidity is being withdrawn from the United States. This is likely to lead to a rise in long-term interest rates, which could drag markets down. However, the rather weak inflation should prevent interest rates rising too sharply.

The post-financial-crisis trend towards more stringent banking regulation will also continue in 2018 and the years beyond. The phasing-in of the Basel III capital adequacy agreements results in higher capital requirements and minimum riskweighting of credits might also be increased. Certain other measures may impact revenues from some products more directly. The combined effect of these factors will be to exert downward pressure on the return on the higher amounts of capital and on banks' profit-generating capacity. In this regard, the National Bank of Belgium decided in 2015 on capital surcharges to be applied to systemically important Belgian banks, as provided for by Capital Requirements Directive (CRD) IV and the Belgian Banking Law of May 2014. Given that 'systemically important' banks are defined as financial institutions whose failure would have a significant impact on the financial system or the real economy, additional capital requirements are being imposed on such institutions. Set at 1.5% for BNP Paribas Fortis, these surcharges are being phased in over a three-year period in stages of 0.5%, beginning on 1 January 2016.

Core Businesses

BNP Paribas Fortis

BNP Paribas Fortis covers both the Retail Banking and Corporate & Institutional Banking activities of the BNP Paribas Group in Belgium. On 31 December 2017, the Bank employed a total of 13,443 FTEs in Belgium.

Retail Belgium

BNP Paribas Fortis Retail banking activities comprise banking services to a range of client types, including individual customers, self-employed people and those in the liberal professions, small and medium-sized companies, local businesses, corporate clients and non-profit organisations. Retail Belgium provides its services via two networks, which operated in 2017 under a segmented business approach: Retail & Private Banking Belgium and Corporate Banking Belgium.

Retail & Private Banking Belgium

BNP Paribas Fortis is the market leader in Retail & Private Banking (RPB) in Belgium, serving 3.5 million clients and with strong positions in all banking products. Retail customers are served through its integrated networks via a hybrid distribution model in which clients choose between the branch network and the digital channels:

- The network comprises 747 branches (of which 271 are independent branches) and 18 Bank for Entrepreneurs Centres. They are supplemented by 297 branches under the Fintro brand and 662 sales points under a 50–50 joint venture with bpost bank. The 747 branches are organised in 47 branch groups spread over 9 regions.

- RPB's digital platform manages a network of 3,505 ATMs, banking services via internet through Easy Banking, and Mobile banking (together 1.9 million active users).

- The Easy Banking contact centre is available to customers 83 hours a week, processing around 50,000 calls per week.

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

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

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

In 2017 Retail & Private Banking made considerable investments in orienting its business model towards the hybrid bank concept, which enables the customer to choose whether to obtain the specialist advice s/he needs at the branches, Bank for Entrepreneurs Centres and Private Banking Centres or through digital channels – Easy Banking Web, Easy Banking App and Easy Banking Centre.

Digital channels

The rollout of initiatives designed to offer customers a more advanced digital experience led to BNP Paribas Fortis being named 'Bank of the Year 2017' by The Banker, a financial magazine that belongs to the Financial Times Group, which highlighted the Bank's 'important and continuous efforts for investing in future digitisation'.

The main achievements on the digital front for the benefit of Individual Clients included:

- The launch of Google Pay for the use of customers with credit and/or debit cards. Contactless payments can be made all over the world with an Android smartphone and the Google Pay app.

- The introduction of the Itsme® app. This is a simple and safe way to identify oneself using a smartphone plus a combination of a SIM card and a chosen individual code.

- The launch of an online community based on the Easy Banking Centre. Both customers and non-customers can ask basic questions 24–7 and obtain answers through a peer-to-peer support system. By end-December 2017 this platform already had 50,000 unique monthly visitors.

- The establishment of a mechanism for creating new digital applications in conjunction with customers on Easy Banking Web and Easy Banking App. Some 550 end-users regularly tested out proposed solutions and made suggestions for improvements.

- The new digital newsletter Wealth Outlook, which enables Private Banking clients to keep abreast of all the latest financial and economic news and developments in tax policy, met with high approval.

Meanwhile the range of digital services for entrepreneurs and small or medium-sized businesses was further expanded:

- A 'Digital Maturity Assessment', introduced in conjunction with Google, is designed to examine businesses' online profile and put forward solutions – such as Google My Business – for putting them more firmly on the 'digital map'.

- A series of 78 'Digital Workshops with Google' sessions were attended by a total of 3,800 entrepreneurs keen to obtain basic information on how to start up or develop online activities, including website creation, social media use, e-commerce, etc.

- A new internet platform called 'Companymakers' was launched. It enables business owners to go online through all the necessary steps for setting up a BVBA/SPRL (private limited liability company) in Belgium, including requirements regarding inter alia the bank, the notary and the social security system. This platform, which simplifies and speeds up the process of setting up a company, is unique on the Belgian market.

- A new online programme called ICE³ was launched, providing Entrepreneur clients with a fast, easy digital mechanism for requesting an instalment loan with a minimum amount of detail required.

- During 2017 Bizcover, the online magazine of the Bank for Entrepreneurs, welcomed 175,000 unique visitors. With its video reports and inspiring articles by and for business owners, Bizcover has become the benchmark blog for entrepreneurs.

- The rollout of Paysquare Belgium helped the Bank to strengthen its competitive position in the field of payment acceptance and transaction processing (known as 'acquiring') with an attractive offering for private- and public-sector enterprises, merchants, independent service providers and members of the professions.

The branch network

Optimisation of the Retail & Private Banking network continued in 2017, as the branch format evolved with the introduction of a new concept called Be.Connected. The traditional approach to personal customer contact is supplemented by digital coaching, enabling the customer to experience digital innovations hands-on.

Meanwhile the number of independent branches was expanded and new specialist jobs created in the field of mortgage lending, insurance and digital banking services. Expertise available in the branch network was also stepped up as 1,450 staff were given advanced training as Priority Banking Advisors.

The implementation of the new MiFID 2 Directive as from 3 January 2018 called for intensive staff training and preparation, especially in second-half 2017. A large-scale 'change programme' was carried out among branch staff and private bankers, with extensive e-learning modules and advanced coaching. A number of documents – available both in paper form and on Easy Banking Web – were specially drawn up to inform clients of the new rules.

Hello bank!

Hello bank! continued to achieve growth, ending the year 2017 with some 483,000 customers. Hello home (an online facility for making mortgage applications) saw over 310,000 loan simulations and more than 3,100 applications were filed. Thanks to a partnership with Mobile Vikings, Hello bank! customers have the chance to earn Viking points on the basis of the transactions on their Hello bank! account. Name recognition was considerably boosted by the Bank's involvement in summer festivals, plus also a number of media campaigns.

Lending

The low interest rates helped to boost demand for mortgage loans. Despite a slight decrease versus 2016, volumes remained at a high level. However, there was a sharp decline in mortgage refinancing compared with 2016; the figure was lower than that for new applications. As regards consumer credit, volumes were buoyed by 'loan bundling', and consequently total consumer loan production worked out 4% higher than in 2016.

Deposits and investments

Funds in both current and savings accounts remained largely stable, in spite of the prevailing low interest rates. Nevertheless, increasing numbers of customers are now switching their money over to investment opportunities. Retail banking customers are becoming more interested in Socially Responsible Investments (SRI). SRI funds have been launched specifically for Retail customers and around one third of all new investments is nowadays in SRI products.

Private Banking

Private Banking saw a sharp rise in placements in SRI-focused Private strategy funds during 2017. As with Retail customers, about one third of all new investment, in volume terms, went into SRI products, including funds, financial insurance and notes and almost half of all new wealth management contracts provide for investment in at least one SRI product. At end-2017, the BNP Paribas Fortis Private SRI fund had EUR 5.78 billion worth of assets from over 28,000 investors under management, which makes it the largest strategic SRI fund in the eurozone. This SRI-orientation and the consequent results were a decisive factor in earning BNP Paribas Fortis Private Banking the title of 'Best Private Bank in Belgium' in 2017 following a survey conducted by the Financial Times.

During the year, over 1,500 BNP Paribas Private Banking clients attended one of the twelve 'Expertise Days' held in prestigious museums. These highly valuable sessions offered a variety of workshops on sustainability issues with special emphasis on SRI.

Bank for Entrepreneurs

The training provided to staff at the Bank for Entrepreneurs and the creation of specialist posts have increased the Bank's ability to meet the needs of small and medium-sized enterprises (SMEs), business starters, and clients from agricultural businesses and the medical profession. A 'Medschool' for those starting out in the medical profession is designed to assist final year students – for instance with tailored credit offers – as they take their first steps in the world of employment. Meanwhile research has shown that the average Belgian SME has a serious need for help with its online presence. Accordingly, the national 'Boost your Business' campaign – which highlighted the digital approach as a central aspect – helped to profile the Bank for Entrepreneurs as a business accelerator for company owners.

Corporate Banking

A thorough reorganisation, bringing the Corporate and Institutional Banking (CIB) Belgium business within the same fold as Corporate and Public Banking (CPBB) Belgium, had already begun in 2016, with a view to becoming the bank of choice for corporate clients in Belgium and abroad by 2020. Accordingly, CIB and CPBB began operating in 2017 as a single division under the simplified name Corporate Banking (CB), under a single divisional Head. The new enlarged CB entity, with its unified structure, is now better equipped to meet clients' needs, providing immediate support and benefits to the clients during the reorganisation.

With its well-developed, diversified and integrated business and service model, CB has the ability to serve 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 across more than 70 countries, CB continues to meet the precise financing, transaction banking, investment banking and insurance needs of its clients.

CB made strenuous efforts in 2017 towards becoming the preferred bank for corporates in Belgium and abroad by providing them with convenient access to unique banking solutions, using innovative digital tools. During the year, CB established the 'client-obsessed' principle, which will be the basis for each and every strategic decision going forward. In particular the service model requires some improvements in order to meet all clients' financial needs precisely and rapidly. With its new organisation, CB is now better equipped to respond to the evolving expectations of its clients.

CB continued to drive ahead with its digital transformation roadmap – a key element underpinning the 'client-obsessed' service model – in 2017. The division enhanced its servicing model by expanding its client- and data-driven digital channels and launching a number of new initiatives. To help both relationship managers and clients to pursue their digital transformation journey, a digital activation tool was rolled out and special digital channel advisors appointed to each Business Centre.

2017 was also an important year for CB as regards supporting the transition to a more sustainable economy. Initiatives in this field came under four main headings: Decarbonisation, Human Capital, the Circular Economy and Smart Cities. During the year, CB embarked on a range of solutions intended to promote a low-carbon economy, support investment in education and health and help develop smart infrastructure in Belgian cities.

Innovation plays a key role in CB's long-term strategy. In 2017, the division continued to place great emphasis on its Innovation Hub network, which is designed to encourage and support innovative Belgian startups and scaleups. In addition to the events held at Innovation Hubs, CB brought together major players in the field for an 'Innovation Plane' excursion in November 2017. The plane took off from Brussels carrying Belgian entrepreneurs looking for innovation opportunities. The destination was Berlin, where two days of meetings and presentations with Circular Economy pioneers took place. Change in the entrepreneurial world was another theme addressed during 2017. The second annual 'Change League' competition, held in May, resulted in ten clients and their relationship managers going on a visit to Silicon Valley. This community of entrepreneurs, who have faced far-reaching changes in recent years, had the opportunity to discover all the new trends in Silicon Valley and exchange ideas with each other so as to gain a better understanding of what the future may hold.

In 2017, CB also provided support for the opening of the third Co.Station in Charleroi, following the successful examples of Brussels and Ghent. The new Co.Station premises offer 900 m² of efficient workspace spread over two floors, plus a training centre designed to host young companies in Charleroi, a dynamic city that is now developing fast.

Noteworthy deals concluded in 2017[1]

- BNP Paribas Fortis acted as Bookrunner on a EUR 200 million Retail bond issue for Eandis CVBA. The purpose of the transaction was to refinance a Retail bond (for which BNP Paribas Fortis had also acted as Bookrunner) issued in 2010, allowing existing and new retail investors to invest in Eandis debt. The offering was very well received, enabling the company to close the subscription period after a single day, with the lowest coupon ever seen in the Belgian retail market. Some 85% of the transaction was placed with retail investors in Belgium and Luxemburg.

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

- BNP Paribas Fortis acted as Mandated Lead Arranger, Hedging Bank, Intercreditor & Security Agent and Account Bank in the EUR 535 million non-recourse refinancing of a 216 MW Northwind operating offshore wind farm located 37 km from the Belgian coast, which is owned by Aspiravi, Parkwind and Sumitomo. The client was thus able to take advantage of the current market conditions to refinance the project, originally financed in 2012, and at the same time create headroom for new projects. The Northwind project provides 216 MW of renewable energy, using 72 Vestas 3MW turbines. The Project reached completion on 30 June 2014 and has performed very well since then. With a rotor diameter of 112 metres, the wind farm provides green energy for 250,000 Belgian households.

- Drainage and waste water treatment systems will be delivered in the coming months to the City of Thai Nguyen (Province of Thai Nguyen, Vietnam), located 80 km North of Hanoi. The project will be executed by SODRAEP, client of the BC Brussels West, the objective being to drain, collect and treat waste water in rural areas. Acting as Facility Agent and sole Lender, Export Finance Benelux has structured and put in place a EUR 8.2 million Credendo covered credit facility granted to the Ministry of Finance of Vietnam to finance the purchase of Belgian equipment and related services required for this project. Co-executed by the Vietnamese Authorities, supported by the Belgian Government, implemented and supervised by SODRAEP and financed by the Bank, this project demonstrates the strong commitment of all parties involved towards socially responsible and sustainable development.

- NMC International SA and the German group Selit, both leaders in the development, production and marketing of synthetic foams entered into a strategic partnership in July 2017. NMC has taken a majority participation in Selit while Selit's previous shareholders will become shareholders of NMC. The Bank supported NMC by granting a long term credit facility to partially finance this important acquisition. NMC, controlled by the Noël family, is a company active in different sectors including technical insulation, decoration, decking, packaging, leisure and garden as well as industrial applications. With 15 production sites and 10 sales offices in Europe, NMC generated EUR 200 million sales in 2016 and employed 1,450 personnel. Selit is a third generation family group specialised in the manufacturing of underlays for laminate, parquet and vinyl floors. The new group will generate EUR 270 million sales and count more than 1,600 employees.

- Private Equity made direct investments in, among other companies, Quality Assistance (equity), a European leader in the provision of analytical testing services to biotech and pharmaceutical companies; and Mifratel (equity and mezzanine finance), a contact management services provider. In addition, Private Equity made fund investments in, among others, Imec.xpand and imec.istart, two funds linked to Imec, the world's leading R&D and innovation hub for nanoelectronics and digital technologies; and Fortino Capital II Growth, a Benelux-based growth equity fund with a primary focus on the software, e-commerce and digital transformation sectors.

- The Bank supported La Lorraine Bakery Group, a Belgian 100% family-owned company active in the European milling and baking sectors, by acting as Bookrunning Mandated Lead Arranger for a EUR 350 million refinancing package. The proceeds of the facilities were used to refinance existing indebtedness and to provide headroom to help realising the ambitions of La Lorraine Bakery Group in line with its long term growth plan.

- BNP Paribas Fortis acted as Sole Lender for a USD 144 million bridge facility to Sipef NV. The purpose of the facility was the partial financing of two acquisitions that Sipef NV completed in early 2017, i.e. the USD 144 million acquisition of a 48% stake in Agro Muko (an Indonesian palm oil estate in which they already held a 47% stake) and the USD 53.1 million acquisition of 95% of the shares of Dendy Marker Indah Lestari (DMIL), another plantation company located in South Sumatra, Indonesia. Part of the bridge financing was repaid in May 2017 with the proceeds of a successful USD 97.1 million Rights Issue where BNP Paribas Fortis acted as Sole Global Coordinator and Sole Bookrunner. The remaining part of the bridge was refinanced in October 2017 under a USD 50 million syndicated loan with BNP Paribas Fortis acting once again as Sole Coordinator and with a final take & hold of USD 12.5 million. Sipef NV is a fully RSPO certified company and all transactions were completed in line with BNP Paribas Group's CSR Policy on Palm Oil, as such reconfirming BNP Paribas Fortis's commitment to contribute to the socially responsible and sustainable development ambitions of our clients.

- In November 2017, BNP Paribas acted as Coordinator and Agent for the provision, together with three other European banks, of a EUR 148.5 million financing, primarily for the acquisition by Charterhouse of a majority stake in SERB. Headquartered in Brussels, SERB is an independent leading European specialty pharma company focused on prescription medicines which address rare and life-threatening diseases, with operating offices in Belgium, France, the United Kingdom, and Luxembourg. SERB has a strong focus on therapeutic areas such as emergency care, diagnostics, neurology, and endocrinology.

- Thanks to BNP Paribas Group's long-term relationship with 'L'Entreprise de l'Année 2017' Spadel, the leading Benelux branded bottled water company, with strong regional positions in France and the UK, the Bank exclusively advised the company on its largest acquisition to date. Spadel acquired Devin, the Bulgarian market leader in branded bottled water, from Advent International, a premier global private equity investor, for an enterprise value of EUR 120 million. BNP Paribas also exclusively provided the acquisition debt facilities. Founded in 1992 and based in Sofia, Devin bottles and sells a wide range of products including mineral water, spring water and table water. Thanks to this acquisition, Spadel has further extended its presence in Europe, now for the first time in the CEE region. The transaction fits perfectly with Spadel's strategy of marketing natural water brands with a strong regional position and confirms the Group's aim of ensuring profitable and sustainable growth.

- In order to support Aedifica's growth through new acquisitions in the strategic segment of Senior Housing in Europe, BNP Paribas Fortis acted as Joint Global Coordinator and Joint Bookrunner in the client's EUR 219 million rights issue. The transaction was successfully executed and met strong demand from both existing shareholders and new investors, both domestically and internationally.

- BNP Paribas acted as Bookrunner on a EUR 100 million Schuldschein issue for Besix. In early 2017, Besix decided to tap the capital markets in order to fund the development of the company and diversify its financing sources. Due to its flexibility and the attractive prevailing market conditions, a Schuldscheindarlehen was one of the options open to the company. Having originally planned a EUR 75 million issue, Besix decided, following the success of the first tranche, to upsize the issue to EUR 100 million.

- In December 2017, BNP Paribas granted a first-time green loan of EUR 25 million to Aquafin. Proceeds are to be used within a predefined green framework, evaluated by an extra-financial opinion provider, the Center for International Climate and Environmental Research (CICERO), and will finance new or existing projects that promote (a) mitigation of climate change, being water management ('Mitigation Projects'); (b) adaptation to climate change, including investments in climate-resilient growth ('Adaptation Projects'); (c) 'Water Treatment Projects' and (d) 'Biodiversity Projects'.

- In the context of the recapitalisation and refinancing of Belron via EUR 1.3 billion Term Loans B and a EUR 280 million Revolving Credit Facility (RCF), BNP Paribas Fortis acted as Joint Bookrunner (Term Loans B), Mandated Lead Arranger (RCF) and Hedging Bank. The proceeds of the new Term Loans are being used to refinance the existing US Private Placements, reimburse the existing shareholder loans and pay an extraordinary dividend to the current shareholders of Belron (95% D'Ieteren). The new RCF refinances the existing one.

- BNP Paribas Fortis played a key role in the recent development of bpost (a) as Joint Sustainability Coordinator in the setting-up of bpost's new EUR 300 million Revolving Credit Facility – the first time that a Belgian company has entered into a sustainable loan arrangement; and (b) as Sole Lender for a bridge loan intended to finance the acquisition of Radial, a US-based e-commerce logistics service provider.

- BNP Paribas acted as Joint Global Coordinator and Joint Lead Manager on a 7-year EUR 500 million unrated benchmark bond for Groupe Bruxelles Lambert (GBL). GBL decided to take advantage of the historically low interest rate environment and positive market conditions to issue an inaugural institutional bond with the aim of lengthening its debt maturity profile and diversifying its financing sources. This transaction was well received by the market with a high-quality order book of 139 institutional investors (mainly asset managers and insurance and pension funds). The leading jurisdictions were France, Benelux and UK/Ireland.

- In order to continue to contribute to a more sustainable environment, ICDI invested EUR 74.5 million on upgrading its waste-to-energy plant so as to boost electricity production to 22,000 MWh/year, doubling from 6,000 to 12,000 the number of households that can now be provided with power from this facility. BNP Paribas Fortis acted as Sole Lender for the investment loan.

- BNP Paribas acted as Sole Global Coordinator and Joint Bookrunner on a 5-year EUR 500 million benchmark bond for Proximus SA/NV. Proximus decided to take advantage of the positive market conditions to diversify its current sources of funding. The client used part of the proceeds later in the year to pay for the acquisition of the US company TeleSign by its subsidiary BICS.

- BNP Paribas acted as Bookrunner on a EUR 330 million Schuldschein issue for Umicore. In early 2017, the company decided to tap the capital markets in order to fund organic growth around the world. Given its flexibility and attractive market conditions, a Schuldscheindarlehen was one of the choices open to the company. Having originally planned a EUR 150 million issue, Umicore decided, due the success of the initial transaction, to upsize the issue to EUR 330 million.

Arval

Arval is a BNP Paribas Group subsidiary that specialises in full service vehicle leasing. Arval offers its customers – large international corporates, SMEs and self-employed professionals – tailored solutions that optimise their employees' mobility and outsource the risks associated with fleet management. More recently, Arval expanded its business to include leasing to private individuals. Care, Expert Advice and Convenience are the watchwords of Arval's promise to clients and drivers.

Within an integrated digital ecosystem, Arval provides a range of services that have traditionally been part of company vehicle leasing – finance, insurance, maintenance, tyre-changes, etc – plus also complementary services such as the entire outsourcing of the management of client companies' fleet drivers (Arval Outsourcing Solutions); a telematics solution (Arval Active Link); a special online platform designed for client companies and drivers (My Arval); and the expert advice provider Arval Consulting.

At end-2017, over 6,500 Arval staff were working to optimise the mobility of client company employees, boost their efficiency and ensure their satisfaction, in the 29 countries where the company has a permanent establishment, with a total of some 1,103,835 vehicles under management. In addition, Arval works with a number of strategic partners under the Element-Arval Alliance, the world leader in this sector, with over 3 million vehicles in 50 countries.

BGL BNP Paribas SA

Domestic Markets businesses

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

Its commercial network comprises 41 branches, six Private Banking sites for high-net-worth residents of the Grand Duchy and seven business centres that provide services exclusively to self-employed professionals. It also has one of the country's most extensive ATM networks.

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

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

International Financial Services businesses

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

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

Cardif Lux Vie offers a range of products and services through three complementary business lines: International Wealth Management; Retail Insurance via the BGL BNP Paribas branch network; and Corporate Insurance.

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

Corporate & Institutional Banking

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

CIB Luxembourg comprises three main businesses:

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

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

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

Türk Ekonomi Bankası A.Ş. (TEB)

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

As at 30 September 2017, TEB, which provides the full range of BNP Paribas Group Retail products and services in Turkey, ranked 10th in the country's banking sector in terms of market share for deposits and loans.

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

The CEPTETEB Digital Banking Platform, launched in March 2015, which offers both financial and non-financial services to customers, continued to develop its digital channel experience in 2017, expanding its customer base. CEPTETEB provides a Customer Experience based on speed and convenience, inter alia enabling new customers to sign up online. It has become one of the fastest-growing digital banks in Turkey, today serving 475,000 customers and managing deposits totalling TL 3.9 billion.

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

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

TEB has been steadily increasing the accessibility of its services and today operates through a total of 515 branches and over 1,700 automated teller machines throughout Turkey. As well as expanding the network, TEB is also working to improve efficiency. During the period from end-2009 to end-2017, the Bank achieved significant improvements in most efficiency indicators.

Meanwhile, the Bank has embarked on a Financial Literacy and Access campaign through the TEB Family Academy. This corporate social responsibility initiative is prompted by TEB's determination to help families create a better future for themselves. Since October 2012, more than 250,000 people have received face-to-face financial literacy training free of charge. In addition, thanks to the TEB Family Academy, over 11 million students have received financial literacy education. Going forward, the TEB Family Academy provides similar assistance to five million adults over a period of three years under a project in partnership with the government's 'General Directorate for Lifelong Learning' entitled 'I Can Manage My Own Budget', which started up in Q4 2016. While the project will be focusing primarily on families whose financial literacy is believed to be limited, it will also be providing financial literacy training to 1,000 teachers, which will qualify them for financial literacy instructor certification through community education centres in 81 cities in Turkey. TEB also intends to reach 1.2 million vocational and technical high school students through a partnership with the General Directorate for Vocational and Technical Education. Through these partnerships, the TEB Family Academy will be reaching out to some 20 million people – approximately 25% of the Turkish population – by the end of 2019.

Corporate Social Responsibility

BNP Paribas Fortis continues to be strongly committed to helping achieve the Sustainable Development Goals set out by the United Nations. In line with the UN SDGs, our Corporate Social Responsibility (CSR) policy is aimed at building a more sustainable world, a world that takes more account of the needs of society, not least those of its less favoured members. Accordingly, the Bank is developing innovative products and services geared to attaining these goals.

Economy

BNP Paribas Fortis plays a major role in the Belgian economy, helping to create employment and supporting economic development through the loans it provides and the investments it makes.

With outstanding credit to businesses and individual customers in Belgium totalling EUR 101.9 billion in 2017, BNP Paribas Fortis continues to provide strong support to the real economy. Loans granted for 'social and environmental' projects totalled EUR 7.8 billion (a 18% increase versus 2016). This included, inter alia, EUR 2.7 billion worth of investment in the social services sector (hospitals, schools, universities, etc.), EUR 2.8 billion in 'green' mortgage loans (up 23% on 2016) and EUR 1.9 billion to support projects in the field of renewable energy.

The policy of BNP Paribas Fortis Private Banking, and also from 2017 onwards that of the Retail Banking division as well, is geared to developing the widest possible range of Socially Responsible Investment (SRI) opportunities for the clients. BNP Paribas Fortis expanded its SRI portfolio by 62% in the space of one year to a total value of EUR 9.93 billion, thus confirming its position as the leader in the Belgian Socially Responsible Investment market with, according to Morningstar, a 52% market share in 2017. Due to the spectacular growth of the BNP Paribas Fortis Private SRI fund, which now has some 28,118 investors and EUR 5.78 billion worth of assets, the King Baudouin Foundation's Venture Philanthropy Fund received EUR 1.5 million in 2017 to support charities or companies working in the social field. Private Banking selected a number of socially-oriented projects for financial support and, as in previous years, clients who invested in the BNP Paribas Fortis Private Fund of Funds SRI had the opportunity to vote for their favourite project.

The world is changing and so is the economy. Social enterprises are now playing a significant role in value-creation and economic growth. Providing support to social business has been an integral part of our policy since 2013. BNP Paribas Fortis works hand-in-hand with various players in the social business ecosystem with a view to both raising the profile of these entrepreneurs and enabling them to obtain the necessary financial resources to grow their businesses. The Bank is currently working with 359 social entrepreneurs and encouraging this new generation of people who are becoming increasingly keen to place their talents and skills at the service of the public interest. With a network of over 40 specialists, BNP Paribas Fortis had loans totalling EUR 90.1 million out to social enterprises at end-2017. The Bank has a special lending policy for these businesses which takes account both of their specific characteristics, including lower capitalisation, profitability and debt quality and of the social impact they achieve. A number of partnerships were established in 2017 with the main umbrella bodies or representative organisations for social entrepreneurship in Belgium.

During the year, the Bank's CSR department looked into the possibility of launching the first-ever Social Impact Bond. CSR is now at the stage of looking for feasible projects with various stakeholders in a number of different sectors.

BNP Paribas Fortis has brought together a team of Innovation specialists so as to be able to provide tailor-made services to innovation-oriented companies and to the Bank itself. Employees from all areas of the Bank are working on innovative ideas that will help us to provide a better service to customers and build the Bank of Tomorrow. Our sixth annual Sprint event – which every year brings together staff for a short, intensive period to address a given issue or need – focused on the United Nations Sustainable Development Goals (SDGs), which the Bank committed itself to supporting when it signed the Belgian SDG Charter in 2016. For 54 hours thirteen teams of employees worked on innovative projects designed to incorporate the SDGs into the Bank's policies and approaches. Since it was set up, Home for Innovation has now hosted a total of 511 Sprint participants, who worked in tandem with 50 experts on more than 200 new ideas.

During 2017, significant efforts were made to increase the importance of sectoral policies among all BNP Paribas Fortis departments when it comes to making decisions on financing for or investing in sectors where there are serious Social, Environmental and Governance issues. These sector-specific policies are posted on the Bank's corporate website. Five of the nine sectoral policies or declarations were modified, including on Defence & Security, Non-Conventional Fossil Fuels and Tobacco Products. The entire Bank gradually began to take on board the lending and investment criteria that emanate from the sectoral policies, thanks to online training modules and numerous face-to-face training sessions provided by the CSR team. In 2017, out of the 65 proposed transactions that were subjected to an in-depth investigation by the CSR team to verify their compliance with the policies, 12 were rejected.

The Bank continued to invest in training staff on a variety of Compliance issues. In 2017, a number of obligatory e-learning modules aimed at either all employees or a specific target-group were created. The total number of training days provided rose to 9,000 in 2017, with a participation rate of around 99%. The topics addressed during the year were: gifts and invitations, sanctions and embargoes, combating money-laundering and the financing of terrorism, plus aspects of Belgian banking law. A basic video entitled 'Compliance: Everyone's Responsibility', relating to the variable compensation component, was made available to all staff.

An important part of BNP Paribas Fortis CSR policy is founding university chairs. As the leading bank and one of the largest employers in the country, we are thus aiming to foster new developments that will boost the Belgian economy, by enhancing the nexus between scientific research, education and business. The Bank further stepped up its relationship with the university world by founding two new chairs in 2017. The first, at the University of Antwerp, will address the subject of Ethics and Finance. Focusing on sustainable investment, the chair will attempt to answer the question: 'Do companies that follow sustainable, responsible policies obtain better financial results in the long term?' The second chair, at the Vrije Universiteit Brussel (VUB), will investigate Social Entrepreneurship. The Bank currently endows nine academic chairs – at Vlerick Business School, KU Leuven, HEC-ULg (Liège), the University of Namur, UCL, VUB and the University of Antwerp. Various events, including workshops, masterclasses, innovation cafés and guest lectures are held in conjunction with these universities throughout the period of endowment.

The Bank drove strongly ahead with its customer-centric approach during the year, holding 90 Customer Councils meetings involving over 550 clients of different segments, with a view to obtaining useful feedback on a variety of topics. More than 60 Bank experts, including members of the Executive Committee and the CSR department, held discussions with customers on a range of subjects. BNP Paribas Fortis also continued to expand the 'A bank accessible to all' programme. A quarter of all branches are now certified as 'accessible to persons with reduced mobility'; banking apps have been developed specially for the visually impaired; and many ATMs are now equipped with voice assistance.

Employees

BNP Paribas Fortis places great importance on diversity and inclusion. On 29 June 2017 the very first BNP Paribas Group 'Multicultural Conference' took place in London, with the BNP Paribas Fortis Diversity department as one of the organisers. Some 140 participants from 23 countries shared the same goal: to work together across all barriers, whether these arise due to culture, religion, beliefs, principles or values.

For the fourth year running, 1,500 BNP Paribas Fortis staff took part in Diversity Week, which in 2017 was based on the theme: 'Connecting Generations'. The new 'Ability' network, which unites people living with a disability or those closely affected by disability, was launched during the week.

The launch in 2016 of the internal Pride Belgium network was quickly followed in 2017 by the Bank obtaining the silver award in the Pink Brand of the Year rankings for our inclusive attitude towards LGBT colleagues.

The Bank also launched a new stage in the 'Respect' campaign, now targeting unacceptable behaviour, sexual or personal harassment, violence and unfair discrimination. The aim is to raise the awareness of every employee regarding the issues and to put forward a set of simple actions to avoid remaining silent in the face of such situations.

Engagement with society, the environment and the people around us is an integral part of our work at the bank. The CSR department has launched a number of experiences intended to make the Bank's more than 13,000 employees aware of what the Bank is doing to engage with society, and to turn those colleagues into agents of positive change. Eventually 5,385 people took part in these experiences in 2017, 4,616 of them, in 210 teams, in the #ourjob2 campaign. This campaign, launched in May 2017, consisted of inviting staff to form teams and take real action to benefit society and/or the environment. Staff could either choose from a catalogue of some 20 activities or were free to come up with their own suggestions. Over 3,500 hours of voluntary work was performed in conjunction with various charity organisations and social enterprises, initiatives were taken in connection with the BNP Paribas Fortis Foundation, in the environment or diversity field, and a number of successful donation appeals were made. A total of EUR 85,480 was collected by staff on behalf of charities, with the Foundation and the CSR department matching those donations one-to-one.

Part of the variable component of staff remuneration is linked to the attainment of a number of CSR-related targets. Every year, the payment of this part of employees' variable compensation depends on the fulfilment of six sustainability criteria, including Customer Satisfaction, Compliance training and reductions in paper consumption.

Society

MicroStart provides loans to customers who have not been able to obtain credit through the traditional banking system. In 2017, microStart granted some 722 new micro-loans totalling EUR 6.5 million. The micro-lending specialist had 3,778 contacts with people seeking loans during the year and today has 1,870 active customers. In addition, the Microflux project, whose aim is to step up cooperation between microStart and BNP Paribas Fortis branches was launched in Liège and Ghent. The project bore fruit, with some 50 loans granted as a result. Meanwhile a second survey was carried out by Vlerick Business School, KPMG and VISES to measure the socio-economic impact of micro-lending in Belgium. The results of the survey showed that one euro invested in this way brings a return of four euros to the local community; that the measure of integration among microStart borrowers stands at 84%; and that the survival rate among starter businesses set up with the help of microStart is 75%; and that every micro-entrepreneur backed by microStart has created on average 1.6 job, including his/her own.

Since 2010, BNP Paribas Fortis Foundation has provided support worth a total of EUR 8.5 million to 1,450 initiatives by Belgian charities and non-profit organisations. In 2017, the Foundation made grants and donations totalling EUR 1.3 million to over 150 organisations in Belgium. Moreover, this basic financial support is amplified by the personal commitment and enthusiasm shown by an ever-growing number of Bank staff. In fact 2017 was a record year as regards staff participation in 'Solidarity Team Building' exercises. Following the Bank-wide #ourjob2 campaign, some 400 employees rolled up their sleeves to work for a good cause. During the year, 900 took part in at least one Foundation-run activity. In addition, 22,151 people, including 2,811 BNP Paribas Fortis staff, cast their votes online for one of nine charitable organisations, which consequently received an extra grant under the Foundation's annual Awards Programme. Meanwhile the Foundation continued its drive to promote 'crowdfunding' by hosting six 'Crowdfunding Academy' events across Belgium, which were attended by 104 non-profits, who were thus able to find out how to organise a successful fund-raising campaign.

In 2017, close to 45,000 people attended sessions on various financial education topics, including digital workshops (3,862), Hello Crowd (over 10,000), plus sessions run in conjunction with Flemish business education organisation Vlajo (22,722). The digital workshops were organised into 6 modules, which proved highly popular with the participants, obtaining a 95% positive recommendation rate.

Over the years, BNP Paribas Fortis has built up a considerable artistic and historical legacy, which it makes available to both staff and a wide external public. Accordingly, the Bank took part in an exhibition entitled '120 years of shared history between China and Belgium', which was shown in the Chinese city of Tianjin and at the University of Brussels (ULB). We also contribute regularly to temporary exhibitions, both national and international by lending major works from the Bank's collection.

The 'Dream Up' programme enabled 50 schoolchildren from disadvantaged backgrounds to attend the semi-finals of the 2017 Queen Elisabeth of Belgium Music Competition. This initiative complements the financial support which the Bank already provides for this annual event and to other cultural institutions such as the Brussels Palais des Beaux-Arts (BOZAR), the La Monnaie Opera House, the Flagey cultural space and the Festival of Flanders.

The Bank also conducted dialogue during the year with a number of NGOs, with the aim of better understanding their concerns with regard to various business sectors and presenting the progress made in implementing a powerful CSR policy across the entire Bank.

Environment

In order to limit the scope and consequences of the climate disruptions now taking place, the need to make the transition to the use of renewable energy sources has become a matter of great urgency. The 'energy transition' is therefore among the Sustainable Development Goals (SDGs) set out by the United Nations in 2015, to which BNP Paribas Fortis formally signed up in 2016. Accordingly, the Bank's Corporate Banking division has embarked on a Sustainable Finance programme, which envisages the creation of a Competence Centre geared to the SDGs.

With the same goals in mind, the Bank aims to reduce its own emissions of greenhouse gases (GHGs) by 25% by 2020 from the base year 2012. A 24% reduction was achieved by end-2016, when the number of kilograms of $CO2$ emitted per FTE had fallen from 3.36 (2012) to 2.55. Notably, such measures as the renovation of our building stock, energy audits and floorspace optimisation programmes (such as the 'New Ways of Working' drive) have enabled a reduction in energy consumption. Moreover, all the buildings managed by the Bank now use 100%-green electricity. Meanwhile, alternative fuel vehicles are on offer to staff as part of the car fleet and 7% of all new cars ordered since April 2016 have been all-electric, hybrid or CNG-fuelled vehicles. The Bank also strives permanently to reduce the environmental impact of its own activities, and set itself a target of becoming 'carbon neutral' by end-2017. The Group has also entered into a partnership with GoodPlanet to offset all GHG emissions relating to the Bank's activities that cannot be eliminated. Under another partnership with WeForest, staff have the opportunity in the context of some activities to support the planting of 40,000 trees in Zambia.

As a result of a joint effort between the CSR, Facility and Procurement departments, BNP Paribas Fortis signed up in June 2017 to the 'Green Deal Circulair Aankopen', an initiative by the Flemish Region designed to promote the Circular Economy. The Bank has committed to recycling its equipment and to incorporating the circularity principle into its purchasing policy. In addition, Procurement is making strenuous efforts to work with suppliers that offer more sustainable products and services. For example, the company in charge of demolition at the old BNP Paribas Fortis headquarters building at Montagne du Parc is recycling materials from the work site; in fact, the recycling rate is over 98%. Last but not least, the Bank is aiming to reduce its paper consumption by running awareness campaigns among staff and streamlining processes.

Moreover, BNP Paribas Fortis is encouraging clients to make the transition to a low-carbon economy and has set up for this purpose a Green Desk, which provided advice on the subject to over 140 mid-sized companies during 2017. Meanwhile a 'Green Loan' specifically designed for the purchase of electric bicycles, which was launched in May, proved instantly popular: 80 of these special loans were granted in the first month alone. In addition, two 'Sustainable Loans' were agreed. The first was a EUR 25 million facility for Aquafin, to be used according to pre-defined 'green' conditions assessed by an extra-financial ratings agency, the Centre for International Climate and Environmental Research (CICERO), to finance new or existing projects relating to climate change mitigation and water management, adaptation to climate change, water treatment projects and biodiversity projects. The second Sustainable Loan, a credit facility for Bpost, was arranged by BNP Paribas Fortis in conjunction with three other Belgian banks.

BNP Paribas's investment in the renewable energy field increased by 24% in 2017 versus the previous year, to reach 2.2 billion. The Bank's sectoral policies include strict rules regarding both climate change and biodiversity protection. In order to obtain a loan, clients de working in such sectors as agriculture, pulp & paper, mining & minerals, coal-fired power generation, palm oil production and non-conventional hydrocarbon extraction are required to meet the highest standards pertaining to water consumption and water quality, waste management, $CO2$ emissions and respect for worldwide nature reserves so as to protect biodiversity. Three of the Bank's sectoral policies were modified in 2017, with the aim of ensuring even stricter Environmental Social and Governance (ESG) criteria.

As part of this concern, BNP Paribas announced in 2017 that it would cease providing finance to companies whose main activity was the extraction of controversial oil and gas, including oil from tar sands, shale gas and drilling in the Arctic region. These policy decisions are now being implemented and will increase the number of firms with which we decline to do business, a figure which stood at 233 at end-2017.

As subsidiary of BNP Paribas SA and in accordance with article 96§4 of the Company Code, BNP Paribas Fortis refers to the consolidated report and group documentation of BNP Paribas SA regarding the non-financial information that is not included in this report.

Changes in the scope of consolidation

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

BNP Paribas Fortis credit ratings at 28/02/2018

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

The table above shows the main BNP Paribas Fortis credit ratings and outlook on 28 February 2018. Each of these ratings reflects the view of the rating agency specifically at the moment when the rating was issued; any explanation of the significance of a given rating is to be obtained from the rating agency which issued it.

Forward-looking Statements

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

Comments on the evolution of the results

BNP Paribas Fortis realised a net income attributable to equity holders of EUR 1,897 million in 2017, compared to EUR 1,727 million in 2016, up by EUR 170 million or 10%.

Operating income amounted to EUR 2,950 million in 2017, up by EUR 478 million or 19% compared to EUR 2,472 million in 2016.

The increase was the result of higher revenues for EUR 819 million or 11% and of costs that increased at a slower pace for EUR (437) million or 10%. Cost of risk strongly decreased by EUR 96 million or (22)%.

Non-operating items (share of earnings of equity-method entities and net gain on non-current assets) were up by EUR 225 million.

The goodwill was impacted by the full impairment of the goodwill of TEB, while the corporate income tax increased significantly by EUR (434) million, impacted by exceptional items in both years.

The comparison between the 2017 and 2016 results was impacted by the following elements:

- Scope changes mainly related to
  - the contribution in kind of Arval, fully consolidated in BNP Paribas Fortis as from 8 December 2016 and for which revenues (lease income) and costs (amortisation of leased assets)are both recorded in the caption income & expense from other activity (operating lease activity). In 2017, the business activity of Arval was sustained and the financed fleet showed strong growth bringing the number of financed vehicles to over 1.1 million;
  - the transfer of activities from most BNP Paribas Fortis' European branches (The Netherlands, Sweden, Denmark, Austria, Norway, Romania and Czech Republic) to BNP Paribas; and
  - some changes in the consolidation scope following the review of the consolidation thresholds.
- foreign exchange variations, and more particularly the continuous depreciation of the Turkish lira against euro (from 3.34 in 2016 to 4.12 in 2017).

Based on the segment information, 52% of the revenues were generated by banking activities in Belgium, 23% by other domestic markets, 13% by banking activities in Turkey, 8% by banking activities in Luxembourg and 4% by other activities.

Net interest income reached EUR 5,033 million in 2017, a decrease of EUR (330) million or (6)% compared to 2016. Excluding the scope changes (EUR (187) million) and the foreign exchange effect in Turkey (EUR (196) million), net interest income increased by EUR 53 million mainly at Leasing Solutions and Personal Finance.

In Belgium, the net interest income decreased due to the persistently low interest rate environment. This was demonstrated by less interest income on customer loans due to lower margins and lower indemnities on mortgage loans refinancing and despite an increase in volume (mainly term loans and mortgage loans), and on fixed-income securities (also impacted by the sale and redemption of securities with high yields). This was partly offset by lower interest expenses related to clients' deposits.

In Luxembourg, the downward trend of net interest income by (6)% was also the result of the low interest rate environment and to a lesser extent of lower volume..

Net interest income in Turkey dropped by (7)% largely due to the depreciating Turkish Lira. In its local currency, Turkey's net interest income increased by 14% mainly thanks to volume growth.

Net interest income at Leasing Solutions and Personal Finance (growing respectively by 2% and 9%) benefited both from strong production growth which largely offset the negative impact of the decreasing interest margins.

Net commission income amounted to EUR 1,430 million in 2017, down by EUR (36) million or (2)% compared to 2016. Excluding the scope changes (EUR (33) million) and the foreign exchange effect in Turkey (EUR (54) million), net commission income increased by EUR 51 million, mainly in Belgium.

In Belgium, fees on payment services evolved positively thanks to the growth of volumes and a pricing effect. Furthermore, more fees were received on asset management as the investment strategies have been adapted in the context of the upcoming implementation of MiFID II (Markets in Financial Instruments Directive).

Net results on financial instruments at fair value through profit or loss stood at EUR 13 million, down by EUR (150) million compared to 2016. This decrease was mainly due to the negative impact of the mark-to-market revaluation of derivatives hedging the balance sheet positions of TEB in Turkey.

Net results on available-for-sale financial assets amounted to EUR 189 million in 2017, increasing by EUR 11 million compared to previous year, essentially as a result of capital gains on the sale of portfolios in private equity funds. This increase was partly offset by lower capital gains on the disposal of fixed-income securities in Belgium and Turkey, fewer dividends received in Belgium and Luxembourg and less capital gains on variable income securities in Turkey.

Net income from other activities totalled EUR 1,454 million in 2017, increasing by EUR 1,324 million compared to 2016. Without the scope changes (EUR 1,233 million), essentially related to Arval, and the foreign exchange impact of the Turkish lira (EUR 7 million), the increase of EUR 84 million was mainly attributable to the disposal of SC Nueva Condo Murcia, S.L., an entity that held commercial real estate assets in Spain. The remaining increase was mostly due to reversal of provisions in Belgium and Turkey.

Salary and employee benefit expenses amounted to EUR (2,634) million in 2017, i.e. an increase of EUR (229) million compared to 2016. However, excluding the scope changes (EUR (306) million) and the foreign exchange effect of the Turkish lira (EUR 63 million), there was a slight decrease of EUR 14 million. In Belgium, there were less staff expenses mainly due to lower FTEs. This decline was partly offset by higher staff expenses in Turkey, following salary adjustment related to high inflation and despite lower average headcounts.

Other operating expenses amounted to EUR (1,903) million in 2017, i.e. an increase of EUR (151) million compared to 2016. Excluding the scope changes (EUR (135) million) and the foreign exchange impact of the Turkish lira (EUR 49 million), other operating expenses were up by EUR (65) million. In Belgium, the increase was driven by higher banking taxes and levies (EUR (291) million in 2017 compared to EUR (282) million in 2016). Outside Belgium, the cost increase was mainly due to higher taxes, duties and IT expenses in Turkey, and higher IT costs and professional fees at Leasing Solutions.

Depreciation charges stood at EUR (294) million in 2017, versus EUR (237) million compared to previous year, i.e. an increase of EUR (57) million, mainly explained by the scope changes (EUR (53) million).

Cost of risk totalled EUR (338) million in 2017, i.e. a decrease of EUR 96 million compared to 2016. Excluding the scope changes (EUR (20) million) and the foreign exchange impact of the Turkish lira (EUR 52 million), the remaining decrease of EUR 64 million was mostly due to less specific provisions recorded in 2017 in Belgium. In Turkey, despite higher collective provisions, the cost of risk, which was marked by a deterioration of market conditions in 2016, decreased mainly on corporate clients and the retail sector, which saw a decline of its delinquency rate on consumer loans.

Share of earnings of equity-method entities amounted to EUR 278 million in 2017, compared to EUR 155 million in 2016, i.e. an increase of EUR 123 million. Excluding the scope changes (EUR (21) million), the remaining increase of EUR 144 million was mainly due to the impairment on Bank BGZ BNP Paribas in Poland booked in 2016 for EUR (82) million. Furthermore, in 2017, the contribution of AG Insurance increased by EUR 22 million, following better performance in 2017 and the impact of a negative exceptional item in the first half of year 2016.

Net gain on non-current assets amounted to EUR 32 million in 2017 versus EUR (70) million in 2016. Excluding the scope changes (EUR 51 million), the remaining increase of EUR 51 million is largely explained by 2016 elements, of which the impact of the liquidation of FB Transportation Capital (EUR (40) million), the realised loss on the sale of the Leasing joint-venture in India (EUR (17) million), the realised loss on the sale of SADE (EUR (12) million) and the gain realised on the sale of Société Immobilière Monterey (EUR 39 million).

Goodwill was impacted in 2017 by the full impairment of the goodwill of TEB (EUR (112) million) following the anticipated growth slowdown in Turkey.

Corporate income tax in 2017 totalled EUR (775) million, compared to EUR (341) million in 2016. Excluding the scope changes (EUR (97) million), the remaining increase amounted to EUR (337) million. In 2017, following the reform of the corporate income tax regime, the bank proceeded to a value adjustment of its deferred tax assets recognized on the balance sheet, which generated a negative impact on corporate income tax. On the other hand, both years were impacted by the recognition of deferred tax assets on losses carried forward. Excluding these items and the share of earnings of equity-method entities (reported net of income taxes), the effective tax rate stood at 28% in 2017, compared to 29% in 2016.

Net income attributable to minority interests amounted to EUR 476 million in 2017, slightly lower compared to EUR 489 million in 2016.

Net income attributable to equity holders totalled EUR 1,897 million in 2017, compared to EUR 1,727 million in 2016.

Comments on the evolution of the balance sheet

The total balance sheet of BNP Paribas Fortis amounted to EUR 277.6 billion as at 31 December 2017, down by EUR (20.2) billion or (7)% compared with EUR 297.8 billion at the end of 2016.

In terms of scope changes, the transfer of the assets and liabilities of BNP Paribas Fortis' branches in the Netherlands, Norway, Sweden, Denmark, Austria, Czech Republic and Romania was completed during the year 2017. Furthermore, 2017 was also impacted by some changes in the consolidation scope following the review of the consolidation thresholds.

Excluding these impacts, the total balance sheet of BNP Paribas Fortis has actually decreased by EUR (3.8) billion.

The activities of BNP Paribas Fortis branch in Madrid will be transferred to BNP Paribas in the course of 2018 and have therefore been qualified as a 'disposal group' as defined in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. In accordance with IFRS 5 and as of 31 December 2017, the assets and liabilities of the branch have been reclassified and presented in the separate balance sheet lines - 'Assets classified as held for sale' and 'Liabilities classified as held for sale'. Comparative figures of 31 December 2016 were not adjusted. The reclassification did not change the total amount of BNP Paribas Fortis' consolidated balance sheet although it impacted the variances in some of the balance sheet captions (mainly 'Loans & receivables due from customers' for EUR (0.4) billion and 'Due to customers' for (0.5) billion).

In 2017, excluding the impact of scope changes, both customer loans and deposits showed continuous growth. The growth in customer loans for EUR 1.7 billion mainly related to mortgage loans and term loans (in BNP Paribas Fortis, BGL BNP Paribas and Factoring entities), consumer loans (Alpha Credit and Von Essen Bank) and finance lease loans at Leasing Solutions entities. Increasing customer deposits, up by EUR 3.7 billion, were the result of significant inflow of liquidity deposited in current accounts, mainly in Belgium and Luxemburg.

In Turkey, the higher level of both loans and deposits was more than counterbalanced by the adverse effect of depreciating Turkish lira which lost 22% of its value against the euro during the year.

In Belgium, the overall volume of reverse repurchase activities amounted to EUR 8.7 billion, significantly higher compared to the end of 2016, while the overnight deposits at the central bank decreased by EUR (7.5) billion.

Net position of 'Available for sale investments' decreased by EUR (5.9) billion, mainly in Belgium and Luxembourg, due to the arrival at maturity and sale of several positions, only compensated in a limited way by new investments.

Based on the segment information, 65% of the assets were contributed by banking activities in Belgium, 15% by other domestic markets, 9% by banking activities in Luxembourg, 7% by banking activities in Turkey and 4% by segment Other.

Assets

Cash and amounts due from central banks amounted to EUR 4.9 billion, down by EUR (9.1) billion or (65)% compared to the end of 2016. The variance was mainly due to the decrease of overnight deposit placed at the central banks by BNP Paribas Fortis (EUR (7.5) billion), BGL BNP Paribas (EUR (0.8) billion) and BNP Paribas Fortis' branch in New York (EUR (0.7) billion).

Financial assets at fair value through profit or loss amounted to EUR 11.1 billion, down by EUR (1.9) billon compared to the end of 2016. The fair value of derivative instruments decreased by EUR (1.8) billion following the compression process at the year-end which had a similar impact on the liability side.

Available-for-sale financial assets stood at EUR 23.7 billion, EUR (5.9) billion or (20)% lower than EUR 29.6 billion as at 31 December 2016. The net investments in government bonds dropped by EUR (5.4) billion as the bonds that arrived at maturity or were sold (EUR (5.9) billion) were much higher than the new purchases (EUR 1.3 billion) (e.g. net decreases in Belgian and Dutch government bonds for respectively EUR (1.4) billion and EUR (3.3) billion).

Loans and receivables due from credit institutions amounted to EUR 25.3 billion as at 31 December 2017, up by EUR 10.6 billion or 72% compared with EUR 14.7 billion at the year-end 2016. The increase was mainly explained by a rise of EUR 11.3 billion in the reverse repurchase activities in Belgium and Luxembourg, slightly offset by less interbank loans totalling EUR (0.6) billion.

Loans and receivables due from customers amounted to EUR 175.4 billion, up by EUR 4.1 billion or 2% from EUR 171.3 billion. Excluding EUR (0.4) billion from IFRS 5 entities and EUR 1.7 billion from scope changes, the net increase amounted to EUR 2.8 billion and was mainly driven by the net growth in loans to customers for EUR 1.7 billion and higher Finance lease loans (EUR 1.0 billion) thanks to growing activities at Leasing Solutions especially in Italy and Belgium.

The net growth in loans to customers was primarily supported by higher term loans (EUR 1.0 billion), especially in Factoring entities and BNP Paribas Fortis. The growth was also driven by higher demand for mortgage loans (0.8 billion), mainly at BNP Paribas Fortis (EUR 0.5 billion) and BGL BNP Paribas (EUR 0.5 billion), and by higher consumer loans (EUR 0.8 billion) thanks to the strong contribution of Alpha Credit in Belgium and to a lesser extent of Von Essen Bank in Germany. This positive evolution was partly offset by a decline in securities classified as loans and receivables by EUR (0.8) billion due to reimbursements in the structured credit portfolio which has been in run-down mode since several years.

In Turkey, the higher level of loans (especially in term loans) was more than counterbalanced by the adverse effect of depreciating Turkish lira.

Accrued income and other assets stood at EUR 8.3 billion as at 31 December 2017, slightly down by EUR (0.3) billion compared to EUR 8.6 billion at the end of 2016.

Current and deferred tax assets amounted to EUR 2.1 billion, down by EUR (0.5) billion compared with EUR 2.6 billion at the end of 2016.

Equity-method investments amounted to EUR 4.4 billion at the end of 31 December 2017, up by EUR 0.1 billion compared to EUR 4.3 billion at the end of previous period, mainly attributable to changes in scope.

Assets classified as held for sale stood at EUR 0.4 billion as at 31 December 2017 as the assets and liabilities of BNP Paribas Fortis' Madrid branch were reclassified and presented in the separate lines - 'Assets classified as held for sale' and 'Liabilities classified as held for sale' in accordance with IFRS 5.

Liabilities and equity

Cash due to central banks stood at EUR 0.4 billion, up by EUR 0.2 billion compared to EUR 0.2 billion at the end of previous year.

Financial liabilities at fair value through profit or loss decreased by EUR (2.5) billion or (16)%, totalling EUR 13.3 billion at the end of December 2017 compared to EUR 15.8 billion at the end of 2016. The fair value of derivative instruments decreased by EUR (1.8) billion following the compression process at the year-end which had a similar effect on the asset side.

Due to credit institutions stood at EUR 36.6 billion as at 31 December 2017, EUR 1.7 billion or 5% higher compared to the EUR 34.9 billion at the end of 2016. The variance was mainly explained by an increase in interbank borrowings with central banks.

Due to customers increased by EUR 3.6 billion or 2% to stand at EUR 166.9 billion as at 31 December 2017, compared to EUR 163.3 billion at the end of 2016. Excluding the scope changes (EUR (0.1) billion), the net increase amounted to EUR 3.7 billion mainly explained by a significant increase on current deposits (EUR 4.8 billion) mostly in Belgium and Luxembourg. This was partly offset by EUR (0.8) billion maturing Belgian saving certificates and less term deposits by EUR (0.8) billion mainly in Belgium. In addition, deposits on regulated and non-regulated saving deposits went up by EUR 0.9 billion, mainly in Belgium.

In Turkey, the higher level of deposits was more than counterbalanced by the adverse effect of depreciating Turkish lira.

Debt securities decreased by EUR (1.1) billion or (8)%, standing at EUR 12.4 billion as at 31 December 2017 compared to EUR 13.5 billion as at 31 December 2016. The decrease was to a large extent related to less commercial papers being issued in the US market by BNP Paribas Fortis' branch in New York (EUR (2.4) billion). In Belgium, the debt securities increased by EUR 1.2 billion, partly due to a new issuance of covered bonds for EUR 0.5 billion in 2017.

Accrued expenses and other liabilities decreased by EUR (0.6) billion or (8)%, amounting to EUR 6.5 billion as at 31 December 2017 compared with EUR 7.1 billion at the end of 2016.

Provisions for contingencies and charges came in at EUR 4.7 billion, down by EUR (0.1) billion compared with the EUR 4.8 billion at the end of 2016.

Subordinated debt amounted to EUR 2.5 billion, down by EUR (1.8) billion or (42)% compared to EUR 4.3 billion at the end of 2016. The decrease was mainly related to the arrival at maturity of subordinated debts issued by BNP Paribas Fortis (EUR (1.5) billion).

Liabilities classified as held for sale totalled EUR 0.8 billion as at 31 December 2017 as the assets and liabilities of BNP Paribas Fortis' Madrid branch were reclassified and presented in the separate lines - 'Assets classified as held for sale' and 'Liabilities classified as held for sale' in accordance with IFRS 5.

Shareholders' equity amounted to EUR 22.8 billion as at 31 December 2017, up by EUR 1.7 billion or 8% compared with EUR 21.1 billion at the end of 2016. Net income attributable to shareholders for the year 2017 contributed for EUR 1.9 billion. Foreign translation differences impacted negatively the shareholders equity for EUR (0.2) billion, mainly related to adverse impact resulting from the depreciating Turkish lira.

Minority interests stood at EUR 5.5 billion as at 31 December 2017, up by EUR 0.1 billion compared to previous year. Net income for the year 2017 attributable to minority interests amounted to EUR 0.5 billion. Foreign translation differences gave rise to a negative variance of EUR (0.2) billion, mainly related to adverse impact resulting from depreciating Turkish lira.

Liquidity and solvency

BNP Paribas Fortis' liquidity remained sound, with customer deposits standing at EUR 167 billion and customer loans at EUR 175 billion.

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

BNP Paribas Fortis' solvency stood well above the minimum regulatory requirements. At 31 December 2017, 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 15.2%. Total risk-weighted assets amounted to EUR 140.2 billion at 31 December 2017, of which EUR 117.3 billion are related to credit risk, EUR 1.7 billion to market risk and EUR 11.4 billion to operational risk, while counterparty risk, securitisation and equity risk worked out at EUR 1.7 billion, EUR 0.5 billion and EUR 7.6 billion respectively.

Principal risks and uncertainties

BNP Paribas Fortis' activities are exposed to a number of risks, such as credit risk, market risk, liquidity risk and operational risk. To ensure that these risks are identified and adequately controlled and managed, the Bank adheres to a number of internal control procedures and refers to a whole array of risk indicators, which are further described in Chapter 'Risk management and capital adequacy' to the BNP Paribas Fortis Consolidated Financial Statements 2017.

BNP Paribas Fortis is involved as a defendant in various claims, disputes and legal proceedings in Belgium and in some foreign jurisdictions, arising in the ordinary course of its banking business and following the restructuring of BNP Paribas Fortis and BNP Paribas Fortis Group in late September/early October 2008, as further described in Note 7.a 'Contingent liabilities: legal proceeding and arbitration' to the BNP Paribas Fortis Consolidated Financial Statements 2017.

Events after the reporting period are further described in Note 7.l 'Events after the reporting period' to the BNP Paribas Fortis Consolidated Financial Statements 2017.

STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors of BNP Paribas Fortis is responsible for preparing the BNP Paribas Fortis Consolidated Financial Statements as at 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the European Union, and the BNP Paribas Fortis Non-consolidated Financial Statements as at 31 December 2017 in accordance with rules laid down in the Belgian Royal Decree of 23 September 1992 on the annual accounts of credit institutions.

The Board of Directors reviewed the BNP Paribas Fortis Consolidated and Non-consolidated Financial Statements on 8 March 2018 and authorised their issue.

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

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

The BNP Paribas Fortis Consolidated Financial Statements and the BNP Paribas Fortis Non-consolidated Financial Statements as at 31 December 2017 will be submitted to the Annual General Meeting of Shareholders for approval on 19 April 2018.

Brussels, 8 March 2018
The Board of Directors of BNP Paribas Fortis

CORPORATE GOVERNANCE STATEMENT

1BNP Paribas Fortis complies with the '*2009 Belgian Code on Corporate Governance*' (hereafter referred to as the '**Code**').

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

1. Compliance with the Code

BNP Paribas Fortis is of the opinion that it complies with the large majority of the requirements of the Code. The main remaining deviation relates to Principle 8 of the Code '*The company shall enter into a dialogue with shareholders and potential shareholders based on a mutual understanding of objectives and concerns*'. The reason that makes the company unable to comply with all the provisions of Principle 8 of the Code lies within the structure of the shareholdership of BNP Paribas Fortis. Specifically, BNP Paribas SA, a public limited company ('société anonyme'/'naamloze vennootschap'), having its registered office address at boulevard des Italiens 16, 75009 Paris, France, registered under number 662 042 449 RCS Paris, holds 99.94% of the shares of BNP Paribas Fortis. The remaining 0.06% of the shares is held by minority shareholders. Nevertheless, BNP Paribas Fortis communicates on an ongoing basis with its various stakeholders through its website and other media and actively answers to the questions raised by its minority shareholders in the framework of the general shareholders' meetings.

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

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

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

2. Governing Bodies

Board of Directors

Role and responsibilities

In general, the board of directors is responsible for BNP Paribas Fortis in accordance with applicable law. In particular, and in accordance with article 23 of the law of 25 April 2014 on the legal status and supervision of credit institutions and stockbroking firms (the 'Banking Law'), the board of directors defines and supervises among others:

- the strategy and goals of BNP Paribas Fortis;
- the risk policy (including the risk tolerance) of BNP Paribas Fortis; and
- the integrity policy.

The board of directors also approves BNP Paribas Fortis' governance memorandum.

Size and membership criteria

The board of directors of BNP Paribas Fortis consists of no less than five (5) and no more than thirty five (35) directors (legal persons cannot be members of the board of directors). Directors are appointed for one (1) or more renewable periods, each individual period covering no more than four (4) full accounting years of BNP Paribas Fortis.

The composition of the board of directors of BNP Paribas Fortis has to be balanced in terms of (i) skills and competences, (ii) gender, and (iii) non-executive directors, whether independent or not, versus executive directors. The board of directors cannot consist of a majority of executive directors.

As at 8 March 2018, the board of directors of BNP Paribas Fortis is made up of thirteen (13) members, four (4) of which are women.

It moreover includes nine (9) non-executive directors (three (3) of them being independent directors within the meaning of article 526ter of the Companies Code) and four (4) executive directors.

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

BNP Paribas Fortis will assess and determine the suitability of each nominee director (including in case of mandate renewal) prior to his/her (re-) appointment. BNP Paribas Fortis will also assess all directors at least once a year.

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

Composition

As at 8 March 2018, 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 21 April 2016.
It will expire at the end of the 2020 annual general meeting of shareholders.

JADOT Maxime
Executive director. Chairman of the executive board.
Member of the board of directors (by co-optation) since 13 January 2011.
The current board member mandate has been renewed on 23 April 2015.
It will expire at the end of the 2019 annual general meeting of shareholders.

DIERCKX Filip
Executive director. Vice chairman of the executive board.
Member of the board of directors since 28 October 1998.
The current board member mandate has been renewed on 20 April 2017.
It will expire at the end of the 2021 annual general meeting of shareholders.

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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 21 April 2016.
It will expire at the end of the 2020 annual general meeting of shareholders.

AUBERNON Dominique
Non-executive director.
Member of the board of directors since 21 April 2016.
The mandate will expire at the end of the 2020 annual general meeting of shareholders.

BEAUVOIS Didier
Executive director.
Member of the board of directors (by co-optation) since 12 June 2014.
The mandate has been confirmed on 23 April 2015. It will expire at the end of the 2019 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 21 April 2016. It will expire at the end of the 2020 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 20 April 2017. It will expire at the end of the 2021 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 23 April 2015. It will expire at the end of the 2019 annual general meeting of shareholders.

LABORDE Thierry
Non-executive director.
Member of the board of directors (by co-optation) since 19 November 2015.
The board mandate has been confirmed on 23 December 2015. It will expire at the end of the 2019 annual general meeting of shareholders.

MERLO Sofia
Non-executive director.
Member of the board of directors since 21 April 2016.
The mandate will expire at the end of the 2020 annual general meeting of shareholders.

VAN AKEN Piet
Executive director.
Member of the board of directors (by co-optation) since 3 June 2016.
The board mandate has been confirmed on 8 December 2016. It will expire at the end of the 2020 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 21 April 2016. It will expire at the end of the 2020 annual general meeting of shareholders.

Between 1 January 2017 and 31 December 2017, the composition of the board of directors was as follows:

DAEMS, Herman
Chairman of the board of directors

JADOT, Maxime
Executive director and chairman of the executive board

DIERCKX, Filip
Executive director and vice chairman of the executive board

d'ASPREMONT LYNDEN, Antoinette
Independent non-executive director

AUBERNON, Dominique
Non-executive director

BEAUVOIS, Didier
Executive director

BOOGMANS, Dirk
Independent non-executive director

DECRAENE, Stefaan
Non-executive director

DUTORDOIR, Sophie
Independent non-executive director

LABORDE, Thierry
Non-executive director

MERLO, Sofia
Non-executive director

VAN AKEN, Piet
Executive director

VARÈNE, Thierry
Non-executive director

VANDEKERCKHOVE, Peter
Executive director (until 31 October 2017)

Attendance at meetings:

The board of directors held twelve (12) meetings in 2017. Attendance at these meetings was as follows:

Director	Number of Meetings Attended
DAEMS, Herman	12
JADOT, Maxime	11
DIERCKX, Filip	11
d'ASPREMONT LYNDEN, Antoinette	11
AUBERNON, Dominique	12
BEAUVOIS, Didier	11
BOOGMANS, Dirk	11
DECRAENE, Stefaan	6
DUTORDOIR, Sophie	10
LABORDE, Thierry	9
MERLO, Sofia	11
VAN AKEN, Piet	12
VARENE, Thierry	9
VANDEKERCKHOVE, Peter (until 31 October 2017)	7

Assessment of the board of directors and of the directors

At least once a year, the governance and nomination committee and the board of directors perform an evaluation of the board of directors and of all directors. At the occasion of this evaluation, any element that may impact the suitability assessment performed upon their nomination, as well as the time dedicated and the efforts delivered to perform one's mandate properly, is reviewed. As part of this annual evaluation, recommendations on how to manage and resolve any identified weaknesses are formulated.

The last evaluation process of the board of directors ended in October 2017 and the one of the directors ended in December 2017.

Remuneration

Information regarding the total remuneration for the corporate year 2017, including the remunerations, benefits in kind and pension plans, of all directors, paid and payable by BNP Paribas Fortis, can be found in Note 7.f 'Compensation and benefits awarded to BNP Paribas Fortis' corporate officers' to the BNP Paribas Fortis Consolidated Financial Statements. This Note is to be considered as the remuneration report in accordance with Provision 7.2 of the Code.

Executive board

Role and responsibilities

In accordance with article 24 of the Banking law and article 22 of the articles of association of BNP Paribas Fortis, the board of directors has set up an executive board ('directiecomité' / 'comité de direction'), to which it transferred all of its management powers ('bestuursbevoegdheid' / 'pouvoirs de gestion'), with the exception of the acts remaining, by virtue of the Companies Code or the Banking Law, with the board of directors. The members of the executive board are hereafter referred to as the '**executive directors**'.

Size and membership criteria

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

Since all members of the executive board are to be considered as effective leaders, certain suitability criteria apply in addition to the suitability criteria generally imposed upon directors. The decision whether or not to appoint a member of the executive board belongs to the competence of the board of directors. It will rely on a recommendation of the governance and nomination committee. The decision will be subject to a separate suitability assessment subsequently performed by the competent supervisor.

Composition

As at 8 March 2018, the composition of the executive board is as follows:

JADOT Maxime
Executive director and chairman of the executive board

DIERCKX Filip
Executive director and vice chairman of the executive board

BEAUVOIS Didier
Executive director

VAN AKEN
Piet Executive director

Other board committees

Article 27 of the Banking Law provides that the board of directors must set up four board committees: an audit committee, a risk committee, a remuneration committee and a nomination committee.

The existence of these committees does not in any way impinge upon the board's right to set up further ad-hoc committees to deal with specific matters as and when the need arises.

The board has used this right to set up an *ad hoc* board committee composed of three (3) directors and chaired by an independent director to assess, if and when necessary, whether an intended transaction falls within the scope of article 72 of the Banking Law and ascertain that the requirements of said article are complied with.

This right is also used by the board when, in the context of transactions between related parties, it sets up a Special Board Committee (it is here referred to section 'Information regarding related party transactions').

Each board committee has an advisory function towards the board.

All members of the committees are non-executive directors. In addition to the criteria applicable to non-executive directors, the chairperson of a committee must also meet the requirements of his/her function.

The criteria to be met by directors composing a board committee are similar to those of the other directors.

The appointment of these committees' members is further based on (i) their specific competencies and experience, in addition to the general competency requirements for any board members, and (ii) the requirement that each committee must, as a group, possess the competencies and experience needed to perform its tasks.

A specific committee (the governance and nomination committee – see further) will assess whether the suitability requirements applicable to the members and chairperson of each committee are met. For this assessment, the governance and nomination will take into account the induction program that BNP Paribas Fortis will provide to any new member of the concerned committee.

The four (4) committees function in accordance with the organisation set out below.

Audit committee (AC)

In accordance with article 27 of the Banking Law, BNP Paribas Fortis is required to set up a separate audit committee to assist the board of directors with audit related matters.

Role and responsibilities

The competences of the audit committee are set forth in the Banking Law and are listed in article 526bis of the Companies Code. It concerns, in general, the following domains: finance, internal control and risk management, internal and external audit. The audit committee shall, upon request of the board of directors, assist (and make recommendations to) the board of directors in all audit and accounting related matters.

Membership criteria

In addition to the suitability requirements for non-executive directors, the members of the audit committee must collectively have the necessary skills and competences relating to BNP Paribas Fortis' activities and in audit and accounting. At least one member of the audit committee must have an expertise in audit and/or accounting. Both independent directors currently members of the BNP Paribas Fortis audit committee have a specific expertise in audit and accounting.

Composition

The audit committee is composed of at least three (3) non-executive directors, of which at least two (2) directors are independent within the meaning of article 526ter of the Companies Code.

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

The chairperson of the audit committee meets on a regular basis with the chairpersons of the audit committees of the most important entities within the controlled perimeter of BNP Paribas Fortis.

Composition as at 8 March 2018:

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

Attendance at meetings

The audit committee met eight (8) times in 2017. Attendance was as follows:

Committee Member	Number of Meetings Attended
BOOGMANS, Dirk	8
d'ASPREMONT LYNDEN, Antoinette	8
VARENE, Thierry	4

Risk committee (RC)

In accordance with article 27 of the Banking Law, BNP Paribas Fortis is required to set up a separate risk committee to assist the board of directors with risk related matters.

Role and responsibilities

The competences of the risk committee are set forth in the Banking Law and concern: (i) the strategy and risk appetite, (ii) the price setting, and (iii) the remuneration policy. The risk committee shall, upon request of the board of directors, assist (and make recommendations to) the board of directors in all risk related matters.

Membership criteria

In addition to the suitability requirements for non-executive directors, the members of the risk committee must individually have the required knowledge, expertise, experience and skills in order to be able to understand and apprehend BNP Paribas Fortis' risk strategy and tolerance.

Composition

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

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

Composition as at 8 March 2018:

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

Attendance at meetings

The risk committee met five (5) times in 2017. Attendance was as follows:

Committee Member	Number of Meetings Attended
BOOGMANS, Dirk	5
d'ASPREMONT LYNDEN, Antoinette	5
VARENE, Thierry	4

Governance and nomination committee (GNC)

In accordance with article 27 of the Banking Law, BNP Paribas Fortis is required to set up a separate governance and nomination committee to assist the board of directors with governance and nomination related matters.

Role and responsibilities

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

Membership criteria

In addition to the suitability requirements for non-executive directors, the members of the governance and nomination committee have collectively and individually the necessary skills and competences in the field of governance and nomination regulation and practices within the Belgian banking sector.

Composition

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

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

Composition as at 8 March 2018:

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

Attendance at meetings

The governance and nomination committee met six (6) times in 2017. Attendance was as follows:

Committee Member	Number of Meetings Attended
DAEMS, Herman	6
DUTORDOIR, Sophie	5
LABORDE, Thierry	6

Remuneration committee (RemCo)

In accordance with article 27 of the Banking Law, BNP Paribas Fortis is required to set up a separate remuneration committee to assist the board of directors with remuneration related matters.

Role and responsibilities

The competences of the remuneration committee are set forth in the Banking Law. They concern the expression of a relevant and independent judgement on the remuneration policies, reward practices and related incentives, taking into account BNP Paribas Fortis' risk management, equity needs and liquidity position.

Membership criteria

In addition to the suitability criteria for non-executive directors, the members of the remuneration committee individually and collectively have the necessary skills, competences and expertise in the field of remuneration, and in particular those applicable to the Belgian banking sector.

Composition

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

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

Composition as at 8 March 2018:

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

Attendance at meetings

The remuneration committee met seven (7) times in 2017. Attendance was as follows:

Committee Member	Number of Meetings Attended
DAEMS, Herman	7
DUTORDOIR, Sophie	7
LABORDE, Thierry	6

Executive committee

BNP Paribas Fortis has set up an executive committee whose mission is to assist the executive board with the fulfilment of its missions and responsibilities and to advise the executive board as the case may be.

The executive committee currently consists of fourteen (14) members, of which four (4) are executive directors. It brings together the executive board and the ten (10) key heads of businesses and support functions:

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

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

Michael ANSEEUW
Member of the executive committee, chief retail banking

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

Dirk BEECKMAN
Member of the executive committee, chief transformation officer

Vincent BERNARD
Member of the executive committee, chief financial officer

Jo COUTUER
Member of the executive committee, chief data officer

Daniel de CLERCK
Member of the executive committee, chief E2E Operations

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

Sonja NOBEN
Member of the executive committee, chief information officer

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

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

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

Sandra WILIKENS
Member of the executive committee, secretary general

3. Internal Control Procedures

Roles and responsibilities for preparing and processing accounting and financial information

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

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

Producing accounting and financial information

Accounting policies and rules

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

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

The Management Control department draws up management reporting rules.

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

The process of preparing information

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

- the financial accounting channel: the particular responsibility of the accounting channel is to perform the entities' financial and cost accounting, and to prepare the BNP Paribas Fortis' consolidated financial statements in compliance with accounting policies and standards. It also produces related information on solvency and liquidity, ensuring that it is consistent with the accounting at each level. This channel certifies the reliability of the information produced by applying internal certification procedures (described below);
- the management accounting channel: this channel prepares the management information (especially that from the Divisions/OEs/business lines compiled from the data per entity) that is relevant to the economic management of activities, complying with the established internal principles and standards. It ensures the consistency of the management data with the accounting data, at every level. This channel is responsible for the preparation of solvency and liquidity ratios and for their analysis.

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

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

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

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

Permanent control of accounting and financial information

Internal control within the Finance Function

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

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

Internal Certification Process

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

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

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

The certification process encompasses:

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

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

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

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

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

The purpose of these control procedures within Finance is:

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

Periodic control – central accounting inspection team

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

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

The core aims of the team are as follows:

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

Relations with the statutory auditors

In 2017, the college of accredited statutory auditors was composed of:

- PwC Bedrijfsrevisoren bcvba / PwC Reviseurs d'Entreprises sccrl, represented by Mr Damien WALGRAVE
- Deloitte Bedrijfsrevisoren bv onder vorm van cvba / Reviseurs d'Entreprises SC sous forme d'une SCRL, represented by Mr Yves DEHOGNE and Mr Bernard DEMEULEMEESTER.

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

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

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

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

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

4. Conflicts of Interest

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

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

1. **Customers' interests** (this includes understanding customer's needs, ensuring the fair treatment of customers and protecting the customer's interests, ...)

2. **Financial security** (this includes fighting against money laundering, bribery, corruption and terrorist financing, ...)

3. **Market integrity** (this includes promoting free and fair competition, complying with market abuse rules, ...)

4. **Professional ethics** (this includes avoiding conflicts of interests in outside activities, taking measures against bribery and corruption, ...)

5. **Respect for colleagues** (this includes applying best standards in professional behavior, rejecting any forms of discrimination and ensuring the safety of the workplace)

6. **Group protection** (this includes building and protecting the BNP Paribas Group's long-term value, protecting the Group's information, communicating responsibly, ...)

7. **Involvement with society** (this includes promoting the respect for human rights, protecting the environment and combating climate change and acting responsibly in public representation)

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

BNP PARIBAS FORTIS CONSOLIDATED FINANCIAL STATEMENTS 2017

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

Profit and loss account for the year ended 31 December 2017

In millions of euros	Note	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Interest income	2.a	7,967	8,374
Interest expense	2.a	(2,934)	(3,011)
Commission income	2.b	2,298	2,280
Commission expense	2.b	(868)	(814)
Net gain/loss on financial instruments at fair value through profit or loss	2.c	13	163
Net gain/loss on available-for-sale financial assets and other financial assets not measured at fair value	2.d	189	178
Income from other activities	2.e	9,345	599
Expense on other activities	2.e	(7,891)	(469)
REVENUES		**8,119**	**7,300**
Salary and employee benefit expenses	6.a	(2,634)	(2,405)
Other operating expense	2.f	(1,903)	(1,752)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	4.n	(294)	(237)
GROSS OPERATING INCOME		**3,288**	**2,906**
Cost of risk	2.g	(338)	(434)
OPERATING INCOME		**2,950**	**2,472**
Share of earnings of equity-method entities		278	155
Net gain on non-current assets		32	(70)
Goodwill	4.o	(112)	-
PRE-TAX INCOME		**3,148**	**2,557**
Corporate income tax	2.h	(775)	(341)
NET INCOME		**2,373**	**2,216**
Net income attributable to minority interests		476	489
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS		**1,897**	**1,727**

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

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Net income for the period	**2,373**	**2,216**
Changes in assets and liabilities recognised directly in equity	**(450)**	**(784)**
Items that are or may be reclassified to profit or loss	**(461)**	**(660)**
Changes in exchange rate movements	(412)	(520)
of which deferred tax	3	(31)
Changes in fair value of available-for-sale financial assets, including those reclassified as loans and receivables	11	82
of which deferred tax	50	(9)
Changes in fair value of available-for-sale assets reported in net income, including those reclassified as loans and receivables	(48)	(64)
of which deferred tax	22	7
Changes in fair value of hedging instruments designated as cash flow hedges	(56)	(68)
of which deferred tax	36	35
Changes in fair value of hedging instruments designated as cash flow hedges reported in net income	-	2
of which deferred tax	-	(1)
Changes in equity-method investments	44	(92)
of which deferred tax	19	49
Items that will not be reclassified to profit or loss	**11**	**(124)**
Remeasurement gains (losses) related to post-employment benefit plans	10	(112)
of which deferred tax	(23)	48
Items related to equity-method investments	1	(12)
of which deferred tax	-	6
TOTAL	**1,923**	**1,432**
- Attributable to equity shareholders	1,644	1,126
- Attributable to minority interests	279	306

Balance sheet at 31 December 2017

In millions of euros	Note	31 December 2017	31 December 2016
ASSETS			
Cash and amounts due from central banks		4,942	14,037
Financial instruments at fair value through profit or loss			
Trading securities	*4.a*	*1,394*	*1,669*
Loans and repurchase agreements	*4.a*	*2,391*	*1,994*
Instruments designated as at fair value through profit or loss	*4.a*	*1,578*	*1,796*
Derivative financial instruments	*4.a*	*5,777*	*7,532*
Derivatives used for hedging purposes	4.b	2,011	2,101
Available-for-sale financial assets	4.c	23,697	29,558
Loans and receivables due from credit institutions	4.f	25,305	14,687
Loans and receivables due from customers	4.g	175,425	171,329
Remeasurement adjustment on interest-rate risk hedged portfolios		1,062	1,463
Held-to-maturity financial assets	4.j	511	525
Current and deferred tax assets	4.k	2,149	2,593
Accrued income and other assets	4.l	8,340	8,560
Equity-method investments	4.m	4,356	4,317
Investment property	4.n	229	204
Property, plant and equipment	4.n	17,158	15,276
Intangible assets	4.n	292	278
Goodwill	4.o	663	795
Assets classified as held for sale	4.s	366	19,076
TOTAL ASSETS		**277,646**	**297,790**
LIABILITIES			
Due to central banks		382	157
Financial instruments at fair value through profit or loss			
Trading securities	*4.a*	*295*	*2,207*
Borrowings and repurchase agreements	*4.a*	*4,706*	*3,089*
Instruments designated as at fair value through profit or loss	*4.a*	*4,190*	*4,559*
Derivative financial instruments	*4.a*	*4,114*	*5,927*
Derivatives used for hedging purposes	4.b	3,982	4,395
Due to credit institutions	4.f	36,558	34,867
Due to customers	4.g	166,927	163,316
Debt securities	4.i	12,434	13,539
Remeasurement adjustment on interest-rate risk hedged portfolios		441	876
Current and deferred tax liabilities	4.k	748	748
Accrued expenses and other liabilities	4.l	6,512	7,136
Provisions for contingencies and charges	4.p	4,732	4,784
Subordinated debt	4.i	2,487	4,348
Liabilities classified as held for sale	4.s	831	21,308
TOTAL LIABILITIES		**249,339**	**271,256**
CONSOLIDATED EQUITY			
Share capital and retained earnings		*20,828*	*19,094*
Net income for the period attributable to shareholders		*1,897*	*1,727*
Total capital, retained earnings and net income for the period attributable to shareholders		*22,725*	*20,821*
Changes in assets and liabilities recognised directly in equity		39	299
Shareholders' equity		**22,764**	**21,120**
Retained earnings and net income for the period attributable to minority interests		5,769	5,439
Changes in assets and liabilities recognised directly in equity		(226)	(25)
Total minority interests		**5,543**	**5,414**
TOTAL CONSOLIDATED EQUITY		**28,307**	**26,534**
TOTAL LIABILITIES AND EQUITY		**277,646**	**297,790**

Cash flow statement for the year ended 31 December 2017

In millions of euros	Note	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Pre-tax income		**3,148**	**2,557**
Non-monetary items included in pre-tax net income and other adjustments		**3,083**	**(1,130)**
Net depreciation/amortisation expense on property, plant and equipment and intangible assets		3,085	322
Impairment of goodwill and other non-current assets		96	(9)
Net addition to provisions		205	372
Share of earnings of equity-method entities		(287)	(155)
Net expense (income) from investing activities		(10)	85
Net expense from financing activities		41	-
Other movements		(47)	(1,745)
Net increase (decrease) in cash related to assets and liabilities generated by operating activities		**(14,565)**	**1,223**
Net decrease in cash related to transactions with credit institutions		(11,968)	(658)
Net increase (decrease) in cash related to transactions with customers		(2,190)	157
Net increase in cash related to transactions involving other financial assets and liabilities		4,327	2,099
Net increase (decrease) in cash related to transactions involving non-financial assets and liabilities		(4,469)	5
Taxes paid		(265)	(380)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS GENERATED BY OPERATING ACTIVITIES		**(8,334)**	**2,650**
NET INCREASE IN CASH AND EQUIVALENTS GENERATED BY DISCONTINUED OPERATING ACTIVITIES		**122**	**6,040**
Net increase (decrease) in cash related to acquisitions and disposals of consolidated entities		(10)	397
Net decrease related to property, plant and equipment and intangible assets		(220)	(287)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS RELATED TO CONTINUING INVESTING ACTIVITIES		**(230)**	**110**
NET DECREASE IN CASH AND EQUIVALENTS RELATED TO DISCONTINUED INVESTING ACTIVITIES		**(8,857)**	**(1)**
Net increase in cash and equivalents related to transactions with shareholders		940	343
Net decrease in cash and equivalents generated by other financing activities		(1,506)	(837)
NET DECREASE IN CASH AND EQUIVALENTS RELATED TO FINANCING ACTIVITIES*		**(566)**	**(494)**
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS RELATED TO DISCONTINUED FINANCING ACTIVITIES		**(867)**	**80**
EFFECT OF MOVEMENT IN EXCHANGE RATES ON CASH AND EQUIVALENTS		**(580)**	**(413)**
EFFECT OF MOVEMENT IN EXCHANGE RATES ON CASH AND EQUIVALENTS OF DISCONTINUED ACTIVITIES		**1**	**1**
Balance of cash and equivalent accounts at the start of the period		**14,749**	**12,820**
Cash and amounts due from central banks		14,033	13,013
Due to central banks		(157)	(1,174)
On-demand deposits with credit institutions	4.f	2,017	(833)
On-demand loans from credit institutions	4.f	(1,144)	1,814
Balance of cash and equivalent accounts at the end of the period		**5,039**	**14,749**
Cash and amounts due from central banks		4,942	14,033
Due to central banks		(382)	(157)
On-demand deposits with credit institutions	4.f	(1,523)	2,017
On-demand loans from credit institutions	4.f	2,002	(1,144)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS OF CONTINUING ACTIVITIES		**(9,710)**	**1,929**
Balance of cash and equivalent accounts of discontinued activities at the start of the period		**9,600**	**3,557**
Balance of cash and equivalent accounts of discontinued activities at the end of the period		**(1)**	**9,601**
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS OF DISCONTINUED ACTIVITIES		**(9,601)**	**6,044**
Additional information:			
Interest paid		(3,053)	(3,240)
Interest received		7,951	8,310
Dividend paid/received		56	(303)

** Changes in liabilities arising from financing activities other than those arising from cash flows amount to EUR 12 million*

Statement of changes in shareholders' equity between 1 January 2016 and 31 December 2017

In millions of euros	Capital and retained earnings			Changes in assets and liabilities recognised directly in equity				
	Share capital	Non-distributed reserves	Total	Exchange rates	Financial assets available for sale and reclassified as loans and receivables	Derivatives used for hedging purposes	Total	Total Shareholders' equity
Capital and retained earnings at 1 January 2016	9,605	8,362	17,967	(650)	1,254	183	787	18,754
Other movements	2,300	(1,060)	1,240	-	-	-	-	1,240
Changes in assets and liabilities recognised directly in equity	-	(113)	(113)	(347)	(74)	(67)	(488)	(601)
Net income for 2016	-	1,727	1,727	-	-	-	-	1,727
Capital and retained earnings at 31 December 2016	11,905	8,916	20,821	(997)	1,180	116	299	21,120
Other movements	-	-	-	-	-	-	-	-
Changes in assets and liabilities recognised directly in equity	-	7	7	(210)	14	(64)	(260)	(253)
Net income for 2017	-	1,897	1,897	-	-	-	-	1,897
Capital and retained earnings at 31 December 2017	11,905	10,820	22,725	(1,207)	1,194	52	39	22,764

Minority interests between 1 January 2016 and 31 December 2017

In millions of euros	Capital and retained earnings	Exchange rates, Financial assets available for sale and reclassified as loans and receivables, Derivatives used for hedging purposes	Total minority interests
Capital and retained earnings at 1 January 2016	5,146	147	5,293
Other movements	19	-	19
Dividends	(204)	-	(204)
Changes in assets and liabilities recognised directly in equity	(11)	(172)	(183)
Net income for 2016	489	-	489
Capital and retained earnings at 31 December 2016	5,439	(25)	5,414
Other movements	12	-	12
Dividends	(162)	-	(162)
Changes in assets and liabilities recognised directly in equity	4	(201)	(197)
Net income for 2017	476	-	476
Capital and retained earnings at 31 December 2017	5,769	(226)	5,543

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2017

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

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLIED BY BNP PARIBAS FORTIS

1.a Accounting standards

1.a.1 Applicable accounting standards

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

The introduction of standards and amendments which are mandatory as of 1 January 2017 has no effect on the 2017 financial statements.

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

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

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments', issued by the IASB in July 2014, will replace IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. It sets out the new principles for the classification and measurement of financial instruments, for impairment for credit risk on debt instruments measured at amortised cost or at fair value through shareholders' equity, loan commitments given, financial guarantee contracts and lease receivables, as well as for general hedge accounting (i.e. micro hedging).

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

Applying IFRS 9 to insurance activities

On 12 September 2016, the IASB published amendments to IFRS 4 'Insurance Contracts': 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'. These amendments apply for annual periods beginning on or after 1 January 2018.

The amendments to IFRS 4 permit entities that predominantly undertake insurance activities the option to defer the effective date of IFRS 9 until 1 January 2021. The effect of such a deferral is that the entities concerned may continue to report their financial statements under the existing standard IAS 39.

This temporary exemption from IFRS 9, which was limited to groups that predominantly undertook insurance activities according to the IASB amendments, has been extended by the European Union on 3 November 2017 to the insurance sector of financial conglomerates. This exemption is subject to conditions, notably the temporary prohibition on internal transfer of financial instruments, other than financial instruments that are measured at fair value through profit and loss, between insurance entities and other entities of the financial conglomerate.

BNP Paribas Group will apply the amendments as adopted by the European Union to all its insurance entities, including funds related to this activity, which will apply IAS 39 'Financial instruments : Recognition and Measurement' until 31 December 2020.

BNP Paribas Fortis will retain the accounting policies adopted by its insurance associates if these decided to apply IAS 39 'Financial instruments : Recognition and Measurement' until 31 December 2020.

Amendments to IFRS 9

On 12 October 2017, the IASB issued amendments to IFRS 9: 'Prepayment Features with Negative Compensation' that precise the classification of financial assets with prepayment options at the borrower's initiative leading the borrower to prepay the instrument at an amount less than the unpaid principal and interest owed.

[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.

These amendments will be mandatory for annual periods beginning on or after 1 January 2019. An early application will be possible after adoption by the European Union. In this case BNP Paribas Fortis will apply these amendments as at 1 January 2018.

Classification and measurement

According to IFRS 9, classification and measurement of financial assets will depend on the business model and the contractual characteristics of the instruments. On initial recognition, financial assets will be measured at amortised cost, at fair value through shareholders' equity (on a separate line), or at fair value through profit or loss.

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

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

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

- They will be classified at amortised cost if the business model objective is to hold the financial assets in order to collect contractual cash flows, and if the contractual cash flows solely consist of payments relating to principal and interest on the principal.
- They will be classified at fair value through shareholders' equity if the business model is achieved by both holding the financial assets in order to collect contractual cash flows and selling the assets, and if the cash flows solely consist of payments relating to principal and interest on the principal. Upon disposal, amounts previously recognised in shareholders' equity will be transferred to profit or loss.
- All debt instruments not eligible for classification at amortised cost or at fair value through shareholders' equity will be presented at fair value through profit or loss.

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

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

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

The provisions of IAS 39 concerning the derecognition of financial assets and financial liabilities have been maintained in IFRS 9 without any modification. Moreover, IFRS 9 provides details on the accounting treatment of modified assets, depending on whether they are derecognised or not.

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

- Loans and receivables due from credit institutions and customers and reverse repurchase agreements recognised in 'Loans and receivables' under IAS 39 are mostly eligible to amortised cost under IFRS 9, except for those not complying with the contractual characteristics criterion and those for which a disposal is envisaged ;
- 'Available-for-sale financial assets' under IAS 39:
  - Treasury bills, Government bonds and other fixed-income securities will be recognised, depending on the business model, at amortised cost for EUR 8.2 billion (gross amount) and at fair value through shareholders' equity for the remainder. By way of exception, those not complying with the contractual characteristics criterion will be measured at fair value through profit or loss;

- EUR 776 million (gross amount) in investments in equity instruments will be reclassified as instruments at fair value through profit or loss

- Financial assets classified as at 'fair value through profit or loss' under IAS 39 will remain in this category under IFRS 9.

Impairment

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

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

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

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

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

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

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

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

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

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

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

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

The measurement of expected credit losses is based on 3 main parameters: the probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD') in light of amortisation profiles. Expected credit losses are measured as the product of the PD, LGD and EAD.

The methodology developed by BNP Paribas Fortis for the implementation of IFRS 9 based on existing concepts and methods (in particular the Basel framework) on exposures for which the capital requirement for credit risk is measured according to the IRBA methodology. This method is also applied to portfolios for which the capital requirement for credit risk is measured according to the standardised approach. Besides, the Basel framework needs to be supplemented with the specific provisions of IFRS 9, in particular the use of forward-looking information.

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

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

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

The estimated amount of credit risk impairment according to IFRS 9 as at 1 January 2018 is EUR 900 million, compared to EUR 623 million as at 31 December 2017 under IAS 39.

Hedge accounting

BNP Paribas Fortis will maintain the hedge accounting principles under IAS 39, as allowed by the standard until the new macro-hedging standard comes into force. Additional information required by IFRS 7 as amended by IFRS 9 concerning risk management and the impacts of hedge accounting on the financial statements will be disclosed in the notes to the financial statements.

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

Transition

The IFRS 9 classification and measurement provisions, as well as its new impairment model, are applicable retrospectively as at 1 January 2018, and the standard introduces the option not to restate the comparative figures for prior periods. BNP Paribas Fortis will retain this option.

IFRS 9 allows early application of the requirements for the presentation of gains and losses attributable to changes in the credit risk of the financial liabilities designated as at fair value through profit or loss (fair value option). However, BNP Paribas Fortis decided not to apply these requirements before 1 January 2018.

Global impact expected for the first IFRS 9 application

Subject to control and validation works in progress, IFRS 9 application at 1 January 2018 should trigger an estimated net impact on shareholders' equity of EUR (150) million.

IFRS 15 Revenue from contracts with customers

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

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

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

Revenues from net banking income falling within the scope of application concern in particular the commissions received for banking and similar services provided (except those arising from the effective interest rate) and revenues from services provided in connection with lease contracts.

Transition

IFRS 15 is applicable retrospectively as at 1 January 2018 and introduces the option not to restate the comparative figures for prior periods. BNP Paribas Fortis will retain this option.

The post-tax impact of IFRS 15 application on shareholders' equity as at 1 January 2018 is estimated at EUR (38) million.

This impact is generated by a change in the timing of recognition of revenues derived from maintenance services offered by operating lease entities.

IFRS 16 Leases

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

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

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

Adopted for use in the European Union as at 31 October 2017, IFRS 16 will become mandatory for annual periods beginning on or after 1 January 2019. Following the publication of the standard, BNP Paribas Fortis has started to analyse the standard and define its potential impacts.

IFRS 17 Insurance Contracts

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 2021, 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 Luxemburg
- Banking activities in Turkey
- 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

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

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

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

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

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

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

Where BNP Paribas Fortis contractually holds the decision-making power, for instance where BNP Paribas Fortis acts as fund manager, it shall determine whether it is acting as agent or principal. Indeed, when associated with a certain level of exposure to the variability of returns, this decision-making power may indicate that BNP Paribas Fortis is acting on its own account and that it thus has control over those entities.

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

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

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

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

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

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

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

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

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

1.c.3 Consolidation procedures

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

Elimination of intragroup balances and transactions

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

Translation of financial statements expressed in foreign currencies

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

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

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

Differences arising from the translation of balance sheet items and profit and loss items are recorded in shareholders' equity under 'Changes in assets and liabilities recognised directly in equity – Exchange rates' for the portion attributable to shareholders, and in 'Minority interests' for the portion attributable to outside investors. Under the optional treatment permitted by IFRS 1, BNP Paribas Fortis has reset to zero all translation differences, by booking all cumulative translation differences attributable to shareholders and to minority interests in the opening balance sheet at 1 January 2004 to retained earnings.

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

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

1.c.4 Business combinations and measurement of goodwill

Business combinations

Business combinations are accounted for using the purchase method.

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

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

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

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

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

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

Minority interests are measured at their share of the fair value of the acquiree's identifiable assets and liabilities. However, for each business combination, BNP Paribas Fortis can elect to measure minority interests at fair value, in which case a proportion of goodwill is allocated to them. To date, BNP Paribas Fortis has never used this latter option.

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

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

Since the revised IFRS 3 is applied prospectively, business combinations completed prior to 1 January 2010 were not restated for the effects of changes to IFRS 3.

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

Measurement of goodwill

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

Cash-generating units

BNP Paribas Fortis has split all its activities into 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 unit is the higher of the fair value of the unit less costs to sell, and its value in use.

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

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

Transactions under common control

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

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

1.d Financial assets and financial liabilities

1.d.1 Loans and receivables

Loans and receivables include credit provided by BNP Paribas Fortis, the share of BNP Paribas Fortis in syndicated loans, and purchased loans that are not quoted in an active market, unless they are held for trading purposes. Loans that are quoted in an active market are classified as 'Available-for-sale financial assets' and measured using the methods applicable to this category.

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

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

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

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

1.d.2 Securities

Categories of securities

Securities held by BNP Paribas Fortis are classified into one of four categories.

Financial assets at fair value through profit or loss

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

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

Securities in this category are measured at fair value at the balance sheet date. Transaction costs are directly posted in the profit and loss account. Changes in fair value (excluding accrued interest on fixed-income securities) are presented in the profit and loss account under 'Net gain/loss on financial instruments at fair value through profit or loss', along with dividends from variable-income securities and realised gains and losses on disposal.

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

Loans and receivables

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

Held-to-maturity financial assets

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

Assets in this category are accounted for at amortised cost using the effective interest method, which builds in amortisation of premium and discount (corresponding to the difference between the purchase price and redemption value of the asset) and acquisition costs (where material). Income earned from this category of assets is included in 'Interest income' in the profit and loss account.

Available-for-sale financial assets

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

Assets included in the available-for-sale category are initially recorded at fair value, plus transaction costs where material. At the balance sheet date, they are remeasured at fair value, with changes in fair value (excluding accrued interest) shown on a separate line in shareholders' equity. Upon disposal, these unrealised gains and losses are transferred from shareholders' equity to the profit and loss account, where they are shown on the line 'Net gain/loss on available-for-sale financial assets'. The same applies in the event of impairment.

Income recognised using the effective interest method for fixed-income available-for-sale securities is recorded under 'Interest income' in the profit and loss account. Dividend income from variable-income securities is recognised under 'Net gain/loss on available-for-sale financial assets' when BNP Paribas Fortis' right to receive payment is established.

Repurchase agreements and securities lending/ borrowing

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

Securities temporarily acquired under reverse repurchase agreements are not recognised in BNP Paribas Fortis' balance sheet. The corresponding receivable is recognised under 'Loans and receivables' except in the case of reverse repurchase agreements contracted for trading purposes, where the corresponding receivable is recognised under 'Financial assets at fair value through profit or loss'.

Securities lending transactions do not result in derecognition of the lent securities, and securities borrowing transactions do not result in recognition of the borrowed securities on the balance sheet. In cases where the borrowed securities are subsequently sold by BNP Paribas Fortis, the obligation to deliver the borrowed securities on maturity is recognised on the balance sheet under 'Financial liabilities at fair value through profit or loss'.

Date of recognition for securities transactions

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

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

Securities transactions are carried on the balance sheet until BNP Paribas Fortis' rights to receive the related cash flows expire, or until BNP Paribas Fortis has substantially transferred all the risks and rewards related to ownership of the securities.

1.d.3 Foreign currency transactions

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

Monetary assets and liabilities[2] expressed in foreign currencies

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

Non-monetary assets and liabilities expressed in foreign currencies

Non-monetary assets may be measured either at historical cost or at fair value. Non-monetary assets expressed in foreign currencies are translated using the exchange rate at the date of the transaction if they are measured at historical cost, and at the closing rate if they are measured at fair value.

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

1.d.4 Impairment and restructuring of financial assets

Doubtful assets

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

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

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

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

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

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

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

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

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

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

Impairment of available-for-sale financial assets

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

In the case of variable-income securities quoted in an active market, the control system identifies securities that may be impaired on a long term basis and is based on criteria such as a significant decline in quoted price below the acquisition cost or a prolonged decline, which prompts BNP Paribas Fortis to carry out an additional individual qualitative analysis. This may lead to the recognition of an impairment loss calculated on the basis of the quoted price.

Apart from the identification criteria, BNP Paribas Fortis has determined three indications of impairment, one being a significant decline in price, defined as a fall of more than 50% of the acquisition price, another being a prolonged decline over two consecutive years and the final one being a decline on average of at least 30% over an observation period of one year. BNP Paribas Fortis believes that a period of two years is what is necessary for a moderate decline in price below the purchase cost to be considered as something more than just the effect of random volatility inherent in the stock markets or a cyclical change lasting a few years, but which represents a lasting phenomenon justifying an impairment.

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

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

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

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

Restructuring of assets classified as 'Loans and receivables'

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

At the time of restructuring, a discount is applied to the loan to reduce its carrying amount to the present value of the new expected future cash flows discounted at the original effective interest rate. The decrease in the asset value is recognised in the profit and loss account under 'Cost of risk'.

When the restructuring consists of a partial or full settlement with other substantially different assets, the original debt (see note 1.d.13) and the assets received in settlement are recognised at their fair value on the settlement date. The difference in value is recognised in profit or loss under 'Cost of risk'.

1.d.5 Reclassification of financial assets

The only authorised reclassifications of financial assets are the following:

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

Financial assets are reclassified at fair value, or at the value calculated by a model, on the reclassification date. Any derivatives embedded in the reclassified financial assets are recognised separately and changes in fair value are recognised through profit or loss.

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

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

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

1.d.6 Issues of debt securities

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

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

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

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

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

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

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

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

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

1.d.8 Derivative instruments and hedge accounting

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

Derivatives held for trading purposes

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

Derivatives and hedge accounting

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

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

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

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

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

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

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

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

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

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

In a cash flow hedging relationship, the derivative is measured at fair value in the balance sheet, with changes in fair value taken to shareholders' equity on a separate line, 'Unrealised or deferred gains or losses'. The amounts taken to shareholders' equity over the life of the hedge are transferred to the profit and loss account under 'Net interest income' as and when the cash flows from the hedged item impact profit or loss. The hedged items continue to be accounted for using the treatment specific to the category to which they belong.

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

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

Whatever the hedging strategy used, any ineffective portion of the hedge is recognised in the profit and loss account under 'Net gain/loss on financial instruments at fair value through profit or loss'.

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

Embedded derivatives

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

1.d.9 Determination of fair value

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.d.12 Cost of risk

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

1.d.13 Derecognition of financial assets and financial liabilities

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

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

1.d.14 Offsetting financial assets and financial liabilities

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

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

1.e Property, plant, equipment and intangible assets

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

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

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

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

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

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

The depreciable amount of property, plant and equipment and intangible assets is calculated after deducting the residual value of the asset. Only assets leased by BNP Paribas Fortis as the lessor under operating leases are presumed to have a residual value, as the useful life of property, plant and equipment and intangible assets used in operations is generally the same as their economic life.

Property, plant and equipment and intangible assets are depreciated or amortised using the straight-line method over the useful life of the asset. Depreciation and amortisation expense is recognised in the profit and loss account under 'Depreciation, amortisation and impairment of property, plant and equipment and intangible assets'.

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

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

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

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

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

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

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

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

1.f Leases

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

1.f.1 Lessor accounting

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

Finance leases

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

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

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

Operating leases

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

The asset is recognised under property, plant and equipment in the lessor's balance sheet and depreciated on a straight-line basis over 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.f.2 Lessee accounting

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

Finance leases

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

Operating leases

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

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

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

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

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

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

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

1.h Employee benefits

Employee benefits are classified in one of four categories:

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

Short-term benefits

BNP Paribas Fortis recognises an expense when it has used services rendered by employees in exchange for employee benefits.

Long-term benefits

These are benefits, other than short-term benefits, post-employment benefits and termination benefits. This relates, in particular, to compensation deferred for more than 12 months and not linked to the BNP Paribas share price, which is accrued in the financial statements for the period in which it is earned.

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

Termination benefits

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

Post-employment benefits

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

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

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

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

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

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

The present value of the defined-benefit obligation is measured on the basis of the actuarial assumptions applied by BNP Paribas Fortis, using the projected unit credit method. This method takes into account various parameters, specific to each country or entities of BNP Paribas Fortis, such as demographic assumptions, the probability that employees will leave before retirement age, salary inflation, a discount rate, and the general inflation rate.

When the value of the plan assets exceeds the amount of the obligation, an asset is recognised if it represents a future economic benefit for BNP Paribas Fortis in the form of a reduction in future contributions or a future partial refund of amounts paid into the plan.

The annual expense recognised in the profit and loss account under 'Salaries and employee benefits', with respect to defined-benefit plans includes the current service cost (the rights vested by each employee during the period in return for service rendered), the net interests linked to the effect of discounting the net defined-benefit liability (asset), the past service cost arising from plan amendments or curtailments, and the effect of any plan settlements.

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

1.i Share-based payments

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

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

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

Stock option and share award plans

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

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

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

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

Share price-linked cash-settled deferred compensation plans

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

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

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

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

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

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

1.j Provisions recorded under liabilities

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

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

1.k Current and deferred taxes

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

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

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

- taxable temporary differences on initial recognition of goodwill;
- taxable temporary differences on investments in enterprises under the exclusive or joint control of BNP Paribas Fortis, where BNP Paribas Fortis is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

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

1.l Cash flow statement

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

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the BNP Paribas Fortis' operations, including cash flows related to investment property, held-to-maturity financial assets and negotiable certificates of deposit.

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

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

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

Preparation of the financial statements requires managers of core businesses and corporate functions to make assumptions and estimates that are reflected in the measurement of income and expense in the profit and loss account and of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements.

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

This applies in particular to:

- impairment losses recognised to cover credit risks inherent in banking intermediation activities;
- the use of internally-developed models to measure positions in financial instruments that are not quoted in active markets;
- calculations of the fair value of unquoted financial instruments classified in 'Available-for-sale financial assets', 'Financial assets at fair value through profit or loss' or 'Financial liabilities at fair value through profit or loss', and more generally calculations of the fair value of financial instruments subject to a fair value disclosure requirement;
- whether a market is active or inactive for the purposes of using a valuation technique;
- impairment losses on variable-income financial assets classified as 'Available-for-sale';
- impairment tests performed on goodwill and intangible assets;
- impairment testing on investments in equity-method entities;
- deferred tax asset recognition;
- the appropriateness of the designation of certain derivative instruments such as cash flow hedges, and the measurement of hedge effectiveness;

- estimates of the residual value of assets leased under finance leases or operating leases, and more generally of assets on which depreciation is charged net of their estimated residual value;

- the measurement of provisions for contingencies and charges. In particular, while investigations and litigations are ongoing, it is difficult to foresee their outcome and potential impact. Provision estimation is established by taking inot 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. The Group may also use the opinion of experts and independent legal advisers to exercise its judgement.

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

2 NOTES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2017

2.a Net interest income

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

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

In millions of euros	Year to 31 Dec. 2017			Year to 31 Dec. 2016		
	Income	Expense	Net	Income	Expense	Net
Customer items	**6,222**	**(1,206)**	**5,016**	**6,568**	**(1,459)**	**5,109**
Deposits, loans and borrowings	5,435	(1,158)	4,277	5,793	(1,412)	4,381
Repurchase agreements	22	(2)	20	15	(8)	7
Finance leases	765	(46)	719	760	(39)	721
Interbank items	**291**	**(559)**	**(268)**	**269**	**(373)**	**(104)**
Deposits, loans and borrowings	268	(548)	(280)	258	(298)	(40)
Repurchase agreements	23	(11)	12	11	(75)	(64)
Debt securities issued	**-**	**(239)**	**(239)**	**-**	**(295)**	**(295)**
Cash flow hedge instruments	**525**	**(479)**	**46**	**492**	**(409)**	**83**
Interest rate portfolio hedge instruments	**418**	**(295)**	**123**	**467**	**(289)**	**178**
Financial instruments at fair value through profit or loss	**168**	**(156)**	**12**	**126**	**(186)**	**(60)**
Fixed-income securities	15	-	15	15	-	15
Loans / Borrowings	99	(61)	38	53	(31)	22
Repurchase agreements	54	(40)	14	58	(81)	(23)
Debt securities	-	(55)	(55)	-	(74)	(74)
Available-for-sale financial assets	**314**	**-**	**314**	**427**	**-**	**427**
Held-to-maturity financial assets	**29**	**-**	**29**	**25**	**-**	**25**
Total interest income / (expense)	**7,967**	**(2,934)**	**5,033**	**8,374**	**(3,011)**	**5,363**

The effective interest rate applied on the second series of Targeted Longer-Term Refinancing Operations (TLTRO II) conducted by the European Central Bank takes into account a 40bp interest incentive. Indeed, the expected increase in outstanding amounts of eligible loans to households and non-financial corporations is higher than the threshold requested for this interest enhancement level.

Interest income on individually impaired loans amounted to EUR 38 million in the year ending 31 December 2017, compared with EUR 35 million in the year ending 31 December 2016.

2.b Commission income and expense

In millions of euros	Year to 31 Dec. 2017			Year to 31 Dec. 2016		
	Income	Expense	Net	Income	Expense	Net
Financial instruments not measured at fair value through profit or loss	**425**	**(97)**	**328**	**423**	**(76)**	**347**
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	**366**	**(3)**	**363**	**382**	**(2)**	**380**
Other commissions	**1,507**	**(768)**	**739**	**1,475**	**(736)**	**739**
Payment services	536	(167)	369	454	(157)	297
Operations linked to securities and derivatives	210	(72)	138	211	(79)	132
Insurance activities	361	(10)	351	348	(8)	340
Other	400	(519)	(119)	462	(492)	(30)
Total commissions	**2,298**	**(868)**	**1,430**	**2,280**	**(814)**	**1,466**

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

Net gain/loss on financial instruments at fair value through profit or loss includes all profit and loss items relating to financial instruments managed in the Trading Book and financial instruments (including dividends) that BNP Paribas Fortis has designated as at fair value through profit or loss under the fair value option, other than interest income and expense which are recognised in 'Net interest income' (Note 2.a).

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

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Trading Book	**5**	**11**
Interest rate and credit instruments	19	92
Equity financial instruments	59	(209)
Foreign exchange financial instruments	(77)	134
Other derivatives	4	(6)
Repurchase agreements	-	-
Financial instruments designated as at fair value through profit or loss	**(13)**	**162**
of which debt remeasurement effect arising from BNP Paribas Fortis issuer risk (note 4.d)	(23)	(8)
Impact of hedge accounting	**21**	**(10)**
Fair value hedging derivatives	336	(577)
Hedged items in fair value hedge	(315)	567
Total	**13**	**163**

Net gains on the Trading Book in 2017 and 2016 include a non-material amount relating to the ineffective portion of cash flow hedges.

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

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Loans and receivables, fixed-income securities (1)	**68**	**78**
Disposal gains and losses	68	78
Equities and other variable-income securities	**121**	**100**
Dividend income	22	55
Additions to impairment provisions	(11)	(37)
Net disposal gains	110	82
Total	**189**	**178**

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

Upon sale of the available-for-sale securities, or where there is objective evidence of impairment, the unrealised gains or losses on these securities, recognised in other comprehensive income, are reclassified from equity to profit and loss. For the year ending 2017, this amounted to a gain of EUR 76 million, compared to a gain of EUR 72 million for the year ending 2016.

2.e Net income from other activities

	Year to 31 Dec. 2017			Year to 31 Dec. 2016		
In millions of euros	Income	Expense	Net	Income	Expense	Net
Net income from investment property	110	(21)	89	36	(16)	20
Net income from assets held under operating leases	8,858	(7,504)	1,354	316	(201)	115
Other net income and expense	377	(366)	11	247	(252)	(5)
Total net income from other activities	**9,345**	**(7,891)**	**1,454**	**599**	**(469)**	**130**

2.f Other operating expense

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
External services and other operating expenses	(1,517)	(1,395)
Tax and contribution [1]	(386)	(357)
Total other operating expenses	**(1,903)**	**(1,752)**

(1) Contributions to European resolution funds, including exceptional contributions, amount to EUR (57) million in 2017 as in 2016.

2.g Cost of risk

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

Cost of risk for the period

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Net allowances to impairment	(339)	(445)
Recoveries on loans and receivables previously written off	35	34
Irrecoverable loans and receivables not covered by impairment provisions	(34)	(23)
Total cost of risk for the period	**(338)**	**(434)**

Cost of risk for the period by asset type

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Loans and receivables due from credit institutions	1	20
Loans and receivables due from customers	(348)	(425)
Financial instruments of trading activities	10	9
Other assets	(2)	2
Commitments given and other items	1	(40)
Total cost of risk for the period	**(338)**	**(434)**
Cost of risk on a specific basis	(299)	(455)
Cost of risk on a collective basis	(39)	21

Credit risk impairment

Impairment variance during the period

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Total impairment provisions at start of year	**3,324**	**3,276**
Net allowance to impairment	339	445
Impairment provisions used	(458)	(357)
Effect of exchange rate movements and other items	(184)	(40)
Total impairment provisions at end of year	**3,021**	**3,324**

Impairment by asset type

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Impairment of assets		
Loans and receivables due from credit institutions (Note 4.f)	58	67
Loans and receivables due from customers (Note 4.g)	2,764	3,032
Financial instruments on trading activities	25	36
Available-for-sale financial assets (Note 4.c)	11	11
Other assets	7	3
Total impairment of financial assets	**2,865**	**3,149**
of which specific impairment	2,259	2,570
of which collective provisions	606	579
Provisions recognised as liabilities		
Provisions for commitments given		
- to credit institutions	-	3
- to customers	117	129
Other specific provisions	39	43
Total provisions recognised for credit commitments (Note 4.p)	**156**	**175**
of which specific impairment for commitments given	139	155
of which collective provisions	17	20
Total impairment and provisions	**3,021**	**3,324**

2.h Corporate income tax

Reconciliation of the effective tax expense to the theoretical tax expense at standard tax rate in Belgium	Year to 31 Dec. 2017		Year to 31 Dec. 2016	
	In millions of euros	Tax rate	In millions of euros	Tax rate
Corporate income tax expense on pre-tax income at standard tax rate [1]	**(1,014)**	**33.99%**	**(816)**	**33.99%**
Impact of differently taxed foreign profits	112	(3.7%)	79	(3.3%)
Impact of changes in tax rates	(376)	12.6%	20	(0.8%)
Impact of dividends and securities disposals taxed at reduced rate	50	(1.7%)	30	(1.2%)
Tax impact of previously unrecognised deferred taxes (tax losses and temporary differences)	427	(14.3%)	474	(19.7%)
Tax impact of using tax losses for which no deferred tax asset was previously recognised	6	(0.2%)	5	(0.2%)
Other items	20	(0.7%)	(133)	5.5%
Corporate income tax expense	**(775)**	**25.99%**	**(341)**	**14.29%**
of which				
Current tax expense for the year to 31 December	(353)		(276)	
Deferred tax expense for the year to 31 December (Note 4.k)	(422)		(65)	

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

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 3.5 million individuals, professionals, SMEs and private banking customers. It has a very strong presence in the local market, through an extensive network of 747 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 across more than 75 countries, CB continues to meet the precise financing, transaction banking, investment banking and insurance needs of its clients.

Banking activities in Luxemburg

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

Other 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 29 countries.

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

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

The presentation of the breakdown by segments has been changed compared to 2016 in order to better reflect the importance of each segment. The 2016 data have been restated accordingly.

Income and expense by operating segment

In millions of euros	Year to 31 Dec. 2017						Year to 31 Dec. 2016					
	Banking activities in Belgium	Banking activities in Luxemburg	Banking activities in Turkey	Other Domestic Markets	Other	Total	Banking activities in Belgium	Banking activities in Luxemburg	Banking activities in Turkey	Other Domestic Markets	Other	Total
Revenues	**4,217**	**631**	**1,030**	**1,841**	**400**	**8,119**	**4,224**	**657**	**1,269**	**786**	**364**	**7,300**
Operating expense	(2,800)	(355)	(565)	(938)	(173)	(4,831)	(2,786)	(352)	(653)	(360)	(243)	(4,394)
Cost of risk	(39)	14	(192)	(76)	(45)	(338)	(73)	(4)	(270)	(50)	(37)	(434)
Operating Income	**1,378**	**290**	**273**	**827**	**182**	**2,950**	**1,365**	**301**	**346**	**376**	**84**	**2,472**
Non-operating items	9	5	(112)	34	262	198	(119)	26	-	1	177	85
Pre-tax income	**1,387**	**295**	**161**	**861**	**444**	**3,148**	**1,246**	**327**	**346**	**377**	**261**	**2,557**

Assets and liabilities by operating segment

In millions of euros	Year to 31 Dec. 2017						Year to 31 Dec. 2016					
	Banking activities in Belgium	Banking activities in Luxemburg	Banking activities in Turkey	Other Domestic Markets	Other	Total	Banking activities in Belgium	Banking activities in Luxemburg	Banking activities in Turkey	Other Domestic Markets	Other	Total
Assets	**179,386**	**24,006**	**19,591**	**42,166**	**12,497**	**277,646**	**183,843**	**22,013**	**22,263**	**38,441**	**31,230**	**297,790**
of which goodwill on acquisitions during the period(1)	-	-	-	-	-	-	-	-	-	509	-	509
of which investments in associates and Joint ventures	1,085	89	-	144	3,038	4,356	1,113	89	-	270	2,845	4,317
Liabilities	**165,697**	**18,733**	**17,782**	**38,192**	**8,935**	**249,339**	**172,338**	**16,785**	**20,224**	**34,903**	**27,006**	**271,256**

(1) *Existing goodwill of Arval*

3.c Country-by-country reporting

The country-by-country reporting has been prepared to comply with the requirements set out in Article 89 of the European Union Capital Requirements Directive IV. The information is presented using the same basis as the Consolidated Financial Statements of BNP Paribas Fortis for the period ending 31 December 2017, which are prepared in accordance with IFRSs as adopted by the European Union. The country information relates to the country of incorporation or residence of branches and subsidiaries.

In millions of euros, Year to 31 Dec. 2017 (*)	Revenues	Pre-tax income	Current tax	Deferred tax	Corporate income tax	FTE (**) as at 31 Dec. 2017	Nature of activities
Belgium	**4,396**	**1,506**	**(48)**	**(413)**	**(461)**	**14,443**	
of which: BNP Paribas Fortis NV/SA (Including Bass & Esmée Master Issuer NV)	*4,122*	*1,358*	*3*	*(409)*	*(406)*	*13,443*	*Credit institution*
Turkey	**1,039**	**164**	**(81)**	**28**	**(53)**	**9,983**	
of which: Türk Ekonomi Bankası AS	*995*	*250*	*(80)*	*31*	*(49)*	*9,380*	*Credit institution*
Luxembourg	**659**	**317**	**(64)**	**(1)**	**(65)**	**2,263**	
of which: BGL BNP Paribas	*625*	*287*	*(65)*	*2*	*(63)*	*2,205*	*Credit institution*
France	**574**	**178**	**(23)**	**-**	**(23)**	**2,988**	
of which: BNP Paribas Lease Group BPLG	*142*	*51*	*(12)*	*22*	*10*	*1,267*	*Leasing firm*
Germany	**288**	**93**	**(34)**	**2**	**(32)**	**1,145**	
of which: Von Essen GMBH & CO. KG Bankgesellschaft	*141*	*63*	*(14)*	*(4)*	*(18)*	*412*	*Credit institution*
Poland	**22**	**7**	**(4)**	**2**	**(2)**	**313**	
United Kingdom	**239**	**102**	**(34)**	**13**	**(21)**	**1,124**	
Spain	**225**	**129**	**(17)**	**(21)**	**(38)**	**746**	
The Netherlands	**162**	**123**	**(15)**	**1**	**(14)**	**335**	
Italy	**361**	**203**	**(21)**	**(6)**	**(27)**	**959**	
Other	**154**	**48**	**(12)**	**(27)**	**(39)**	**1,278**	
Total	**8,119**	**2,870**	**(353)**	**(422)**	**(775)**	**35,577**	

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

(**) Full-time equivalents (FTE) at 31 December 2017 in wholly consolidated, exclusively controlled entities.

4 NOTES TO THE BALANCE SHEET AT 31 DECEMBER 2017

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

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

	31 December 2017		31 December 2016	
In millions of euros	**Trading Book**	**Instruments designated as at fair value through profit or loss**	**Trading Book**	**Instruments designated as at fair value through profit or loss**
Securities portfolio	1,394	292	1,669	384
Loans and repurchase agreements	2,391	1,286	1,994	1,412
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**3,785**	**1,578**	**3,663**	**1,796**
Securities portfolio	295	-	2,207	-
Borrowings and repurchase agreements	4,706	207	3,089	230
Debt securities (Note 4.i)	-	3,162	-	3,331
Subordinated debt (Note 4.i)	-	821	-	998
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**5,001**	**4,190**	**5,296**	**4,559**

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

Loans measured at fair value through profit or loss

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

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

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

The amortised cost of 'Loans held at fair value through profit or loss' at 31 December 2017 was EUR 997 million (31 December 2016: EUR 1,077 million).

In millions of euros	31 December 2017		31 December 2016	
	Positive market value	Negative market value	Positive market value	Negative market value
Interest rate derivatives	4,022	2,721	4,976	3,725
Foreign exchange derivatives	1,349	1,318	2,124	2,071
Credit derivatives	3	6	4	5
Equity derivatives	403	69	428	127
Other derivatives	-	-	-	(1)
Derivative financial instruments	**5,777**	**4,114**	**7,532**	**5,927**

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

In millions of euros	31 December 2017				31 December 2016			
	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	51,407	52,770	564,688	668,865	59,840	109,102	653,220	822,162
Foreign exchange derivatives	115	-	141,030	141,145	-	-	161,543	161,543
Credit derivatives	-	-	121	121	-	-	156	156
Equity derivatives	87	-	1,821	1,908	108	-	1,839	1,947
Other derivatives	13	-	-	13	-	-	21	21
Derivatives financial instruments	**51,622**	**52,770**	**707,660**	**812,052**	**59,948**	**109,102**	**816,779**	**985,829**

Cross currency swaps, previously included in interest rate derivatives, are now included in foreign exchange derivatives.

4.b Derivatives used for hedging purposes

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

In millions of euros	31 December 2017		31 December 2016	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Fair value hedges	**1,603**	**3,826**	**1,754**	**4,221**
Interest rate derivatives	1,447	3,775	1,580	4,204
Foreign exchange derivatives	156	51	174	17
Cash flow hedges	**408**	**146**	**347**	**174**
Interest rate derivatives	52	84	209	87
Foreign exchange derivatives	356	62	139	87
Derivatives used for hedging purposes	**2,011**	**3,982**	**2,101**	**4,395**

The total notional amount of derivatives used for hedging purposes stood at EUR 118,934 million at year-end 2017 compared with EUR 114,857 million at 31 December 2016.

4.c Available-for-sale financial assets

In millions of euros	31 December 2017			31 December 2016		
	Net	of which impairments	of which changes in value taken directly in equity	Net	of which impairments	of which changes in value taken directly in equity
Fixed-income securities	**22,889**	**(11)**	**301**	**28,343**	**(11)**	**558**
Treasury bills and Government bonds	14,812	-	167	20,198	-	300
Other fixed-income securities	8,077	(11)	134	8,145	(11)	258
Equities and other variable-income securities	**808**	**(404)**	**337**	**1,215**	**(511)**	**239**
Of which listed securities	160	-	51	72	-	30
Of which unlisted securities	648	(404)	286	1,143	(511)	209
Total available-for-sale financial assets	**23,697**	**(415)**	**638**	**29,558**	**(522)**	**797**

The gross amount of impaired fixed-income securities is EUR 11 million at 31 December 2017 (EUR 11 million at 31 December 2016).

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

In millions of euros	31 December 2017			31 December 2016		
	Fixed-income securities	Equities and other variable-income securities	Total	Fixed-income securities	Equities and other variable-income securities	Total
Non-hedged changes in value of securities recognised in 'Available-for-sale financial assets'	**301**	**337**	**638**	**558**	**239**	**797**
Deferred tax linked to these changes in value	(45)	(8)	(53)	(102)	(23)	(125)
BNP Paribas Fortis' share of changes in value of available-for-sale securities owned by equity-method entities after deferred tax	709	130	839	713	97	810
Unamortised changes in value of available-for-sale securities reclassified as loans and receivables	(141)	-	(141)	(194)	-	(194)
Other variations	-	-	-	(2)	3	1
Changes in value of assets taken directly to equity under the heading 'Financial assets available for sale and reclassified as loans and receivables'	**824**	**459**	**1,283**	**973**	**316**	**1,289**
Attributable to equity shareholders	761	433	1,194	887	293	1,180
Attributable to minority interests	63	26	89	86	23	109

4.d Measurement of the fair value of financial instruments

Valuation process

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

Economic value is composed of mid-market value to which add valuation adjustments.

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

Valuation adjustments take into account valuation uncertainty and include market and credit risk premiums to reflect costs that could be incurred in case of an exit transaction in the principal market. When valuation techniques are used for the purpose of deriving fair value, funding assumptions related to the future expected cash flows are an integral part of the mid-market valuation, notably through the use of appropriate discount rates. These assumptions reflect what the Bank anticipates as being the effective funding conditions of the instrument that a market participant would consider. This notably takes into account the existence and terms of any collateral agreement. In particular, for non- or imperfectly collateralised derivative instruments, they include an explicit adjustment to the interbank interest rate (Funding Valuation Adjustment – FVA).

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

The main valuation adjustments are presented in the section below.

Valuation adjustments

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

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

BNP Paribas Fortis assumes that the best estimate of an exit price is the bid or offer price, unless there is evidence that another point in the bid/offer range would provide a more representative exit price.

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

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

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

In determining the cost of exiting or transferring counterparty risk exposures, the relevant market is deemed to be an inter-dealer market. However, the determination of CVA remains judgemental due to i) the possible absence or lack of price discovery in the inter-dealer market, ii) the influence of the regulatory landscape relating to counterparty risk on the market participants' pricing behaviour and iii) the absence of a dominant business model for managing counterparty risk.

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

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

Thus, the carrying value of debt securities designated as at fair value through profit or loss is increased by EUR 73 million as at 31 December 2017, compared with an increase in value of EUR 51 million as at 31 December 2016, i.e. a EUR (22) million variation recognised in 'net gain on financial instruments at fair value through profit or loss' (note 2.c).

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

As explained in the summary of significant accounting policies (note 1.d.10), financial instruments measured at fair value are categorised into a fair value hierarchy consisting of three levels.

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

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

In millions of euros	31 December 2017											
	Trading Book				Instruments designated as at fair value through profit or loss				Available-for-sale financial assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Securities portfolio	**1,121**	**273**	**-**	**1,394**	**161**	**22**	**109**	**292**	**20,665**	**2,408**	**624**	**23,697**
Treasury bills and government bonds	1,034	167		1,201				-	14,237	575		14,812
Asset Backed Securities	-	10	-	10	-	-	-	-	-	-	-	-
CDOs / CLOs				-				-				-
Other Asset Backed Securities		*10*		*10*				-				-
Other fixed-income securities	-	96	-	96	-	-	-	-	6,267	1,810	-	8,077
Equities and other variable-income securities	87	-	-	87	161	22	109	292	161	23	624	808
Loans and repurchase agreements	**-**	**2,391**	**-**	**2,391**	**-**	**1,286**	**-**	**1,286**				
Loans			-			1,286		1,286				
Repurchase agreements		2,391		2,391				-				
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS	**1,121**	**2,664**	**-**	**3,785**	**161**	**1,308**	**109**	**1,578**	**20,665**	**2,408**	**624**	**23,697**
Securities portfolio	**222**	**73**	**-**	**295**	**-**	**-**	**-**	**-**				
Treasury bills and government bonds	222			222				-				
Other fixed-income securities		73		73				-				
Equities and other variable-income securities			-				-					
Borrowings and repurchase agreements	**-**	**4,706**	**-**	**4,706**	**-**	**207**	**-**	**207**				
Borrowings		18		18		207		207				
Repurchase agreements		4,688		4,688				-				
Debt securities (Note 4.i)	**-**	**-**	**-**	**-**	**-**	**2,163**	**999**	**3,162**				
Subordinated debt (Note 4.i)	**-**	**-**	**-**	**-**	**-**	**821**	**-**	**821**				
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**222**	**4,779**	**-**	**5,001**	**-**	**3,191**	**999**	**4,190**				

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

In millions of euros	31 December 2017							
	Positive market value				Negative market value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Interest rate derivatives	-	3,875	147	4,022	-	2,617	104	2,721
Foreign exchange derivatives	-	1,342	7	1,349	-	1,313	5	1,318
Credit derivatives	-	3	-	3	-	6	-	6
Equity derivatives	-	403	-	403	-	69	-	69
Other derivatives	-	-	-	-	-	-	-	-
Derivative financial instruments not used for hedging purposes	**-**	**5,623**	**154**	**5,777**	**-**	**4,005**	**109**	**4,114**
Derivative financial instruments used for hedging purposes	**-**	**2,011**		**2,011**	**-**	**3,982**	**-**	**3,982**

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

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 2017, 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,...) and shares of funds, for which the net asset value is calculated on a daily basis.

Level 2:

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

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

Debts issued designated as at fair value through profit and loss, are classified in the same level as the one that would apply to the embedded derivative taken individually. The issuance spread is considered observable.

Derivatives classified in Level 2 comprise mainly the following instruments:

- Vanilla instruments such as interest rate swaps, caps, floors and swaptions, credit default swaps, foreign exchange (FX) forwards and options

- Structured derivatives such as exotic FX and interest rate options, single curve exotic interest rate derivatives and derivatives based on structured rates.

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

- Fair value is predominantly derived from prices or quotations of other Level 1 and Level 2 instruments, through standard market interpolation or stripping techniques whose results are regularly corroborated by real transactions

- Fair value is derived from other standard techniques such as replication or discounted cash flows that are calibrated to observable prices, that bear limited model risk and enable an effective offset of the risks of the instrument through trading Level 1 or Level 2 instruments

- Fair value is derived from more sophisticated or proprietary valuation techniques but is directly evidenced through regular back-testing using external market-based data.

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

Level 3:

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

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

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

Debts issued designated as at fair value through profit and loss, are classified in the same level as the one that would apply to the embedded derivative taken individually. The issuance spread is considered observable.

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

Derivatives

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

The main instruments are:

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

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

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

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

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

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

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

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

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

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

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

Valuation adjustments (CVA, DVA and FVA)

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

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

Risk classes	Balance Sheet valuation (In millions of euros)		Main product types composing the Level 3 stock within the risk class	Valuation technique used for the product types considered	Main unobservable inputs for the product types considered	Range of unobservable input across Level 3 population considered	Weighted average
	Asset	Liability					
Interest rate derivatives	147	104	Floors and caps on inflation rate or on the cumulative inflation (such as redemption floors), predominantly on European and Belgian inflation	Inflation pricing model	Volatility of cumulative inflation	0.7% - 10.2%	(a)
					Volatility of the year on year inflation rate	0.3% - 2.1%	
			Forward volatility products such as volatility swaps, mainly in euro	Interest rates option pricing model	Forward volatility of interest rates	0.4% - 0.7%	(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 1 January 2016 and 31 December 2017:

In millions of euros	Financial Assets				Financial Liabilities		
	Financial instruments at fair value through profit or loss held for trading	Financial instruments designated as at fair value through profit or loss	Available-for-sale financial assets	TOTAL	Financial instruments at fair value through profit or loss held for trading	Financial instruments designated as at fair value through profit or loss	TOTAL
At 31 December 2015	**471**	**218**	**1,203**	**1,892**	**248**	**608**	**856**
Purchases			73	**73**			**-**
Issues				**-**		413	**413**
Sales			(145)	**(145)**			**-**
Settlements (1)	(161)	(60)	36	**(185)**	(48)	(48)	**(96)**
Transfers to level 3	(63)			**(63)**	1	45	**46**
Transfers from level 3	(191)		(337)	**(528)**	(62)	(169)	**(231)**
Gains or (losses) recognised in profit or loss with respect to transactions expired or terminated during the period	1		(66)	**(65)**		(20)	**(20)**
Gains or (losses) recognised in profit or loss with respect to unexpired instruments at the end of the period	27			**27**	12		**12**
Changes in fair value of assets and liabilities recognised directly in equity							
- Exchange rate movements			(4)	**(4)**			**-**
- Changes in assets and liabilities recognised in equity			24	**24**			**-**
At 31 December 2016	**84**	**158**	**784**	**1,026**	**151**	**829**	**980**
Purchases			55	**55**			**-**
Issues				**-**		284	**284**
Sales			(88)	**(88)**			**-**
Settlements (1)	12	(49)	(184)	**(221)**	(49)	(24)	**(73)**
Transfers to level 3	88			**88**	4		**4**
Transfers from level 3	(2)			**(2)**	(3)	(46)	**(49)**
Gains or (losses) recognised in profit or loss with respect to transactions expired or terminated during the period			(15)	**(15)**		(44)	**(44)**
Gains or (losses) recognised in profit or loss with respect to unexpired instruments at the end of the period	(28)			**(28)**	6		**6**
Changes in fair value of assets and liabilities recognised directly in equity							
- Exchange rate movements			(3)	**(3)**			**-**
- Changes in assets and liabilities recognised in equity			75	**75**			**-**
At 31 December 2017	**154**	**109**	**624**	**887**	**109**	**999**	**1,108**

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

Transfers out of Level 3 of derivatives at fair value include mainly the update of the observability tenor of certain yield curves, but also the effect of derivatives becoming only or mainly sensitive to observable inputs due to the shortening of their lifetime. BNP Paribas Fortis does not have any repurchase agreements and credit transactions in Level 3.

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

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

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

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

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

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

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

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

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

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

	31 December 2017		31 December 2016	
In millions of euros	**Potential impact on income**	**Potential impact on equity**	**Potential impact on income**	**Potential impact on equity**
Equities and other variable-income securities	+/-1	+/-6	+/-2	+/-8
Repurchase agreements	+/-0		+/-0	
Derivative financial instruments	+/-15		+/-23	
Interest rate derivatives	*+/-15*		*+/-23*	
Credit derivatives	*+/-0*		*+/-0*	
Sensitivity of Level 3 financial instruments	**+/-16**	**+/-6**	**+/-25**	**+/-8**

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

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

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

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

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

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

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

In millions of euros	Reclassification date	31 December 2017		31 December 2016	
		Carrying value	Market or model value	Carrying value	Market or model value
Other fixed-income securities from the available-for-sale portfolio		**2,258**	**2,388**	**3,017**	**3,158**
of which Portuguese sovereign securities	*30 June 2011*	*123*	*134*	*254*	*279*
of which Irish sovereign securities	*30 June 2011*	*147*	*161*	*143*	*169*
of which structured transactions and other fixed-income securities	*30 June 2009*	*1,988*	*2,093*	*2,620*	*2,710*
Structured transactions and other fixed-income securities from the trading portfolio	**30 June 2009**	**75**	**79**	**105**	**110**

Without these reclassifications, BNP Paribas Fortis' net income would not have been significantly different for the year ended 31 December 2017, nor for the year ended 31 December 2016. Similarly, changes in value of assets and liabilities recognised directly in equity would not have been significantly different in 2017 nor in 2016.

4.f Interbank and money-market items

Loans and receivables due from credit institutions

In millions of euros	31 December 2017	31 December 2016
On demand accounts	2,003	2,019
Loans[1]	10,868	11,516
Repurchase agreements	12,492	1,219
Total loans and receivables due from credit institutions, before impairment	**25,363**	**14,754**
of which doubtful loans	*109*	*148*
Impairment of loans and receivables due from credit institutions (Note 2.g)	**(58)**	**(67)**
specific impairment	(58)	(67)
collective provisions	-	-
Total loans and receivables due from credit institutions, net of impairment	**25,305**	**14,687**

(1) Loans and receivables due from credit institutions include term deposits made with central banks, which amounted to EUR 319 million as at 31 December 2017 (EUR 717 million as at 31 December 2016).

Due to credit institutions

In millions of euros	31 December 2017	31 December 2016
On demand accounts	1,523	1,147
Borrowings	34,546	32,889
Repurchase agreements	489	831
Total due to credit institutions	**36,558**	**34,867**

4.g Customer items

Loans and receivables due from customers

In millions of euros	31 December 2017	31 December 2016
On demand accounts	3,131	3,234
Loans to customers	159,790	156,971
Repurchase agreements	-	-
Finance leases	15,268	14,156
Total loans and receivables due from customers, before impairment	**178,189**	**174,361**
of which doubtful loans	*4,667*	*5,326*
Impairment of loans and receivables due from customers (Note 2.g)	**(2,764)**	**(3,032)**
specific impairment	*(2,159)*	*(2,453)*
collective provisions	*(605)*	*(579)*
Total loans and receivables due from customers, net of impairment	**175,425**	**171,329**

Breakdown of finance leases

In millions of euros	31 December 2017	31 December 2016
Gross investment	**17,756**	**16,351**
Receivable within 1 year	*6,141*	*5,852*
Receivable after 1 year but within 5 years	*10,466*	*9,424*
Receivable beyond 5 years	*1,149*	*1,075*
Unearned interest income	**(2,488)**	**(2,195)**
Net investment before impairment	**15,268**	**14,156**
Receivable within 1 year	*5,253*	*5,113*
Receivable after 1 year but within 5 years	*9,011*	*8,114*
Receivable beyond 5 years	*1,004*	*929*
Impairment provisions	**(287)**	**(305)**
Net investment after impairment	**14,981**	**13,851**

Due to customers

In millions of euros	31 December 2017	31 December 2016
On demand deposits	65,243	60,805
Savings accounts	82,667	81,742
Term accounts and short-term notes	19,007	20,375
Repurchase agreements	10	394
Total due to customers	**166,927**	**163,316**

4.h Past-due and doubtful loans

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

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

Past-due but not impaired loans

In millions of euros	31 December 2017					
	< 90 days	> 90 days < 180 days	> 180 days < 1 year	> 1 year	Total	Collateral received
Loans and receivables due from customers	3,674	43	33	20	3,770	1,601
Total past-due but not impaired loans	**3,674**	**43**	**33**	**20**	**3,770**	**1,601**

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

Doubtful loans

In millions of euros	31 December 2017			
	Doubtful loans			
	Gross value	Impairment	Net	Collateral received
Available-for-sale financial assets (excl. variable-income securities) (Note 4.c)	11	(11)		
Loans and receivables due from credit institutions (Note 4.f)	109	(58)	51	66
Loans and receivables due from customers (Note 4.g)	4,667	(2,159)	2,508	1,898
Doubtful assets	**4,787**	**(2,228)**	**2,559**	**1,964**
Financing commitments given	239	(3)	236	161
Guarantee commitments given	324	(97)	227	-
Off-balance sheet doubtful commitments	**563**	**(100)**	**463**	**161**
Total	**5,350**	**(2,328)**	**3,022**	**2,125**

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

4.i Debt securities and subordinated debt

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

Debt securities measured at amortised cost:

In millions of euros	31 December 2017	31 December 2016
Negotiable certificates of deposit and other debt securities	11,645	13,340
Bond issues	789	199
Total debt securities	**12,434**	**13,539**

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

In millions of euros	31 December 2017	Amount accepted Tier 1	Amount accepted Tier 2	31 December 2016
Debt securities	3,162	-	-	3,331
Subordinated debt	821	205	66	998

Subordinated debt measured at amortised cost:

In millions of euros	31 December 2017	Amount accepted Tier 1	Amount accepted Tier 2	31 December 2016
Redeemable subordinated debt	2,380	-	1,685	4,237
Undated subordinated debt	107	-	104	111
Total subordinated debt at amortised cost	**2,487**			**4,348**

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

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

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

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

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

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

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

As at 31 December 2017, the subordinated liability is eligible to Tier 1 capital for EUR 205 million (considering the transitional period).

4.j Held-to-maturity financial assets

In millions of euros	31 December 2017	31 December 2016
Treasury bills and government bonds	312	335
Other fixed-income securities	199	190
Total held-to-maturity financial assets	**511**	**525**

No held-to-maturity financial asset has been impaired as at 31 December 2017, nor as at 31 December 2016.

4.k Current and deferred taxes

In millions of euros	31 December 2017	31 December 2016
Current taxes	110	164
Deferred taxes	2,039	2,429
Current and deferred tax assets	**2,149**	**2,593**
Current taxes	145	118
Deferred taxes	603	630
Current and deferred tax liabilities	**748**	**748**

Changes in deferred tax over the period:

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Net deferred taxes at start of period	**1,799**	**1,925**
Net losses arising from deferred taxes (note 2.h)	(422)	(65)
Changes in deferred taxes linked to changes in value and reversal through profit or loss of changes in value of available-for-sale financial assets, including those reclassified as loans and receivables	187	(71)
Changes in deferred taxes linked to changes in value and reversal through profit or loss of changes in value of cash flow hedge derivatives	36	34
Changes in deferred taxes linked to items recognised directly in equity that will not be reclassified to profit and loss	(23)	54
Effect of exchange rate, scope and other movements	(141)	(78)
Net deferred taxes at end of period	**1,436**	**1,799**

Breakdown of deferred taxes assets and liabilities by nature:

In millions of euros	31 December 2017	31 December 2016
Available-for-sale financial assets including those reclassified as loans and receivables	(454)	(784)
Hedging derivatives	571	902
Unrealised finance lease reserve	(172)	(205)
Provisions for employee benefit obligations	105	137
Provisions for credit risk	327	505
Other items	(360)	(415)
Tax loss carryforwards	1,419	1,659
Net deferred taxes	**1,436**	**1,799**
Deferred tax assets	2,039	2,429
Deferred tax liabilities	(603)	(630)

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

Deferred tax assets recognised on tax loss carryforwards are mainly related to BNP Paribas Fortis for EUR 1,303 million, with a 6-year expected recovery period (unlimited carryforward period).

Unrecognised deferred tax assets totalled EUR 357 million as at 31 December 2017 compared with EUR 593 million as at 31 December 2016.

The Belgian government announced in July 2017 an important corporate tax reform which will decrease the corporate tax rate in Belgium of 33.99% down to 29,58% in 2018 and 25% as from 2020. The Act affecting the reform has been voted by Parliament in December 2017 which, by virtue of the guidance in IAS 12, is considered as substantively enacted. Therefore, deferred taxes on temporary differences and losses carried forward have been calculated based both on the new tax rates and the timing of their expected reversals. In this regard, management has exercised judgement in deciding which temporary differences and losses carried forward are expected to reverse before 2020, on which the tax rate of 29,58% is applicable, and which temporary differences and losses carried forward are expected to reverse after 2020 to which the tax rate of 25% is applied.

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

In millions of euros	31 December 2017	31 December 2016
Guarantee deposits and bank guarantees paid	2,207	2,612
Settlement accounts related to securities transactions	129	104
Collection accounts	86	54
Accrued income and prepaid expenses	564	511
Other debtors and miscellaneous assets	5,354	5,279
Total accrued income and other assets	**8,340**	**8,560**
Guarantee deposits received	534	549
Settlement accounts related to securities transactions	93	22
Collection accounts	140	149
Accrued expense and deferred income	1,217	1,133
Other creditors and miscellaneous liabilities	4,528	5,283
Total accrued expense and other liabilities	**6,512**	**7,136**

4.m Equity – method investments

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

In millions of euros	Year to 31 Dec. 2017			31 December 2017	Year to 31 Dec. 2016			31 December 2016
	Share of earnings	Share of changes in assets and liabilities recognised directly in equity	Share of earnings and of changes in assets and liabilities recognised directly in equity	Investments in associates and joint ventures	Share of earnings	Share of changes in assets and liabilities recognised directly in equity	Share of earnings and of changes in assets and liabilities recognised directly in equity	Investments in equity method associates
Joint ventures	15	(39)	(24)	396	18	(11)	7	432
Associates [1]	263	84	347	3,960	137	(93)	44	3,885
Total equity method entities	278	45	323	4,356	155	(104)	51	4,317

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

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

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

In millions of euros Name	Country of registration	Activity	31 December 2017		31 December 2016	
			Interest %	Equity-method investments	Interest %	Equity-method investments
Joint ventures						
bpost bank	Belgium	Retail banking	50%	328	50%	366
Associates						
AG Insurance	Belgium	Multichannel insurer	25%	1,832	25%	1,758
BNP Paribas Asset Management	France	Asset Management	30.85%	1,348	30.85%	1,287
Bank BGŻ BNP Paribas	Poland	Retail banking	28.35%	410	28.35%	357

AG Insurance:

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Total net income	554	466
Changes in assets and liabilities recognised directly in equity	261	(364)

In millions of euros	31 December 2017	31 December 2016
Total assets	75,382	76,592
Total liabilities	68,564	70,106
Net assets of the equity associate	**6,818**	**6,486**

BNP Paribas Asset Management:

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Total net income	231	182
Changes in assets and liabilities recognised directly in equity	(14)	15

In millions of euros	31 December 2017	31 December 2016
Total assets	4,322	4,211
Total liabilities	965	1,067
Net assets of the equity associate	**3,357**	**3,144**

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

In millions of euros	31 December 2017	31 December 2016
Total net assets	6,818	6,486
Minority interest at AG Insurance level	(250)	(250)
Purchase Price Allocations (PPA)	(115)	(77)
Adjusted total net assets	**6,453**	**6,159**
BNP Paribas Fortis' interest % in AG Insurance	25%	25%
BNP Paribas Fortis' share in AG Insurance	1,613	1,540
Goodwill	219	218
Carrying amount	**1,832**	**1,758**

BNP Paribas Fortis received dividends of EUR 130 million from AG Insurance in 2017 (EUR 111 million in 2016).

Impairment testing on investments in equity associates

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

An investment is tested for impairment by comparing its carrying amount with its value-in-use. The DCF approach (discounted cash flow) is used to determine the value-in-use, as also applied at BNP Paribas Group level.

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

The results of the DCF are sensitive to the assumptions made for the following key parameters: the cost of capital, the cost/income ratio and the growth rate to perpetuity.

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

Allocated capital is determined for each investment based on the Common Equity Tier 1 regulatory requirements for the legal entity to which the investment belongs, with a minimum of 7%.

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

At 31 December 2017, impairment tests were performed on the investments held by BNP Paribas Fortis in BNP Paribas Asset Management and in Bank BGŻ BNP Paribas. None of these tests demonstrated the need to record an impairment on the investments.

Regarding the investment in AG Insurance, an impairment test was performed at mid-year 2017, with the conclusion that no impairment was required. At 31 December 2017, an updated analysis was performed, which did not identify any impairment trigger.

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

In millions of euros	31 December 2017	
	BNPP-AM	Bank BGŻ BNP Paribas
Cost of capital		
Adverse change (+10 basis points)	(17)	(7)
Positive change (-10 basis points)	18	7
Cost/income ratio		
Adverse change (+1%)	(33)	(23)
Positive change (-1%)	33	23
Cost of risk		
Adverse change (+5%)	-	(15)
Positive change (-5%)	-	15
Long-term growth rate		
Adverse change (-50 basis points)	(56)	(6)
Positive change (+50 basis points)	65	6

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

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

In millions of euros	31 December 2017			31 December 2016		
	Gross value	Accumulated depreciation, amortisation and impairment	Carrying amount	Gross value	Accumulated depreciation, amortisation and impairment	Carrying amount
Investment property	**475**	**(246)**	**229**	**346**	**(142)**	**204**
Land and buildings	2,195	(1,186)	1,009	2,241	(1,134)	1,107
Equipment, furniture and fixtures	1,057	(798)	259	1,097	(827)	270
Plant and equipment leased as lessor under operating leases	21,433	(5,832)	15,601	18,755	(5,089)	13,666
Other property, plant and equipment	535	(246)	289	469	(236)	233
Property, plant and equipment	**25,220**	**(8,062)**	**17,158**	**22,562**	**(7,286)**	**15,276**
Purchased software	359	(307)	52	342	(291)	51
Internally-developed software	389	(267)	122	323	(216)	107
Other intangible assets	173	(55)	118	170	(50)	120
Intangible assets	**921**	**(629)**	**292**	**835**	**(557)**	**278**

Investment property

The estimated fair value of investment property accounted for at amortised cost at 31 December 2017 is EUR 281 million, compared with EUR 235 million at 31 December 2016.

Operating leases

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

In millions of euros	31 December 2017	31 December 2016
Future minimum lease payments receivable under non-cancellable leases	**6,149**	**5,607**
Payments receivable within 1 year	*2,639*	*2,462*
Payments receivable after 1 year but within 5 years	*3,468*	*3,105*
Payments receivable beyond 5 years	*42*	*40*

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

Intangible assets

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

Depreciation, amortisation and impairment

The total depreciation, amortisation and impairment of property, plant and equipment and intangible assets for the year ending 31 December 2017 was EUR (294) million, compared with EUR (237) million for the year ending 31 December 2016.

The above mentioned amounts include a net charge to impairment provisions taken into account to the profit and loss account in the year ending 31 December 2017 for EUR (2) million, compared with a net reversal to impairment provisions of EUR 0.4 million for the year ended 31 December 2016.

4.0 Goodwill

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Carrying amount at start of period	**795**	**309**
Acquisitions		636
Divestments		
Impairment recognised during the period	(112)	
Exchange rate adjustments	(22)	(150)
Other movements	2	
Carrying amount at end of period	**663**	**795**
Gross value	896	931
Accumulated impairment recognised at the end of period	(233)	(136)

Goodwill by cash-generating unit is as follows:

In millions of euros	Carrying amount		Impairment recognised during the period		Acquisition of the period	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
BNP Paribas Fortis in Belgium	**28**	**28**	**-**	**-**	**-**	**-**
Alpha Crédit	*22*	*22*	*-*	*-*	*-*	*-*
Factoring	*6*	*6*	*-*	*-*	*-*	*-*
BNP Paribas Fortis in Luxembourg	**132**	**134**	**-**	**-**	**-**	**-**
Leasing (BPLS)	*132*	*134*	*-*	*-*	*-*	*-*
BNP Paribas Fortis in other countries	**503**	**633**	**(112)**	**-**	**-**	**509**
TEB Group	*-*	*124*	*(112)*	*-*	*-*	*-*
Arval	*503*	*509*	*-*	*-*	*-*	*509*
Total goodwill	**663**	**795**	**(112)**	**-**	**-**	**509**

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

The cash generating units to which goodwill is allocated are:

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

- **Factoring** is a CGU regrouping all the factoring subsidiaries of the bank. It is mainly active in Belgium, Germany, UK and The Netherlands. It is the market leader in Belgium.

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

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

- **Arval Services Lease (Arval):** previously held 100% by BNP Paribas S.A., Arval specialises in full service vehicle leasing in 29 countries with more than 1,000,000 vehicles throughout the world. Arval is one of the leaders in the European fleet management market (top 5) and offers growth prospects in mature and developing countries. In November 2015, Arval acquired the GE European fleet services business making it 2nd in number of funded vehicles in Europe at the end of 2015.

Impairment tests

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

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

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

The results of the DCF are sensitive to the assumptions made for the following key parameters: the cost of capital, the cost/income ratio, the cost of risk and the growth rate to perpetuity.

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

Allocated capital is determined for each homogeneous group of businesses based on the Common Equity Tier 1 regulatory requirements for the legal entity to which the homogeneous group of businesses belongs, with a minimum of 7%.

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

At year-end 2017, an impairment test was performed for each of the following four CGUs: Alpha Crédit, BNP Paribas Leasing Solutions (BPLS), TEB and Arval. The goodwill recognised on Factoring is considered as non-material and is therefore not tested for impairment.

The anticipated growth slowdown in Turkey has led to the full impairment of the goodwill related to TEB for an amount of EUR (112) million.

The goodwill impairment tests on Alpha Crédit, BPLS and Arval did not reveal any need of recording an additional impairment at year-end 2017.

Sensitivities

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

In millions of euros	31 December 2017		
	Alpha Crédit	BPLS	Arval
Cost of capital			
Adverse change (+10 basis points)	(10)	(60)	(123)
Positive change (-10 basis points)	10	62	127
Cost/income ratio			
Adverse change (+1%)	(16)	(99)	(135)
Positive change (-1%)	16	99	135
Cost of risk			
Adverse change (+5%)	(16)	(50)	(91)
Positive change (-5%)	16	50	91
Long-term growth rate			
Adverse change (-50 basis points)	(23)	(153)	452
Positive change (+50 basis points)	26	176	(383)

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

4.p Provisions for contingencies and charges

In millions of euros	31 December 2016	Net additions to provisions	Provisions used	Changes in value recognised directly in equity	Effect of movements in exchange rates and other movements	31 December 2017
Provisions for employee benefits	**3,696**	**163**	**(154)**	**102**	**(128)**	**3,679**
of which post-employment benefits (Note 6.b)	3,254	126	(117)	109	(122)	3,250
of which post-employment healthcare benefits (Note 6.b)	88	1	-	(7)	-	82
of which provision for other long-term benefits (Note 6.c)	88	20	(20)		(2)	86
of which provision for voluntary departure, early retirement plans, and headcount adaptation plan (Note 6.d)	262	2	(11)		(5)	248
of which provision for share-based payment	4	14	(6)		1	13
Provisions for home savings accounts and plans	**-**	**-**	**-**		**-**	**-**
Provisions for credit commitments (Note 2.g)	**175**	**(6)**	**(1)**	**-**	**(12)**	**156**
Provisions for litigation	**122**	**22**	**(7)**	**-**	**(20)**	**117**
Other provisions for contingencies and charges	**791**	**393**	**(428)**	**(1)**	**25**	**780**
Total provisions for contingencies and charges	**4,784**	**572**	**(590)**	**101**	**(135)**	**4,732**

4.q Offsetting of financial assets and liabilities

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

'Amounts set off on the balance sheet' have been determined according to IAS 32. Thus, a financial asset and a financial liability are offset and the net amount presented on the balance sheet when and only when, BNP Paribas Fortis has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amounts offset derive mainly from repurchase agreements and derivative instruments traded with clearing houses.

The 'Impacts of Master Netting Agreements and similar agreements' are relative to outstanding amounts of transactions within an enforceable agreement, which do not meet the offsetting criteria defined by IAS 32. This is the case of transactions for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the contracting parties.

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

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

In millions of euros at 31 December 2017	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements (MNA) and similar agreements	Financial instruments received as collateral	Net amounts according to IFRS 7 §13 C (e)
Assets						
Financial instruments at fair value through profit or loss						
Trading securities	*1,394*	-	*1,394*	-	-	*1,394*
Loans	-	-	-	-	-	-
Repurchase agreements	*2,427*	*(36)*	*2,391*	*(83)*	*(2,280)*	*28*
Instruments designated as at fair value through profit or loss	*1,578*	-	*1,578*	-	-	*1,578*
Derivative financial instruments (including derivatives used for hedging purposes)	*7,803*	*(15)*	*7,788*	*(3,739)*	*(305)*	*3,744*
Loans and receivables due from customers and credit institutions	**201,289**	**(559)**	**200,730**	**(429)**	**(11,915)**	**188,386**
of which repurchase agreements	*12,492*	-	*12,492*	*(429)*	*(11,915)*	*148*
Accrued income and other assets	**8,340**	**-**	**8,340**	**-**	**(1,915)**	**6,425**
of which guarantee deposits paid	*2,207*	-	*2,207*	-	*(1,915)*	*292*
Other assets not subject to offsetting	**55,425**	**-**	**55,425**	**-**	**-**	**55,425**
TOTAL ASSETS	**278,256**	**(610)**	**277,646**	**(4,251)**	**(16,415)**	**256,980**

In millions of euros at 31 December 2017	Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements (MNA) and similar agreements	Financial instruments given as collateral	Net amounts according to IFRS 7 §13 C (e)
Liabilities						
Financial instruments at fair value through profit or loss						
Trading securities	*295*	*-*	*295*	*-*	*-*	*295*
Borrowings	*18*	*-*	*18*	*-*	*-*	*18*
Repurchase agreements	*4,724*	*(36)*	*4,688*	*(462)*	*(4,206)*	*20*
Instruments designated as at fair value through profit or loss	*4,190*	*-*	*4,190*	*-*	*-*	*4,190*
Derivative financial instruments (including derivatives used for hedging purposes)	*8,111*	*(15)*	*8,096*	*(3,740)*	*(1,913)*	*2,443*
Due to customers and to credit institutions	204,044	(559)	203,485	(49)	(448)	202,988
of which repurchase agreements	*499*	*-*	*499*	*(49)*	*(448)*	*2*
Accrued expense and other liabilities	6,512	-	6,512	-	(352)	6,160
of which guarantee deposits received	*534*	*-*	*534*	*-*	*(352)*	*182*
Other liabilities not subject to offsetting	22,055	-	22,055	-	-	22,055
TOTAL LIABILITIES	249,949	(610)	249,339	(4,251)	(6,919)	238,169

In millions of euros at 31 December 2016	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements (MNA) and similar agreements	Financial instruments received as collateral	Net amounts according to IFRS 7 §13 C (e)
Assets						
Financial instruments at fair value through profit or loss						
Trading securities	*1,669*	*-*	*1,669*	*-*	*-*	*1,669*
Loans	*-*	*-*	*-*	*-*	*-*	*-*
Repurchase agreements	*2,951*	*(957)*	*1,994*	*(460)*	*(1,517)*	*17*
Instruments designated as at fair value through profit or loss	*1,796*	*-*	*1,796*	*-*	*-*	*1,796*
Derivative financial instruments (including derivatives used for hedging purposes)	*9,648*	*(15)*	*9,633*	*(5,539)*	*(403)*	*3,691*
Loans and receivables due from customers and credit institutions	186,586	(570)	186,016	(281)	(927)	184,808
of which repurchase agreements	*1,219*	*-*	*1,219*	*(281)*	*(927)*	*11*
Accrued income and other assets	8,560	-	8,560	-	(2,354)	6,206
of which guarantee deposits paid	*2,612*	*-*	*2,612*	*-*	*(2,354)*	*258*
Other assets not subject to offsetting	88,122	-	88,122	-	-	88,122
TOTAL ASSETS	299,332	(1,542)	297,790	(6,280)	(5,201)	286,309

In millions of euros, at 31 December 2016	Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements (MNA) and similar agreements	Financial instruments given as collateral	Net amounts according to IFRS 7 §13 C (e)
Liabilities						
Financial instruments at fair value through profit or loss						
Trading securities	*2,207*	*-*	*2,207*	*-*	*-*	*2,207*
Borrowings	*18*	*-*	*18*	*-*	*-*	*18*
Repurchase agreements	*4,028*	*(957)*	*3,071*	*(530)*	*(2,536)*	*5*
Instruments designated as at fair value through profit or loss	*4,559*	*-*	*4,559*	*-*	*-*	*4,559*
Derivative financial instruments (including derivatives used for hedging purposes)	*10,337*	*(15)*	*10,322*	*(5,539)*	*(2,352)*	*2,431*
Due to customers and to credit institutions	**198,753**	**(570)**	**198,183**	**(211)**	**(1,012)**	**196,960**
of which repurchase agreements	*1,225*	*-*	*1,225*	*(211)*	*(1,012)*	*2*
Accrued expense and other liabilities	**7,136**	**-**	**7,136**	**-**	**(319)**	**6,817**
of which guarantee deposits received	*549*	*-*	*549*	*-*	*(319)*	*230*
Other liabilities not subject to offsetting	**45,760**	**-**	**45,760**	**-**	**-**	**45,760**
TOTAL LIABILITIES	**272,798**	**(1,542)**	**271,256**	**(6,280)**	**(6,219)**	**258,757**

4.r Transfers of financial assets

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

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

Securities lending, repurchase agreements and other transactions:

	31 December 2017		31 December 2016	
In millions of euros	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**
Securities lending operations				
Securities at fair value through profit or loss	-		414	
Available-for-sale financial assets	3,742		2,611	
Repurchase agreements				
Securities at fair value through profit or loss	849	846	930	930
Securities classified as loans and receivables	9	9	46	46
Available-for-sale financial assets	2,206	2,205	2,539	2,540
Total	**6,806**	**3,060**	**6,540**	**3,516**

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

	31 December 2017				
In millions of euros	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**	**Fair value of transferred assets**	**Fair value of associated liabilities**	**Net position**
Securitisation					
Loans and receivables	37,571	1,478	39,135	1,478	37,657
Total	**37,571**	**1,478**	**39,135**	**1,478**	**37,657**

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

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

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

The assets and liabilities classified as held-for-sale as at 31 December 2017 related to a transaction approved by the Board of BNP Paribas Fortis and the Executive Committee of BNP Paribas, which is not subject to signed contract yet and for which the sale could not yet take place because of legal, regulatory and operational constraints. This transaction refers to not-yet-transferred assets and liabilities of the BNP Paribas Fortis branch in Madrid, which will be sold to BNP Paribas SA. The legal transfer of the branch assets and liabilities will be completed in 2018.

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

A disposal group shall be measured at the lower of its carrying amount and fair value less costs to sell. If the fair value less costs to sell is lower than the carrying amount, the expected loss is recognised under 'Net gain/loss on non-current assets'. For this specific disposal group, the fair value is at least equal to the carrying amount, which means that no expected loss is recognised in the consolidated financial statements at 31 December 2017.

In the consolidated financial statements at 31 December 2016, the assets and liabilities classified as held for sale' were related to the, at that time, not-yet-transferred assets and liabilities of BNP Paribas Fortis' branches in Norway, Sweden, Denmark, Finland, Austria, Czech Republic, Romania and the Netherlands. This disposal group was measured at its fair value less cost to sell which amounted to a loss of EUR (43.2) million, reported under 'Net gain/loss on non-current assets' in the consolidated income statement as at 31 December 2016. Those assets and liabilities were sold in 2017 to BNP Paribas SA.

Major classes of assets and liabilities classified as held for sale

The assets and liabilities classified as held for sale as at 31 December 2017 are shown below.

In millions of euros	31 December 2017
ASSETS	
Cash and amounts due from central banks and post office banks	7
Financial assets at fair value through profit or loss	-
Derivatives used for hedging purposes	-
Available-for-sale financial assets	-
Loans and receivables due from credit institutions	9
Loans and receivables due from customers	294
Re-measurement adjustment on interest-rate risk hedged portfolios	-
Held-to-maturity financial assets	-
Current and deferred tax assets	25
Accrued income and other assets	24
Investments in associates	-
Investment property	-
Property, plant and equipment	1
Intangible assets	6
Goodwill	-
Expected loss on sale	-
TOTAL ASSETS	**366**
LIABILITIES	
Due to central banks and post office banks	-
Financial liabilities at fair value through profit or loss	-
Derivatives used for hedging purposes	-
Due to credit institutions	16
Due to customers	717
Debt securities	-
Re-measurement adjustment on interest-rate risk hedged portfolios	-
Current and deferred tax liabilities	2
Accrued expenses and other liabilities	68
Provisions for contingencies and charges	28
Subordinated debt	-
TOTAL LIABILITIES	**831**

5 FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS

5.a Financing commitments given or received

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

In millions of euros	31 December 2017	31 December 2016
Financing commitments given		
- to credit institutions	228	533
- to customers	51,271	58,303
Confirmed letters of credit	*37,751*	*42,460*
Other commitments given to customers	*13,520*	*15,843*
Total financing commitments given	**51,499**	**58,836**
Financing commitments received		
- from credit institutions	21,496	23,633
- from customers	26	2
Total financing commitments received	**21,522**	**23,635**

5.b Guarantee commitments given by signature

In millions of euros	31 December 2017	31 December 2016
Guarantee commitments given		
- to credit institutions	7,179	7,013
- to customers	18,313	20,807
Property guarantees	*-*	*8*
Sureties provided to tax and other authorities, other sureties	*-*	*438*
Other guarantees	*18,313*	*20,361*
Total guarantee commitments given	**25,492**	**27,820**

5.c Other guarantee commitments

Financial instruments given as collateral

In millions of euros	31 December 2017	31 December 2016
Financial instruments (negotiable securities and private receivables) lodged with central banks and eligible for use at any time as collateral for refinancing transactions after haircut	27,120	25,359
- Used as collateral with central banks	*6,418*	*3,481*
- Available for refinancing transactions	*20,702*	*21,878*
Securities sold under repurchase agreements	5,566	5,786
Other financial assets pledged as collateral for transactions with credit institutions, financial customers	5,743	6,545

The fair value of the financial instruments given as collateral or transferred under repurchase agreements by BNP Paribas Fortis that the beneficiary is authorised to sell or reuse as collateral amounted to EUR 5,608 million at 31 December 2017 (EUR 5,791 million at 31 December 2016).

Financial instruments received as collateral

In millions of euros	31 December 2017	31 December 2016
Financial instruments received as collateral (excluding repurchase agreements)	5,777	4,988
of which instruments that BNP Paribas Fortis is authorised to sell and reuse as collateral	*460*	*526*
Securities received under reverse repurchase agreements	14,839	3,654

The fair value of the financial instruments received as collateral or under reverse repurchase agreements that BNP Paribas Fortis effectively sold or reused as collateral amounted to EUR 1,552 million at 31 December 2017 (compared with EUR 1,734 million at 31 December 2016).

Financial instruments given or received as collateral are mainly measured at fair value.

6 SALARIES AND EMPLOYEE BENEFITS

6.a Salary and employee benefit expenses

In millions of euros	31 December 2017	31 December 2016
Fixed and variable remuneration, incentive bonuses and profit-sharing	(1,956)	(1,799)
Employee benefit expense	(665)	(601)
Payroll taxes	(13)	(5)
Total salary and employee benefit expenses	**(2,634)**	**(2,405)**

6.b Post-employment benefits

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

Defined-contribution pension plans of BNP Paribas Fortis entities

BNP Paribas Fortis has implemented over the past few years a wide campaign of converting defined-benefit plans into defined-contribution plans.

Since defined-benefit plans have been closed to new employees in most countries, they are offered the benefit of joining defined contribution pensions plans.

The amount paid into defined-contribution post-employment plans for the year to 31 December 2017 was EUR 95 million, compared with EUR 51 million for the year to 31 December 2016.

The increase is mainly due to the acquisition of Arval Service Lease in 2016. Arval offers defined contributions pension plans to its employees in most of the countries where it is present and employs personnel.

The breakdown by major contributors is determined as follows:

Contribution amount In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Belgium	3	1
France	33	-
Eurozone (except Belgium and France)	13	-
Turkey	37	43
Other	9	7
TOTAL	**95**	**51**

Defined-benefit pension plans of BNP Paribas Fortis entities

In Belgium, BNP Paribas Fortis funds a defined benefit plan, based on final salary and number of years of service for its management and employees who joined the bank before its pension plans were harmonised on 1 January 2002. Actuarial liabilities under this scheme are pre-funded at 90% at 31 December 2017 (94% at 31 December 2016) through AG Insurance, in which BNP Paribas Fortis owns a 25% equity interest.

BNP Paribas Fortis senior managers are covered by a top-up pension plan paying a lump sum based on the number of years of service and final salary. This plan is pre-funded at 97% (83% at end 2016) through AXA Belgium and AG Insurance. Since 1 January 2015 this plan is closed for new senior managers. Those are offered a new defined-contribution scheme, which also applies to senior managers already in service at that date who chose to join this scheme.

In addition, the law requires employers to guarantee a minimum return on assets accumulated under defined-contribution schemes. As a result of this obligation, these plans are accounting wise classified as defined-benefit schemes.

At the end of 2015, a new law introduced new modalities for the calculation of this guaranteed minimum return.

As a consequence, BNP Paribas Fortis measures its Belgian defined-contribution pension schemes according to the "Projected Unit Credit Method" since 2016. But, as BNP Paribas Fortis considers that none of these defined-contribution pension schemes have the so-called "back-end loaded" features as defined under IAS19, BNP Paribas Fortis attributes benefit to period of service under the plan's benefit formula. It is indeed not considered that employee service in later years lead to materially higher level of benefit than in earlier years.

Plan assets and reimbursement rights, under insurance policies under which the insurer guarantees some or all of the benefits payable under the plan, are measured as the present value of the related obligation due by the insurance companies (art.113 IAS19R) as from the end of 2017, except for pension schemes covered by a segregated fund. In the latter case, the fair value of the plan assets/rights to reimbursement is equal to the market value of the segregated investments available to cover the obligation.

Last year (art.115 IAS19R) was used but alignment with market practices, discussed between auditors and actuaries, motivated this modification, leading to a decrease of EUR 3 million for assets and rights to reimbursement previously measured with art. 115, combined with an increase of EUR 77 million for assets and rights to reimbursement previously measured at market value.

In Turkey, the pension plan replaces the national pension scheme (these obligations should in the future be transferred to the Turkish State and are measured based on the terms of the transfer) and offers guarantees exceeding the minimal legal requirements. At the end of 2017, obligations under this plan are fully funded by financial assets held with an external foundation; these financial assets exceed the related obligations, but since it is not refundable, this surplus is not recognised as an asset by BNP Paribas Fortis. The funding rate for the scheme as at 31 December 2017 stood at 156% (171% at 31 December 2016).

Obligations under defined-benefit plans

Assets and liabilities recognised on the balance sheet

In millions of euros, at 31 December 2017	Defined-benefit obligation arising from wholly or partially funded plans	Defined-benefit obligation arising from unfunded plans	Present value of defined-benefit obligation	Fair value of plan assets	Fair value of reimbursement rights (1)	Effect of asset ceiling	Net obligation	of which asset recognised in the balance sheet for defined-benefit plans	of which net assets of defined-benefit plans	of which fair value of reimbursement rights	of which obligation recognised in the balance sheet for defined-benefit plans
Belgium	3,125	21	3,146	(14)	(2,930)	-	202	(2,930)	-	(2,930)	3,132
Turkey	270	27	297	(422)	-	152	27	-	-	-	27
Others	400	44	444	(379)	(1)	-	64	(27)	(26)	(1)	91
TOTAL	**3,795**	**92**	**3,887**	**(815)**	**(2,931)**	**152**	**293**	**(2,957)**	**(26)**	**(2,931)**	**3,250**

In millions of euros, at 31 December 2016	Defined-benefit obligation arising from wholly or partially funded plans	Defined-benefit obligation arising from unfunded plans	Present value of defined-benefit obligation	Fair value of plan assets	Fair value of reimbursement rights (1)	Effect of asset ceiling	Net obligation	of which asset recognised in the balance sheet for defined-benefit plans	of which net assets of defined-benefit plans	of which fair value of reimbursement rights	of which obligation recognised in the balance sheet for defined-benefit plans
Belgium	3,080	19	3,099	(9)	(2,877)	-	213	(2,877)	-	(2,877)	3,090
Turkey	270	35	305	(460)	-	190	35	-	-	-	35
Others	525	44	569	(470)	(36)	-	63	(66)	(30)	(36)	129
TOTAL	**3,875**	**98**	**3,973**	**(939)**	**(2,913)**	**190**	**311**	**(2,943)**	**(30)**	**(2,913)**	**3,254**

(1) The reimbursement rights are principally found on the balance sheet of the Group's insurance subsidiaries and associated companies - notably AG Insurance with respect to BNP Paribas Fortis' defined-benefit plan - to hedge their commitments to other Group entities that were transferred to them to cover the post-employment benefits of certain employee categories.

Changes in the present value of the defined benefit obligation

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Present value of defined-benefit obligation at start of period	**3,973**	**3,633**
Current service cost	141	144
Interest cost	47	76
Past service costs	(1)	(8)
Settlements	2	2
Actuarial (gains)/losses on change in demographic assumptions	3	1
Actuarial (gains)/losses on change in financial assumptions	101	231
Actuarial (gains)/losses on experience gaps	49	14
Actual employee contributions	10	10
Benefits paid directly by the employer	(29)	(25)
Benefits paid from assets/reimbursement rights	(241)	(229)
Exchange rate (gains)/losses on the obligation	(69)	(78)
(Gains)/losses on the obligation related to changes in the consolidation scope	(100)	203
Others	1	(1)
Present value of defined-benefit obligation at end of period	**3,887**	**3,973**

Change in the fair value of plan assets and reimbursement rights

	Plan assets		Reimbursement rights	
In millions of euros	**Year to 31 Dec. 2017**	**Year to 31 Dec. 2016**	**Year to 31 Dec. 2017**	**Year to 31 Dec. 2016**
Fair value of assets at start of period	**939**	**769**	**2,913**	**2,930**
Expected return on assets	30	37	28	55
Settlements	-	-	-	-
Actuarial (gains)/losses on assets	19	73	149	17
Actual employee contributions	-	-	10	10
Employer contributions	20	24	87	92
Benefits paid from assets	(21)	(23)	(220)	(206)
Exchange rate (gains)/losses on assets	(98)	(109)	-	-
Gains/(losses) on assets related to changes in the consolidation scope	(74)	168	(37)	15
Other	-	-	1	-
Fair value of assets at end of period	**815**	**939**	**2,931**	**2,913**

Components of the cost of defined-benefit plans

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Administration fees	**1**	**1**
Service costs	142	138
Current service cost	141	144
Past service cost	(1)	(8)
Settlements	2	2
Net financial expense	**5**	**1**
Interest cost	47	76
Interest income on plan assets	(31)	(38)
Interest income on reimbursement rights	(28)	(55)
Return on Asset Limitation	17	18
Total recognised in 'Salary and employee benefit expense'	**148**	**140**

Other items recognised directly in equity

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Other items recognised directly in equity	**33**	**(155)**
Actuarial (losses)/gains on plan assets or reimbursement rights	168	90
Actuarial (losses)/gains of demographic assumptions on the present value of obligations	(3)	(1)
Actuarial (losses)/gains of financial assumptions on the present value of obligations	(101)	(231)
Experience (losses)/gains on obligations	(49)	(14)
Variation of the effect of asset limitation	18	1

Main actuarial assumptions used to calculate obligations

For each monetary zone, BNP Paribas Fortis discounts its obligations using the yields of high quality corporate bonds, with a term consistent with the duration of the obligations.

The ranges of rates used are as follows:

In %	31 December 2017		31 December 2016	
	Discount rate	Compensation increase rate (1)	Discount rate	Compensation increase rate (1)
Eurozone	0.60% - 1.90%	3.20% - 3.40%	0.00% - 1.40%	1.30% - 3.20%
Turkey	11.80%	6.00%	10.00%	6.00%

(1) *Including price increases (inflation)*

In the Eurozone, the observed weighted average rates are as follows : 0.97% at 31 December 2017, and 0.98% at 31 December 2016.

The impact of a 100bp change in discount rates on the present value of post-employment benefit obligations is as follows:

Change in the present value of obligations In millions of euros	31 December 2017		31 December 2016	
	Discount rate -100bp	Discount rate +100bp	Discount rate -100bp	Discount rate +100bp
Eurozone	349	(319)	399	(339)
Turkey	10	(8)	16	(13)

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

In % (1)	31 December 2017	31 December 2016
	Range of value (existence of several plans in the same country)	Range of value (existence of several plans in the same country)
Belgium	1.25% - 5.62%	1.50%-5.00%
Turkey	10.53%	10.00%

(1) *Range of value, reflecting the existence of several plans in the same country.*

Breakdown of plan assets:

In %	31 December 2017						31 December 2016					
	Shares	Governmental bonds	Non-Governmental bonds	Real estate	Deposit account	Others	Shares	Governmental bonds	Non-Governmental bonds	Real estate	Deposit account	Others
Belgium	6%	52%	19%	1%	0%	22%	6%	52%	22%	2%	0%	18%
Turkey	0%	0%	0%	5%	93%	2%	0%	0%	0%	5%	94%	1%
Others	10%	60%	15%	1%	2%	12%	10%	45%	9%	1%	2%	33%
BNP Paribas Fortis	**6%**	**47%**	**17%**	**2%**	**11%**	**17%**	**6%**	**45%**	**18%**	**2%**	**11%**	**18%**

BNP Paribas Fortis introduced an asset management governance for assets backing defined-benefit pension plan commitments, the main objectives of which are the management and control of the risks in term of investment.

It sets out investment principles, in particular, by defining an investment strategy for plan assets, based on financial objectives and financial risk management, to specify the way in which plan assets have to be managed, via financial management servicing contracts.

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

Post-employment healthcare benefits

In Belgium, BNP Paribas Fortis has a healthcare plan for retired employees. This plan is closed to new entrants.

The present value of obligations relating to post-employment healthcare benefits stood at EUR 82 million at 31 December 2017, down from EUR 88 million at 31 December 2016, implying a decrease of EUR 6 million during the year 2017.

The expense for post-employment healthcare benefits amounts to EUR 2 million for the year 31 December 2017, against EUR 2 million for the year 31 December 2016.

Other items related to post-employment healthcare and directly accounted for in equity amount to EUR (6) million for 31 December 2017, against EUR 12 million for 31 December 2016.

6.c Other long-term benefits

BNP Paribas Fortis offers its employees various long-term benefits, mainly long-service awards, the ability to save up paid annual leave in time savings accounts, and certain guarantees protecting them in the event they become incapacitated.

The net provision amounted to EUR 86 million at 31 December 2017 (EUR 92 million at 31 December 2016).

As part of the BNP Paribas Fortis variable compensation policy, annual deferred compensation plans are set up for certain high-performing employees or pursuant to special regulatory frameworks.

Under these plans, payment is deferred over time and is subject to the performance achieved by the business lines, divisions and BNP Paribas Fortis.

In millions of euros	31 December 2017	31 December 2016
Net provisions for other long-term benefits	**86**	**92**
Asset recognised in the balance sheet under 'Other long-term benefits'	-	-
Obligation recognised in the balance sheet under 'Other long-term benefits'	86	92

6.d Termination benefits

BNP Paribas Fortis has implemented a number of voluntary redundancy plans and headcount adaptation plans for employees who meet certain eligibility criteria. The obligations to eligible active employees under such plans are provided for as soon as a bilateral agreement or a bilateral agreement proposal for a particular plan is made. Besides, BNP Paribas recognises costs related to redundancy plans in a restructuring context as soon as the BNP Paribas Fortis formalises a detailed plan which has been notified to the interested parties.

In millions of euros	31 December 2017	31 December 2016
Provision for voluntary departure and early retirement plans, and headcount adaptation plans	248	262

7 ADDITIONAL INFORMATION

7.a Contingent liabilities: legal proceeding and arbitration

Legal proceedings

BNP Paribas Fortis (and its consolidated subsidiaries) is involved as a defendant in various claims, disputes and legal proceedings in Belgium and in a number of foreign jurisdictions, arising in the ordinary course of its banking business, including inter alia in connection with its activities as lender, employer, investor and taxpayer.

BNP Paribas Fortis makes provisions for such matters when, in the opinion of its management and after consulting its legal advisors, it is probable that a payment will have to be made by BNP Paribas Fortis and when the amount can be reasonably estimated.

With respect to certain other claims and legal proceedings against BNP Paribas Fortis (and its consolidated subsidiaries) of which management is aware (and for which, according to the principles outlined above, no provision has been made), the management is of the opinion, after due consideration of appropriate advice, that, while it is often not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, such proceedings are without legal merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss in the BNP Paribas Fortis Consolidated Financial Statements.

Following the restructuring of Fortis (referring to both 'Fortis SA/NV' and 'Fortis N.V.' and currently 'Ageas SA/NV', hereafter 'Ageas') in late September and early October 2008, a number of claimants' organisations, and other parties, initiated, or threatened to initiate, legal action against various entities of the former Fortis Group and/or certain members of their Board of Directors and management.

On 14 March 2016 Ageas and several claimants' organisations announced a settlement proposal with respect to all civil proceedings related to the former Fortis group for the events in 2007 and 2008 (the 'Ageas Settlement') which they have asked the Amsterdam Court of Appeal to declare binding for all eligible Fortis shareholders in accordance with the Dutch Act on Collective Settlement of Mass Claims. Since the first proposed settlement has not been declared binding, Ageas and the claimants' organisations have submitted an amended and restated agreement on 12 December 2017 with the same request to declare the amended settlement binding.

These legal actions include inter alia the procedures mentioned below.

If these claims and legal proceedings were to be continued and successful, they could eventually result in monetary consequences for BNP Paribas Fortis. Such impact remains unquantifiable at this stage.

Claims before the Dutch courts

These legal actions relate to a rights issue by Fortis at the time of the acquisition of ABN Amro and the role of BNP Paribas Fortis as underwriter.

In September 2007, BNP Paribas Fortis acted together with Merrill Lynch and other banks as underwriter of the rights issue by Fortis SA/NV and Fortis N.V. (now Ageas SA/NV) in the amount of EUR 13.4 billion. The purpose of this rights issue was to partly finance Fortis's participation in its acquisition of ABN Amro Bank N.V.

BNP Paribas Fortis received on 3 February 2011 a writ of summons from the Dutch claimants' organisation 'VEB NCVB'. This organisation alleges that BNP Paribas Fortis, Ageas, Merrill Lynch and others are jointly and severally liable in connection with the alleged shortcomings of the prospectus. VEB NCVB is seeking declaratory relief that the statements and alleged omissions in the prospectus were misleading to all who purchased Fortis shares between 24 September 2007 and 3 October 2008 and that as a consequence BNP Paribas Fortis is jointly, with other banks and officers, liable for the damages sustained by those shareholders. On 7 July 2011 BNP Paribas Fortis received a writ of summons from the Dutch claimants' organisation 'Stichting Investor Claims against Fortis'. This action addresses the same subject matter and is largely based on the same allegations. Ageas and Merrill Lynch are co-defendants.

As these are Dutch legal proceedings relating to a declaration sought by an association, no actual claim for damages can be made at this stage. However, these proceedings may potentially lead to future individual damage claims.

On 20 August 2012, BNP Paribas Fortis (and eight other defendants) received a writ of summons from the 'Stichting Investor Claims against Fortis' and other investors, seeking to have the defendants declared jointly and severally liable for the payment of damages arising inter alia, in so far as BNP Paribas Fortis is concerned, from the communication of allegedly incorrect or incomplete information to the market during the period from the acquisition of ABN Amro until 17 October 2008.

These Dutch proceedings have been stayed pursuant to the Ageas Settlement.

Claims before the Belgian Courts

Retail and institutional investors in Fortis shares started legal actions before the courts of Brussels in order to obtain damages from BNP Paribas Fortis and Merrill Lynch in their role as overall coordinator of the rights issue of Fortis in September 2007, as described above. The claimants allege that the banks breached their duty as financial advisors, including with respect to the information to be provided to investors in the prospectus issued by Fortis.

These Belgian proceedings have been stayed.

The examining magistrate of the Court of First Instance in Brussels in charge since 2008 of investigating the case relating to events which occurred within the Fortis Group in 2007 and 2008 passed his file to the Public Prosecutor in October 2012. In November 2012 seven individuals were indicted by the examining magistrate and in February 2013 the Public Prosecutor requested the court to order a trial. As additional investigative measures have been ordered, the hearing before the court has not yet taken place.

Other claims before the Belgian Courts that are not related to the Ageas Settlement

Certain holders of Mandatory Convertible Securities (hereafter 'MCS') filed two actions against the co-issuers of the MCS, including BNP Paribas Fortis, and against Bank of New York Corporate Trustee Services Ltd in its capacity of trustee, before the Commercial Court of Brussels, firstly claiming annulment of the MCS Notes conversion and the restitution of their MCS Notes and, secondly, claiming damages. On 23 March 2012 the Commercial Court of Brussels dismissed both actions. Certain holders then filed an appeal in June 2012 claiming damages for a provisional amount of EUR 350 million and the appointment of an expert. BNP Paribas Fortis will continue to contest this case vigorously as it considers that these claims have no merit. This procedure is not concerned by the Ageas Settlement and has thus not been stayed.

Like many other companies in the banking, investment, mutual funds and brokerage sectors, BNP Paribas Fortis (and its consolidated subsidiaries) has received or may receive requests for information from supervisory, governmental or self-regulatory agencies. BNP Paribas Fortis responds to such requests, cooperates with the relevant regulators and other parties and helps to address any issues they might raise.

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

Operations realised in 2017

Disposal of SC Nueva Condo Murcia S.L

BNP Paribas Fortis holds 'Alpha Murcia Holding' (consolidated under equity method) that sold its participation in Nueva Condo Murcia, a Spanish company owning a shopping center, acquired in 2012 further to a credit default. Thanks to efficient management and improvement of economic situation in Spain, the value of the asset improved substantially and it was decided to sell this non-core asset as at May 22th 2017. This sale generated a gain for EUR 59.5 million booked under results on investment properties according to the 'substance over form' principle.

Disposal of activities from some BNP Paribas Fortis branches (The Netherlands, Norway, Sweden, Denmark, Austria, Romania and Czech Republic)

These transactions relate to the restructuring of the European branch network of BNP Paribas Group and BNP Paribas Fortis, with the aim of optimizing and creating an efficient geographical position in Europe for the Corporate & Institutional Banking business (CIB), which will still benefit to corporate and institutional customers of BNP Paribas Fortis.

All assets and liabilities of BNP Paribas Fortis branches in The Netherlands, Norway, Sweden, Denmark, Austria, Romania and Czech Republic have been transferred, to the BNP Paribas Branches located in the corresponding countries for a total of amount of EUR 19,079 million.

Changes in the consolidation scope

In 2017, some entities entered the consolidation scope (of which Credissimo and BNPP Factor NV) with a total impact on the balance sheet of EUR 1.0 billion and for some entities the consolidation method changed from equity method to full consolidation (mainly BNP Paribas Factor A/S, Arval Schweiz AG and BNP Paribas Lease Group Ifn S.A.) with a total impact on the balance sheet of EUR 1.8 billion.

Operations realised in 2016

Acquisition of Arval

On 8 December 2016, upon approval of the shareholders following the Extraordinary Shareholders' meeting, BNP Paribas contributed 100% of Arval Service Lease's shares to BNP Paribas Fortis. This contribution in kind was remunerated by the issuance of 81,953,055 new BNP Paribas Fortis shares (valued at EUR 2,299,996,536.81), in exchange for 3,320,635 shares of Arval Service Lease. (five shares have been acquired by GENFINANCE).

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

As this contribution occurred between entities under common control, BNP Paribas Fortis applied the 'predecessor basis of accounting method' as described in the accounting policies (1.c.4). Under this method, BNP Paribas Fortis, as acquiring party, recognises the contributed assets and liabilities at their carrying value as determined by the transferring entity at the date of the transfer, not at their fair value.

Consequently, no new goodwill (other than the existing goodwill relating to either of the combining entities) is recognised. Any difference between the value retained for the contribution in kind and the share in the net assets, measured at the predecessor's carrying value, is presented as an adjustment in equity.

The transaction resulted in a net increase of EUR 1.1 billion in the consolidated shareholders' equity of BNP Paribas Fortis.

The table below provides details on the main consolidated balance sheet positions of Arval entities as at 31 December 2016.

In millions of euros	31 December 2016								
						Key figures on acquisition date			
Acquired subsidiaries/ business	Country	Acquired %	Acquisi-tion price	Existing Goodwill	Net cash inflow	Assets		Liabilities	
Arval service lease and its subsidiaries	France	100.00%	2,300	509	195	Property, plant and equipment	13,569	Due to credit institutions	13,404

Liquidation of FB Transportation Capital

On 20 December 2016, FB Transportation Capital (FBTC), held 100% by BNP Paribas Fortis, was liquidated. The liquidation resulted in a net realised loss of EUR (18.2) million.

Disposal of SADE

Société Alsacienne d'Expansion et de Développement (SADE), a wholly owned French subsidiary of BGL, was sold to BNP Paribas on 9 June 2016 for a consideration of EUR 80.7million. The realised loss amounted to EUR (12.1) million which was recorded in the line 'Net gain on non-current assets'.

Disposal of SREI

SREI, an Indian company in which BNP Paribas Lease Group SA ('BPLG') and SIFL each owned 50% in a joint venture partnership. SIFL acquired the 50% stake of SREI from BPLG for a consideration of EUR 20.2 million representing 5% value of SIFL's shares. The net realized loss on the sale amounted to EUR (16.5) million.

Disposal of Société immobilière de Monterey

In Q3 2016, Société Immobilière de Monterey, held 100% by BGL BNP Paribas, was sold to an external party. BGL BNP Paribas recognised a net capital gain after tax of EUR 27 million.

7.c Minority interests

Main minority interests

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

	31 December 2017	Year to 31 Dec. 2017						
In millions of euros	Total assets before elimination of intra-group transactions	Revenues	Net income	Net income and changes in assets and liabilities recognised directly in equity	Interest (%)	Net income attributable to minority interests	Net income and changes in assets and liabilities recognised directly in equity - attributable to minority interests	Dividends paid to minority shareholders
Contribution of the entities belonging to the BGL BNP Paribas Group	49,513	1,345	543	451	50%	357	303	162
Other minority interests						119	(24)	2
TOTAL						**476**	**279**	**164**

In millions of euros	31 December 2016 Total assets before elimination of intra-group transactions	Year to 31 Dec. 2016 Revenues	Net income	Net income and changes in assets and liabilities recognised directly in equity	Interest (%)	Net income attributable to minority interests	Net income and changes in assets and liabilities recognised directly in equity - attributable to minority interests	Dividends paid to minority shareholders
Contribution of the entities belonging to the BGL BNP Paribas Group	44,930	1,346	537	507	50%	340	310	204
Other minority interests						149	(4)	1
TOTAL						**489**	**306**	**205**

There are no particular contractual restrictions on the assets of the BGL BNP Paribas Group relating to the presence of the minority shareholder.

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 224 million at 31 December 2017, compared with EUR 274 million at 31 December 2016.

7.d Significant restrictions in subsidiaries, associates and joint ventures

Significant restrictions relating to the ability of entities to transfer cash to BNP Paribas Fortis

The ability of entities to pay dividends or to repay loans and advances depends, inter alia, on local regulatory requirements for capitalisation and legal reserves, as well as the entities' financial and operating performance. During 2016 and 2017, no BNP Paribas Fortis entity was subject to significant restrictions other than those arising from regulatory requirements.

Significant restrictions relating to BNP Paribas Fortis' ability to use the assets lodged in consolidated structured entities

Access to the assets of consolidated structured entities in which third-party investors (other than BNP Paribas Group entities) have invested is limited in as much as these entities' assets are reserved for the holders of units or securities. These assets totaled EUR 0.2 billion as at 31 December 2017 compared with EUR 0.3 billion as at 31 December 2016.

Significant restrictions relating to BNP Paribas Fortis' ability to use assets pledged as collateral or under repurchase agreements

The financial instruments pledged by BNP Paribas Fortis as collateral or under repurchase agreements are reported in Note 4.r and 5.c.

Significant restrictions relating to liquidity reserves

Significant restrictions related to liquidity reserves correspond to the mandatory deposits placed with central banks.

7.e Structured entities

BNP Paribas Fortis considers that it has sponsored a structured entity when it has been involved in its design.

BNP Paribas Fortis is engaged in transactions with sponsored structured entities primarily through its activities of securitisation of financial assets as either the originator or the sponsor, fund management and specialised asset financing.

In addition, BNP Paribas Fortis is also engaged in transactions with structured entities that it has not sponsored, notably in the form of investments in funds or securitisation vehicles.

The method for assessing control of structured entities is detailed in Note 1.c.2. 'Consolidation methods'.

Consolidated structured entities

The main categories of consolidated structured entities are:

ABCP (Asset-Backed Commercial Paper) conduits: the Scaldis ABCP securitisation conduits are securitisation transactions managed by BNP Paribas Fortis on behalf of its customers.

Proprietary securitisation: proprietary securitisation positions originated and held by BNP Paribas Fortis.

Unconsolidated structured entities

BNP Paribas Fortis has entered into relations with unconsolidated structured entities in the course of its business activities in order to meet the needs of its customers.

Information relating to interests in sponsored structured entities

The main categories of unconsolidated sponsored structured entities are as follows:

Securitisation: BNP Paribas Fortis structures securitisation vehicles for the purposes of offering customers financing solutions for their assets, either directly or through consolidated ABCP conduits. Each vehicle finances the purchase of customers' assets (receivables, bonds, etc.) primarily by issuing bonds backed by these assets, whose redemption is linked to their performance.

Funds: BNP Paribas Fortis structures and manages funds in order to offer investment opportunities to its customers. Dedicated or public funds are offered to institutional and individual customers, and are distributed and commercially monitored by BNP Paribas Fortis. The BNP Paribas Fortis entities responsible for managing these funds may receive management fees and performance commission. Moreover, BNP Paribas Fortis may hold units in these funds.

Asset financing: BNP Paribas Fortis finances structured entities that acquire assets (ships, export finance etc.) intended for lease, and the lease payments received by the structured entity are used to repay the financing, which is guaranteed by the asset held by the structured entity.

Other: On behalf of its customers, BNP Paribas Fortis may also structure entities which invest in assets or are involved in debt restructuring.

An interest in an unconsolidated structured entity is a contractual or non-contractual link that exposes BNP Paribas Fortis to variable returns from the performance of the entity.

BNP Paribas Fortis' assets and liabilities relating to the interests held in sponsored structured entities are as follows:

In millions of euros, at 31 December 2017	Securitisation	Funds	Asset Financing	Others	Total
INTERESTS ON BNP PARIBAS FORTIS BALANCE SHEET					
ASSETS					
Trading Book	-	-	-	1	1
Instruments designated as at fair value through profit or loss	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-
Loans and receivables	208	-	110	35	353
Other assets	-	-	-	-	-
TOTAL ASSETS	**208**	**-**	**110**	**36**	**354**
LIABILITIES					
Trading Book	-	50	-	1	51
Instruments designated as at fair value through profit or loss	-	-	-	-	-
Financial liabilities carried at amortised cost	35	773	3	17	828
Other liabilities	-	-	-	-	-
TOTAL LIABILITIES	**35**	**823**	**3**	**18**	**879**
MAXIMUM EXPOSURE TO LOSS	**209**	**-**	**286**	**265**	**760**
SIZE OF THE STRUCTURED ENTITIES (1)	**4,511**	**22,578**	**682**	**64**	**27,835**

In millions of euros, at 31 December 2016	Securitisation	Funds	Asset Financing	Others	Total
INTERESTS ON BNP PARIBAS FORTIS BALANCE SHEET					
ASSETS					
Trading Book	-	-	-	2	2
Instruments designated as at fair value through profit or loss	-	-	-	-	-
Available-for-sale financial assets	-	20	-	3	23
Loans and receivables	266	-	332	6	604
Other assets	-	-	-	-	-
TOTAL ASSETS	**266**	**20**	**332**	**11**	**629**
LIABILITIES					
Trading Book	-	117	-	1	118
Instruments designated as at fair value through profit or loss	-	16	-	-	16
Financial liabilities carried at amortised cost	41	898	7	21	967
Other liabilities	-	-	-	-	-
TOTAL LIABILITIES	**41**	**1,031**	**7**	**22**	**1,101**
MAXIMUM EXPOSURE TO LOSS	**267**	**20**	**626**	**238**	**1,151**
SIZE OF THE STRUCTURED ENTITIES (1)	**7,843**	**1,188**	**4,363**	**163**	**13,557**

(1) The size of sponsored structured entities equals the total assets of the structured entity for securitisation vehicles, the net asset value for funds (excluding management mandates) and the structured entity's total assets or the amount of BNP Paribas Fortis' commitment for asset financing and other structures.

BNP Paribas Fortis' maximum exposure to losses on sponsored structured entities is the nominal amount of the cash loss incurred.

It is composed of the carrying amount of the assets, excluding, for available-for-sale financial assets, changes in the carrying amount taken directly to equity, plus the nominal amount of the financing commitments and guarantee commitments given and the notional amount of credit default swaps (CDS) sold.

Information relating to interests in non-sponsored structured entities

The main interests held by BNP Paribas Fortis when it acts solely as an investor in non-sponsored structured entities are detailed below:

- Units in other funds not managed by BNP Paribas Fortis: as part of its trading business, BNP Paribas Fortis invests in structured entities without any involvement in either managing or structuring these entities (investments in mutual funds, securities funds or alternative funds), particularly as economic hedge for structured products sold to customers. BNP Paribas Fortis also invests in minority holdings in support of companies as part of its venture capital business. These investments amounted to EUR 0.5 billion as at 31 December 2016, but only a limited investment remained in 2017.

- Investments in securitisation vehicles: the investments in securitisation vehicles amounted to EUR 1.8 billion as at 31 December 2017 (EUR 2.3 billion as at 31 December 2016). Furthermore, BNP Paribas Fortis also has positions on SPVs that are sponsored by BNP Paribas Group, but not sponsored by BNP Paribas Fortis, these investments represent EUR 0.1 billion on-balance and EUR 0.8 billion off-balance as at 31 December 2017 (EUR 0.2 billion and EUR 0.9 billion as at 31 December 2016).

7.f Compensation and benefits awarded to BNP Paribas Fortis' corporate officers

The remuneration policy for the Board of Directors and Executive Board did not change significantly during 2017.

7.f.1 Remuneration of the Members of the Board of Directors

Remuneration policy with regard to the Members of the Board of Directors

Executive and non-Executive Members of the Board of Directors receive Board remuneration based on the principles set out below, as approved by the General Shareholders' Meeting of 20 April 2017, during which the principle of keeping the maximum Board remuneration at a total of EUR 1.5 million per annum was confirmed.

Annual fixed salary Chairman Board of Directors	EUR	50 000	(gross)
Annual fixed salary Board Members	EUR	25 000	(gross)
Attendance fee Chairman Board of Directors	EUR	4 000	(gross)
Attendance fee Members Board of Directors	EUR	2 000	(gross)
Attendance fee Chairman Board Committees	EUR	4 400	(gross)
Attendance fee Members Board Committees	EUR	2 200	(gross)

The non-Executive Members of the Board of Directors do not receive any variable pay, pension plan or insurances, nor any other benefits[1].

[1] *With the exception of the Chairman, who receives the use of a company car and mobile phone.*

Remuneration for the year

The table below shows the gross Board remuneration paid in 2017 to each member of the Board of Directors.

In euros		Fixed fees	Attendance fees board*	Total 2017
Herman DAEMS	Chairman	50,000	90,200	140,200
Dominique AUBERNON	Non-executive	25,000	22,000	47,000
Didier BEAUVOIS	Executive	25,000	22,000	47,000
Dirk BOOGMANS	Non-executive	25,000	64,000	89,000
Antoinette D'ASPREMONT LYNDEN	Non-executive	25,000	44,200	69,200
Stefaan DECRAENE	Non-executive	25,000	12,000	37,000
Filip DIERCKX	Executive	25,000	22,000	47,000
Sophie DUTORDOIR	Non-executive	25,000	42,000	67,000
Maxime JADOT	Executive	25,000	20,000	45,000
Thierry LABORDE	Non-executive	25,000	35,800	60,800
Sophia MERLO	Non-executive	25,000	20,000	45,000
Piet VAN AKEN	Executive	25,000	22,000	47,000
Peter VANDEKERCKHOVE	Executive (until 31 October 2017)	18,750	14,000	32,750
Thierry VARÈNE	Non-executive	25,000	33,400	58,400
Total		**368,750**	**463,600**	**832,350**

(*) This column includes the Board fees for all Committees

7.f.2 Remuneration of the Members of the Executive Board

Remuneration policy regarding the Members of the Executive Board

The Members of the Executive Board have self-employed status and receive a Board remuneration based on the same principles as non-Executive Members. In addition, they are rewarded for their functions in the Executive Management through the following components: fixed monthly remuneration; variable annual remuneration based on the achievement of clear performance criteria and risk monitoring linked to collective and individual performance criteria as mentioned below; a company insurance plan (pension plan, hospital plan, life insurance and disability benefits); benefits in kind (the use of a company car, mobile phone, tablet and internet); and the opportunity to obtain share-based long-term incentive payments. Their remuneration is subject to strict regulation under CRD IV and the Belgian Banking Law.

The remuneration structure and policy on levels of remuneration are determined by the Board of Directors upon a recommendation from the Remuneration Committee with reference to common practices and market benchmarking for determining appropriate executive management compensation, and with guidance from specialised consultancy firms. Governance relating to remuneration followed the same principles and processes as last year and it is expected to continue to do so in the coming years.

Performance criteria used to determine variable remuneration

The entire process described hereunder is audited by the Inspection Générale.

Individual performance

A self-assessment is prepared by each Executive Board Member, which is then challenged by the Chief Executive Officer, who decides on the scoring in close discussion with the Chairman of the Board of Directors. An overall assessment is also made by the Risk and Compliance departments.

Individual performance is assessed in the light of the degree of attainment of personal objectives and managerial performance as assessed by the Board of Directors in terms of the following four management principles:

- **Client Focus:** inspiring people to focus in an innovative way on the client first and foremost, as the interests of the client must always be central to the action;
- **Risk-Aware Entrepreneurship:** undertaking initiatives for development and efficiency while being accountable, by:
  - Acting in an interdependent and cooperative way with the other entities to serve the overall interests of the Group and its clients
  - Being continuously vigilant as to the risks related to one's area of responsibility and empowering staff to do the same;

- **People Care:** caring for our people, by showing them respect, promoting equal opportunities and developing their talents and skills;

- **Lead by example:** setting an example through one's own behaviour and ethical conduct by following the regulations, applying the compliance rules and behaving in a socially responsible manner.

Team performance based on Bank Key Performance Indicators (KPIs)

Collective performance is based on Key Performance Indicators (KPIs) designed to show that the Executive Board is acting as a single Team. Every year, the Bank draws up a strategic plan, from which are derived indicators enabling the Executive Board to measure and assess the Bank performance. The performance criteria measured for each business are: financial results, cost management, risk management/compliance, long term developments, Corporate Social Responsibility, and people management. On a yearly basis, the Executive Board receives a score for its overall performance.

The appraisal period during which performance is assessed is January to December of each year. The methods used to assess the performance against targets are both qualitative (customer satisfaction, sound risk governance, Global People Survey results, people management, etc.) and quantitative (net operating profit, gross income, increase in market share, etc.).

Future performance applied to the deferred part of the variable remuneration

The variable part of the remuneration is subject to the deferral principle, whereby the deferred part is conditional on the future performance of the company and to sound risk management.

Remuneration for the year

The table below shows the gross remuneration paid or payable to the Members of the Executive Board for the year 2017, including benefits in kind and Director's fees.

	2017		2016	
	Chief Executive Officer	Other Members of the Executive Board	Chief Executive Officer	Other Members of the Executive Board
Remuneration				
Fixed (1)	978,513	2,331,805	928,513	2,462,611
Cash part of variable	159,200	329,960	151,200	494,600
Deferred part of variable	140,800	167,040	128,800	195,400
Multi-annual variable compensation (2)	98,000	144,900	98,000	161,000
Director's fees (3)	106,016	249,266	111,016	267,016
Benefits in Kind (4)	6,432	45,519	7,065	44,692
Pension, life insurance and orphan's pension (5)	275,063	185,416	272,442	215,094
Total	**1,764,024**	**3,453,906**	**1,697,036**	**3,840,413**

(1) *Gross rental allowances are included in the reported fixed remuneration*

(2) *In order to fully comply with the EU Capital Requirement Directive IV applicable to the Credit Institutions, the multi-annual variable compensation indicated is the amount related to the performance of the year under review and not the amount allocated during the year under review. As from 2016, in order to comply with the EBA Guidelines of 21 December 2016, the Multi-annual variable compensation is disclosed taking into account the fair value determined at the time the compensation was granted.*

(3) *In order to comply with article 96 of the Companies Code we have included the board fees received in the controlled perimeter.*

(4) *The members of the Executive Board each have a company car and a mobile phone.*

(5) *For defined contribution plan and defined benefit plan : sum of employer contributions*

Information on Multi-annual variable compensation

2015, 2016 and 2017

The Contingent Sustainable and International Scheme ('CSIS') is designed to compensate Material Risk Takers identified as key employees of BNP Paribas Group for their performance on terms that are compliant with EU rules, provided that they act in the long-term interests of the BNP Paribas Group. The scheme is intended to support the effective alignment of compensation with prudent risk-taking behaviour. In compliance with the Capital Requirements Directive 4 (CRD4), the CSIS provides for the award of instruments that can be fully written down to adequately reflect the credit quality of the institution as a going concern.

To this end, payments under the CSIS will be cancelled if the BNP Paribas Group finds that its credit quality has deteriorated as would be evidenced by a fall of the Group's Common Equity Tier 1 ratio (CET1 ratio) below a level of 7% or the Group's entry into a resolution procedure.

In addition, in order to reflect the Group ambition to growth while acting with environmental, economic and social responsibility, the Group has also decided:

- to make:
    - 85% of the CSIS Award subject to a condition based on the operating performance of the Group ('Group Performance Indicator – GPI');
    - 15% of the CSIS Award subject to a condition based on the Corporate Social Responsibility ('CSR') performance, as it is considered essential that the BNP Paribas Group acts at all levels, and in a significant way, to promote greater environmental, economic and social responsibility; and
- to condition any payment under the scheme to the 2018 (year 2021 for 2016 plan) Group BNP Paribas Fortis Pre-Tax Income being positive.

The CSIS Award is a cash amount denominated in local currency (the 'Notional Instrument Amount') bearing an interest rate (the 'Interest Amount'). For 2015 the Vesting Period starts on 1 January 2016 and ends on 1 January 2019. There is a retention period of 6 months between 1 January 2019 and 30 June 2019. The beneficiary is entitled to receive on the Date of Payment an amount of interest calculated from 1 January 2019 to 30 June 2019. The annual interest rate is equal to 1.70%.

For 2016 the Vesting Period starts on 1 January 2017 and ends on 1 January 2022. There is a retention period of 6 months between 1 January 2022 and 30 June 2022. The beneficiary is entitled to receive on the Date of Payment an amount of interest calculated from 1 January 2022 to 30 June 2022. The annual interest rate is equal to 2.19%.

For 2017 the Vesting Period starts on 1 January 2018 and ends on 1 January 2023. There is a retention period of 6 months between 1 January 2023 and 30 June 2023. The beneficiary is entitled to receive on the Date of Payment an amount of interest calculated from 1 January 2023 to 30 June 2023. The annual interest rate is equal to 1.25%.

Information on severance pay

In 2017 no termination benefits were paid to members of the Board of Directors.

Relations with key management personnel

At 31 December 2017, total outstanding loans granted directly or indirectly to the members of the Board of Directors amounted to EUR 1.8 million. This represents the total amount of loans granted to members of the BNP Paribas Fortis Board of Directors and their close family members. These loans constitute normal transactions carried out on an arm's length basis

7.g Other related parties

Other related parties of the BNP Paribas Fortis comprise:

- BNP Paribas (and all its subsidiaries) which has control over BNP Paribas Fortis,
- Consolidated companies of BNP Paribas Fortis (including entities consolidated under the equity method)
- and entities managing post-employment benefit plans offered to BNP Paribas Fortis' employees.

Transactions between 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 7.j 'Scope of consolidation'. Transactions and outstanding balances between fully-consolidated entities of BNP Paribas Fortis are eliminated.

Outstanding balances of related party transactions

In millions of euros	31 December 2017			31 December 2016		
	Entities of the BNP Paribas Group	Joint ventures	Associates [1]	Entities of the BNP Paribas Group	Joint ventures	Associates [1]
ASSETS						
Loans, advances and securities						
Demand accounts	*1,539*	*2*	*24*	*1,464*	*1*	*29*
Loans	*21,925*	*-*	*745*	*9,552*	*-*	*1,940*
Securities	*121*	*-*	*-*	*203*	*-*	*-*
Securities held in the non-trading portfolio	2	-	-	1,534	-	-
Other assets	1,457	2	120	1,702	1	123
Total	**25,044**	**4**	**889**	**14,455**	**2**	**2,092**
LIABILITIES				-	-	-
Deposits						
Demand accounts	*816*	*28*	*639*	*498*	*64*	*634*
Other borrowings	*24,726*	*45*	*2,233*	*23,904*	*195*	*2,485*
Debt securities	2,882	-	4	2,843	-	9
Other liabilities	433	2	54	302	-	59
Total	**28,857**	**75**	**2,930**	**27,547**	**259**	**3,187**
FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS						
Financing commitments given	2,697	3,001	130	3,067	3,400	445
Guarantee commitments given	9,098	-	127	8,677	-	132
Total	**11,795**	**3,001**	**257**	**11,744**	**3,400**	**577**

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

BNP Paribas Fortis also carries out trading transactions at market conditions with related parties involving derivatives (swaps, options and forwards, etc.) and financial instruments (equities, bonds, etc.).

Related-party profit and loss items

In millions of euros	Year to 31 Dec. 2017			Year to 31 Dec. 2016		
	Entities of the BNP Paribas Group	Joint ventures	Associates [1]	Entities of the BNP Paribas Group	Joint ventures	Associates [1]
Interest income	440	(5)	11	402	2	19
Interest expense	(577)	-	(16)	(326)	(2)	(16)
Commission income	164	3	526	166	3	494
Commission expense	(96)	-	(5)	(84)	-	(5)
Services provided	2	1	7	1	1	-
Services received	(43)	-	(5)	-	-	(1)
Lease income	41	-	12	3	-	14
Total	**(69)**	**(1)**	**530**	**162**	**4**	**505**

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

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

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

7.h Financial instruments by maturity

The table below gives a breakdown of the balance sheet by contractual maturity. The maturities of the 'trading portfolio' reported under financial assets and liabilities measured at fair value through profit or loss are regarded as 'undetermined' insofar as these instruments are intended to be sold or redeemed before their contractual maturity dates.

The maturities of debt securities and subordinated debt, which are part of the financial liabilities designated as at fair value through profit or loss, are reported based on undiscounted cash flows of future interest and principal payments.

The maturities of variable-income financial assets classified as available for sale, derivative hedging instruments, re-measurement adjustments on interest-rate risk hedged portfolios and undated subordinated debt are also deemed to be 'undetermined'.

In millions of euros, at 31 December 2017	Not determined	Overnight or demand	Up to 1 month (excl. overnight)	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Cash and amounts due from central banks		4,942						4,942
Financial assets at fair value through profit or loss	11,140							11,140
Derivatives used for hedging purposes	2,011							2,011
Available-for-sale financial assets	808		50	1,269	1,953	12,083	7,534	23,697
Loans and receivables due from credit institutions	43	3,146	13,791	242	4,733	2,674	676	25,305
Loans and receivables due from customers		3,630	13,773	10,540	21,556	63,573	62,353	175,425
Re-measurement adjustment on interest-rate risk hedged portfolios	1,062							1,062
Held-to-maturity financial assets				35		412	64	511
Financial assets by maturity	**15,064**	**11,718**	**27,614**	**12,086**	**28,242**	**78,742**	**70,627**	**244,093**
Due to central banks		382						382
Financial liabilities at fair value through profit or loss	10,274		25	145	452	1,362	1,332	13,590
Derivatives used for hedging purposes	3,982							3,982
Due to credit institutions		3,058	4,254	3,383	7,624	17,194	1,045	36,558
Due to customers		139,353	9,899	9,901	2,892	2,474	2,408	166,927
Debt securities			1,717	2,472	6,005	886	1,354	12,434
Subordinated debt	104		206	39	241	238	1,659	2,487
Re-measurement adjustment on interest-rate risk hedged portfolios	441							441
Financial liabilities by maturity	**14,801**	**142,793**	**16,101**	**15,940**	**17,214**	**22,154**	**7,798**	**236,801**

In millions of euros 31 December 2016	Not determined	Overnight or demand	Up to 1 month (excl. overnight)	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Cash and amounts due from central banks		14,037						14,037
Financial assets at fair value through profit or loss	12,991							12,991
Derivatives used for hedging purposes	2,101							2,101
Available-for-sale financial assets	1,215		837	1,897	4,172	11,270	10,167	29,558
Loans and receivables due from credit institutions	63	2,079	2,329	804	1,579	6,501	1,332	14,687
Loans and receivables due from customers		3,781	10,968	10,141	20,289	61,501	64,649	171,329
Re-measurement adjustment on interest-rate risk hedged portfolios	1,463							1,463
Held-to-maturity financial assets			24	30	3	364	104	525
Financial assets by maturity	**17,833**	**19,897**	**14,158**	**12,872**	**26,043**	**79,636**	**76,252**	**246,691**
Due to central banks		157						157
Financial liabilities at fair value through profit or loss	12,404		65	155	390	1,800	1,333	16,147
Derivatives used for hedging purposes	4,395							4,395
Due to credit institutions		1,693	5,735	3,584	7,326	15,228	1,301	34,867
Due to customers		132,718	10,621	8,765	6,210	2,407	2,595	163,316
Debt securities			2,963	3,105	3,904	2,886	681	13,539
Subordinated debt	108		17	231	1,727	603	1,662	4,348
Re-measurement adjustment on interest-rate risk hedged portfolios	876							876
Financial liabilities by maturity	**17,783**	**134,568**	**19,401**	**15,840**	**19,557**	**22,924**	**7,572**	**237,645**

7.i Fair value of financial instruments carried at amortised cost

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

- These fair values are an estimate of the value of the relevant instruments as of 31 December 2017. They are liable to fluctuate from day to day as a result of changes in various parameters, such as interest rates and credit quality of the counterparty. In particular, they may differ significantly from the 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.

		31 December 2017				
		Estimated fair value				
In millions of euros	Note	Level 1	Level 2	Level 3	Total	Carrying value
FINANCIAL ASSETS						
Loans and receivables due from credit institutions	4.f	-	25,305	-	25,305	25,305
Loans and receivables due from customers [1]	4.g	295	5,012	158,811	164,118	160,444
Held-to-maturity financial assets	4.j	405	132	-	537	511
FINANCIAL LIABILITIES						
Due to credit institutions	4.f	-	36,558	-	36,558	36,558
Due to customers	4.g	-	167,356	-	167,356	166,927
Debt securities	4.i	-	12,423	-	12,423	12,434
Subordinated debt	4.i	-	2,498	-	2,498	2,487

(1) *Finance leases excluded*

In millions of euros	Note	31 December 2016				
		Estimated fair value				Carrying value
		Level 1	Level 2	Level 3	Total	
FINANCIAL ASSETS						
Loans and receivables due from credit institutions	4.f	-	14,687	-	14,687	14,687
Loans and receivables due from customers [1]	4.g	448	5,008	156,727	162,183	157,478
Held-to-maturity financial assets	4.j	429	134	-	563	525
FINANCIAL LIABILITIES						
Due to credit institutions	4.f	-	34,872	-	34,872	34,867
Due to customers	4.g	-	163,823	-	163,823	163,316
Debt securities	4.i	-	13,420	-	13,420	13,539
Subordinated debt	4.i	-	4,424	-	4,424	4,348

(1) Finance leases excluded

The valuation techniques and assumptions used by BNP Paribas Fortis ensure that the fair value of financial assets and liabilities carried at amortised cost is measured on a consistent basis throughout the Bank. Fair value is based on prices quoted in an active market when these are available. In other cases, fair value is determined using valuation techniques such as discounting of estimated future cash flows for loans, liabilities and held-to-maturity financial assets, or specific valuation models for other financial instruments as described in Note 1, 'Summary of significant accounting policies applied by BNP Paribas Fortis'. The description of the fair value hierarchy levels is also presented in the accounting principles (Note 1.d.9). In the case of loans, liabilities and held-to-maturity financial assets that have an initial maturity of less than one year (including demand deposits) or of most regulated savings products, fair value equates to the carrying amount. These instruments have been classified in Level 2, except for loans to customers which are classified in Level 3.

7.j Scope of consolidation

Name	Country	31 December 2017				31 December 2016			
		Method	Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
Consolidating company									
BNP Paribas Fortis	**Belgium**								
Belgium									
Ace Equipment Leasing	Belgium								S3
Ag Insurance	Belgium	Equity	25%	25%		Equity	25%	25%	
Alpha Card S.C.R.L.	Belgium				S2	Equity	49.99%	49.99%	
Alpha Crédit S.A.	Belgium	Full	99.99%	99.99%		Full	99.99%	100%	
Arval Belgium SA	Belgium	Full	100%	99.99%		Full	100%	99.99%	E3
Banking Funding Company SA	Belgium	Equity	33.52%	33.52%	E1				
Belgian Mobile Wallet	Belgium								S3
BNP Paribas Fortis Factor Nv SA	Belgium	Full	99.99%	99.99%		Full	99.99%	99.99%	
BNP Paribas Fortis Private Equity Belgium N.V.	Belgium	Full	99.99%	99.99%		Full	99.99%	99.99%	
BNP Paribas Fortis Private Equity Expansion	Belgium	Full	99.99%	99.99%		Full	100%	99.99%	
BNP Paribas Fortis Private Equity Management	Belgium	Full	99.99%	99.99%	D1	Equity 1	100%	99.99%	
BNP Paribas Lease Group Belgium	Belgium	Full	99.99%	25%		Full	99.99%	25%	
Bpost Banque - Bpost Bank	Belgium	Equity 2	50%	50%		Equity 2	50%	50%	
CNH Industrial Capital Europe Belgium Branch	Belgium	Full	100%	12.53%		Full	100%	12.53%	
Credissimo	Belgium	Full	100%	99.99%	E1				
Credissimo Hainaut	Belgium	Full	99.72%	99.72%	E1				
Crédit pour Habitations Sociales	Belgium	Full	81.66%	81.66%	E1				
Demetris N.V.	Belgium	Equity 1	99.99%	99.99%		Equity 1	99.99%	99.99%	
Eos Aremas Belgium S.A./N.V.	Belgium	Equity	49.97%	49.97%		Equity	49.97%	49.97%	
Es-Finance	Belgium	Full	99.99%	99.99%		Full	99.99%	99.99%	
Favor Finance	Belgium	Full	51%	50.99%	E1				
FScholen	Belgium	Equity	50%	50%		Equity	50%	50%	
Fortis Lease Belgium	Belgium	Full	100%	25%		Full	100%	25%	
Immobilière Sauvenière S.A.	Belgium	Equity 1	99.99%	99.99%		Equity 1	99.99%	99.99%	
Locadif	Belgium	Full	100%	99.99%		Full	99.99%	99.99%	E3
Novy Invest	Belgium	Equity	33.69%	33.69%	E1				
Penne International	Belgium	Equity	74.90%	74.90%	E1				
Studio 100	Belgium	Equity	32.47%	32.47%	E1				

New entries (E) in the scope of consolidation

E1 Passing qualifying thresholds as defined by BNP Paribas Fortis
E2 Incorporation
E3 Purchase, gain of control or significant influence

Removals (S) from the scope of consolidation

S1 Cessation of activity (including dissolution, liquidation)
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S3 Entities removed from the scope because < qualifying thresholds
S4 Merger, Universal transfer of assets and liabilities

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V4 Increase in %

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Prudential scope of consolidation

1 Controlled but non material entities consolidated under the equity method as associates
2 Jointly controlled entities under proportional consolidation for prudential purposes.

Full - Full consolidation
Equity - Equity Method

		31 December 2017				31 December 2016			
Name	**Country**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**
Belgium - Special Purpose Entities									
Bass Master Issuer Nv	Belgium	Full				Full			
BNPP B Institutional II - Treasury 17	Belgium	Full			E1				
Esmée Master Issuer	Belgium	Full				Full			
FL Zeebrugge	Belgium	Equity			E1				
Luxembourg									
Arval Luxembourg SA	Luxembourg	Full	100%	99.99%	D1	Equity	100%	99.99%	E3
BGL BNP Paribas	Luxembourg	Full	50%	50%		Full	50%	50%	
BGL BNP Paribas Factor S.A.	Luxembourg								S4
BNP Paribas Fortis Funding S.A.	Luxembourg	Full	99.99%	99.99%		Full	99.99%	99.99%	
BNP Paribas Lease Group Luxembourg S.A.	Luxembourg	Full	100%	50%		Full	100%	50%	
BNP Paribas Leasing Solutions	Luxembourg	Full	50%	25%		Full	50%	25%	
Cardif Lux Vie	Luxembourg	Equity	33.33%	16.67%		Equity	33.33%	16.67%	
Cofhylux S.A.	Luxembourg	Full	100%	50%		Full	100%	50%	
Plagefin S.A.	Luxembourg	Full	100%	50%		Full	100%	50%	
Luxembourg - Special Purpose Entities									
Alleray S.A.R.L.	Luxembourg								S1
Société Immobilière De Monterey S.A.	Luxembourg								S2
Rest of the world									
Albury Asset Rentals Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
All In One Vermietung Gmbh	Austria								S3
All In One Vermietungsgesellschaft Fur Telekommunikationsanlagen Mbh	Germany				S3	Equity 1	100%	25%	
Alpha Murcia Holding B.V.	Netherlands	Equity 1	100%	100%		Equity 1	100%	100%	
Aprolis Finance	France	Full	50.99%	12.75%		Full	50,99%	12.75%	
Arius	France	Full	100%	25%		Full	100%	25%	
Artegy	France	Full	100%	25%		Full	100%	25%	
Artel	France	Equity	100%	99.99%		Equity	100%	99.99%	E3
Arval AB	Sweden	Equity	100%	99.99%		Equity	100%	99.99%	E3
Arval AS	Denmark	Full	100%	99.99%	D1	Equity	100%	99.99%	E3
Arval Austria GmbH	Austria	Full	100%	99.99%	D1	Equity	100%	99.99%	E3

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Name	**Country**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**
Arval Benelux BV	Netherlands	Full	100%	99.99%		Full	100%	99.99%	E3
Arval Brasil Ltda	Brazil	Full	99.99%	99.99%		Full	99.99%	99.99%	E3
Arval BV	Netherlands	Full	100%	99.99%		Full	100%	99.99%	E3
Arval CZ SRO	Czech republic	Full	100%	99.99%		Full	100%	99.99%	E3
Arval Deutschland GmbH	Germany	Full	100%	99.99%		Full	100%	99.99%	E3
Arval Fleet Services	France	Full	100%	99.99%		Full	100%	99.99%	E3
Arval Fleet Services BV	Netherlands				S4	Full	100%	99.99%	E3
Arval Hellas Car Rental SA	Greece	Equity	100%	99.99%		Equity	100%	99.99%	E3
Arval India Private Ltd	India	Equity	100%	99.99%		Equity	100%	99.99%	E3
Arval Italy Fleet Services SRL	Italy				S4	Full	100%	99.99%	E3
Arval Juitong	China	Equity	39.99%	39.99%		Equity	39.99%	39.99%	E3
Arval Magyarorszag KFT	Hungary	Equity	100%	100%		Equity	100%	100%	E3
Arval Maroc SA	Morocco	Equity	66.66%	66.66%		Equity	66.66%	66.66%	E3
Arval OOO	Russia	Full	99.99%	99.99%		Full	99.99%	99.99%	E3
Arval Oy	Finland	Full	100%	99.99%	D1	Equity	100%	99.99%	E3
Arval Schweiz AG	Switzerland	Full	100%	99.99%	D1	Equity	100%	99.99%	E3
Arval Service Lease	France	Full	99.99%	99.99%		Full	99.99%	99.99%	E3
Arval Service Lease Aluger Operational Automoveis SA	Portugal	Equity	99.99%	99.99%		Equity	99.99%	99.99%	E3
Arval Service Lease Italia SPA	Italy	Full	100%	99.99%		Full	100%	99.99%	E3
Arval Service Lease Polska SP ZOO	Poland	Full	100%	99.99%		Full	100%	99.99%	E3
Arval Service Lease Romania SRL	Romania	Equity	100%	99.99%		Equity	100%	99.99%	E3
Arval Service Lease SA	Spain	Full	99.99%	99.99%		Full	99.99%	99.99%	E3
Arval Slovakia SRO	Slovakia	Full	100%	99.99%	D1	Equity	100%	99.99%	E3
Arval Trading	France	Full	100%	99.99%	D1	Equity	100%	99.99%	E3
Arval UK Group Ltd	United Kingdom	Full	100%	99.99%		Full	100%	99.99%	E3
Arval UK Leasing Services Ltd	United Kingdom	Full	100%	99.99%		Full	100%	99.99%	E3
Arval UK Ltd	United Kingdom	Full	100%	99.99%		Full	100%	99.99%	E3
Bank BGZ BNP Paribas SA	Poland	Equity	28.35%	28.35%		Equity	28.35%	28.35%	
BGL BNP Paribas S.A. Zweignierderlassung Deutschland	Germany	Full	100%	50%		Full	100%	50%	
BNP Paribas Commercial Finance Limited	United Kingdom	Full	100%	100%		Full	100%	100%	
BNP Paribas Factor A/S	Denmark	Full	100%	100%	D1	Equity 1	100%	100%	
BNPP Factor NV	Netherlands	Full	100%	100%	E1				
BNP Paribas Factor Deutschland B.V.	Netherlands	Full	100%	100%		Full	100%	100%	

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Name	**Country**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**
BNP Paribas Factor Gmbh	Germany	Full	100%	100%		Full	100%	100%	
BNP Paribas Factoring Coverage Europe Holding N.V.	Netherlands	Full	100%	100%		Full	100%	100%	
BNP Paribas Finansal Kiralama A.S.	Turkey	Full	99.99%	26.08%		Full	99.99%	26.08%	
BNP Paribas Fortis (Austria branch)	Austria				S4	Full	100%	100%	
BNP Paribas Fortis (Czech Republic branch)	Czech republic	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Denmark branch)	Denmark	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Finland branch)	Finland				S4	Full	100%	100%	
BNP Paribas Fortis (Germany branch)	Germany								S1
BNP Paribas Fortis (Netherlands branch)	Netherlands				S4	Full	100%	100%	
BNP Paribas Fortis (Norway branch)	Norway				S4	Full	100%	100%	
BNP Paribas Fortis (Romania branch)	Romania	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Spain branch)	Spain	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Sweden branch)	Sweden				S4	Full	100%	100%	
BNP Paribas Fortis (U.S.A branch)	United States	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis Yatirimlar Holding Anonim Sirketi	Turkey	Full	99.99%	99.99%		Full	99.99%	99.99%	
BNP Paribas Asset Management	France	Equity	33.33%	30.85%		Equity	33.33%	30.85%	
BNP Paribas Lease Group Rentals Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group	France	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group Ifn S.A.	Romania	Full	99.94%	24.99%	D1	Equity 1	99.94%	24.99%	
Bnp Paribas Lease Group Kft.	Hungary				S3	Equity 1	100%	25%	
BNP Paribas Lease Group Leasing Solutions S.P.A.	Italy	Equity	26.17%	6.54%		Equity	26.17%	6.54%	
BNP Paribas Lease Group Lizing Rt	Hungary				S3	Equity 1	100%	25%	
BNP Paribas Lease Group Milan Branch	Italy	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group PLC	United Kingdom	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group S.A. Zweigniederlassung Deutschland	Germany	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group Sa Portugal Branch	Portugal	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group Sa Sucursal En Espana	Spain	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group Sp.Z.O.O	Poland	Full	100%	25%	D1	Equity 1	100%	25%	
BNP Paribas Leasing Solutions Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
BNP Paribas Leasing Solutions N.V.	Netherlands	Full	100%	25%		Full	100%	25%	
BNP Paribas Leasing Solutions Suisse Sa	Switzerland	Equity 1	100%	25%		Equity 1	100%	25%	
BNPP Fleet Holdings Ltd	United Kingdom	Full	100%	100%		Full	100%	100%	E3
BNPP Rental Solutions Ltd	United Kingdom	Full	100%	25%	D1	Equity 1	100%	25%	

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Name	**Country**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**
Claas Financial Services	France	Full	51%	12.75%	V2	Full	60.11%	15.03%	
Claas Financial Services Germany Branch	Germany	Full	100%	12.75%	V3	Full	100%	15.03%	
Claas Financial Services Inc	United States								S2
Claas Financial Services Italy Branch	Italy	Full	100%	12.75%	V3	Full	100%	15.03%	
Claas Financial Services Ltd	United Kingdom	Full	51%	12.75%		Full	51%	12.75%	
Claas Financial Services Sas Branch In Poland	Poland	Full	100%	12.75%	V3	Full	100%	15.03%	
Claas Financial Services, S.A.S., S.E. Spain Branch	Spain	Full	100%	12.75%	V3	Full	100%	15.03%	
CNH Industrial Capital Europe Gmbh	Austria	Full	100%	12.53%		Full	100%	12.53%	
CNH Industrial Capital Europe	France	Full	50.10%	12.53%		Full	50.10%	12.53%	
CNH Industrial Capital Europe Bv	Netherlands	Full	100%	12.53%		Full	100%	12.53%	
CNH Industrial Capital Europe Italy Branch	Italy	Full	100%	12.53%		Full	100%	12.53%	
CNH Industrial Capital Europe Ltd	United Kingdom	Full	100%	12.53%		Full	100%	12.53%	
CNH Industrial Capital Europe Poland Branch	Poland	Full	100%	12.53%		Full	100%	12.53%	
CNH Industrial Capital Europe SA.S Germany Branch	Germany	Full	100%	12.53%		Full	100%	12.53%	
CNH Industrial Capital Europe Sucursal En Espana	Spain	Full	100%	12.53%		Full	100%	12.53%	
Cofiparc	France	Full	100%	99.99%		Full	100%	99.99%	E3
Commercial Vehicle Finance Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
Fb Transportation Capital Llc	United States								S1
Folea Grundstucksverwaltungs und Vermietungs Gmbh & Co	Germany	Equity	94%	1.50%	E1				
Fortis Funding Llc	United States								S3
Fortis Lease	France	Full	99.99%	25%		Full	99.99%	25%	
Fortis Lease Deutschland Gmbh	Germany	Full	100%	25%	D1	Equity 1	100%	25%	
Fortis Lease Iberia Sa	Spain	Full	100%	41.04%	D1	Equity 1	100%	41.04%	
Fortis Lease Operativ Lizing Zartkoruen Mukodo Reszvenytarsasag	Hungary								S1
Fortis Lease Portugal	Portugal	Full	100%	25%	D1	Equity 1	100%	25%	
Fortis Lease Uk Ltd	United Kingdom	Equity 1	100%	25%		Equity 1	100%	25%	
Fortis Vastgoedlease B.V.	Netherlands	Equity 1	100%	25%		Equity 1	100%	25%	
Hfgl Limited	United Kingdom								S1
Humberclyde Commercial Investments Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
Humberclyde Commercial Investments Limited N°1	United Kingdom								S1
Inkasso Kodat Gmbh & Co. Kg	Germany	Equity 1	100%	100%		Equity 1	100%	100%	

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Name	Country	31 December 2017				31 December 2016			
		Method	Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
Jcb Finance	France	Full	100%	12.53%		Full	100%	12.53%	
Jcb Finance Holdings Ltd	United Kingdom	Full	50.10%	12.53%		Full	50.10%	12.53%	
JCB Finance S.A.S. Italy Branch	Italy	Full	100%	12.53%		Full	100%	12.53%	
JCB Finance S.A.S. Zweigniederlassung Deutschland	Germany	Full	100%	12.53%		Full	100%	12.53%	
BNPP Rental Solutions SPA	Italy	Equity	100%	25%		Equity	100%	25%	
Manitou Finance Limited	United Kingdom	Full	51%	12.75%		Full	51%	12.75%	
Mff	France	Full	51%	12.75%		Full	51%	12.75%	
Public Location Longue Durée	France	Full	100%	99.99%	D1	Equity	100%	99.99%	E3
RD Portofoliu SRL	Romania				S3	Equity 1	100%	25%	
Same Deutz Fahr Finance	France	Full	100%	25%		Full	100%	25%	
Same Deutz Fahr Finance Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
Société Alsacienne De Développement Et D'Expansion	France								S2
Srei Equipment Finance Limited	India								S2
Sygma Bank Polska SA (Spolka Akcyjna)	Poland								S4
Teb Arval Arac Filo Kiralama A.S.	Turkey	Full	99.99%	74.99%		Full	99,99%	74.99%	V3
Teb Faktoring A.S.	Turkey	Full	100%	48.72%		Full	100%	48.72%	
Teb Holding A.S.	Turkey	Full	50%	49.99%		Full	50%	49.99%	
Teb Portfoy Yonetimi A.S.	Turkey	Full	79.63%	39.02%		Full	79,63%	39.02%	
Teb Sh A	Serbia	Full	100%	49.99%		Full	100%	49.99%	
Teb Yatirim Menkul Degerler A.S.	Turkey	Full	100%	48.72%		Full	100%	48.72%	
Turk Ekonomi Bankasi A.S.	Turkey	Full	76.22%	48.72%		Full	76,22%	48.72%	
Von Essen GmbH	Germany	Full	100%	100%		Full	100%	100%	
Rest of the world - Special Purpose Entities									
Scaldis Capital Limited	Jersey	Full				Full			
Scaldis Capital Ltd	Ireland								S3

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7.k Fees paid to the statutory auditors

The breakdown of the fees paid to the statutory auditors for the year 2017 and 2016 is as follows:

Year to 31 Dec. 2017	Deloitte		PwC Audit		TOTAL	
Excluding tax, in thousands of euros	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Statutory audit engagement, including	1,031	66%	2,807	76%	**3,838**	**73%**
- BNP Paribas Fortis	*858*	*55%*	*847*	*23%*	*1,705*	*32%*
- Consolidated subsidiaries	*173*	*11%*	*1,960*	*53%*	*2,133*	*41%*
Services other than those required for their statutory audit engagement, including	537	34%	879	24%	**1,416**	**27%**
- BNP Paribas Fortis	*506*	*32%*	*491*	*13%*	*997*	*19%*
- Consolidated subsidiaries	*31*	*2%*	*388*	*11%*	*419*	*8%*
TOTAL	**1,568**	**100%**	**3,686**	**100%**	**5,254**	**100%**

Year to 31 Dec. 2016	Deloitte		PwC Audit		TOTAL	
Excluding tax, in thousands of euros	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Statutory audit engagement, including	793	41%	2,493	76%	**3,286**	**63%**
- BNP Paribas Fortis	*645*	*33%*	*778*	*24%*	*1,423*	*27%*
- Consolidated subsidiaries	*148*	*8%*	*1,715*	*52%*	*1,863*	*36%*
Services other than those required for their statutory audit engagement, including	1,164	59%	780	24%	**1,944**	**37%**
- BNP Paribas Fortis	*1,101*	*56%*	*531*	*16%*	*1,632*	*31%*
- Consolidated subsidiaries	*63*	*3%*	*249*	*8%*	*312*	*6%*
TOTAL	**1,957**	**100%**	**3,273**	**100%**	**5,230**	**100%**

Fees paid to auditors that are not members of the network of one of the auditors certifying the Consolidated Financial Statements and the Non-consolidated Financial Statements of BNP Paribas Fortis, shown in the table above, amount to EUR 3,827,000 for the year 2017 (EUR 2,510,000 for the year 2016).

The increase of the fees related to the statutory audit engagement is parly due to exceptional missions related to the implementation of IFRS9.

Services other than those required for their statutory audit engagement are mainly composed this year of expertise and support missions in the bank transformation projects and marketing advice. These services equally include operational, financial and human resources due diligence missions.

7.l Events after the reporting period

There have been no material events since the balance sheet date that would require adjustments to the Consolidated Financial Statements as at 31 December 2017.

RISK MANAGEMENT AND CAPITAL ADEQUACY

INTRODUCTION

The information presented in this chapter reflects the risks carried by BNP Paribas Fortis. It provides a description of BNP Paribas Fortis' risk management organisation and a quantitative and qualitative overview of BNP Paribas Fortis' risk exposure at year-end 2017.

BNP Paribas Fortis' risk measures are presented according to the Basel III principles. These risks are calculated using methods approved by the Belgian banking supervisor, i.e. the National Bank of Belgium (NBB), and are measured and managed as consistently as possible with the BNP Paribas Risk methodologies. A more detailed picture of BNP Paribas Fortis' risk management and risk exposure according to Pillar 3 requirements is provided in the 'Risk and Capital Adequacy & other Pillar 3 disclosures'.

Further details on the BNP Paribas Group's approach to the measuring and managing of risks resulting from banking activities can be found in the Registration Document and the BNP Paribas Annual Financial Report 2017.

1 RISK MANAGEMENT ORGANISATION

1.a Mission and organisation

Risk management is key in the banking business. At BNP Paribas Group, operating methods and procedures throughout the organisation are geared towards addressing risks effectively. The entire process is supervised primarily by the RISK department, which is responsible for measuring and controlling risks at Group level. RISK is independent from the Core Business divisions, Business Lines and territories and reports directly to Group Executive Management.

The guiding principles of the mission and organisation of BNP Paribas Fortis' RISK department are aligned:

- with the mission of BNP Paribas RISK namely to:
  - advise the Bank's management on risk appetite and policy;
  - provide a 'second pair of eyes' so that risks taken by the Bank are aligned with its policies and are compatible with its profitability and solvency objectives;
  - report to and alert Bank management, Core Business division heads and the special committee of the Board of Directors on the status of the risks to which the Bank is exposed;
  - ensure compliance with banking regulations in the risk area, in liaison with other relevant group functions.
- and with its organisational principles:
  - a single integrated RISK entity, which is responsible for risk aspects across all businesses;
  - independent from business-line management;
  - organised with local and global reporting lines (matrix principle).

The BNP Paribas Fortis RISK department was integrated into BNP Paribas RISK function in November 2009. The Chief Risk Officer (CRO) of BNP Paribas Fortis is a Member of the Executive Board and also has a reporting line to the BNP Paribas Head of Risk Domestic Markets. The CRO has no hierarchical link to the heads of businesses or of countries. This structure is designed to:

- ensure objective risk control;
- ensure that swift, objective and complete information is provided in the event of increased risk;
- maintain a single set of high-quality risk management standards throughout the Bank;
- ensure that the Bank's risk professionals implement and further develop methods and procedures of the highest quality in line with its international competitors' best practices.

The CRO heads the various RISK functions:

- RISK Enterprise Risk Architecture is responsible for the regulatory affairs, risk analytics and modelling, risk strategic analysis, reporting and provisioning, risk ALM – treasury and liquidity;
- RISK CIB is tasked to provide full transparency and a dynamic analysis of market & counterparty risks to all BNP Paribas Fortis businesses and is responsible for the management of credit risks on Financial Institutions, on Sovereigns and on Corporates belonging to BNP Paribas Fortis CIB;
- RISK Belgian Retail Banking is responsible for the management of credit risks arising from all Business Lines within the perimeter of BNP Paribas Fortis (Retail & Private Banking Belgium, Corporate & Public Bank Belgium);
- RISK Function COO is responsible for risk systems, operational permanent control (ensuring second-line control of the RISK function and of business continuity), the Risk Operating Office (coordinating the non-core support functions), change management projects and communication;
- RISK IRC (Risk Independent Review & Control) is responsible for the independent review of credit, market, counterparty, insurance and operational risk;
- RISK ORC (Operational Risk & Control) BNP Paribas Fortis Belgium provides reasonable assurance of the existence and the efficient functioning of an operational permanent control framework within BNP Paribas Fortis in Belgium that meets the supervisory requirements of BNP Paribas Fortis as well as those of BNP Paribas Group.

Outside Belgium, alongside the existing local and global reporting lines, the CROs of companies that remain within the BNP Paribas Fortis perimeter report to the CRO of BNP Paribas Fortis in order to ensure compliance with internal and external rules.

The key principle of the Bank's overall risk governance (covering all risk types including credit, market, counterparty, liquidity risk, operational risk, etc.) is the double-walled defence, as stated in the BNP Paribas Fortis Risk Policy that is reviewed by the Executive Board and the Audit, Risk & Compliance Committee.

The primary responsibility for risk lies with the businesses (first line of defence), which are responsible for the approval, monitoring and management of the risks arising from their activities.

The RISK function provides a 'second pair of eyes', helping to ensure that the risks taken by the Bank are compliant and compatible with its policies; it represents the second line of defence in accordance with the mission stated above, contributing strongly to joint decision making with the businesses and increasing the emphasis on risk monitoring and controls.

1.b BNP Paribas Fortis Risk committees

- Audit Committee (AC): in accordance with article 27 of the belgian Banking Law, BNP Paribas Fortis is required to set up a separate audit committee to assist the board of directors with audit related matters. Prior to the entering into force of the Belgian Banking Law, the audit committee was part of the Audit, Risk and Compliance Committee (the 'ARCC'). The competences of the audit committee are set forth in the Belgian Banking Law and are listed herewith: finance, internal control and risk management, internal audit and external audit. The audit committee shall, upon request of the board of directors, assist (and make recommendations to) the board of directors in all audit and accounting related matters.

- Risk Committee (RC): in accordance with article 27 of the Belgian Banking Law, BNP Paribas Fortis is required to set up a separate risk committee to assist the board of directors with risk (related) matters. Prior to the entering into force of the Belgian Banking Law, the risk committee was part of the ARCC. The risk committee shall, upon request of the board of directors, assist (and make recommendations to) the board of directors in all risk (related) matters. In addition, several special competences of the risk committee are set forth in article 29 of the Belgian Banking Law and are listed herewith: (i) risk tolerance, (ii) price setting and (iii) remuneration policy.

- Central Credit Committee: the highest Credit Committee of BNP Paribas Fortis, which acts in line with the authority of the delegations held by its members (CEO and Heads of Business Lines, together with the CRO and other senior Risk representatives); it ensures that customer-level credit decisions are taken within the desired credit risk profile, the formulated credit policies and the Bank's legal lending limits.

- Capital Markets Risk Committee: defines and enforces the Risk strategy, policies, methods and thresholds for capital markets, including investment portfolios, at activity and transaction levels.

- Risk Policy Committee: defines the risk profile at portfolio level, approves policies, reviews exposures and examines risks in the light of market conditions, business strategy and profitability, and enforces risk decisions.

- Bank Asset and Liabilitiy Committee: manages the liquidity position of the bank and the interest rate risk and foreign exchange risk in the Banking Book.

- Committee on Impairments and Provisions: makes final decisions on consolidated provisions and impairments.

- Exceptional Transactions Committee: validates and approves exceptional transactions.

- New Activity Committee: validates and approves new activities and products, including any significant changes in current activities.

2 RISK MEASUREMENT AND CATEGORIES

2.a Risk measurement

Risk measurement is a crucial step in the risk management process.

To assess and measure risks, BNP Paribas Fortis uses several qualitative and/or quantitative methodologies. These range from regular reporting on matters such as concentration and quantitative and qualitative portfolio overviews to more sophisticated quantitative risk models for estimating internal risk parameters. The latter include probability of default, loss given default, exposure at default and expected loss (for credit risk) and Value at Risk (for market risk).

The development and review of these models, and their validation, are subject to Bank-wide standards in order to ensure adequacy and consistency.

The monitoring of the observed risk parameters, stress tests and model-based expectations are then compared to a framework of limits and risk guidelines.

Ultimately, all these risk measurements, together with stress tests, are then consolidated in Risk dashboards, which provide a general overview for senior management. These aggregation documents are intended to provide a basis for well-founded decisions and are subject to on-going improvement.

2.b Risk taxonomy

The risk categories reported below evolve in line with methodological developments at BNP Paribas and regulatory requirements.

Credit and counterparty risk

Credit risk is the risk of incurring a loss on financial assets (existing or potential due to commitments given) resulting from a change in the credit quality of the Bank's debtors, which may ultimately result in default. The probability of default and the expected recovery on the loan or receivable in the event of default are key components of the credit quality assessment.

Credit risk is measured at portfolio level, taking into account correlations between the values of the loans and receivables making up the portfolio.

Counterparty risk is the credit risk embedded in payments or transactions between counterparties. Those transactions typically include bilateral contracts such as over-the-counter (OTC) derivative contracts, which expose the Bank to the risk of counterparty default. The amount of this risk may vary over time in line with changing market parameters, which in turn impacts the replacement value of the relevant transactions or portfolio.

Market risk

Market risk is the risk of incurring a loss of value (or a loss of interest income in the case of interest rate risk due to banking intermediation activities) due to adverse changes in market prices or parameters (rates), whether quoted in the market or not.

Quoted market parameters include, but are not limited to, exchange rates, prices of securities and commodities (whether listed or obtained by reference to a similar asset), prices of derivatives and other parameters that can be directly inferred from them, such as interest rates, credit spreads, volatilities and implied correlations or other similar parameters.

Non-quoted parameters are those based on working assumptions such as parameters contained in models or based on statistical or economic analyses, non-ascertainable in the market.

Liquidity is an important component of market risk. In times of limited or no liquidity, instruments or goods may not be tradable or may not be tradable at their estimated value. This may arise, for example, due to low transaction volumes, legal restrictions or a strong imbalance between demand and supply for certain assets.

The market risk relating to banking activities encompasses the risk of loss on equity holdings on the one hand, and the interest rate and foreign exchange risks stemming from banking intermediation activities on the other hand.

Operational risk

Operational risk is the risk of incurring a loss due to inadequate or failed internal processes, or due to external events, whether deliberate, accidental or natural occurrences. Management of operational risk is based on an analysis of the 'cause-event-effect' chain.

Internal processes giving rise to operational risk may involve employees and/or IT systems. External events include, but are not limited to: floods, fire, earthquakes and terrorist attacks. Credit or market events such as default or fluctuations in value do not fall within the scope of operational risk.

Operational risk encompasses human resources risks, legal risks, tax risks, information system risks, misprocessing risks, risks relating to published financial information and the financial implications resulting from compliance and reputational risk.

Compliance and reputational risk

Compliance risk is the risk of legal, administrative or disciplinary sanctions, together with the significant financial loss that a bank may suffer as a result of its failure to comply with all the laws, regulations, codes of conduct and standards of good practice applicable to banking and financial activities, including instructions given by an executive body, particularly in the application of guidelines issued by a supervisory body.

By definition, compliance risk is a sub-category of operational risk. However, as certain implications of compliance risk involve more than a purely financial loss and may actually damage the institution's reputation, the Bank treats compliance risk separately.

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

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

Asset-liability management risk

Asset-liability management risk is the risk of incurring a loss as a result of mismatches in interest rates, maturities or nature between assets and liabilities. Asset-liability management risk arises in non-trading portfolios and primarily relates to global interest rate risk.

Liquidity and refinancing risk

Liquidity and refinancing risk is the risk of the Bank being unable to fulfil its obligations at an acceptable price in a given place and currency.

3 CAPITAL ADEQUACY

Framework

As a credit institution, BNP Paribas Fortis is subject to regulatory supervision.

The Belgian Banking Act of 25 April 2014 on the status and the supervision of credit institutions aligns the Belgian legislation in accordance with the EU regulatory framework. The Capital Requirements Directive (CRD IV) is the legal framework for the supervision of credit institutions in all Member States of the European Union and is the basis of the Single Supervisory Mechanism (SSM), composed of the European Central Bank (ECB) and the national competent authorities, such as the National Bank of Belgium (NBB). The Capital Requirements Regulation (CRR) was published under reference number 575/2013 on June 26th 2013 in the Official Journal of the European Union and is in force as of June 27th 2013, while the supervised entities within its scope are subject to it as of January 1st 2014.

As such BNP Paribas Fortis is supervised, at consolidated and statutory level, by the ECB and the NBB. BNP Paribas Fortis' subsidiaries may also be subject to regulation by various supervisory authorities in the countries where these subsidiaries operate.

Regulators require banks to hold a minimum level of qualifying capital under the 1st Pillar of the Basel III framework.

Since January 1st 2014, BNP Paribas Fortis has been computing its qualifying capital and its risk-weighted assets under the CRR/CRD IV.

The NBB (previously the CBFA, which was the former Belgian supervisor) has granted to BNP Paribas Fortis its approval for using the advanced approaches for calculating the risk-weighted assets under the Basel regulations : Advanced Internal Ratings Based Approach for credit and market risk and Advanced Measurement Approach for operational risk.

Some subsidiaries of BNP Paribas Fortis have not received such approval and therefore use the Standardised Approach for calculating risk-weighted assets.

Breakdown of regulatory capital

Qualifying capital for regulatory purpose is calculated at consolidated level based on IFRS accounting standards, taking into account prudential filters and deductions imposed by the regulator, as described in the CRR/CRD IV and transposed into the Belgian Banking Law published in April 2014.

The table below details the composition of the regulatory capital of BNP Paribas Fortis:

In millions of euros	31 December 2017	
	Basel III (transitional**)	of which transitional arrangements *
Common Equity Tier 1 (CET1) capital : instruments and reserves		
Capital instruments and the related share premium accounts	11,905	-
Retained earnings	8,923	-
Accumulated other comprehensive income (and other reserves)	38	-
Funds for general banking risk	-	-
Minority interests (amount allowed in consolidated CET 1)	2,503	739
Independently reviewed interim profits net of any foreseeable charge or dividend	1,897	-
COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	**25,266**	**739**
Common Equity Tier 1 (CET1) : regulatory adjustments	(3,896)	323
COMMON EQUITY TIER 1 (CET1) CAPITAL	**21,370**	**1,062**
Additional Tier 1 (AT1) capital: instruments	447	145
Additional Tier 1 (AT1) capital: regulatory adjustments	-	-
ADDITIONAL TIER 1 (AT1) CAPITAL	**447**	**145**
TIER 1 CAPITAL (T1 = CET1 + AT1)	**21,817**	**1,207**
Tier 2 (T2) capital: instruments and provisions	2,084	102
Tier 2 (T2) capital: regulatory adjustments	(243)	(2)
TIER 2 (T2) CAPITAL	**1,841**	**100**
TOTAL CAPITAL (TC = T1 + T2)	**23,658**	**1,307**

(*) By virtue of regulation (EU) N° 575/2013

(**) The new regulatory requirements are progressively implemented (phase-in) as from the 1st of January 2014 until the 1st of January 2019, which means that capital adequacy ratios are presented on a 'phase-in' or 'fully-loaded' basis.

The table below shows the key capital indicators (phase-in):

In millions of euros	31 December 2017	31 December 2016
Common equity Tier 1 Capital (CET1)	21,371	19,823
Tier 1 Capital	21,818	20,171
Total Capital	23,658	22,376
Risk weighted commitments		
Credit risk	117,305	120,708
Securitisation	480	1,842
Counterparty Risk	1,736	2,325
Equity Risk	7,577	7,277
Market risk	1,659	2,099
Operational risk	11,471	11,025
TOTAL RISK WEIGHTED COMMITMENTS	**140,228**	**145,276**
CET 1 ratio	15.2%	13.6%
Tier 1 ratio	15.6%	13.9%
Total capital ratio	16.9%	15.4%

The table below shows the leverage ratio (phase-in):

In millions of euros	31 December 2017	31 December 2016
On-Balance Exposure (Excl. Repo & Derivatives)	**259,919**	**290,266**
Repo's and Derivatives	**22,987**	**5,765**
Repurchase agreements and securities lending/borrowing	18,574	2,818
Replacement cost of derivatives transactions	2,998	2,251
Add-on for potential future risk derivatives	3,535	3,382
Cash variation margins	(2,121)	(2,686)
Off-Balance Exposure		
(adjusted for conversion to credit equivalent. art.429 CRR)	**42,205**	**49,009**
TOTAL EXPOSURE	**325,111**	**345,040**
Regulatory adjustments	(3,896)	(4,532)
Tier 1 capital	21,818	20,171
Leverage Ratio	6,79%	5.92%

4 CREDIT AND COUNTERPARTY CREDIT RISK

4.a Credit risk

Exposure to credit risk

The following table shows all BNP Paribas Fortis' financial assets, including fixed-income securities, which are exposed to credit risk. Credit risk exposure does not include collateral and other security taken by the Bank in its lending business or purchases of credit protection.

Exposure to credit risk by Basel asset class*

In millions of euros	31 December 2017			31 December 2016		
	IRBA	Standardised Approach	Total	IRBA	Standardised Approach	Total
Central governments and central banks	27,983	7,185	35,168	51,633	9,273	60,906
Corporates	102,211	29,543	131,754	114,570	31,248	145,818
Institutions **	19,546	11,410	30,956	20,746	12,187	32,933
Retail	79,835	32,640	112,475	78,563	33,063	111,626
Securitisation positions	3,034	-	3,034	3,923	-	3,923
Other non-credit-obligation assets ***	381	13,198	13,579	352	11,823	12,175
Total exposure	**232,990**	**93,976**	**326,966**	**269,787**	**97,594**	**367,381**

(*) Exposure to credit risk excludes DTA's risk weighted at 250% and default fund contributions to CCPs.

(**) Institutions asset class comprises credit institutions and investment firms, including those recognised in other countries. It also includes some exposures to regional and local authorities, public sector agencies and multilateral development banks that are not treated as central government authorities.

(***) Other non-credit-obligation assets include tangible assets, accrued income and residual values.

The table above shows the entire prudential scope based on the asset classes defined in accordance with Article VI.2 of the CBFA Regulation of 17 October 2006 on capital requirements for credit institutions and investment firms.

Diversification of exposure to credit risk

Credit risk concentration is any exposure to a counterparty or an aggregate of exposures to a number of positively correlated counterparties (i.e. tendency to default under similar circumstances) with the potential to produce a significant amount of capital loss due to a bankruptcy or failure to pay. Avoidance of concentrations is therefore fundamental to BNP Paribas Fortis' credit risk strategy of maintaining granular, liquid and diversified portfolios.

In order to identify potential linkages between exposures to single counterparties, BNP Paribas Fortis applies the concept of 'Total Group Authorisation'. This implies that groups of connected counterparties are deemed to be a 'Business Group' for the management of credit risk exposure.

To manage the diversity of credit risk, BNP Paribas Fortis' credit risk management policy seeks to spread credit risk across different sectors and countries. The table below shows the industry concentration of BNP Paribas Fortis' customer credit portfolio at 31 December 2017.

Breakdown of credit risk by Basel III Asset Class and by corporate industry at 31 December 2017*

In millions of euros	31 December 2017		31 December 2016	
	Exposure	%	Exposure	%
Agriculture, Food, Tobacco	13,586	4%	14,898	4%
Financial services	44,581	14%	65,951	18%
Chemicals excluding Pharmaceuticals	3,268	1%	3,171	1%
Construction	9,174	3%	10,337	3%
Retailers	6,826	2%	6,497	2%
Equipment excluding IT	7,169	2%	7,033	2%
Real estate	21,995	7%	20,295	6%
Metals & Mining	4,642	1%	7,161	2%
Wholesale & Trading	16,630	5%	17,608	5%
Business services	29,866	9%	34,508	9%
Transportation & Logistics	8,778	3%	8,835	2%
Utilities (electricity, gas, water, etc.)	9,779	3%	8,545	2%
Retail	91,123	28%	91,398	25%
Sovereign & public sector	29,529	9%	39,318	11%
Other	26,985	8%	27,903	8%
TOTAL	**323,931**	**100%**	**363,458**	**100%**

(*) Credit risk exposure excludes DTA's risk weighted at 250%, default fund contributions to CCPs and securitisation positions.

Country concentration risk is the sum of all exposures to obligors in the country concerned. The table below shows the geographical concentration of BNP Paribas Fortis' customer credit portfolio at 31 December 2017.

Geographical breakdown of credit risk at 31 December 2017 by counterparty's country of location*

In millions of euros	31 December 2017					
	Basel III					
	Central governments and central banks	Corporates	Institutions	Retail	Total	%
Europe	**29,898**	**113,674**	**28,960**	**111,932**	**284,464**	**88%**
Belgium	17,404	60,139	12,093	79,172	168,808	52%
Netherlands	561	4,080	678	1,025	6,344	2%
Luxembourg	4,976	10,761	205	6,936	22,878	7%
France	1,388	5,914	14,222	7,490	29,014	9%
Other European countries	5,569	32,780	1,762	17,309	57,420	18%
North America	**276**	**3,283**	**262**	**29**	**3,850**	**1%**
Asia & Pacific	**180**	**521**	**237**	**71**	**1,009**	**0%**
Rest of the World	**4,813**	**14,277**	**1,496**	**14,022**	**34,608**	**11%**
TOTAL	**35,167**	**131,755**	**30,955**	**126,054**	**323,931**	**100%**

In millions of euros	31 December 2016					
	Basel III					
	Central governments and central banks	Corporates	Institutions	Retail	Total	%
Europe	**54,646**	**126,257**	**30,956**	**107,415**	**319,274**	**88%**
Belgium	27,726	57,244	12,805	77,270	175,045	48%
Netherlands	13,286	14,134	731	1,428	29,579	8%
Luxembourg	5,560	10,680	154	6,191	22,585	6%
France	1,446	5,876	15,058	6,693	29,073	8%
Other European countries	6,628	38,323	2,208	15,833	62,992	17%
North America	**897**	**3,792**	**233**	**26**	**4,948**	**1%**
Asia & Pacific	**230**	**570**	**432**	**66**	**1,298**	**0%**
Rest of the World	**5,133**	**15,200**	**1,313**	**16,293**	**37,939**	**10%**
TOTAL	**60,906**	**145,819**	**32,934**	**123,800**	**363,459**	**100%**

(*) Credit risk exposure excludes DTA's risk weighted at 250%, default fund contributions to CCPs and securitisation positions.

General credit policy

BNP Paribas Fortis' lending activities are governed by the Global Credit Policy, which applies to all BNP Paribas Group entities. It is approved by the BNP Paribas Group Risk Committee, chaired by the Chief Executive Officer and endorsed by the BNP Paribas Fortis Executive Board, chaired by the Chief Executive Officer. The policy is underpinned by core principles relating to compliance with the Group's ethical standards, clear definition of responsibilities (Business and RISK), and the existence and implementation of procedures and requirements for a thorough analysis of risks. It is cascaded in the form of specific policies tailored to each type of business or counterparty. The framework for the governance of credit risks within the Bank is further detailed in a specific, transversal approach which is built upon key credit routing principles, rules governing the granting of delegations of authority and the role of the Central Credit Committee, which is the highest-level credit committee at the Bank. It also reiterates and reinforces the key principle that the RISK Function is independent from the Businesses.

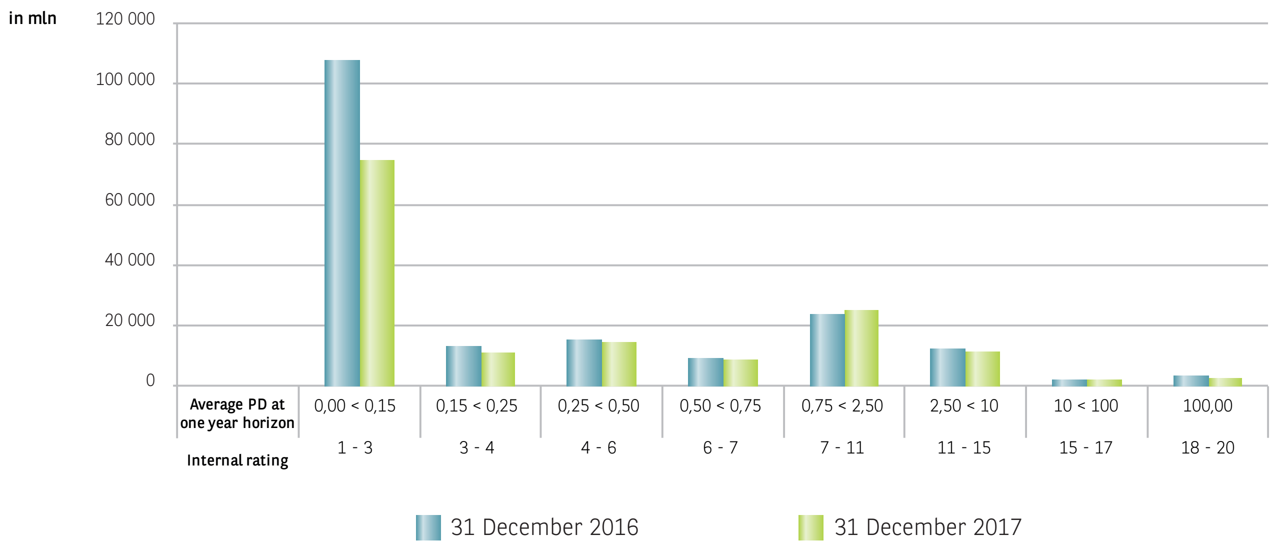
Internal rating system

The Bank has a comprehensive internal rating system for determining risk-weighted assets used to compute capital adequacy ratios. A periodic assessment and control process has been deployed to ensure that the system is appropriate and correctly implemented. For corporate loans, the system is based on three parameters: the counterparty's probability of default expressed via a rating; loss given default, which depends on the structure of the transaction; and the credit conversion factor (CCF), which estimates the portion of off-balance sheet exposure at risk.

Each of the credit risk parameters is back-tested annually to check the system's performance for each of the Bank's business segments. Back-testing consists of comparing estimated and actual results for each parameter.

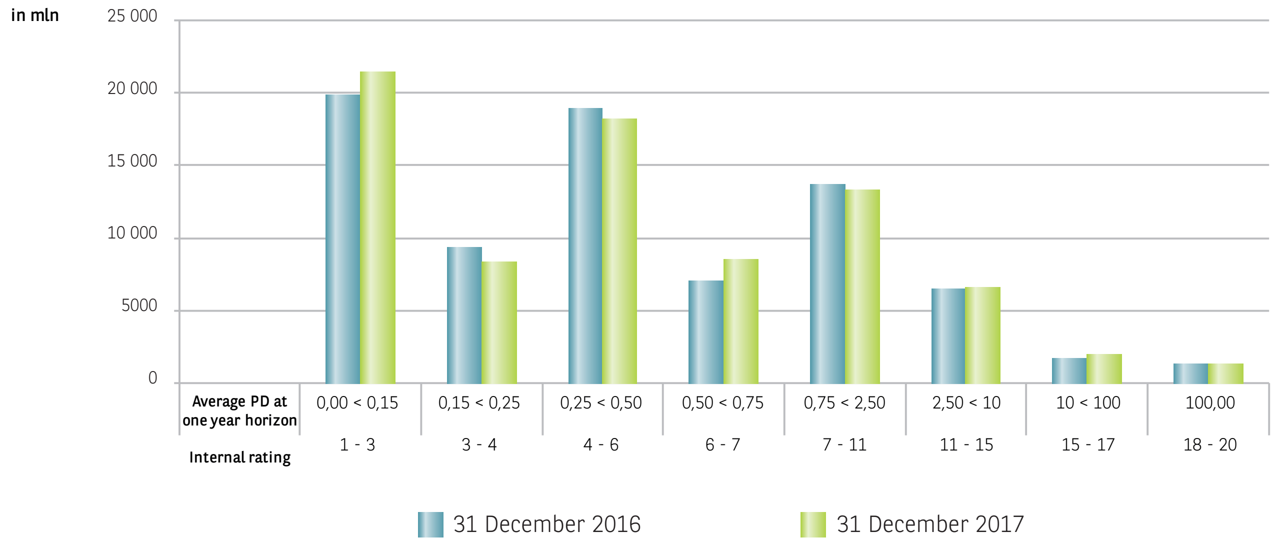
There are twenty counterparty ratings. Seventeen cover performing clients with credit assessments ranging from 'excellent' to 'very concerning', and three relate to clients classified as in default, as per the definition published by the banking supervisor.

Breakdown of IRBA exposure by internal rating – Sovereign, Financial Institutions and Corporate



The downwards evolution in exposure for the internal ratings 1-3 was mainly driven by the transfer of the assets of some BNP Paribas Fortis branches to BNP Paribas, the lower overnight deposits placed at the central banks and the drop in net investments in government bonds (see comments on the evolution of the balance sheet).

Breakdown of IRBA exposure by internal rating – retail activities



4.b Counterparty credit risk

Counterparty credit risk (CCR) is the translation of the credit risk embedded in the financial transactions, investments and/or settlement between counterparties. The transactions encompass bilateral contracts - i.e. over-the-counter (OTC) – and cleared contracts through a clearing house. The amount at risk changes over the contract's lifetime together with the risk factors that impact the potential future value of the transactions.

Counterparty credit risk lies in the fact that a counterparty may default on its obligations to pay the Bank the full present value of a transaction or portfolio for which the Bank is a net receiver. Counterparty credit risk is linked to the replacement cost of a derivative or portfolio in the event of the counterparty default. Hence, it can be seen as a market risk in case of default or a contingent risk.

5 MARKET RISK

Market risk is the risk of incurring a loss of value due to adverse moves in market prices or parameters, whether directly observable or not.

Observable market parameters include, but are not limited to, exchange rates, prices of securities and commodities (whether listed or obtained by reference to a similar asset), prices of derivatives, and other parameters that can be directly inferred from them, such as interest rates, credit spreads, volatilities and implied correlations or other similar parameters.

Non-observable factors are those based on working assumptions such as parameters contained in models or based on statistical or economic analyses, non-ascertainable in the market.

In the bond portfolios, the credit instruments are valued on the basis of the interest rates and the credit spreads, which are considered as market parameters like interest rates and foreign exchange risk. The risk on the issuer of the instruments is also a market risk, called issuer risk.

Liquidity is an important component of market risk. In times of limited or no liquidity, instruments or securities may not be tradable or may not be tradable at their estimated value. This may arise, for example, due to low transaction volumes, legal restrictions or a strong imbalance between demand and supply for certain assets.

The market risk related to banking activities encompasses the risk of loss on equity holdings as well as the interest rate and foreign exchange risks stemming from banking intermediation activities.

Market risk is split into two parts:

- market risk linked to trading activities and corresponding to trading instruments and derivative contracts;
- market risk linked to banking activities covering the interest rate and foreign exchange risks originating from the bank's intermediation activities.

5.a Capital requirement for market risk

Market Risk Capital Requirement

In millions of euros	RWAs			Capital requirements		
	31 December 2017	31 December 2016	Variation	31 December 2017	31 December 2016	Variation
Internal model	**1,105**	**1,598**	**(493)**	**88**	**128**	**(40)**
VAR	268	425	(157)	21	34	(13)
Stressed VAR	692	849	(157)	55	68	(13)
Incremental Risk Change (IRC)	145	324	(179)	12	26	(14)
Comprehensive Risk Measure (CRM)	-	-	-	-	-	-
Standardised approach	**554**	**500**	**54**	**44**	**40**	**4**
Trading book securitisation positions	**-**	**-**	**-**	**-**	**-**	**-**
MARKET RISK	**1,659**	**2,098**	**(439)**	**132**	**168**	**(36)**

The market risk calculated using the standardised approach covers the market risk of some entities of the Bank that are not covered by internal models. The standardised approach is used to calculate foreign exchange risk for the banking book (See section 5.C Market risk related to banking activities).

5.b Market risk related to trading activities

Market risk arises from trading activities carried out by the Corporate and Investment Banking business and encompasses different risk factors:

- Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates;
- Foreign exchange risk is the risk that the value of an instrument will fluctuate due to changes in foreign exchange rates;
- Equity risk arises from changes in the market prices and volatility of equity shares and/or equity indices;
- Commodity risk arises from changes in the market prices and volatility of commodities and/or commodity indices;
- Credit spread risk arises from the change in the credit quality of an issuer and is reflected in changes in the cost of purchasing protection on that issuer;
- Option products carry by nature volatility and correlation risks, for which risk parameters can be derived from option market prices observed in an active market.

The trading activities of BNP Paribas Fortis are justified by the economic relations with the direct customers of the business lines, or indirectly as market-maker.

Within RISK, three departments are responsible for monitoring market risk:

- Risk Global Markets (RISK GM) covers the market risk activities of Global Markets;
- Risk Enterprise Risk Architecture (RISK ERA - ALMT) covers the ALM Treasury activities ;
- Risk International Retail Banking (RISK IRB) covers international retail market activities.

This mission consists of defining, measuring and analysing risk factors and sensitivities, as well as measuring and controlling Value at Risk (VaR), the global indicator of potential losses. RISK ensures that all business activities comply with the limits approved by the various committees and approves new activities and major transactions, reviews and approves position valuation models and conducts a monthly review of market parameters in association with the Valuation and Risk Control Department.

5.c Market risk relating to banking activities

Market risk relating to banking activities encompasses the risk of loss on equity positions on the one hand, and the interest rate and currency risks stemming from banking intermediation activities and investments on the other.

5.c.1 Equity risk

Equity interests held by the Bank outside the Trading Book refers to securities which convey a residual, subordinated claim on the assets or income of the issuer or have a similar economic substance.

5.c.2 Currency risk

Currency risk relates to all transactions whether part of the Trading Book or not.

Except for BNP Paribas Fortis Belgium's currency exposure, which is calculated using the BNP Paribas Fortis internal model approved by the banking regulator, exposure to currency risk is now determined under the Standardised approach, using the option provided by the banking supervisor to limit the scope to operational currency risk.

5.c.3 Interest rate risk

5.c.3.1 Organisation of Interest rate risk management

The Board of Directors assigns responsibility to the Chief Executive Officer for management of interest rate risk in the banking book; the Chief Executive Officer delegates the management responsibility to the Bank Asset and Liability Management Committee (ALCo). The permanent members of the Bank ALCo are the Chief Operating Officer with responsibility for functions (Chairman), the Executive Board members heading up core businesses, the Chief Risk Officer, the Chief Financial Officer, the Head of ALM Treasury, the Head of Group ALM Treasury, the Head of BNPP Domestic Markets ALM Treasury Steering and the Head of the Bank ALM Treasury Steering; other members represent the Risk Function or Capital Markets. The Bank ALCo is responsible for defining the interest rate risk profile of the Bank's banking book and for defining and tracking interest rate risk monitoring indicators and assigning limits.

ALM Treasury is in charge of the operational implementation of decisions related to the management of the interest rate risk of the Banking Book.

The Risk Function participates in the ALCo and oversees the implementation by ALM Treasury of the relevant decisions made by this committee. It also provides second-line control by reviewing the models & risk indicators, monitoring the level of risk indicators and ensuring compliance with the limits assigned.

The Banking Book includes all interest bearing assets and liabilities of all the Business Lines of BNP Paribas Fortis (including the ALM Treasury own investment and hedging transactions) with the exception of authorised trading activities (being client hedging and market making).

Transactions initiated by each BNP Paribas Fortis Business Line are systematically transferred to ALM Treasury by internal analytical contracts booked in the management accounts or by loans and borrowings.

The decisions regarding the interest rate risk management of the Banking Book are taken at monthly ALCo meetings. These meetings are attended by the management of the Business Lines, ALM Treasury, Finance and the RISK department.

The Bank's strategy for managing global interest rate risk is based on closely monitoring the sensitivity of the Bank's interest earnings to changes in interest rates, factoring in all interest rate risks; the aim is to ensure the stability and regularity of the total net interest margin. This management process requires an accurate assessment of the risks incurred so that the Bank can determine and implement the most optimal hedging strategies.

Interest rate risk is mitigated using a range of different instruments, the most important of which are derivatives - primarily interest rate swaps and options. Interest rate swaps are used to change the linear risk profile, which is mainly due to long-term fixed-rate assets and liabilities. Options are used to reduce non-linear risk, which is mainly caused by embedded options sold to clients, e.g. caps and prepayment options on mortgages.

5.c.3.2 Management and Hedging of Interest rate Risk

The Hedging strategies for interest rate risk in the Banking Book are defined and implemented by currency.

The hedges can comprise swaps and options and are typically accounted for as fair value or cash flow hedges. They may also take the form of HQLA securities which mainly are accounted for in 'Available for Sale'.

6 SOVEREIGN RISKS

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

The Bank holds sovereign bonds as part of its liquidity management process. Liquidity management is based a.o. on holding bonds which are eligible as collateral for refinancing by central banks; a substantial share of this 'liquidity buffer' consists of highly rated debt securities issued by governments, supra-national authorities and agencies, representing a low level of risk. A part of this same portfolio has interest rate characteristics that contribute to the banking book interest rate risk hedging strategies.

BNP Paribas Fortis' euro sovereign bond portfolio is shown in the table below:

Banking Book **In millions of euros**	**31 December 2017**	**31 December 2016**
Eurozone		
Belgium	12,104	11,388
Italy	1,206	1,088
Austria	936	1,121
France	740	761
Spain	601	600
Netherlands	554	3,916
Luxembourg	217	214
Finland	53	54
Germany	-	145
Countries receiving support		
Ireland	147	143
Portugal	143	274
Total eurozone	**16,701**	**19,704**

7 OPERATIONAL RISK

Risk management framework

Regulatory framework
In line with the BNP Paribas Group framework, BNP Paribas Fortis has implemented an all-embracing, single, operational Risk Management framework for the entire Bank, which complies with the Basel III criteria laid down in the Advanced Measurement Approach ('AMA'). This approach supports the organisation by offering better management of risk through heightened operational risk awareness. It ensures effective measurement and monitoring of the operational risk profile.

Key players and governance
An appropriate risk management structure has been created around a model with three levels of defence, which places the primary responsibility for operational risk management and mitigation with the Businesses. The role of second line of defence is assumed by the integrated independent control functions Compliance, Legal and RISK. Their role is to ensure that the operational Risk Management framework is properly embedded, that the operational risks that are identified, assessed, measured and managed reflect the true risk profile and that the resulting levels of own funds are adequate. The third line of defence is provided by the General Inspection (internal audit) department, which provides assurance that risk structures and policies are being properly implemented.

The main governance bodies for the areas of Operational Risk & Internal Control are the Internal Control Committees (ICCs).

BNP Paribas Fortis has three ICCs, each chaired by a member of the Executive Committee. In addition, there is also an ICC at the level of the Executive Committee chaired by the Chief Executive Officer.

The role of the ICCs covers the management of the operational permanent control framework and the management of operational risks and non-compliance risks. Operational risks and non-compliance risks include reputational risk, fraud risk, financial reporting risk, tax risk, legal risk, risk of not complying with laws, regulations and policies, operational risks related to people, processes, systems and the external environment, and business risk. The role of the ICCs includes, but is not limited to:

- creating an organised overall view of the operational permanent control framework and the management of BNP Paribas Fortis' operational risks and non-compliance risks;
- analysing and taking decisions on these subjects;
- providing a level of warning, alert and escalation for any weaknesses observed;
- demonstrating and evidencing the involvement of the Executive Board and Executive Committee in the management of these issues and follow-up on actions undertaken.

The objective of the ICCs is to allow the businesses and functions to signal the most significant operational risks, risks of non-compliance and weaknesses in the permanent control environment, highlight the associated action plan, and provide an overview of the status of the measures taken.

8 COMPLIANCE AND REPUTATIONAL RISK

Compliance mission

The overall mission of the Compliance department is to provide reasonable assurance of the consistency and effectiveness of the compliance of BNP Paribas Fortis' activities and to safeguard the Bank's reputation through advice, oversight and independent controls.

The Compliance department's role, as a second line of defence, is to supervise the effective management of compliance risk. This involves policy-setting, providing advice, performing controls, providing assurance that the Bank is complying with rules and regulations and raising the awareness of colleagues of the need to follow key compliance principles:

- financial security: anti-money laundering, combating corruption and the financing of terrorism, financial sanctions and disclosure to financial intelligence units;
- customer protection: compliance of the Bank's organisation and processes with the customer protection regulatory obligations regarding invest, lending, insurance and daily banking services;
- employee integrity: covers codes of conduct, gifts policy, conflicts of interest and a personal transactions policy;
- market integrity: market abuse, conflicts of interest;
- data protection.

The Compliance department sets policies and gives binding advice in these areas. The advice from Compliance may be escalated to a higher level until consensus is found, so as to ensure appropriate issue resolution.

Compliance organisational setup

At BNP Paribas Group level, the organisation setup of the Compliance function has been reviewed in 2015. The Compliance function is organised as an independent, integrated and decentralized function. BNP Paribas Fortis' Chief Compliance Officer reports to BNP Paribas' Head of Domestic Markets Compliance and has a dotted line to BNP Paribas Fortis' Chief Executive Officer.

Compliance has direct, independent access to the Board's Risk Committee and Audit Committee, and is a permanent invitee to both Committees. The Chief Compliance Officer is a member of the Bank's Executive Committee.

Basic principles

The management of compliance and reputational risks is based on the following fundamental principles:

- Individual responsibility: compliance is everyone's responsibility, not solely the responsibility of the Compliance department.
- Exhaustive and comprehensive approach: the scope of compliance extends to all banking activities. In this respect, the Compliance department has unrestricted access to all required information.
- Independence: Compliance staff exercise their mission in a context which guarantees their independence of thought and action.
- Primacy of Group policies over local policies as far as is consistent with national law.

9 LIQUIDITY

Liquidity risk is the risk of the Bank being unable to fulfil current or future foreseen or unforeseen cash or collateral requirements, across all time horizons, from the short to the long term.

This risk may stem from the reduction in funding sources, draw down of funding commitments, a reduction in the liquidity of certain assets, or an increase in cash or collateral margin calls. It may be related to the bank itself (reputation risk) or to external factors (risks in some markets).

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

Objectives of the liquidity risk management policy

The objectives of the Bank's liquidity risk management policy are to secure a balanced financing structure for the development of the BNP Paribas Fortis business activities, and ensure it is sufficiently robust to cope with crisis situations.

The liquidity risk management framework relies on:

- management indicators:
  - by volume, to ensure that businesses or activities comply with their liquidity targets set in line with the Bank's financing capacity;
  - by price, based on internal liquidity pricing;
- the definition of monitoring indicators which enable assessment of the Bank's liquidity position under normal conditions and in crisis situations, the efficiency of actions undertaken and compliance with regulatory ratios;
- the implementation of liquidity risk management strategies based on diversification of funding sources with maturities in line with needs, and the constitution of liquidity reserves.

The Bank's liquidity policy defines the management principles that apply across all BNP Paribas Fortis entities and businesses and across all time horizons.

Governance

As for all risks, the Chief Executive Officer is granted authority by the Board of Directors to manage the Bank's liquidity risk. The Chief Executive Officer delegates this responsibility to the Asset & Liability Committee (ALCo).

The Risk Committee reports quarterly to the Board of Directors on liquidity policy principles and the Bank's liquidity position.

The Asset & Liability Committee is responsible for:

- defining the Bank's liquidity risk profile;
- monitoring compliance with regulatory liquidity ratios;
- deciding and monitoring management indicators and calibrating the quantitative thresholds set for the bank's businesses;
- deciding and monitoring the liquidity risk indicators and associating quantitative thresholds to them where necessary;
- deciding and overseeing implementation of liquidity risk management strategies, including monitoring of business lines, in normal and stressed conditions.

In particular, the Asset & Liability Committee is informed about funding programmes and programmes to build up liquidity reserves, simulations in crisis conditions (stress test), and about all events that may arise in crisis situations. The Asset & liability Committee is tasked with defining the management approach in periods of crisis (emergency plan).

The Asset & Liability Committee meets every month under normal conditions and with higher frequency in stressed conditions.

The permanent members of the Asset & Liability Committee are the Chief Operating Officer with responsibility for functions (Chairman), the Executive Board members heading up core businesses, the Head of Global Markets, The Chief Risk Officer and or his deputy, the Chief Financial Officer, the head of ALM Treasury, the head of ALM Treasury BNP Paribas Group, the head of ALM Domestic Markets BNP Paribas Group, the head of ALM, the head of Management Control and the Chief Financial Officer of Domestic Markets BNP Paribas.

Across the Bank, ALM Treasury is responsible for the operational implementation of the Asset & Liability Committee liquidity management decisions. The Asset & Liability Committees in entities or groups of entities are responsible for local implementation of the strategy decided by the Bank's Asset & Liability Committee to manage the bank's liquidity risk.

ALM Treasury is responsible for managing liquidity for the entire Bank across all maturities. In particular, it is responsible for funding and short-term issuance (certificates of deposit, commercial paper, etc.), for senior and subordinated debt issuance (MTNs, bonds, medium/long- term deposits, covered bonds, etc.), and loan securitisation programmes for the Bank. ALM Treasury is tasked with providing internal financing to the Bank's core businesses, operational entities and business lines, and investing their surplus cash. It is also responsible for building up and managing liquidity reserves, which comprise assets that can be easily sold in the event of a liquidity squeeze.

The Risk Function participates in the Asset & Liability Committee and the local ALCo's and oversees implementation by ALM Treasury of the relevant decisions made by these committees. It provides second-line control by reviewing the models and risk indicators (including liquidity stress tests), monitoring risk indicators and ensuring compliance with the limits assigned.

The Finance Function is responsible for producing the standardised regulatory liquidity indicators, as well as the internal monitoring indicators. Finance oversees the consistency of the internal monitoring indicators defined by the bank's ALM Committee. The Finance Function takes part in the Asset & Liability Committee and the local ALCo's.

REPORT OF THE ACCREDITED STATUTORY AUDITORS

Statutory auditor's report to the general shareholders' meeting of BNP Paribas Fortis SA/NV on the consolidated financial statements for the year ended 31 December 2017

We present to you our Statutory Auditors' report in the context of our audit of the consolidated financial statements (the "Consolidated Financial Statements") of BNP Paribas Fortis SA/NV (the "Company"). This report includes our report on the audit of the Consolidated Financial Statements, as well as the report on other legal and regulatory requirements. These reports are an integrated ensemble and are indivisible.

PwC Reviseurs d'Entreprises sccrl/ Bedrijfsrevisoren bcvba have been appointed as Statutory Auditors by the General Shareholders' Meeting of 20 April 2017, following the proposal formulated by the Board of Directors, made upon recommendation of the Audit Committee and after approval of the said proposal by the Works' Council. Their mandate will expire at the date of the General Shareholders' Meeting which will deliberate on the Annual Financial Statements for the year ended 31 December 2019. They have performed the statutory audit of the Consolidated Financial Statements of BNP Paribas Fortis SA/NV for 19 consecutive years.

Deloitte Reviseurs d'Entreprises sc sous forme d'une scrl / Bedrijfsrevisoren bv ovv cvba have been appointed as Statutory Auditors by the General Shareholders' Meeting of 23 April 2015, following the proposal formulated by the Board of Directors, made upon recommendation of the Audit Committee and after approval of the said proposal by the Works' Council. Their mandate will expire at the date of the General Shareholders' Meeting which will deliberate on the Annual Financial Statements for the year ended 31 December 2017. They have performed the statutory audit of the Consolidated Financial Statements of BNP Paribas Fortis SA/NV for 9 consecutive years.

Report on the audit of the Consolidated Financial Statements

Unqualified opinion

We have performed the statutory audit of the Consolidated Financial Statements of the Company and its subsidiaries (jointly "the Group"), which comprise the consolidated balance sheet as at 31 December 2017, the consolidated statement of profit and loss, the consolidated statement of changes in shareholder's equity and the consolidated cash flow statement for the year then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies and other explanatory information. These Consolidated Financial Statements show a consolidated balance sheet total of EUR 277.646 '000.000' and a profit for the year of EUR 1.897 '000.000'.

In our opinion, the Consolidated Financial Statements give a true and fair view of the Group's net equity and consolidated financial position as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') and with the legal and regulatory requirements applicable to credit institutions in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing ('ISA'). Our responsibilities under those standards are further described in the "Statutory Auditor's responsibilities for the audit of the Consolidated Financial Statements" section of our report. We have fulfilled our ethical responsibilities in accordance with the ethical requirements that are relevant to audits of consolidated financial statements in Belgium, including the requirements related to independence.

We have obtained from the Board of Directors and Company officials the explanations and information necessary for performing our audit.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter regarding certain pending legal proceedings

Without further qualifying our opinion, we draw the attention to the note 7.a to the Consolidated Financial Statements with respect to significant litigations, in which is described that, as a result of 2008 events having impacted the Fortis group, to which the Company belonged, a number of claimants have initiated legal actions against the former Fortis group, including the Company and/or certain members of its Boards of Directors and management. The ultimate outcome of these matters and the potential consequences for the Company and its Directors cannot presently be determined, and therefore no provisions have been recorded in the Consolidated Financial Statements.

Key audit matters

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

Impairment allowances for loans and receivables

Key audit matter

BNP Paribas Fortis SA has significant loans and receivables, for an amount of EUR 200.730 '000.000' at year-end 2017. The IFRS prescribe that impairment losses are posted on loans and receivables if there is objective evidence of impairment as a result of a loss event that has an impact on the estimated future cash flows of those loans and receivables.

The identification of impairment and the determination of the recoverable amount are part of an estimation process which includes, amongst others, the assessment of the existence of objective evidence of impairment and the determination of the probability of default, of the financial condition of the counterparty, of the expected future cash flows and of the value of the collateral received.

The determination of the collective allowances for incurred but not yet reported loan losses involves judgment in determining assumptions, methodology, modelling technique and parameters.

Due to the substantial amount of loans and receivables recognized in the balance sheet, of the cost of risk recognized in the income statement (EUR 338 '000.000') and the significant impact of the judgments applied on the carrying amount of loans and receivables, auditing the process described above is considered a key audit matter.

Our audit approach

Based on our risk assessment, we have examined the impairment losses and evaluated and challenged the methodology applied as well as the assumptions made by the Board of Directors as described in the preceding paragraph.

- We have assessed the governance process of loan downgrading, including the continuous re-assessment of the appropriateness of assumptions used in the impairment models for determining the collective incurred but not yet reported loan losses. We determined that the internal process was complied with.

- We have tested the design, implementation and operating effectiveness of the key controls over the collective models and manual processes for identification of impairment events, collateral valuation and estimates of recovery on default. We have not identified significant weaknesses on their adequacy and operating effectively;

- Together with our specialists, we have reviewed the underlying models including the model approval and validation process. We have challenged the methodologies applied by using our industry knowledge and experience, focusing on potential changes since last year and found those to be in line with our expectations;

- We have performed a risk-based test of loans granted by the Company and major entities consolidated in the Group to ensure timely identification of impairment of loans and for impaired loans to ensure appropriate impairment charge. We also examined a sample of loans which have not been identified by management as impaired and challenged collectability;

- Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in the International Financial Reporting Standards as adopted by the European Union.

Reference to disclosures

We refer to Notes 2.g, 4.f, 4.g and 4.h to the Consolidated Financial Statements; the Board of Directors has described the process for managing credit risks and the review for impairment in more detail in its report and on the credit risk section in the risk management disclosures.

Risk and provision for legacy litigation

Key audit matter

Following the events in 2007 and 2008 related to the Fortis group, to which the Company belonged, BNP Paribas Fortis SA/NV has been involved in a series of legal proceedings in Belgium and The Netherlands in which the Company faces a number of damage claims. The International Financial Reporting Standards require that provisions be set up for claims, the payment of which is probable and the outcome of which can be reliably estimated. The ultimate outcome of the said legal proceedings and the potential consequences for the Company and its Directors can presently however not be determined, and therefore no provisions have been recorded in the Consolidated Financial Statements.

Due to the significance of the uncertainties on the outcome of these claims and the judgements applied, auditing the adequacy of the absence of provision on these damage claims is considered a key audit matter.

Our audit approach

We focused our effort on the process set up for determining provisions for pending litigations, on the nature of the work performed to assess the related risk, and on the disclosures made in this respect:

- We assessed and tested the design, implementation and operating effectiveness of the key controls over financial reporting with respect to provisions for (pending) litigations. This includes the controls over the assessment of each individual file, and their valuation if necessary. We have not identified significant weaknesses with respect to their adequacy and operating effectiveness;

- We evaluated and challenged the Board of Directors' assessment of the nature and status of these legal proceedings. We hereby considered the legal advice the Company received from its in-house counsel as well as from external counsels, for certain of the more significant cases. For the most significant cases, we obtained external confirmations directly from the Company's external lawyer and found those to be consistent with the position taken by the Board of Directors;

- We examined and challenged the Board of Directors' conclusions with respect to the provision and disclosure made for significant cases, considering the results of corroborative information obtained from management;

- Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in the International Financial Reporting Standards as adopted by the European Union.

Reference to disclosures

Please refer to disclosure Note 7.a to the Consolidated Financial Statements, in which the main legal proceedings are disclosed.

Valuation of goodwill and of goodwill embedded in investments consolidated by applying the equity-method

Key audit matter

The Company's 31 December 2017 Consolidated Financial Statements show a "Goodwill" caption amounting to EUR 663 '000.000', and an "Equity-method investments" caption of EUR 4.356 '000.000'. These intangible assets and the embedded goodwill included in the equity-method consolidated investments have arisen as a result of the acquisitions of some of BNP Paribas Fortis SA/NV's subsidiaries in current and previous accounting periods. The International Financial Reporting Standards prescribe that Goodwill is subject to an annual impairment assessment.

We identified these intangible assets and the embedded goodwill included in the equity-method consolidated investments as a Key Audit Matter due to the significance of the balance and because the impairment assessment requires significant judgment of management with regards to the valuation methodology applied and the underlying assumptions used, mainly those relating to the ability to generate future free cash flows, and to the discount factor applied to these cash flows, taking into account the appropriate risk factors.

Our audit approach

We focused our audit effort on (i) the valuation model used by the Company for the impairment assessment, (ii) the appropriateness of the discount rate and terminal growth rates used in the model and (iii) the future cash flow forecasts:

- Together with our valuation experts, we have assessed the "Discounted Cash Flow" model used by management, and discussed the underlying hypotheses to the use of this model with management. We found the model used to be appropriate, in the circumstances;

- We evaluated and challenged management's future cash flow forecasts, and the process by which they were drawn up, i.e. the development and approval of the financial plan and management's annual comparison of previous forecasts to actual performance. We found that management had followed their process for drawing up future cash flow forecasts, which was subject to timely oversight and challenge;

  We compared the current year's results with the figures included in the prior years' forecasts to assess the organisation's ability to accurately forecast future cash flows;

- We also challenged management's assumptions in their forecasts of the long term growth rates -by comparing those to publicly available economic and industry forecasts- and the discount rates -by comparing the cost of capital for the Company with comparable organizations, as well as by considering territory specific factors. We found the assumptions to be consistent and in line with our expectations;

- We discussed with management the impact of those (regulatory and business) evolutions which have the potential to significantly affect the future cash flows of these entities on which goodwill had been recognized, and found that these had been considered in drawing up the future cash flows;

- We challenged management on the adequacy of their sensitivity calculations. We determined that the sensitivity assumptions were based on reasonable indicators;

- Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in the International Financial Reporting Standards as adopted by the European Union.

Reference to disclosures

We refer to the financial statement, including the Note 4.o (goodwill) and Note 4.m (equity-method investments).

Estimation uncertainty with respect to the determination of the fair value of financial instruments

Key audit matter

The current economic conditions and low interest rate environment impact the fair value measurements of the financial instruments. Valuation techniques and models used for certain financial instruments are inherently subjective and involve various assumptions regarding pricing. In addition, the number of factors influencing the determination of fair value can be extensive and can vary both by type of instrument and/or within instrument types. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value. Furthermore, market value adjustments (reserves) are recognized on all positions that are measured at fair value with fair value changes reported in the income statement or in equity.

The International Financial Reporting Standards require the use of fair value for the determination of the carrying amount of a large number of assets and liabilities, and generally requires the disclosure of the fair value of those items not valued at fair value.

As the use of different assumptions could produce different estimates of fair value, and considering the significance of fair values in the determination of the carrying amount of balance sheet captions, of the result and in the disclosure notes, we consider this a key audit matter.

Our audit approach

- We obtained an understanding of the internal control framework related to the valuation of financial instruments, including price testing, model validation and value adjustments (value allowances) methodologies. We tested the design and operating effectiveness of those controls we assessed to be key for our audit;

- We assessed and challenged the appropriateness of the model validation methodology with the assistance of our valuation experts and we performed a recalculation of the fair valuation on a sample basis. This includes the assessment of market data, inputs and key assumptions as critical factors used in the fair value models, based on our experience and market practice;

- Finally, we assessed the completeness and accuracy of the disclosures relating to the fair values of these financial instruments to assess compliance with disclosure requirements included in the International Financial Reporting Standards as adopted by the European Union.

Reference to disclosures

Please refer to Notes 4.d “Measurement of the fair value of financial instruments” & 1 “Summary of significant accounting policies applied by BNP Paribas Fortis”.

Recoverability of Deferred Tax Assets

Key audit matter

BNP Paribas Fortis SA/NV recognized an amount of EUR 2,039 '000.000' of deferred tax assets to reflect the future tax benefit from unused tax losses or tax credits and other temporary differences.

The International Financial Reporting Standards prescribe that such tax assets are to be recognised to the extent that it is probable that taxable profit will be available against which the temporary differences can be utilised.

We identified this area as a key audit matter because of the size of the balance and because the board of directors' assessment of the recoverability of these assets involves judgement, including the estimate relating to future taxable profits. Furthermore, Belgian corporate income tax rules have extended the estimated time horizon necessary to use the deferred tax assets, casting additional uncertainties on the recoverability of these assets.

Our audit approach

We focused our audit effort on the forecasted future taxable profits, and on the interpretation of the new Belgian tax rules:

- We evaluated the assessment relating to the estimated future taxable profits performed by management. More particularly, we verified that:

  - Appropriate assumptions were used to determine future taxable profits and the timing of those. We found the parameters applied to be in line with our expectations , in the circumstances;

  - We compared the current year's results of BNP Paribas Fortis SA/NV with the figures included in the prior years' forecast to assess the organisation's ability to accurately forecast future taxable profits. Actual performance was found to be generally in line with what had been factored in the profit forecast;

  - We discussed with management the impact of those (regulatory and business) evolutions which have the potential to significantly affect the future taxable profits of BNP Paribas Fortis SA/NV and found that these had been considered in drawing up the future taxable profit forecast;

- Our tax experts assessed the interpretations of the tax rules (laws, jurisdiction and jurisprudence) on which management has based its future taxable profit forecast;

- Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in the International Financial Reporting Standards as adopted by the European Union.

Reference to disclosures:

We refer to Note 4.k 'Current and deferred taxes' of the Consolidated Financial Statements.

Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of Consolidated Financial Statements which give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Statutory Auditors' responsibilities for the audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a statutory auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement if it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit performed in accordance with ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures to address those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls;

- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, on whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's, or any of the companies forming the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw the attention, in our Statutory Auditors' report, to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Statutory Auditors' report. However, future events or conditions may cause the Company, or any of the companies forming the Group to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group in order to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors and the Audit Committee regarding, amongst other matters, materiality, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement about our compliance with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Board of Directors and the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated Financial Statements of the current period and that therefore are the key audit matters. We describe these matters in our Statutory Auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Responsibilities of the board of directors

The Board of Directors is responsible for the preparation and the content of the Director's report on the Consolidated Financial Statements.

Statutory auditor's responsibilities

In the context of our mandate and in accordance with the draft of the Belgian standard which is complementary to the International Standards on Auditing as applicable in Belgium, our responsibility is to verify the directors' report on the Consolidated Financial Statements and to report on it.

Aspects related to the Directors' report on the Consolidated Financial Statements

In our opinion, after having performed specific procedures in relation to the Directors' report on the Consolidated Financial Statements, this report is consistent with the Consolidated Financial Statements for the year 2017, and it is prepared in accordance with article 119 of the Companies' Code.

In the context of our audit of the Consolidated Financial Statements, we are also responsible for considering, in particular based on the knowledge acquired resulting from the audit, whether the Directors' report on the Consolidated Financial Statements is materially misstated or contains information which is inadequately disclosed or otherwise misleading. In light of the procedures we have performed, there are no material misstatements we have to report to you. We do not express any form of assurance conclusion on the Directors' report on the Consolidated Financial Statements.

Statement related to independence

- We did not provide services which are incompatible with the statutory audit of the Consolidated Financial Statements and we remained independent of the Company in the course of our mandate;

- The fees for additional services are correctly disclosed and itemized in the notes to the Consolidated Financial Statements.

Other statement

This report is consistent with the additional report to the audit committee referred to in article 11 of the Regulation (EU) N° 537/2014.

Zaventem, 29 March 2018

The Joint Statutory Auditors

Deloitte Reviseurs d'Entreprises sc sous forme d'une scrl / Bedrijfsrevisoren bv ovv cvba
Represented by

Y. Dehogne	B. De Meulemeester
Reviseur d'Entreprises / Bedrijfsrevisor	Reviseur d'Entreprises / Bedrijfsrevisor

PwC Reviseurs d'Entreprises sccrl/ Bedrijfsrevisoren bcvba
Represented by
D. Walgrave
Reviseur d'Entreprises / Bedrijfsrevisor

BNP PARIBAS FORTIS ANNUAL REPORT 2017 (NON-CONSOLIDATED)

REPORT OF THE BOARD OF DIRECTORS

In conformity with Article 119 of the Belgian Companies Code and to avoid repetition, BNP Paribas Fortis has combined the non-consolidated report and the consolidated report of the Board of Directors. The consolidated report of the Board of Directors can be found at the beginning of the Annual Report.

Comments on the evolution of the balance sheet

The **total balance sheet** at 31 December 2017 amounted to EUR 193 billion, a decrease of EUR (21) billion or (10)% compared with 31 December 2016.

The decrease is mainly due to the transfer of activities of the BNP Paribas Fortis' branches in Amsterdam, Copenhagen, Stockholm, Vienna, Prague, Bucharest and Oslo to BNP Paribas in the framework of the Harald project.

The main evolutions are related to the followings headings:

Cash in hand, balances with central banks and giro offices decreased by EUR (10.2) billion, mainly due to the transfer of activities of BNP Paribas Fortis Amsterdam branch to BNP Paribas (EUR (9.3) billion).

Amounts receivable from credit institutions decreased by EUR (1.3) billion or (6)% compared with the end of 2016.

Amounts receivable from customers stood at EUR 97.0 billion as at 31 December 2017, down by EUR (2.3) billion.

Since 2008, this heading no longer contains the mortgage loans and term loans securitised via 'Special Purpose Vehicles', for respectively EUR 27.6 billion and EUR 9.7 billion at the end of 2017. The securities representing the investment of the Bank in the 'Special Purpose Vehicles' are included under the heading 'Bonds and other fixed-income securities'.

In Belgium, term loans increased by EUR 5.2 billion, spread over different type of loans like investment loans and funding given to subsidiaries. In a low interest rates environment, mortgage loans increased by EUR 0.6 billion thanks to new production. Reverse repurchase agreements increased by EUR 0.5 billion.

The advances on current accounts in our foreign branches decreased by EUR (6.5) billion, while the term loans declined by EUR (2.0) billion. Both evolutions were due to the transfer of activities of the BNP Paribas Fortis' branches in Amsterdam, Copenhagen, Stockholm, Vienna, Prague, Bucharest and Oslo to BNP Paribas.

Bonds and other fixed-income securities totalled EUR 56.5 billion as at 31 December 2017. This portfolio decreased by EUR (5.4) billion or (9)%, mainly in Belgium.

The amount of EUR 56.5 billion consists mostly of bonds issued by public authorities (EUR 14.4 billion, down by EUR (4.8) billion compared with 2016 following the maturity of some government bonds), by 'Special Purpose Vehicles' (EUR 37.3 billion) and by other issuers (EUR 4.8 billion).

Financial fixed assets amounted to EUR 10.1 billion as at 31 December 2017.

Deferred charges and accrued income dropped by EUR (1.6) billion following the evolution of the interest and currency rate derivatives.

Amounts owed to credit institutions totalled EUR 19.9 billion as at 31 December 2017, up by EUR 4.1 billion compared with 2016.

Amounts payable to clients stood at EUR 130.4 billion as at 31 December 2017, down by EUR (22.6) billion or (15)%.

In Belgium, current accounts increased by EUR 3.2 billion, mainly in private and retail banking. The regulated saving accounts decreased by EUR (3.2) billion following the conversion of accounts held by corporates into non-regulated saving accounts in the beginning of 2017. Excluding this impact, the amount on the saving accounts increased by 1.2 billion. Term deposits, repurchase agreements and short positions decreased respectively by EUR (3.9) billion, EUR (0.4) billion and EUR (2.0) billion.

At foreign branches, the evolution (EUR (20.7) billion) resulted principally from the transfer of activities of the BNP Paribas Fortis' branches in Amsterdam, Copenhagen, Stockholm, Vienna, Prague, Bucharest and Oslo to BNP Paribas.

Debts evidenced by certificates totalled EUR 12.1 billion as at 31 December 2017, up by EUR 0.2 billion.

Accrued charges and deferred income dropped by EUR (1.6) billion following the evolution of the interest and currency rate derivatives.

Subordinated liabilities amounted to EUR 3.2 billion as at 31 December 2017, down by EUR (2.1) billion, compared with previous year. The decrease was mainly related to the arrival at maturity of subordinated debts.

Shareholders' equity stood at EUR 18.9 billion as at 31 December 2017, up by EUR 1.6 billion or 9% following the integration of the profit of the year in the own funds.

Comments on the evolution of the income statement

The **result of the year** showed a net profit of EUR 1,560 million, compared to EUR 2,003 million in 2016.

The **interest margin** (Headings I and II) amounted to EUR 2,719 million in 2017, down by EUR (143) million. In Belgium, the interest margin decreased by EUR (133) million while at foreign branches the decrease amounted to EUR (10) million mainly related to the transfer of activities of most BNP Paribas Fortis' European branches (Netherlands, Sweden, Denmark, Austria, Norway, Romania and Czech Republic) to BNP Paribas.

In Belgium, in a context of low interest rates, interest income on customer loans decreased despite good volumes growth primarily on term loans and to a lesser extent on mortgage loans. This decrease in interest income was compensated by a decrease in interest expenses, mainly on client deposits and debt securities.

Interest income on investment securities decreased following the sale and arrival at maturity of securities with a high yield.

Income from variable-income securities (Heading III) amounted to EUR 543 million in 2017, down by EUR (259) million compared to 2016, mainly due to a decrease in dividends received from participating interests.

Commissions (Headings IV and V) amounted to EUR 996 million, down by EUR (13) million. In Belgium, commissions were up by EUR 35 million more than offset by EUR (48) million decrease at the foreign branches.

In Belgium, more fees were received on asset management as the investment strategies have been adapted in the context of the upcoming implementation of MiFID II (Markets in Financial Instruments Directive). Fees on payment services also positively evolved thanks to the growth of volumes and a pricing effect.

Profit on financial operations (Heading VI) amounted to EUR 224 million, down by EUR (49) million.

The disposal of investment securities, mainly government bonds, generated a profit of EUR 81 million in 2017, decreasing compared to EUR 175 million in 2016. Consequently, this lower result was partly compensated by lower breakage fees paid on the derivatives hedging the interest rate risk on these securities in comparison to 2016. Furthermore, there was also an increase in results on foreign exchange transactions.

General administrative expenses (Heading VII) came to EUR (2,389) million, a decrease of EUR 137 million compared to 2016.

Remuneration, social charges and pensions decreased by EUR 76 million due to lower FTEs in Belgium and the transfer of activities of most BNP Paribas Fortis' European branches to BNP Paribas.

Other administrative expenses decreased by EUR 61 million, of which EUR 26 million in the foreign branches related to the transfer of activities.

Depreciation and amounts written off on formation expenses, intangible and tangible fixed assets (Heading VIII) amounted to EUR (119) million, the same as in 2016.

Amounts written off on the amounts receivable and the investment portfolio (Headings IX and X) totalled EUR 28 million, compared to EUR 27 million in 2016, i.e. an increase of EUR 1 million.

Provisions for risks and charges (Headings XI and XII) showed a net reversal of EUR 8 million in 2017 against a net reversal of EUR 29 million in 2016, a decrease mainly related to provisions on interest margins heading booked in 2017.

Other operating income (Heading XIV) amounted to EUR 165 million, down by EUR (40) million compared to 2016. This evolution was mainly related to the re-invoicing of costs to entities of BNP Paribas Group.

Other operating charges (Heading XV) amounted to EUR (413) million in 2017, down by EUR 4 million compared to 2016. The increase of the banking taxes were more than compensated by less costs coming from other entities of the group.

Extraordinary income (Heading XVII) came to EUR 52 million in 2017, down by EUR (60) million compared to 2016. The evolution resulted mainly from the reversal of impairments on financial fixed assets for EUR (71) million of which EUR (87) million on Ageas in Belgium (in 2017 EUR 12 million but EUR 99 million in 2016).

Extraordinary charges (Heading XVIII) came to EUR (251) million in 2017, compared to EUR (254) million in 2016. In 2017, an impairment of EUR (130) million was taken on BNP Paribas Fortis Yatirimlar, the holding above TEB, while in 2016, the participation in Bank BGZ BNP Paribas was impaired for EUR (113) million. Furthermore, the lower provisioning for transformation costs (EUR 29 million) compensated the loss on transfer activities from BNP Paribas Fortis branches to BNP Paribas branches (EUR (26) million).

Income taxes (Heading XX) amounted to EUR (2) million in 2017, compared to EUR 0 million in 2016.

PROPOSED APPROPRIATION OF THE RESULT FOR THE ACCOUNTING PERIOD

Profit for the year for appropriation	EUR	1,560.2	million
Profit brought forward from the previous year	EUR	4,113.2	million
Profit to be appropriated	EUR	5,673.4	million
Appropriation to statutory reserve	EUR	324.2	million
Profit to be carried forward	EUR	5,329.4	million
Other allocations*	EUR	19.9	million

** This amount represents the profit bonus of 2.02% calculated on the individual annual remuneration of the employees of BNP Paribas Fortis N.V./S.A. in accordance with the Law of May 22th 2001 (Law concerning the employees participation in the capital of companies and on the set up of a profit bonus for the employees).*

In accordance with the aforementioned appropriation of the result for the financial year 2017, the Board of Directors of BNP Paribas Fortis SA/NV will request the approval of the General Meeting of Shareholders not to distribute a dividend.

INFORMATION RELATED TO ARTICLE 523 OF THE BELGIAN COMPANIES CODE

Remuneration and benefits awarded to the BNP Paribas Fortis executive directors.

Meeting of the board of directors on 9 March 2017

On 9 March 2017, the board of directors took note, deliberated and consequently unanimously approved the 'Executive Board Remuneration' proposal. In order to avoid a conflict of interest of patrimonial nature in accordance with article 523 of the Companies Code, this was done in the absence of the executive board members.

The unanimously approved 'Executive Board Remuneration' proposal provides:

- For the Chairman of the Executive Board, a total remuneration for the year 2016, including benefits in kind and Director's fees, of EUR 1,697,036; and

- For the remaining four members of the Executive Board, a total remuneration for the year 2016, including benefits in kind and Director's fees of EUR 3,840,413.

INFORMATION REGARDING RELATED PARTY TRANSACTIONS

Board procedure

Background

Due to a change in legislation entered into force on 1 January 2012, article 524 of the Companies Code, imposing a specific procedure in the context of transactions between related parties, does no longer apply to BNP Paribas Fortis SA/NV ('BNP Paribas Fortis' or the 'Company'). Nonetheless, the Board of Directors, upon advice of the GNC (previously GNRC) and in line with its internal governance principles, adopted on 15 December 2011 a 'Board Procedure for Related Party Transactions' (the 'Procedure') that is inspired on but not identical to article 524 of the Companies Code.

In the course of 2017, no transaction required the application of the Procedure.

BNP PARIBAS FORTIS FINANCIAL STATEMENTS 2017 (NON-CONSOLIDATED)

BALANCE SHEET AFTER APPROPRIATION

		Codes	Current period	Previous period
ASSETS				
I.	**Cash in hand, balances with central banks and giro offices**	**10100**	**443,434**	**10,559,472**
II.	**Government securities eligible for refinancing with the central bank**	**10200**	**-**	**43,907**
III.	**Amounts receivable from credit institutions**	**10300**	**19,364,910**	**20,720,827**
	A. At sight	*10310*	*3,024,297*	*10,390,525*
	B. Other amounts receivable (at fixed term or period of notice)	*10320*	*16,340,613*	*10,330,302*
IV.	**Amounts receivable from customers**	**10400**	**96,972,375**	**99,318,554**
V.	**Bonds and other fixed-income securities**	**10500**	**56,481,597**	**61,915,715**
	A. Issued by public bodies	*10510*	*14,418,820*	*19,247,498*
	B. Issued by other borrowers	*10520*	*42,062,777*	*42,668,217*
VI.	**Shares and other variable-yield securities**	**10600**	**162,213**	**281,580**
VII.	**Financial fixed assets**	**10700**	**10,133,825**	**10,343,392**
	A. Participating interests in affiliated enterprises	*10710*	*6,894,408*	*7,063,496*
	B. Participating interests in other enterprises linked by participating interests	*10720*	*2,508,051*	*2,417,326*
	C. Other shares held as financial fixed assets	*10730*	*233,649*	*350,182*
	D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests	*10740*	*497,717*	*512,388*
VIII.	**Formation expenses and intangible fixed assets**	**10800**	**164,609**	**194,487**
IX.	**Tangible fixed assets**	**10900**	**947,773**	**962,287**
X.	**Own shares**	**11000**	**-**	**-**
XI.	**Other assets**	**11100**	**1,629,909**	**1,515,905**
XII.	**Deferred charges and accrued income**	**11200**	**6,631,197**	**8,195,861**
TOTAL ASSETS		**19900**	**192,931,842**	**214,051,987**

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	Codes	Current period	Previous period
LIABILITIES			
BORROWINGS	**201/208**	**174,059,585**	**196,720,094**
I. Amounts owed to credit institutions	**20100**	**19,850,612**	**15,707,805**
A. At sight	*20110*	*3,513,911*	*818,513*
B. Amounts owed as a result of the rediscounting of trade bills	*20120*	*-*	*-*
C. Other debts with agreed maturity dates or periods of notice	*20130*	*16,336,701*	*14,889,292*
II. Amounts payable to clients	**20200**	**130,419,426**	**153,013,250**
A. Savings deposits	*20210*	*58,446,490*	*61,628,370*
B. Other debts	*20220*	*71,972,936*	*91,384,880*
1. At sight	*20221*	*60,292,157*	*68,859,656*
2. At fixed term or period of notice	*20222*	*11,680,779*	*22,525,224*
3. As a result of the rediscounting of trade bills	*20223*	*-*	*-*
III. Debts evidenced by certificates	**20300**	**12,140,775**	**11,953,065**
A. Debt securities and other fixed-income securities in circulation	*20310*	*5,048,218*	*3,369,202*
B. Other	*20320*	*7,092,557*	*8,583,863*
IV. Other amounts payable	**20400**	**3,053,641**	**3,753,094**
V. Accrued charges and deferred income	**20500**	**4,111,578**	**5,736,051**
VI. Provisions and deferred taxes	**20600**	**397,200**	**398,281**
A. Provisions for risks and charges	*20610*	*397,200*	*398,281*
1. Pensions and similar obligations	*20611*	*-*	*9,195*
2. Fiscal charges	*20612*	*19,388*	*14,577*
3. Other risks and charges	*20613*	*377,812*	*374,509*
B. Deferred taxes	*20620*	*-*	*-*
VII. Fund for general banking risks	**20700**	**871,681**	**871,681**
VIII. Subordinated liabilities	**20800**	**3,214,672**	**5,286,867**
SHAREHOLDERS' EQUITY	**209/213**	**18,872,257**	**17,331,893**
IX. CAPITAL	**20900**	**10,964,768**	**10,964,768**
A. Subscribed capital	*20910*	*10,964,768*	*10,964,768*
B. Uncalled capital (-)	*20920*	*-*	*-*
X. Share premium account	**21000**	**940,582**	**940,582**
XI. Revaluation surpluses	**21100**	**-**	**-**
XII. Reserves	**21200**	**1,637,545**	**1,313,338**
A. Statutory reserve	*21210*	*1,096,476*	*772,269*
B. Reserves not available for distribution	*21220*	*36,988*	*36,988*
1. In respect of own shares held	*21221*	*-*	*-*
2. Other	*21222*	*36,988*	*36,988*
C. Untaxed reserves	*21230*	*150,790*	*150,790*
D. Reserves available for distribution	*21240*	*353,291*	*353,291*
XIII. Profits (losses (-)) brought forward (+)/(-)	**21300**	**5,329,362**	**4,113,205**
TOTAL LIABILITIES	**29900**	**192,931,842**	**214,051,987**

INCOME STATEMENT (presentation in vertical form)

			Codes	Current period	Previous period
I.	**Interest receivable and similar income**		**40100**	**3,558,110**	**3,984,893**
	A. Of which : from fixed-income securities		*40110*	*637,959*	*718,868*
II.	**Interest payable and similar charges**		**40200**	**839,477**	**1,123,477**
III.	**Income from variable-yield securities**		**40300**	**543,370**	**802,128**
	A. From shares and other variable-yield securities		*40310*	*51,493*	*49,508*
	B. From participating interests in affiliated enterprises		*40320*	*342,038*	*606,076*
	C. From participating interests in other enterprises linked by participating interests		*40330*	*144,587*	*141,342*
	D. From other shares held as financial fixed assets		*40340*	*5,252*	*5,202*
IV.	**Commissions receivable**		**40400**	**1,391,679**	**1,384,829**
	A. Brokerage and related commissions		*40410*	*516,455*	*516,123*
	B. Management, consultancy and conservation commissions		*40420*	*338,465*	*303,523*
	C. Other commissions received		*40430*	*536,759*	*565,183*
V.	**Commissions paid**		**40500**	**395,954**	**375,711**
VI.	**Profit (loss) on financial transactions**	(+)/(-)	**40600**	**224,225**	**272,923**
	A. On trading of securities and other financial instruments		*40610*	*143,337*	*98,359*
	B. On disposal of investment securities		*40620*	*80,888*	*174,564*
VII.	**General administrative expenses**		**40700**	**2,389,203**	**2,526,015**
	A. Remuneration, social security costs and pensions		*40710*	*1,349,179*	*1,425,375*
	B. Other administrative expenses		*40720*	*1,040,024*	*1,100,640*
VIII.	**Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets.**		**40800**	**119,122**	**119,345**
IX.	**Decrease in write downs on receivables and in provisions for off-balance sheet captions 'I. Contingent liabilities' and 'II. Commitments which could give rise to a credit risk'**	(+)/(-)	**40900**	**920**	**37,698**
X.	**Decrease in write-downs on the investment portfolio of bonds, shares and other fixed-income or variable-yield securities.**	(+)/(-)	**41000**	**(28,732)**	**(64,746)**
XI.	**Utilization and write-backs of provisions for liabilities and charges other than those included in the off-balance sheet captions**	(+)/(-)	**41100**	**(64,775)**	**(68,356)**
XII.	**Provisions for risks and charges other than those included in the off-balance sheet captions.**		**41200**	**57,195**	**39,373**
XIII.	**Transfer from (Appropriation to) the fund for general banking risks**	(+)/(-)	**41300**	**-**	**-**
XIV.	**Other operating income**		**41400**	**165,470**	**205,430**
XV.	**Other operating charges**		**41500**	**413,056**	**416,732**
XVI.	**Profits (losses) on ordinary activities before taxes**	(+)/(-)	**41600**	**1,761,434**	**2,144,954**

				Codes	Current period	Previous period
XVII.	**Extraordinary income**			**41700**	**51,159**	**112,255**
	A.	*Adjustments to depreciation/amortization of and to other write-downs on intangible and and tangible fixed assets*		*41710*	*1,179*	*-*
	B.	*Adjustments to write-downs on financial fixed assets*		*41720*	*29,298*	*99,845*
	C.	*Adjustments to provisions for extraordinary risks and charges*		*41730*	*-*	*-*
	D.	*Capital gains on disposal of fixed assets*		*41740*	*16,105*	*8,838*
	E.	*Other extraordinary income*		*41750*	*4,577*	*3,572*
XVIII.	**Extraordinary charges**			**41800**	**250,885**	**254,296**
	A.	*Extraordinary depreciation/amortization of and extraordinary write-downs on formation expenses and intangible and tangible fixed assets*		*41810*	*-*	*-*
	B.	*Write-downs on financial fixed assets*		*41820*	*171,448*	*166,430*
	C.	*Provisions for extraordinary risks and charges*	*(+/-)*	*41830*	*45,826*	*75,000*
	D.	*Capital losses on disposal of fixed assets*		*41840*	*3,092*	*5,689*
	E.	*Other extraordinary charges*		*41850*	*30,519*	*7,177*
XIX.	**Profits (Losses) for the period before taxes**		(+/-)	**41910**	**1,561,708**	**2,002,913**
XIXbis.	**A.**	**Transfer to deferred taxes**		**41921**	**-**	**-**
	B.	**Transfer from deferred taxes**		**41922**	**-**	**-**
XX.	**Income taxes**		(+/-)	**42000**	**1,492**	**(38)**
	A.	*Income taxes*		*42010*	*52,727*	*49,628*
	B.	*Adjustment of income taxes and write-back of tax provisions*		*42020*	*51,235*	*49,666*
XXI.	**Profits (Losses) for the period**		(+/-)	**42100**	**1,560,216**	**2,002,951**
XXII.	**Transfer to (or from) untaxed reserves**		(+/-)	**42200**	**-**	**-**
XXIII.	**Profit (Losses) for the period available for appropriation**		(+/-)	**42300**	**1,560,216**	**2,002,951**

XVIII. STATEMENT OF CAPITAL AND SHAREHOLDING STRUCTURE

	Codes	Current period	Previous period
A. CAPITAL STATEMENT			
1. Shareholders equity			
a. Subscribed capital			
at the end of the previous financial year	20910P	xxxxxxxxxxxxxx	10,964,768
at the end of the financial year	(20910)	10,964,768	

	Codes	Amounts	Number of shares
Changes during the financial year			
b. Structure of the capital			
Categories of shares			
Common		10,964,768	565,194,208
Registered shares	51801	xxxxxxxxxxxxxx	565,004,628
Bearer and or dematerialized shares	51802	xxxxxxxxxxxxxx	189,580

	Codes	Uncalled capital	Called but unpaid capital
2. Capital not paid up			
a. Uncalled capital	(20920)	-	xxxxxxxxxxxxxx
b. Called but unpaid capital	51803	xxxxxxxxxxxxxx	-
c. Shareholders still owing capital payment		-	-

	Codes	Current period
3. Own shares		
a. Held by the reporting institution itself		
* Amount of capital held	51804	-
* Corresponding number of shares	51805	-
b. Held by its subsidiaries		
* Amount of capital held	51806	-
* Corresponding number of shares	51807	-
4. Share issuance commitments		
a. Following the exercise of conversion rights		
* Amount of convertible loans outstanding	51808	-
* Amount of capital to be subscribed	51809	-
* Maximum corresponding number of shares to be issued	51810	-
b. Following the exercise of subscription rights		
* Number of subscription rights outstanding	51811	-
* Amount of capital to be subscribed	51812	-
* Maximum corresponding number of shares to be issued	51813	-
5. Authorized capital not issued	**51814**	**10,964,768**
6. Shares not representing capital		
a. Repartition		
* Number of parts	51815	-
* Number of votes	51816	-
b. Breakdown by shareholder		
* Number of parts held by the reporting institution itself	51817	-
* Number of parts held by its subsidiaries	51818	-

B. SHAREHOLDERS STRUCTURE OF THE INSTITUTION AT YEAR END ACCORDING TO THE NOTIFICATIONS RECEIVED BY THE INSTITUTION

- Pursuant to article 631, § 2, last paragraph, and article 632, § 2, last paragraph, of the Company Code;
- Pursuant to article 14, paragraph 4, of the law of 2 May 2007 on the disclosure of major shareholdings or pursuant to article 5 of the Royal Decree of 21 August 2008 on the rules for certain multilateral trading facilities.
After verification, BNP Paribas Fortis did not receive any notifications.

OTHER INFORMATION

Monthly high and low for BNP Paribas Fortis shares at the weekly auctions in 2017

The monthly high and low for BNP Paribas Fortis shares at the weekly auctions of Euronext Brussels (Euronext expert Market) in 2017 were as follows (in EUR):

Month	Low	High
January	25.60	25.75
February	25.61	25.76
March	25.76	25.79
April	25.76	25.78
May	25.76	25.76
June	25.76	25.76
July	25.76	31.10
August	25.76	25.77
September	25.76	31.09
October	29.50	32.99
November	26.00	29.51
December	26.51	27.01

External posts held by directors and effective leaders on the 31st of December 2017 that are subject to a legal disclosure requirement

Pursuant to the Regulation of the National Bank of Belgium of 6 December 2011 on the exercise of external functions by managers of regulated companies ('reglement van de Nationale Bank van België van 6 december 2011 met betrekking tot de uitoefening van externe functies door leiders van gereglementeerde ondernemingen' / 'règlement de la Banque Nationale de Belgique du 6 décembre 2011 concernant l'exercice de fonctions extérieures par les dirigeants d'entreprises réglementées'), the Bank's board of directors has adopted its 'Internal rules governing the exercise of external functions by directors and effective managers of BNP Paribas Fortis'.

The Regulation of the Belgian National Bank stipulates i.a. that certain external functions held by the Bank's directors and effective leaders in certain companies must be disclosed in the annual report.

The 'effective leaders' of BNP Paribas Fortis are as set forth in the list submitted to the Belgian National Bank, that is kept up to date in accordance with applicable regulations. This list includes the members of the executive board of BNP Paribas Fortis and the heads of its foreign branches.

The 'external functions – i.e., principally director's mandates – that are subject to disclosure are the ones held in companies other than family property companies, 'management companies', non-profit organisations, undertakings for collective investment or companies with which the Bank has close links as part of the Group.

Name, Surname (Post) Company	Business Activity (Post)	Listed
Herman DAEMS (Chairman of the board of directors)		
- Domo Investment Group SA/NV	Chemicals (Chairman of the board of directors)	-
- Unibreda SA/NV	Insurance (Chairman of board of directors - independent director)	-
Max JADOT (Chairman of the executive board)		
- Bekaert SA/NV	Steel Industry (Director)	Euronext Brussels
- Baltisse SA/NV	Investment Company (Director)	-
Filip DIERCKX (Vice chairman of the executive board)		
- SD Worx Group SA/NV	Administrative Services (Chairman of the board of directors)	-
- SD Worx for Society SCRL/CVBA	Management & Administrative Services (Chairman of the board of directors)	-
- SDWorx België SA/NV	Training & Management Services (Chairman of the board of directors)	-
- SD Worx Holding SA/NV	Holding company (Chairman of the board of directors acting as representative of GINKGO Associates BVBA)	-
Dirk BOOGMANS (Director)		
- Smile Invest SA/NV	Investment Fund (Member of the investment committee)	-
- Smile invest Management Company SA/NV	Investment Company (Director)	-
- Vinçotte International SA/NV	Inspection, control and certification services (Director and chairman of the audit committee & Risk, acting as representative of DAB Management)	-
Antoinette d'ASPREMONT LYNDEN (Director)		
- Groupe Bruxelles Lambert SA/NV	Portfolio Company (Director and chairman of the audit committee)	Euronext Brussels
Stefaan DECRAENE (Director)		
- Ardo Holding SA/NV	Holding Company (Director)	-

Name, Surname (Post) Company	Business Activity (Post)	Listed
Sophie DUTORDOIR (Director)		
- Nationale Maatschappij Der Belgische Spoorwegen SA/NV	Railway (Chief Executive Officer)	-
- Eurostation SA/NV	Railway (Vice chairman of the board of directors)	-
- Eurogare SA/NV	Railway (Director)	-
- YPTO SA/NV	Railway (Chairman of the board of directors)	-
- HR Rail SA/NV	Railway (Director)	-
- THI Factory SA/NV	Railway (Chairman of the board of directors)	-
- Thalys International SCRL/CVBA	Railway (Chairman of the board of directors)	-
Sofia MERLO (Director)		
- Line Data Services S.A.	Computer software & System Integration Services (Director)	Euronext Paris

Glossary

12-month expected credit losses
The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Active market
A market where homogeneous items are traded between willing buyers and sellers at any time and where the prices are available to the public.

Amortised cost
The amount at which a financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation/increase of any premium/discount, and minus any write-down for impairment.

Asset backed security (ABS)
Debt instrument that represents an interest in a pool of assets. The term 'ABS' is generally used to refer to securities in which underlying collateral consists of assets other than residential first mortgages, such as credit card and home equity loans, leases, or commercial mortgage loans.

Associate
A company in which BNP Paribas Fortis SA/NV has significant influence but which it does not control.

Basis point (bp)
One hundredth of a percentage point (0.01%).

Cash flow hedge
A hedge to mitigate the exposure to variability in cash flows of a recognised asset or liability, or forecast transaction, which is attributable to changes in variable rates or prices.

Clearing
Administrative settlement of securities, futures and options transactions through a clearing organisation and the financial institutions associated with it (clearing members).

Collateralised Loan Obligation (CLO)
A form of securitisation where payments from multiple middle sized and large business loans are pooled together and passed on to different classes of owners in various tranches.

Controlled perimeter
The legal and regulatory consolidation scope of BNP Paribas Fortis SA/NV.

Core capital
Total available capital at group level (based on the banking definition of Tier 1 capital).

Credit default swap (CDS)
A credit derivative contract between two counterparties. The buyer of a credit swap receives credit protection, while the seller of the swap guarantees the creditworthiness the underlying financial instrument.

Credit spread
The yield differential between a credit-risk-free benchmark security or reference rate (e.g. government bonds) and corporate bonds or credits.

Credit Value Adjustment (CVA)
Adjustment to the value of the Trading Book to take into account the counterparty risk.

Derivative
A financial instrument such as a swap, a forward, a future contract or an option (both written and purchased). This financial instrument has a value that changes in response to changes in underlying variables. It requires little or no net initial investment, and is settled at a future date.

Discounted cash flow method (DCF model)
An approach to valuation, whereby projected future cash flows are discounted at an interest rate that reflects the time value of money and a risk premium that reflects the extra return investors demand for the risk that the cash flow might not materialise.

Embedded derivative
A derivative instrument that is embedded in another contract - the host contract. The host contract might be a debt or equity instrument, a lease, an insurance contract or a sale or purchase contract.

Employee benefits
All forms of consideration given by an entity in exchange for services rendered by employees, including their pay or salary.

Expected credit losses
The weighted average of credit losses with the respective risks of a default occurring as the weights.

Expected Loss (EL)
The Expected Loss is the expected annual level of credit losses over an economic cycle. Actual losses for any given year will vary from the EL, but EL is the amount that our bank should expect to lose on average over an economic cycle. Expected Loss should be viewed as a cost of doing business rather than as a risk in itself. Expected Loss is calculated as follows:
EL = EAD x PD x LGD

Exposure at Default (EAD)
Gives an estimate of the amount to which the bank is exposed in the event that the borrower defaults. EAD is one of the parameters used to compute the Expected Loss (EL).

Factoring
A form of corporate financing in which a company transfers outstanding debts to a factoring company that, for a fee, assumes responsibility for the debtor records, debt collection, risk coverage and financing.

Fair value
The amount for which an asset (liability) can be bought (incurred) or sold (settled), between knowledgeable, willing parties in an arm's length transaction.

Fair value hedge
A hedge of an exposure to changes in the fair value of a recognised asset or liability (or a portion thereof) or a firm commitment. The exposure is attributable to a particular risk and will affect reported net income.

Finance lease
A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Goodwill
This represents the excess of the fair value of the assets given, liabilities incurred or assumed, and equity instruments issued over BNP Paribas Fortis SA/NV's interest in the fair value of assets acquired and liabilities and contingent liabilities assumed.

Hedge accounting
Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

IFRS
International Financial Reporting Standards, used as a standard for all listed companies within the European Union as of 1 January 2005 to ensure transparent and comparable accounting and disclosure.

Impairment
A decline in value whereby the carrying amount of the asset exceeds the recoverable amount. In such a case, the carrying amount will be reduced to its recoverable amount through the income statement.

Intangible asset
An identifiable non-monetary asset without physical substance which is recognised at cost if and only if it will generate future economic benefits and if the cost of the asset can be measured reliably.

Investment property
Property held by BNP Paribas Fortis SA/NV to earn rental income or for capital appreciation.

Joint venture
A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Lifetime expected credit losses
The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Loss given Default (LGD)
The average amount to be lost in the event of default of the counterpart. LGD is a parameter used in the calculation of Expected Loss.

Macro hedge
A hedge used to eliminate the risk of a portfolio of assets.

Notional amount
Amount of currency units, number of shares, a number of units of weight or volume or other units specified in a derivative contract.

Operating lease
A contract that allows the use of an asset against periodic payments, but does not convey rights similar to legal ownership of the asset and where the financial risks related to the asset are with the issuer of the lease contract.

Option
A contract sold by one party to another that offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security at an agreed-upon price during a certain period of time or on a specific date.

Private equity
Equity securities of companies that are not listed on a public exchange. Investors looking to sell their stake in a private company have to find a buyer in the absence of a marketplace.

Probability of Default (PD)
The probability that the counterparty will default over a one-year time horizon. PD is a parameter used in the calculation of Expected Loss.

Provision
Provisions are liabilities involving uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation to transfer economic benefits, such as cash flows, as a result of past events and a reliable estimate can be made at the balance sheet date.

Qualifying capital
The liability components that qualify as Tier 1 capital (equity) under banking supervision regulations.

Repurchase agreement (repo)
Agreement between two parties whereby one party sells the other a security at a specified price with a commitment to buy the security back at a later date for another specified price.

Reverse repurchase agreement (reverse repo)
The purchase of securities with an agreement to resell them at a higher price at a specific future date.

Securities lending (borrowing) transaction
A loan (borrowing) of a security from one counterparty to another, who must eventually return (be returned) the same security as repayment. The loan is often collateralised. Securities lending allows an entity in possession of a particular security to earn enhanced returns.

Settlement date
The date that an asset is delivered to or by an entity.

Subordinated bond (loan)
A loan (or security) that ranks below other loans (or securities) with regard to claims on assets or earnings.

Subsidiary
Any company, whose financial and operating policies BNP Paribas Fortis SA/NV, either directly or indirectly, has the power to govern, so as to obtain the benefits from its activities ('control').

Tier 1 ratio
Core capital of a bank expressed as a percentage of the risk-weighted balance sheet total.

Trade date
The date when BNP Paribas Fortis SA/NV becomes a party to the contractual provisions of a financial asset.

Value at Risk (VaR)
A technique which uses the statistical analysis of historical market trends and volatilities to estimate the likelihood that a given portfolio's losses will exceed a certain amount. For the assessment of the market risks related to its trading room activities, BNP Paribas Fortis SA/NV computes VaR using a 99% confidence interval over a 1 day time horizon. This calibration is designed to reflect the risks of trading activities under normal liquidity conditions.

Volatility swap
A volatility swap is a forward contract that allows investors to trade the future volatility of a specified underlying.

Abbreviations

ABS	Asset backed security
AC	Audit Committee
ALCO	Assets and Liabilities Committee
ALM	Asset and liability management
AMA	Advanced Measurement Approach
AT1	Additional Tier 1
BGL	Banque Générale de Luxembourg
BPLS	BNP Paribas Leasing Solutions
CASHES	Convertible and subordinated hybrid equity-linked securities
CBFA	Banking, Finance and Insurance Commission
CCF	Credit Conversion Factor
CDS	Credit default swap
CDO	Collateralised debt obligation
CET1	Common Equity Tier 1
CIB	BNP Paribas Fortis SA/NV Corporate and Institutional Banking
CLO	Collateralised loan obligation
CODM	Chief Operating Decision Maker
CPBB	Corporate & Public Banking, Belgium
CRO	Chief Risk Officer
CRR/CRD IV	Capital Requirement Regulation / Capital Requirement Directive IV
CSO	Collateralised swap obligation
CSR	Corporate Social Responsibility
CVA	Credit Value Adjustment
DCF	Discounted cash flows
EAD	Exposure At Default
EBA	European Banking Authority
ECB	European Central Bank
EL	Expected Loss
FTE	Full time equivalent
FVA	Funding Value Adjustment
GAAP	Generally Accepted Accounting Principles
GNC	Governance and Nomination Committee
GNRC	Governance, Nomination and Remuneration Committee
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICC	Internal Control Committee
IFRS	International Financial Reporting Standards
IPEV	International Private Equity and Venture Capital Valuation
IRBA	Internal Ratings Based Approach
IRC	Incremental Risk Change
KPI	Key Performance Indicator
LGD	Loss Given Default
MBS	Mortgage-backed security
MCS	Mandatory Convertible Securities
NBB	National Bank of Belgium / Nationale Bank van België
OCA	Own-Credit Value Adjustment
OCI	Other comprehensive income
OTC	Over the counter
PD	Probability of Default
RC	Risk Committee
RemCo	Remuneration Committee
RMBS	Residential mortgage-backed securities
RPB	Retail & Private Banking
RPN	Relative Performance Note
RWA	Risk Weighted Assets
SCI	Structured Credit Instruments
SME	Small and medium-sized enterprises
SPV	Special purpose vehicle
SRI	Socially Responsible Investment
SSM	Single Supervisory Mechanism
SVaR	Stressed Value at Risk
TEB	Türk Ekonomi Bankasi
VaR	Value at Risk

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BNP PARIBAS FORTIS

The bank for a changing world