BNP PARIBAS FORTIS SA/NV

ANNUAL REPORT 2018

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 2018 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 2018, with comparative figures for 2017, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, are followed by the audited Non-consolidated Financial Statements 2018 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.

The BNP Paribas Fortis Annual Report 2018 is available in English, French and Dutch. The English version is the original one while the other ones are unofficial translations. Every effort has been made to ensure that the language versions correspond to one another. If one difference should exist, the English version would take precedence.

It is considered that the information included in the note 8.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 2018 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 2018 is available on the website: www.bnpparibasfortis.com

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REPORT OF THE BOARD OF DIRECTORS

A word from the Chairman and the CEO

In 2018 BNP Paribas Fortis posted a net profit of EUR 1.9 billion on a consolidated basis. Belgian Retail Banking saw its lending portfolio expand by 4.2% compared with end-2017, to reach EUR 106.1 billion, achieving this growth from lending to businesses and mortgages loans. Deposits stood at EUR 124.7 billion at end-2018, a 4.1% increase versus the previous year, and we continued to fulfil our role of transforming those savings into financing solutions for Belgian citizens and business enterprises.

The digital shift in our customers' banking habits proceeded at a faster pace during 2018. At the end of the year the Bank had more than two million digitally active customers. On average, a million daily contacts with customers now take place through digital channels. In December 2018, direct sales accounted for 40% of all sales to individuals, a trajectory in line with our target of 50% by 2020. Direct sales to corporates reached 22%.

The improvements and additions we made to our mobile (Easy Banking App) and web offers (Easy Banking Web) played an important part in this evolution: the Easy Banking App evolved towards a broader range of options, including 'click to call', which enables direct phone contact with a specialist at the Easy Banking Centre, plus extra investment services. Moreover, on 28 November BNP Paribas Fortis became the first bank in Belgium to offer customers the contactless Apple Pay payment technology. Coupled with Google Pay, we are now able to provide fast, secure mobile payment solutions to almost all smartphone users.

The steps we are taking to improve the Customer Experience are aligned with our vision of a banking ecosystem that combines the speed and ease of use that digital tools offer with the expertise and human touch provided by our staff.

- In 2018 we provided over 9,000 person-days of training designed to upgrade the digital skills of our staff through our interactive training programmes 'TomorrowBank' and 'Proud Digital Banker'.
- Digital Channel Advisors were appointed at every Business Centre run by Corporate Banking, with the task of supporting clients to use our digital tools.
- More than 2,200 entrepreneurs took part in 25 Digital Ateliers, organised in collaboration with Google, where they acquired skills linked to setting up or developing an online business, including website creation and the use of social media in e-commerce.

We are equally convinced to positively leverage the impact of our activities on customers, businesses, society at large and the environment.

On the investment side, a recent report by the Ethibel Forum confirmed that BNP Paribas Fortis is the Belgian market leader in sustainable investing. At the end of 2018, more than 180,000 BNP Paribas Fortis customers had invested EUR 11.2 billion in SRI products via investment funds, funds of funds, structured products or insurance products, of which some EUR 7 billion was managed through the BNP Paribas Private SRI Fund, currently the largest global strategic SRI fund in the eurozone.

On the lending side, we saw our lending to sustainability related projects and projects that help to attain the UN Sustainable Development Goals grow further, to EUR 8.6 billion. The segment renewable energy rose 11% to reach EUR 2.2 billion and includes projects in solar and wind energy. Our green mortgage loans portfolio increased by 17% to attain EUR 3.3 billion. Our Bank of the Entrepreneurs continued to develop a unique offering to support social entrepreneurs, advising almost 400 clients for a total credit amount of almost EUR 80 million.

In 2018 the Green Desk in our Corporate Banking division evolved to a full Sustainable Business Competence Centre, whose specific purpose is to help corporate and institutional clients make the transition to a more sustainable business model. On carbon reduction, they worked with more than 300 clients for a total of EUR 620 million worth of sustainable financing in 2018.

Through all these initiatives we are steadily progressing towards our goal of becoming the reference in banking regarding social and environmental sustainability for both Corporate and Retail customers.

In a highly competitive and fast-changing environment, we are building the bank for the world of tomorrow. We would like to thank our customers for their trust and our colleagues for their engagement and effort in achieving our goals.

Max Jadot
Chief Executive Officer

Herman Daems
Chairman of the Board of Directors

Economic background

Viewed on a global scale, economic growth in 2018, at 3.7%, remained stable relative to 2017, though a greater contribution was needed from the developing countries to compensate for the slowdown in growth in most Western countries – the United States being the exception here. The rather capricious evolution of the oil price, where a long period of rising prices was then reversed in the last quarter of the year, created volatility. Geopolitical tensions between some of the great economic powers and the uncertainties surrounding Brexit also contributed strongly to volatility.

Economic growth in the United States rose from 2.5% in 2017 to 2.8% in 2018, an increase in which the current fiscal policy played a major role. The unemployment rate in the US fell from 4.4% in 2017 to 3.9% in 2018. As inflation rose, averaging 2.4% in 2018, new Fed Chairman Jerome Powell raised the leading interest rate to 2.5%. Meanwhile the trade deficit rose higher.

Growth in the euro zone slipped from 2.4% in 2017 to 1.8% in 2018, mainly due to declining trade figures. Domestic demand held up well, first and foremost due to capital investment and, to a lesser degree, private consumption. The unemployment rate continued to fall, from 9.1% in 2017 to 7.9% in November 2018. Inflation rose slightly, reaching 1.7% for 2018 as a whole.

The upward price trend prompted the European Central Bank to further reduce its monetary intervention. Following a policy meeting in December, the ECB announced that in 2019 it would no longer inject EUR 15 billion worth of liquidity every month. However, the base rate remains for the moment at a low level of -0.4%, which partly explains why the euro lost value relative to the dollar in 2018.

Meanwhile in Belgium, growth fell in 2018 and stands, at 1.4%, once again slightly below the European average. The overall rate of inflation accelerated from 1.8% in 2017 to 2.3% in 2018. The decrease in core inflation was more than offset by the rapid rise in the cost of energy carriers. The Belgian economy has often in the past shown an above-average sensitivity to rising energy prices.

The strong job creation trend, which saw unemployment fall to 5.6% for November, is now gradually reaching its limits. More and more companies are now finding it difficult to fill open positions, as demonstrated by the vacancy rate. In the third quarter of 2018, this indicator, which shows outstanding vacancies as a fraction of total jobs, stood at 3.6% for Belgium, notably higher than the euro zone average of 2.1%. Alongside Belgium's already low workforce participation rate, the long-term mismatch between job supply and demand appears to be the main culprit.

However, the government budget deficit continued to fall, totalling 0.8% of Gross Domestic Product in 2018. This was mainly thanks to a further drop in the interest rate burden on outstanding debt, as the primary balance (excluding the interest rate burden) worsened relative to 2017. Public levies rose again, partly driven by corporate taxation prepayments. This is a direct consequence of the increase in the basic surcharge rate applicable in cases of insufficient tax prepayments, which has led companies to shift revenue from 2019 to 2018 so as to avoid delaying their tax payments. This means however that we can expect corporate revenue to decrease in 2019.

Belgium's national debt came to 102.3% of GDP in 2018, a reduction on the 2017 figure, which worked out at 103.4%. Loans to business stood at EUR 121 billion in the third quarter of the year, a sharp increase on the temporarily lower figure recorded a year earlier. Total outstanding household borrowings stood at EUR 181 billion, a rise of close to 10% compared with 12 months earlier, mainly due to an increase in mortgage lending. On the housing market, both the total number of transactions and the number of building permits allocated remained more or less constant. At EUR 221,000, the average price of a home in Belgium at the start of the year 2018 stood considerably lower than the average figure of EUR 267,000 in neighbouring countries. Moreover, if we take the traditional price-to-income and price-to-rent indicators for house prices, Belgium, with scores of 101 and 106 respectively, is certainly not doing any worse than the neighbouring countries.

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 2018, the Bank employed a total of 12,705 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 2018 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 678 branches (of which 278 are independent branches) and 18 Bank for Entrepreneurs Centres. They are supplemented by 302 branches under the Fintro brand and 661 sales points under a 50–50 joint venture with bpost bank. The 678 branches are organised in 46 branch groups spread over 9 regions;
- RPB's digital platform manages a network of 3,256 ATMs, banking services via internet through Easy Banking, and Mobile banking (together 2 million active users);
- The Easy Banking contact centre processes around 38,000 customer 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.

During 2018 Retail & Private Banking made extensive investments in its hybrid banking model, whereby further developments in the digital sphere go hand-in-hand with optimisation of the branch network and considerable investment in updating employee skills.

New developments in digital tools

On 28 November 2018 BNP Paribas Fortis became the first bank in Belgium to offer Apple Pay. This important step means that, in combination with Google Pay, the Bank is now able to provide simple, fast and safe in-house mobile payment solutions to the vast majority of smartphone users.

The Easy Banking App home screen was re-designed, with expanded options including 'click to call', which enables direct phone contact with a specialist from the Easy Banking Centre, and also a wider range of investment services.

Following surveys among customers, BNP Paribas Fortis Retail & Private Banking took steps to match the information and offerings on the Easy Banking website more closely to their real needs. The information search function was made more user-friendly, the readability of the articles was improved and direct sales (products and services sold either digitally via Easy Banking Web or the Easy Banking App, or through the Easy Banking Centre) opportunities were expanded and simplified.

The Bank provided active customer support relating to these changes to the services. The range of digital services was highlighted in a number of media campaigns, and opportunities available via the Easy Banking App were presented at Bank events. Branch staff have now been equipped with a specially-designed 'digital sales kit' in order to ensure they are able to provide customers with comprehensive information.

These improvements to the Easy Banking App and Easy Banking Web led to a rise in the number of digitally active customers, who totalled two million at the end of 2018. In December 2018, direct sales accounted for 40% of all Retail & Private Banking sales, well on the way to hitting the target of 50% by 2020. During the year, an average of just under a million customer contacts took place through digital channels – via the web or the app – every day.

More comprehensive digital information for customers

From May 2018 onwards, Private Banking (PB) and Wealth Management (WM) clients were able to consult a new website entitled 'My Experts', which features analysis by various Bank specialists, plus a range of exclusive content, including analysis on specific sectors of industry, financial and economic trends, and the latest news on wealth management topics. The User Experience has been optimised for smartphone, tablet and PC. At end-2018 the site numbered over 250,000 users.

Vision, the Bank's magazine specifically aimed at PB and WM clients, was thoroughly redesigned in 2018, in terms of both form and content, so as to meet customer needs more closely. Meanwhile the Private Banking Expertise Days, held in six prestigious locations, were attended by a total of over 1,500 clients. In addition to a plenary session focusing on the current situation in the financial markets, the Expertise Days also featured workshops on subjects of particular interest to Private Banking clients.

During the year, more than 2,200 entrepreneurs took part in 25 Digital Workshops run in conjunction with Google, in which emphasis was placed on acquiring the necessary skills to set up or develop online activities, such as creating a website or making use of social media for e-commerce.

In September, the Bank began emailing a regular newsletter to potentially interested Retail customers to inform them about products and services and range of exclusive benefits. These include loyalty rewards, conferred for example when the customer starts his/her first job or finishes paying off a mortgage loan.

Investing in employee upskilling and branch network optimisation

Over 28,900 person-days of training were provided to Retail & Private Banking staff during 2018. The Bank has been making strenuous efforts to improve employees' knowledge and skills on the digital front, inter alia through an interactive training programme called 'TomorrowBank', whose central goal is to help staff to acquire a thorough grasp of innovation themes, improve customer-orientation and step up their expertise in the digital sphere. The 'Proud Digital Banker' training programme is specifically designed to help staff put their knowledge of and interest in digital tools into practice.

The Bank is constantly assessing the way in which it comes into contact with its customers and reflecting on what it can do to provide them with an optimal service. In making this assessment, the latest technological developments are taken into account, changes in customer behaviour – involving more frequent use of digital banking tools and less frequent visits to the branch – and the need to optimise geographical coverage. Accordingly, on the basis of this ongoing assessment, the Retail branch network underwent further rationalisation during 2018. In addition, the Bank embarked on a comprehensive investment programme designed to reshape existing branches into 'enhanced' branches that incorporate the digital experience. Moreover, new flagship branches were opened in Liege and Namur in the course of the year, while the existing flagship branches in Ghent and Brussels continued to play a full role in the local communities.

The offering for Priority Banking customers was also completely updated in 2018. Priority Banking is a tailor-made service in terms of both customer relationship – the client is served by a specially trained and certified Personal Advisor – and service range, with specific investment opportunities, insurance offers and mortgage loan terms. In addition to the basic product and service range, Priority Banking Exclusive provides access to specialist information, expertise in succession and retirement planning, and an overall portfolio approach to investment.

Investing in sustainability

For the second year running, in 2018 BNP Paribas Fortis was accorded the prestigious title of 'Bank of the Year' by Financial Times Group publication The Banker magazine. The jury placed emphasis on the efforts made by the Bank to promote sustainable business and socially responsible investment (SRI).

Some EUR 7 billion was managed through the BNP Paribas Private SRI Fund, currently the largest global strategic SRI fund in the Eurozone. As part of the cooperation between Private Banking & Wealth Management and the King Baudouin Foundation, EUR 1.5 million has been donated to social projects in 2018.

Meanwhile, 'green loans' proved extremely popular in both home loans and automobile financing segments during the year, due inter alia to strong promotional activities and attractive interest rates.

Last but not least, during 2018 the Bank ran CSR Workshops designed to help entrepreneurs meet the increasing demand from their customers for sustainable products and services. The Bank finances sustainable investment in this field by providing specially-adapted loan terms.

Corporate Banking

As detailed in the 2017 Annual Report, the Corporate Banking (CB) division is now working under a new organisational structure designed to help CB become the preferred bank for our clients in Belgium and abroad by 2020. With this goal in mind, the division has been working on three priorities: increase its process efficiency; enhance its product and service offer; and improve the client-onboarding process.

With its well-developed, diversified and integrated business and service model, Corporate Banking is well-equipped 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, Corporate Banking continues to meet the precise financing, transaction banking, investment banking and insurance needs of its clients.

Corporate Banking made strenuous efforts during 2018 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. In particular, the service model requires some improvements in order to meet all clients' financial needs precisely and rapidly. With its new organisation, the division is now better equipped to respond to the evolving expectations of its clients.

Meanwhile the Corporate Banking division continued to drive ahead with its digital transformation roadmap. CB 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, tools have been rolled out and special digital channel advisors appointed to each Business Centre to help our customers use those tools. With the creation of a Sustainable Business Competence Centre (SBCC), 2018 was also an important year for Corporate Banking 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.

In the new environment, the Human Resources (HR) department has been encouraging and seeking to accelerate the personal development of CB staff. HR is working assiduously to assist all employees through the changes taking place, to promote modern work techniques, inter alia through the New Way of Working (NWOW) initiative, and foster a 'care-share-dare' culture designed to enable the Corporate Banking division to address the relevant issues and meet targets going forward.

Noteworthy deals concluded in 2018

- BNP Paribas Fortis Export Finance acted as Mandated Lead Arranger and Sole Lender on a EUR 9.8 million Credendo-covered export credit facility in favour of a long-standing client of Türk Ekonomi Bankasi (TEB), the BNP Paribas Fortis subsidiary in Turkey, for the financing of 235 new weaving machines supplied by Picanol, an important, long-standing client of the Kortrijk Business Centre. This transaction is a good illustration of a key goal of BNP Paribas Fortis: to support international trade and sustainable investments thanks to its powerful network and experienced staff dedicated to serving their clients.
- BNP Paribas Fortis acted as Joint Green Structuring Advisor and Joint Bookrunner on the Kingdom of Belgium's 15-year inaugural Green OLO transaction. The bond was launched with an issue size of EUR 4.5 billion, making it the second largest green EUR benchmark. The Kingdom of Belgium is also only the second euro zone sovereign issuer (after France) to issue a Green Bond under its regular funding plan, i.e. with the same size and liquidity as the rest of the OLO curve. The issue was very well received, with over 150 investors taking part in the transaction assembling an order book of approximately EUR 13 billion.

- BNP Paribas Fortis acted as a close financing partner to Elia in Elia's acquisition of a 20% stake in affiliated company Eurogrid, thus taking their share in the company's equity up to 80%. BNP Paribas Fortis provided a bridge facility for the acquisition and acted as Joint Global Coordinator and Bookrunner on its refinancing through the bond markets (EUR 300 million in senior debt and EUR 700 million in hybrid bonds). This was done to enable Elia to reinforce its capital structure and maintain its BBB+ rating (S&P). The bonds refinancing the bridge were successfully priced on 28 August, based on books which were heavily oversubscribed (EUR 900 million for the senior tranche and EUR 2.1 billion for the hybrid). In addition to the actual financing, Elia chose BNP Paribas to pre-hedge the bond part of the transaction.
- For more than 15 years, the French multinational Novasep has been building experience in developing and manufacturing viral vectors for novel cutting-edge treatment such as gene therapy and immunotherapy. Viral vectors can transform the lives of patients with severe diseases by remedying their genetic defects. Facing increasing demand to provide targeted orphan and biopharmaceutical drugs, Novasep decided to invest in new commercial assets at Seneffe in Belgium. BNP Paribas supported the Belgian subsidiary Henogen by granting, as Sole Lender, real estate and equipment lease facilities of up to EUR 20.8 million to partially finance the construction of a dedicated commercial facility for the production of viral vectors and for aseptic Fill and Finish operations. This will lead to the creation of 75 new highly-qualified jobs at Henogen. With this investment, based on innovative technologies, Novasep confirms its leadership position and will remain committed to responding efficiently to the growing demand in the gene therapy market.
- BNP Paribas Fortis acted as Listing and Paying Agent for the EUR 575 million IPO of Shurgard Self-Storage on the Euronext Brussels stock Exchange, and actively supported BNP Paribas in its role as Global Coordinator. In addition, the Bank reinforced its role as Shurgard's primary bank by participating in a bridge loan and arranging a new EUR 250 million Revolving Credit Facility. Despite being executed in a volatile stock market environment, the operation was a resounding success, attracting a high-quality investor base that has led to the share price gradually but consistently trading up post listing. The IPO was also the largest on Euronext Brussels since bpost in 2013.
- After acting as advisor to CD&R on the acquisition of a 40% stake in Belron/Carglass, the largest Private Equity deal in Belgium in 2017, BNP Paribas Fortis Corporate Finance acted as Sole M&A Adviser to Ardian on the acquisition of Inula, which was the largest Private Equity deal in Belgium in 2018. Inula is the pioneer and leading international player in the fast-growing herbal remedies space. The company is better known through its brands Pranarôm (scientific aromatherapy), HerbalGem (concentrated gemmotherapy) and Biofloral (Bach flowers and other herbal products). Inula operates in more than 25 countries across five continents. The company is one of the fastest-growing companies in its sector and is expected to achieve EUR 97 million in revenues and EUR 37 million adjusted Ebitda in 2018. Ardian is one of the largest independent private investment companies, with assets under management or advisory of around USD 71 billion in Europe, North America and Asia.
- BNP Paribas Fortis was appointed Mandated Lead Arranger and Facility Agent in a EUR 175 million senior facility agreement for Ter Beke NV, on the back of a long-term relationship. The purposes of the facility included the refinancing of the strategic acquisitions of Stefano Toselli, Pasta Food Company, KK Fine Foods and Offerman, which all took place in the second half of 2017, adding some EUR 250 million in sales revenue. As a result, the company strengthened its position as a leading European player in processed meats and ready-made meals, with 12 industrial sites in Belgium, the Netherlands, Germany, France, Poland and the United Kingdom and pro forma FY2017 consolidated sales of EUR 680 million. The financing provides, in addition, ample headroom to support the company's growth plans over the next few years.
- BNP Paribas Fortis acted as Mandated Lead Arranger, Hedging Bank, sole Equity Bridge Facility Lender and Intercreditor & Security Agent in the EUR 1,153 million non-recourse financing of the 487.2MW SeaMade greenfield offshore wind farm located in the North Sea, which is owned by a joint venture set up by three sponsors: Otary RS (70%), Electrabel (17.5%) and Eneco Wind Belgium (12.5%). SeaMade will begin construction work in summer 2019 on 58 wind turbines that are scheduled to deliver, from 2020 onwards, renewable energy for 485,000 households, thus enabling avoidance of more than 500,000 tons of CO_2 emissions per year.

- In order to support Cofinimmo's growth through new acquisitions in the healthcare real estate sector in Europe, BNP Paribas Fortis acted as Joint Global Coordinator and Joint Bookrunner on the client's EUR 155 million rights issue. The transaction was successfully executed and met with strong demand from both existing shareholders and new investors, both domestically and internationally. In 2018 Cofinimmo attained its target of having 50% of its global portfolio invested in healthcare real estate, inter alia through the acquisition of 17 nursing and care homes located in Germany for a consideration of over EUR 170 million.
- Euronav, headquartered in Antwerp, is the world's leading independent crude oil tanker operator. BNP Paribas Fortis acted as Mandated Lead Arranger, Hedging Bank and Account Bank for a USD 173,550,300 Secured Term Loan with commercial and KEXIM tranches for the financing of four new-build ice class 'Suezmax' tankers built by Hyundai Heavy Industries in South Korea. The Bank took a participation of USD 34,700,000 in the Facility. The vessels are operated under a time charter contract with a US-based oil major. In 2018 Euronav successfully concluded a merger with Gener8 Maritime. BNPP Paribas Fortis acted as Mandated Lead Arranger and Swap Bank for a USD 200 million Senior Secured Credit Facility to refinance part of the ex-Gener8 Maritime fleet and two of Euronav's existing Suezmax tankers. The Bank participated in the amount of USD 50 million.
- In July 2018, the Bank acted as Joint Global Coordinator on bpost's inaugural EUR 650 million, 1.25%, 8yr Senior Unsecured Bond Issue. The funds were used for the repayment of bpost's Bridge Facility relating to the acquisition of Radial Inc, for which BNP Paribas Fortis was Sole Lender at competitive financing conditions. This has enabled bpost to lengthen its debt maturity profile and diversify its financing sources. Thanks to bpost's solid credit profile and good timing, enabling the issuer to take advantage of a lack of corporate bond supply in the market, the Bond was two times oversubscribed.
- With the support of BNP Paribas Fortis as Green Financing Structurer, ORES, the leading Walloon gas and electricity distribution system operator, drew up in 2018 a 'green' financing framework, enabling the company to raise funding through 'green' loans or 'green' bonds. Vigeo Eris, a well-known second opinion provider, has confirmed that the framework conforms to both the Green Loan Principles issued by the Loan Market Association in March 2018 and the Green Bond Principles published by the International Capital Markets Association in June 2018. The funds raised under this framework have a positive environmental impact in one of the following categories: Renewable Energy, Energy Efficiency, Sustainable Buildings and Green Mobility. During the year, BNP Paribas Fortis granted a first green loan of EUR 160 million under the framework.
- In October 2018, BNP Paribas Fortis granted a first-time 'green' loan of EUR 46 million to Water-link, a drinking water company operating in the Antwerp region. The loan will be used for the full roll-out of 200,000 digital water meters in the company's operating area, for investments in Aquaduct and for the construction of an intelligent control centre. ISS-Oekom, an independent extra-financial opinion provider, has assessed the projects and confirmed that they are of a sustainable nature.
- Sibelco announced in December 2017 the merger of its US subsidiary Unimin with its NYSE-listed peer Fairmount Santrol in a cash-and-stock transaction, to form Covia Holdings Corporation, the largest and most diversified provider of specialty sands in the USA. The new company is majority-owned (65%) by Sibelco, with the remaining 35% listed on the NYSE. BNP Paribas US acted as Joint Lead Arranger and Joint Bookrunner on USD 1.85 billion committed financing. The transaction, which closed on 1 June 2018, was well received in the market, being two-times oversubscribed, with over 100 accounts. In support of this transaction, BNP Paribas Fortis provided a EUR 200 million Bridge Term Loan Facility.

- Private Equity made direct equity investments during 2018 in, inter alia, Food Associates, a producer of a wide range of organic artisan bakery products and a distributor of marinated semi-dried and grilled vegetables and tapenades; and Stoffels Trading, a producer-marketer of specialty fresh tomatoes. In addition, Private Equity made fund investments in, inter alia, Droia Invest II, one of the most highly-specialised oncology VC funds active in Europe; and M80 Capital, a mid-market fund that provides capital to growth companies with a strong competitive niche position.
- With the financial close of Northwester 2, its fourth offshore wind power plant, Parkwind will reach a total of 800MW of installed renewable electricity generation capacity in Belgium. Northwester 2, which is scheduled for completion in the first half of 2020, will have a capacity of 219 MW generated by 23 Vestas V164-9.5MW turbines, the largest currently available. The installation will be able to generate 818.60 GWh of electricity annually, enough to cover the energy consumption of some 220,000 households. For the financing, BNP Paribas Fortis acted as Mandated Lead Arranger, Hedging Bank, Account Bank, Intercreditor Agent and Working Capital Facility provider.

Arval

Arval is a BNP Paribas Fortis subsidiary specialising in vehicle leasing. Arval provides company clients – ranging from major multinationals to self-employed professionals – with customised solutions designed to optimise staff mobility while externalising the risks arising from vehicle management. More recently, Arval has broadened its clientele to include private individual customers.

Arval offers services associated with vehicle leasing, including financing, insurance, maintenance, tyre-changes, complementary services such as complete outsourcing of client fleet and driver support management (Arval Outsourcing Solutions), a telematics solution (Arval Active Link), an online platform for client companies and drivers (My Arval), plus the expertise of Arval Consulting. Arval has also launched a SMaRT (Sustainable Mobility and Responsibility Targets) initiative designed to assist clients in implementing a strategy for making the transition towards lower-carbon energy.

At end-2018, Arval had permanent establishments in 29 countries, employing some 7,000 staff, with 1,193,910 vehicles under management. Arval has also entered into a number of strategic partnerships with manufacturers and suppliers through the Element-Arval Global Alliance, which is the world leader in this sector with around three million vehicles under management in 50 countries.

BGL BNP Paribas SA

Domestic Markets businesses

The **BGL BNP Paribas Retail & Corporate Banking** business line provides – variously through 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 is made of 41 branches, 6 Private Banking sites for high-net-worth residents of the Grand Duchy, 7 business centers that provide services exclusively to professional clients, plus 1 business center dedicated to liberal professions. It also has one of the country's most extensive ATM networks.

BNP Paribas Lease Group Luxembourg, a 100% subsidiary of the Bank, operating under the BNP Paribas Leasing Solutions brand, is the local market leader for financial leasing, providing attractive solutions for the financing of plant and equipment to business customers.

As the European leader in asset finance, **BNP Paribas Leasing Solutions** supports the growth of its clients and industrial partners by offering rental and finance solutions for their professional equipment. At the heart of the usage economy, BNP Paribas Leasing Solutions provides businesses with the flexibility they need to remain competitive and grow in a sustainable way.

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.

A major player in Luxembourg life insurance, **Cardif Lux Vie** successfully combines local know-how and international expertise to meet the specific needs of its individual, ultra-high net worth, professional and business customers.

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

Corporate and Institutional Banking Luxembourg (CIB) offers products and services to corporate and institutional clients.

CIB Luxembourg comprises three activities:

- Financing Solutions acts as a privileged and recognised partner in Luxembourg for the financing of tangible assets;
- Prime Solutions & Financing specialises in collateralised investment solutions for institutional clients;
- Correspondent Banking offers banking solutions for institutional clients.

Alongside these activities, Financial Institutions Coverage supports the business lines in their client relations and promotes the products and services offered by BNP Paribas Group.

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

Türk Ekonomi Bankası A.Ş. (TEB)

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

As at 30 September 2018, 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 is 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. TEB's goal is to be the primary bank for all its customers. Accordingly, the Bank has been implementing digital transformation strategies designed to improve the Customer Experience and focus on the development of service channels and service models.

The CEPTETEB Digital Banking Platform, launched in March 2015, offers both financial and non-financial services to customers, serving some 664,000 customers and managing deposits totalling 5.7 billion Turkish lira in 2018. The Platform provides a Customer Experience based on speed and convenience, inter alia enabling new customers to sign up online. In 2018 TEB continued to develop its digital channel experience, expanding its customer base while also launching the new TEB FX platform so as to enable both individual and corporate customers to execute foreign exchange transactions instantaneously through the CEPTETEB Digital Banking Platform.

TEB offers exclusive tailor-made products and services for small and medium-sized enterprises, micro-businesses and agribusinesses, women-led/owned SMEs and start-ups, 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 503 branches and 1,736 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-2018, 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 280,000 people have received face-to-face financial literacy training free of charge.

In addition, through partnerships with UNICEF and the Ministry of National Education (MEB), financial literacy has been incorporated into the curriculum of 11 million secondary school students in Arts and Social Studies classes. Going forward, under a project in partnership with the government's General Directorate for Lifelong Learning entitled 'I Can Manage My Own Budget', TEB has provided financial education to some five million adults over a three-year period. In addition, 1.2 million vocational and technical high school students have received training through a partnership with Turkey's General Directorate for Vocational and Technical Education.

At the end of 2018, under a new feature added to the work of the TEB Family Academy, the Bank started to offer digital financial literacy education to university students. The training, which includes coding and blockchain technologies, attracted some 3,800 students at 16 universities during a three-month period.

Through these partnerships, face-to-face education, events and meetings, the TEB Family Academy had reached out to a total of 19 million people by the end of 2018.

Corporate Social Responsibility

Engagement with key social and environmental issues is central to the Bank's strategic priorities, which since 2016 have also included a commitment to helping attain the 17 Sustainable Development Goals (SDGs) set out by the United Nations Organisation.

BNP Paribas Fortis does not restrict its CSR initiatives to corporate philanthropy in support of social causes. The Bank also makes strenuous efforts both to limit any negative impacts arising from its activities and to increase its positive impact through its lending and investment policies.

Social solidarity

The Bank provided financial support totalling some EUR 4.7 million in 2018 to various social solidarity projects, including through the work of BNP Paribas Fortis Foundation, which finances educational initiatives designed to assist underprivileged young people, and via the Rescue & Recover Fund operated by the BNP Paribas Group, which collects donations to help alleviate the effects of natural disasters. In addition, a large number of Bank staff are involved in fund-raising and social solidarity activities or provide their skills on a voluntary basis to assist charities and non-profit organisations in their social solidarity missions.

BNP Paribas Fortis Foundation

Since 2010, BNP Paribas Fortis Foundation has provided support totalling EUR 9.7 million to more than 1,600 initiatives run by Belgian charities and non-profits. In 2018, the Foundation made grants worth approximately EUR 1.2 million to over 160 organisations in Belgium. During 2019, some 3,000 children and teenagers living in difficult circumstances will receive assistance via a number of projects selected by the Foundation for aid grants.

In addition, on 6 February 2018 the Foundation hosted, in conjunction with four partners, a symposium entitled 'Engaging with Students, the Resources of the Future', which was attended by Queen Mathilde.

Venture Philanthropy Fund

Every year since 2015, the Bank has transferred part of the management fees accruing from the BNP Paribas Fortis Private SRI Fund to the Venture Philanthropy Fund run by the King Baudouin Foundation. This financial support has enabled the Venture Philanthropy Fund to provide assistance totalling EUR 4 million to 47 social interest projects in Belgium, EUR 1.5 million of which went to 21 new projects in 2018. Every year, SRI Fund clients are asked to choose their favourite charity and in 2018 they voted overwhelmingly for 'De Lochting', an organic farm enterprise which helps people living in difficult circumstances to reconnect with society by having a regular job.

#ourjob2

Corporate Engagement at BNP Paribas Fortis also means encouraging and enabling thousands of Bank employees to take part in socially beneficial activities. In 2018, for the second year running, the CSR department ran a campaign called #ourjob2, which encourages Bank staff to engage in actions that make a difference to social welfare or the environment or to participate in awareness-raising events around Social Responsibility. 12,000 participations were registered in 2018, up from 5,300 in 2017. More than 7,350 hours of voluntary work were performed by BNP Paribas Fortis at charity organisations or social enterprises. In addition, a number of fund-raising campaigns were held during the year, as a result of which – together with the 1-1 matched funds provided by the Foundation – a total of EUR 123,636 was donated to charity organisations. Moreover, for every participation in the #ourjob2 campaign, the Bank undertakes to enable Belgian non-profit WeForest to plant a tree as part of an ongoing reforestation project in Zambia. Over the last two years, 62,580 trees have thus been planted thanks to the #ourjob2 campaign and other initiatives taking place at BNP Paribas Fortis.

Reducing the negative impact of our activities

BNP Paribas Fortis is making strenuous efforts to reduce or avoid any negative impacts on persons or the environment that might arise from its operations, financing activities or investments. With this in mind, the Bank takes practical measures to reduce its own environmental footprint, monitors the activities of clients working in sensitive sectors, and declines to provide financial services to or invest in any company or business that indulges in dubious practices.

Sector policies and duty of vigilance

BNP Paribas Fortis lays down certain requirements relating to human rights and environmental care for companies working in a number of sectors that are deemed sensitive. These requirements are set out in eight published sector-specific policy documents designed to encourage companies to invest in socially - and environmentally - responsible production practices. In some cases, the Bank decides to withdraw entirely from a given sensitive sector, as was recently the case with the tobacco industry.

In 2018, 223 proposed transactions were submitted to the CSR and Compliance departments for an in-depth examination, as a result of which the Bank declined to go ahead with 17 of those transactions as they did not conform to the relevant sector policy requirements. In addition, new policies on non-conventional hydrocarbons and the tobacco industry were formulated, resulting in a number of companies being excluded from the Bank's client portfolio during the year. More than 800 companies currently appear on the exclusion list and around a hundred other businesses are being closely monitored, with whom a process of dialogue is underway with the aim of encouraging and/or assisting them in their efforts to change their current practices. In this way the Bank seeks to use its sector-specific policies as a means of actively encouraging companies on the one hand to pay greater regard to human rights and on the other to transition towards a low-carbon economy.

These financing policies pursued by the BNP Paribas Group received the approbation of international pro-sustainability campaigning NGO network Bank Track, which placed BNP Paribas top of a list of 36 banks assessed on those criteria in its 2018 annual report.

In addition to formulating these sector policies, BNP Paribas Fortis complies with a new 'duty of vigilance' law passed in France, which requires companies employing more than 5,000 people within France and also their subsidiaries, to implement an effective vigilance plan to safeguard human rights, health & safety and the environment. This duty relates not only to our own HR and Environment policies but also those of all our suppliers and customers.

Alongside its traditional financing business, the Bank has for some years been building a growing range of Socially Responsible Investment (SRI) opportunities, which are offered as a priority to clients seeking investment products. Sectors regarded as having a negative impact, such as the tobacco industry and controversial arms manufacture, are excluded from the Bank's investment products.

Reducing our own environmental footprint

BNP Paribas Fortis takes measures designed to reduce its own environmental footprint in four areas: energy, sustainable mobility, paper consumption and waste management. For example, the Bank procures 100% 'green' electricity supplies and is on track to reduce its $CO2$ emissions by 25% by 2020 versus the 'base year' 2012. In fact, the Bank's operations have been 'carbon-neutral' since 2017. All residual (non-eliminated) $CO2$ emissions are offset by investments in $CO2$-reduction projects in India and Kenya. Meanwhile, the Bank once again reduced its consumption of paper (by 15%) in 2018, largely due to awareness-raising campaigns among staff. So far, paper consumption has fallen from 3,326,000 kg in 2012 to 1,700,000 kg in 2018, i.e. a reduction of close to 50%.

Increasing the positive impact of our activities

BNP Paribas Fortis is also taking measures to increase the positive impact of its activities on customers, businesses, society at large and the environment.

Economic and environmental responsibility

Financing the economy in such a way as to have a positive impact on society and the environment is one of the pillars of the Bank's Corporate Social Responsibility policy.

BNP Paribas Fortis plays a major role in the Belgian economy and therefore has an enormous impact on society through its lending policy. Accordingly, the Bank intends to significantly increase the proportion of its loans which are granted for sustainability-related projects and projects that will help to attain the United Nations Sustainable Development Goals (UN SDGs). These include projects in the environmental field such as renewable energy and recycling; in the non-trading sector, i.e. hospitals, schools and universities; and lending to social entrepreneurs. EUR 8.6 billion of the EUR 106.1 billion worth of loans which BNP Paribas Fortis granted in 2018 was in line with this objective.

Financing provided by the Bank in the field of renewable energies rose by 11% compared with 2017 to reach EUR 2.2 billion. 'Green' mortgage loans totalled EUR 3.3 billion, a 17% increase on the 2017 figure.

BNP Paribas Fortis has also taken a number of initiatives whereby extra-financial criteria are taken into account in some of its main activities, including lending to businesses and the range of investment products offered to savings account customers and investors. The Bank may set interest rates partly according to companies' environmental, social and governance (ESG) criteria.

The Bank is helping corporate and institutional clients to make a transition to a more sustainable business model, mainly via our Sustainable Business Competence Centre, which was set up during the year by the Corporate Banking division. This new Competence Centre focuses on four areas: decarbonisation, the circular economy, human capital and 'smart cities'.

Decarbonisation

BNP Paribas Fortis is closely involved in promoting the transition to more sustainable energy use. The Bank has reduced the support it provides to the production of those fossil fuels which are most responsible for CO2 emissions – namely coal, petroleum and non-conventional gas – and is working proactively to finance renewable energy and energy efficiency projects.

The Sustainable Energy Services department ('Green Desk') began as long ago as 2009 offering companies its expertise and support in the design and financing of renewable energy generation infrastructure or in their efforts to improve energy efficiency at their premises. In 2018, the Green Desk ran 312 projects involving a total of EUR 620 million worth of sustainable financing.

Among other projects, BNP Paribas Fortis financed the construction and installation of the Ochain Energie biomethanisation and cogeneration (combined heat and power) plant, in partnership with other players, and is also financing the client's running costs pending obtention of the necessary green certificates. Ochain Energie provides 'green' electricity to more than 1,500 households, also producing the equivalent of 500,000 litres of biogas fuel each year by using the residual hot water from the electrical generator, while in addition enabling avoidance of over 4,000 tonnes of CO2 by producing high-quality fertiliser and renewable energy (heat and electricity).

The Bank also set up Belgium's first Green Revolving Credit Facility, the beneficiary being Interparking. The terms of this EUR 80 million facility are linked to Interparking's performance in terms of sustainability through to 2020. BNP Paribas Fortis will adjust the discount rate on its margin depending on the company's attainment of a set of targets including the reduction of its carbon footprint per employee and the energy consumption of its parking garages. The performance assessment will be carried out by a specialist firm called CO2logic.

ORES, Wallonia's number one operator of power and gas distribution grids and public lighting installations, took out its first green loan from BNP Paribas Fortis during the year. The EUR 160 million loan will enable ORES to finance a number of 'green' projects designed to improve its distribution networks by incorporating 'green' energies into the grid and implementing measures that combine economic and ecological goals. In this way, ORES intends to support and promote the energy transition.

The above examples provide a clear illustration of BNP Paribas Fortis' determination to encourage the transition to a more sustainable, low-carbon society, make combating climate change a key priority, and position itself as a major player in sustainable finance.

The circular economy

The term 'circular economy' refers to an economic model geared to producing goods and services in a sustainable manner, limiting the consumption and over-use of natural resources – raw materials, water and energy – and reducing the production of waste. It is based on four main principles: reduce, reuse, repair and recycle. Thus, the circular economy combines simultaneously economic, social and environmental goals.

BNP Paribas Fortis has invested GBP 2.5 million in Circularity Capital LLP, a private equity firm specialising in the circular economy, which invests in growth-phase SMEs operating in Europe. In its investments, the firm prioritises business models that apply circular economy principles to decouple business growth from resource constraints, enhance resource productivity and drive competitive advantage.

Renasci has obtained a permit to construct a waste processing plant in Ostend, which will recycle some 120,000 tonnes of household and industrial waste every year. BNP Paribas Fortis is helping to finance the plant, alongside other investors. Renasci will use novel technology to recycle plastic, metal and paper and convert non-recyclable waste into recycled carbon fuel, pellets and filler materials for the construction industry.

Financing 'green' projects, 'green' bonds and sustainable development

The Energy department at Corporate Banking and the Project Finance department at CIB are also building up their expertise in helping major corporations to finance projects in the renewable energies field.

The Bank has established a reputation for its expertise in the field of Green Bonds and accordingly played a central role in creating the very first Green Bond issued by the Belgian government in February 2018. This enabled the government to raise EUR 4.5 billion to finance the transition towards a more sustainable economy, involving clean transport, renewable energy, energy efficiency and the circular economy.

In late 2017, the World Bank launched, in collaboration with BNP Paribas Fortis, the first Sustainable Growth Bonds aimed at private individual investors in Belgium. These bonds are designed to enable the financing of 'sustainable' projects in the broad sense – not specifically 'green' but linked to such aims as spreading education and combating poverty, and thus helping to attain the 17 UN SDGs.

Social entrepreneurship and microfinance

BNP Paribas Fortis continues to provide active support to social entrepreneurship. As at end-2018, the Bank was working with a total of 386 social entrepreneurs, with outstanding credit to social businesses amounting to EUR 77 million.

In June 2018, BNP Paribas Fortis partnered with Enactus, an international non-profit organisation which supports socially and sustainability-oriented business projects run by young student entrepreneurs all over the world, thus helping to attain the UN SDGs. The Bank provides financial assistance to Enactus and business coaching to students.

Microfinance specialist microStart was set up seven years ago on the initiative of ADIE, a France-based non-profit organisation whose mission is to enable people to create their own employment, in conjunction with BNP Paribas Fortis and the European Investment Fund, for the purpose of providing small loans to people who are unable to access the traditional banking system. In 2018, microStart granted 688 new micro-loans for a total of EUR 5.7 million. During the year the microfinance provider held discussions with some 3,400 potential borrowers and provided various kinds of assistance to 1,400 customers. Today microStart has 1,800 active customers.

Since opening its doors in 2011, microStart has granted around 4,500 loans totalling EUR 32 million to Belgium-based micro-entrepreneurs, thus supporting 3,175 small business projects and enabling the creation of 2,300 new jobs in this country. The average amount borrowed is EUR 7,200 and 91% of all microStart loans are duly repaid.

Socially Responsible Investment (SRI)

BNP Paribas Fortis' clients are able to choose from among a broad range of sustainable investment opportunities, allowing them to invest in sectors and companies which are having a positive impact on the world. Our Private Banking department has made SRI products central to its offer range and the Retail Banking division is also increasingly offering these opportunities systematically to customers.

Our Themed Funds, which invest in specific sectors such as Water, Renewable Energy and Microfinance, are now the most popular vehicles.

At the Euromoney Awards ceremony on 22 February 2018, our Private Banking & Wealth Management division received recognition for its pro-SRI policy. SRI funds, which are systematically offered to clients in this segment, now account for more than 27% of all assets under management. New 'themes', such as Healthy Living, Smart Materials, Well-being at Work and Gender Equality, are regularly added to the range. In broadening its SRI range, the Bank is responding to the expectations of society at large and of customers who are becoming increasingly sensitive to social and environmental issues.

Social and civic responsibility

BNP Paribas Fortis attaches great importance to training staff and improving their employability. In addition, respect, openness, diversity and inclusiveness are also central tenets of the Bank's Human Resources policy.

Diversity

Diversity and inclusiveness are priority issues for BNP Paribas Fortis, as indeed they are across the entire BNP Paribas Group.

Early 2018 saw the launch of a campaign aimed at preventing unacceptable behaviour such as moral or sexual harassment, unfair discrimination and violence.

The Bank's fifth annual 'Diversity Week', whose primary theme was Collective Intelligence, also addressed the issue of anxiety in the workplace. Over 2,000 colleagues from all regions took part. A number of activities were run by our seven Employee Networks – MixCity, O2, 35Beaufort, Friends of Africa, MiC, PrideBE and Ability – including a workshop on Stereotypes which was attended by 200 employees.

Training sessions on 'unconscious bias' were given by the Diversity team and a number of conferences were run on the themes of 'white skin privilege', humour in the workplace and the skills of the future.

Meanwhile the Bank entered into a partnership with Jump, the Diwan Awards, DiverStory (a campaign on 'role models') and Cap 48, which has enabled us to further highlight the Bank's engagement with these issues.

Some 400 employees signed up to take part in the 'Live my Job' initiative, which enables staff to spend a half day finding out about another type of work at the Bank.

A project also got underway at the Bank to improve the employability of staff living with a specific disability, including re-thinking HR processes vis-à-vis disabilities.

Last but not least, BNP Paribas Fortis helped to create a toolkit on sexism, which is available to any company that wishes to use it.

University chairs

Financing academic chairs on key subjects is also an integral part of BNP Paribas Fortis CSR policy and the Bank's engagement with the wider society. In supporting these chairs, the Bank is working to bring together scientific research, education and business enterprises to address new developments that are of importance to the economy in Belgium's largest cities. In pursuing this kind of partnership, the Bank's aim is to build bridges between the realities of the business world and the work of the academic world. BNP Paribas Fortis currently supports ten university chairs, the latest one, set up in December with the VUB, will focus on the subject of data protection.

Art and History

BNP Paribas Fortis firmly believes that it is very important to share its artistic and historical heritage with the wider society. As an example, during 2018, the Bank lent out a work by René Magritte to an exhibition showing in Switzerland. The Bank also helped to mark the 100th anniversary of the 1918 Armistice by putting on an event entitled 'Do not forget them', which set out to highlight the major role played by the Bank through its participation in the national Food Aid Committee during the First World War.

Changes in the scope of consolidation

Information on the changes in the scope of consolidation is provided in Note 8.j 'Scope of consolidation' and Note 8.b 'Business combinations'.

BNP Paribas Fortis credit ratings at 28/02/2019

	Long-term	Outlook	Short-term
Standard & Poor's	A	Positive	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 2019. 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 1,932 million in 2018, compared to EUR 1,897 million in 2017, up by EUR 35 million or 2%.

Please note that the comments in the present section have been written by referring to the financial statements and the respective notes. For a business oriented analysis, please refer to the Press Release of BNP Paribas Fortis available on the corporate website. This analysis focuses on the underlying evolution, which excludes scope changes (as well as acquisition, sale and transfer of activities), foreign exchange impacts and one-off results. By excluding these effects, BNP Paribas Fortis showed a stable underlying pre-tax income in 2018 compared to 2017 and an increasing underlying net income attributable to equity holders by 5%.

Operating income amounted to EUR 2,811 million in 2018, down by EUR (139) million or (5)% compared to EUR 2,950 million in 2017. The decrease was the result of lower revenues for EUR (66) million or (1)%, stable costs (a slight increase of EUR (16) million or 0%) and higher cost of risk for EUR (57) million.

Non-operating items (share of earnings of equity-method entities and net gain on non-current assets) were down by EUR (94) million.

The goodwill was impacted by the full impairment of the goodwill of TEB in 2017, while the corporate income tax decreased significantly by EUR 92 million impacted by the decrease of the tax rate and other exceptional items in both years.

The comparison between the 2018 and 2017 results was impacted by the following elements:

- The replacement of IAS 39 by IFRS 9 as from 1 January 2018. This accounting change did not prevent to compare both period despite some captions of the profit and loss account were significantly impacted such as the net gain or loss on financial instruments at fair value through profit or loss, the net gain or loss on financial instruments at fair value through equity and the cost of risk.
- Scope changes mainly related to some changes in the consolidation scope following the final review of the consolidation thresholds launched end of 2017.
- Foreign exchange variations, and more particularly the continuous depreciation of the Turkish lira against euro (from 4.12 on average in 2017 to 5.69 on average in 2018).

Based on the segment information, 51% of the revenues were generated by banking activities in Belgium, 25% by other domestic markets, 12% by banking activities in Turkey, 8% by banking activities in Luxembourg and 4% by segment Other.

Net interest income reached EUR 4,874 million in 2018, decreasing by EUR (107) million or (2)% compared to 2017. Excluding the scope changes (EUR 35 million) and the foreign exchange effect in Turkey (EUR (266) million), net interest income increased by EUR 124 million mainly at Personal Finance and Leasing Solutions, both benefiting from a good volume growth.

In Belgium, the net interest income decreased due to the persistently low interest rate environment. This was mainly 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). There was also less interest income on fixed-income securities related to the sale and redemption of securities with high yields. Finally, this was partly offset by lower interest expenses related to clients' deposits.

In Luxembourg, the downward trend of net interest income was also the result of the low interest rate environment.

Net interest income in Turkey dropped sharply by (16)% largely due to the depreciating Turkish lira. In its local currency, Turkey's net interest income increased by 14% mainly thanks to an important average volume growth.

Net commission income amounted to EUR 1,357 million in 2018, down by EUR (73) million or (5)% compared to 2017. Excluding the scope changes (EUR 3 million) and the foreign exchange effect in Turkey (EUR (69) million), net commission decreased by EUR (7) million, mainly in Belgium following lower fees received on asset management and a rise in retrocession fees paid to independent agents due to the development of this network.

Net results on financial instruments at fair value through profit or loss stood at EUR 194 million, up by EUR 129 million compared to 2017. This increase was mainly due to higher results in Turkey in a context of volatile market conditions.

Net results on financial instruments at fair value through equity amounted to EUR 85 million in 2018, decreasing by EUR (104) million compared to previous year. The 2017 result was essentially marked by capital gains on the sale of portfolios in private equity funds and capital gains on the disposal of fixed-income securities mainly in Belgium. The 2018 result was essentially marked by capital gains on the disposal of fixed-income securities mainly in Belgium. It must be also reminded that for variable income securities classified in this caption, gains and losses related to sales are booked directly through equity, since the application of IFRS 9 as at 1 January 2018.

Net income from other activities totalled EUR 1,547 million in 2018, higher by EUR 93 million compared to 2017. Without the scope changes (EUR 124 million), essentially related to Arval, the decrease of EUR (31) million was mainly attributable to the disposal, in 2017, of SC Nueva Condo Murcia, S.L., an entity that held commercial real estate assets in Spain. The remaining decrease was mostly due to reversal of provisions in Belgium in 2017.

Salary and employee benefit expenses amounted to EUR (2,568) million in 2018, i.e. a decrease of EUR 66 million compared to previous year. However, excluding the scope changes (EUR (44) million) and the foreign exchange effect of the Turkish lira (EUR 82 million), there was a net decrease of EUR 28 million. In Belgium, there were less staff expenses mainly due to lower FTEs and the positive impact of the decrease of the social security charges rate. This decline was partly offset by higher staff expenses in Turkey, following salary adjustment related to high inflation as well as at Leasing Solutions to support the development of the activities.

Other operating expenses amounted to EUR (1,992) million in 2018, i.e. an increase of EUR (89) million compared to previous year. Excluding the scope changes (EUR (35) million) and the foreign exchange impact of the Turkish lira (EUR 61 million), other operating expenses were up by EUR (115) million.

In Belgium, the increase was driven by higher IT costs while banking taxes and levies amounted to EUR (290) million in 2018, stable compared to EUR (291) million in 2017.

Outside Belgium, costs increased in Turkey, at Leasing Solutions and Personal Finance to support the business growth.

Depreciation charges stood at EUR (287) million in 2018, versus EUR (294) million compared to previous year, i.e. a slight decrease of EUR 7 million.

Cost of risk totalled EUR (395) million in 2018, i.e. an increase of EUR (57) million compared to 2017. Excluding the scope changes (EUR (12) million) and the foreign exchange impact of the Turkish lira (EUR 53 million), there was a net increase of EUR (98) million.

In Belgium, cost of risk improved mainly due to a higher net reversal in stage 1 and 2 in 2018 result compared to the net reversal of the collective provisions in 2017 result.

Outside Belgium, there was higher cost of risk at Arval and Personal Finance.

Share of earnings of equity-method entities amounted to EUR 201 million in 2018, compared to EUR 278 million in 2017, i.e. a decrease of EUR (77) million. Excluding the scope changes (EUR (54) million), the remaining decrease of EUR (23) million was mainly due to lower contribution from BNP Paribas Asset Management impacted by the adverse market conditions and AG Insurance.

Net gain on non-current assets amounted to EUR 15 million in 2018 versus EUR 32 million in 2017. The decrease was related, in 2017, to some price adjustments on the transfer of activities of BNP Paribas Fortis European (CIB) branches to BNP Paribas, the disposals of a building in Luxembourg and of Margaret, a non-consolidated entity. 2018 was mainly marked by the result on the transfer of activities of BNP Paribas Fortis Madrid branch to BNP Paribas and more results on the disposal of commercial agencies.

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 2018 totalled EUR (683) million compared to EUR (775) million. Following the reform of the corporate income tax regime in 2017, the bank was benefiting from lower corporate income tax in 2018 while in 2017 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 the share of earnings of equity-method entities (reported net of income taxes), the effective tax rate stood at 24% in 2018, compared to 28% in 2017.

Net income attributable to minority interests amounted to EUR 413 million in 2018, compared to EUR 476 million in 2017.

Net income attributable to equity holders totalled EUR 1,932 million in 2018, compared to EUR 1,897 million in 2017.

Comments on the evolution of the balance sheet

The total balance sheet of BNP Paribas Fortis amounted to EUR 291.3 billion as at 31 December 2018, up by EUR 13.9 billion or 5% compared with EUR 277.4 billion at 1 January 2018.

In terms of scope changes, 2018 was impacted by some changes in the consolidation scope following the final review of the consolidation thresholds launched end of 2017.

The activities of Von Essen Bank in Germany will be transferred to BNP Paribas in the course of 2019 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, the assets and liabilities of the entity have been reclassified and presented in the separate balance sheet lines - 'Non-current assets held for sale' and 'Liabilities associated with non-current assets held for sale'. Comparative figures of 1 January 2018 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 and advances at Amortised Cost' for EUR (1.9) billion and 'Debts at Amortised Cost' for (1.7) billion).

Excluding these impacts, the total balance sheet of BNP Paribas Fortis had actually increased by EUR 11.8 billion.

In 2018, excluding IFRS 5 and the impact of scope changes, loans and advances to customers and deposits from customers showed continuous growth. The net growth on loans and advances to customers amounted to EUR 5.8 billion mainly related to term loans (in BNP Paribas Fortis), and to a lesser extent to mortgage loans (in BNP Paribas Fortis), consumer loans (Alpha Credit) and finance lease loans at Leasing Solutions entities. The net increase on deposits from customers, up by EUR 8.4 billion, were the result of significant inflow of liquidity deposited in current accounts, mostly in Belgium and Luxembourg.

In Turkey, the higher level of both loans and deposits was more than counterbalanced by the adverse effect of depreciating Turkish lira which lost 33% of its value against the euro during the year 2018.

Based on the segment information, 64% of the assets were contributed by banking activities in Belgium, 16% by other domestic markets, 9% by banking activities in Luxembourg, 6% by banking activities in Turkey and 5% by segment Other.

Assets

Cash and amounts due from central banks amounted to EUR 4.7 billion, down by EUR (0.2) billion compared to 1 January 2018.

Financial instruments at fair value through profit or loss amounted to EUR 15.5 billion, up by EUR 3.7 billon compared to 1 January 2018. The evolution was mainly attributable to higher trading on reverse repurchase activities for EUR 3.5 billion essentially at BNP Paribas Fortis.

Financial assets at fair value through equity stood at EUR 10.8 billion, EUR (3.6) billion lower than EUR 14.4 billion as at 1 January 2018. The decrease on debt securities (EUR (3.7) billion) was mainly related to the arrival at maturity and sale of government bonds (e.g. net decrease in Belgian government bonds for EUR (2.6) billion).

Financial assets at amortised cost amounted to EUR 220.3 billion as at 31 December 2018, up by EUR 10.5 billion compared with EUR 209.8 billion as at 1 January 2018. Excluding EUR (1.9) billion from IFRS 5 and EUR 1.5 billion from scope changes, the net increase amounted to EUR 10.9 billion.

Loans and advances to credit institutions raised by EUR 3.0 billion following higher reverse repurchase activities in Belgium and Luxembourg, partly offset by less interbank loans.

Loans and advances to customers improved by EUR 5.8 billion primarily supported by higher term loans especially at BNP Paribas Fortis. The growth was also driven, to a lesser extent, by higher demand for mortgages (EUR 1.3 billion) mainly at BNP Paribas Fortis, higher net Finance lease loans thanks to growing activities at Leasing Solutions and higher consumer loans (EUR 1.0 billion) thanks to the strong contribution of Alpha Credit in Belgium.

Debt securities at amortised cost increased by EUR 2.1 billion especially in Belgium.

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

Current and deferred tax assets amounted to EUR 1.9 billion, down by EUR (0.2) billion compared to EUR 2.1 billion at 1 January 2018.

Accrued income and other assets stood at EUR 9.0 billion as at 31 December 2018, up by EUR 0.8 billion compared to EUR 8.2 billion at 1 January 2018.

Equity-method investments amounted to EUR 3.8 billion at the end of 31 December 2018, slightly down by EUR (0.5) billion compared to 1 January 2018 mainly due to distributed dividends.

Property, plant and equipment and investment property amounted to EUR 19.5 billion as at 31 December 2018, up by EUR 2.1 billion compared to EUR 17.4 billion at 1 January 2018. Excluding EUR 0.8 billion from scope changes, the net growth was attributable to the good growth of the financed fleet of Arval.

Non-current assets held for sale stood at EUR 2.4 billion as at 31 December 2018 as the assets and liabilities of Von Essen Bank were reclassified and presented in the separate lines - 'Non-current assets held for sale' and 'Liabilities associated with non-current assets held for sale' in accordance with IFRS 5.

Liabilities and Equity

Cash due to central banks stood at EUR 0.1 billion, down by EUR (0.3) billion compared to EUR 0.4 billion at 1 January 2018.

Financial instruments at fair value through profit or loss increased by EUR 7.6 billion, totalling EUR 20.5 billion as at 31 December 2018 compared to EUR 12.9 billion at 1 January 2018. The evolution was mainly attributable to higher trading on repurchase activities for EUR 7.2 billion mainly at BNP Paribas Fortis.

Financial liabilities at amortised cost amounted to EUR 224.4 billion as at 31 December 2018, up by EUR 6.0 billion compared with EUR 218.4 billion at 1 January 2018. Excluding EUR (1.8) billion from IFRS 5 and EUR 0.9 billion from scope changes, the net increase amounted to EUR 6.9 billion.

Deposits from customers contributed for EUR 8.4 billion mostly attributable to an increase on current deposits (EUR 6.2 billion) especially in Belgium and Luxembourg.

Debt securities and subordinated debts also positively contributed for respectively EUR 0.8 billion and EUR 0.5 billion. On debt securities, new issuances of commercial papers and covered bonds in Belgium were done in 2018 partly counterbalanced by matured commercial papers in Luxembourg. On subordinated debts the evolution was related to the issuance of a new subordinated debt at end of year by BNP Paribas Fortis partly counterbalanced by the arrival at maturity of subordinated debts issued by BNP Paribas Fortis.

Deposits from credit institutions decreased by EUR (2.7) billion following lower repurchase activities and interbank borrowings.

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

Accrued expenses and other liabilities increased by EUR 1.0 billion, amounting to EUR 7.9 billion as at 31 December 2018 compared with EUR 6.9 billion at 1 January 2018.

Provisions for contingencies and charges came in at EUR 4.2 billion, slightly down by EUR (0.3) billion compared with the EUR 4.5 billion at 1 January 2018.

Liabilities associated with non-current assets held for sale totalled EUR 2.1 billion as at 31 December 2018 as the assets and liabilities of Von Essen Bank were reclassified and presented in the separate lines - 'Non-current assets held for sale' and 'Liabilities associated with non-current assets held for sale' in accordance with IFRS 5.

Shareholders' equity amounted to EUR 22.3 billion as at 31 December 2018, down by EUR (0.4) billion or (2)% compared with EUR 22.7 billion at 1 January 2018. Retained earnings were impacted by the distribution of an interim dividend of EUR 1.9 billion counterbalanced by the net income attributable to shareholders for the year 2018 which contributed for EUR 1.9 billion. Foreign translation differences impacted negatively the shareholders equity for EUR (0.3) billion, mainly related to adverse impact resulting from the depreciating Turkish lira.

Minority interests stood at EUR 5.1 billion as at 31 December 2018, down by EUR (0.3) billion compared with EUR 5.4 billion at 1 January 2018. Net income for the year 2018 attributable to minority interests amounted to EUR 0.4 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 174 billion and customer loans at EUR 179 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 2018, BNP Paribas Fortis' phased-in Basel III Common Equity Tier 1 ratio (CET1 ratio, taking into account the CRD4 rules with application of the current transitional provisions) stood at 13.9%. Total risk-weighted assets amounted to EUR 138.3 billion at 31 December 2018, of which EUR 113.8 billion are related to credit risk, EUR 1.8 billion to market risk and EUR 12.8 billion to operational risk, while counterparty risk, securitisation and equity risk worked out at EUR 2.2 billion, EUR 0.7 billion and EUR 7.0 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 2018.

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 8.a 'Contingent liabilities: legal proceeding and arbitration' to the BNP Paribas Fortis Consolidated Financial Statements 2018.

Events after the reporting period are further described in Note 8.l 'Events after the reporting period' to the BNP Paribas Fortis Consolidated Financial Statements 2018.

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 2018 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 2018 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 13 March 2019 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 2018 will be submitted to the Annual General Meeting of Shareholders for approval on 18 April 2019.

Brussels, 13 March 2019
The Board of Directors of BNP Paribas Fortis

CORPORATE GOVERNANCE STATEMENT

BNP 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 13 March 2019, the board of directors of BNP Paribas Fortis is made up of fifteen (15) 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 six (6) 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 13 March 2019, 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.

ANSEEUW Michael
Executive director.
Member of the board of directors since 19 April 2018. The mandate will expire at the end of the 2022 annual general meeting of shareholders.

d'ASPREMONT LYNDEN Antoinette
Independent non-executive director.
Member of the board of directors since 19 April 2012.
The current board member mandate has been renewed on 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.

VERMEIRE Stéphane
Executive director.
Member of the board of directors since 19 April 2018. The mandate will expire at the end of the 2022 annual general meeting of shareholders.

Between 1 January 2018 and 31 December 2018, 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

ANSEEUW, Michael
Executive director (since April 26, 2018)

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

VERMEIRE, Stéphane
Executive director (since April 26, 2018)

Attendance at meetings

The board of directors held twelve (12) meetings in 2018. Attendance at these meetings was as follows:

Director	Number of Meetings Attended
DAEMS, Herman	12
JADOT, Maxime	9
DIERCKX, Filip	11
ANSEEUW, Michael	7
d'ASPREMONT LYNDEN, Antoinette	12
AUBERNON, Dominique	11
BEAUVOIS, Didier	12
BOOGMANS, Dirk	12
DECRAENE, Stefaan	8
DUTORDOIR, Sophie	10
LABORDE, Thierry	10
MERLO, Sofia	10
VAN AKEN, Piet	12
VARENE, Thierry	10
VERMEIRE, Stéphane	8

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 2018 and the one of the directors ended in January 2019.

Remuneration

Information regarding the total remuneration for the corporate year 2018, 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 13 March 2019, 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

ANSEEUW Michael
Executive director

BEAUVOIS Didier
Executive director

VAN AKEN Piet
Executive director

VERMEIRE Stéphane
Executive director

Other board committees

Article 27 of the Banking Law provides that the board of directors must set up four (4) 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 (for more information reference is made to the chapter "Information regarding related party transactions").

Each board committee has an advisory function towards the board.

Besides the ad-hoc committee that convenes within the framework of article 72 of the Banking Law and of which the Chief Risk Officer is a member while being an executive director, all members of the other 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 under 3) 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 (1) 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 13 March 2019:

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

Attendance at meetings

The audit committee met five (5) times in 2018. Attendance was as follows:

Committee Member	Number of Meetings Attended
BOOGMANS, Dirk	5
d'ASPREMONT LYNDEN, Antoinette	5
VARENE, Thierry	1

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 13 March 2019:

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

Attendance at meetings

The risk committee met six (6) times in 2018. Attendance was as follows:

Committee Member	Number of Meetings Attended
BOOGMANS, Dirk	6
d'ASPREMONT LYNDEN, Antoinette	6
VARENE, Thierry	2

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 13 March 2019:

- 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 seven (7) times in 2018. Attendance was as follows:

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

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 13 March 2019:

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

Attendance at meetings

The remuneration committee met six (6) times in 2018. Attendance was as follows:

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

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 thirteen (13) members, of which six (6) are executive directors. It brings together the executive board and the seven (7) 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
Executive director, 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

Marc CAMUS
Member of the executive committee, chief information 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

Franciane RAYS
Member of the executive committee, chief financial officer

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

Stéphane VERMEIRE
Executive director, member of the executive committee, chief private banking and wealth management

Sandra WILIKENS
Member of the executive committee, head of human resources

3. Internal Control Procedures

Roles and responsibilities for preparing and processing accounting and financial information

The Finance Function, under the authority of the Chief Financial Officer, reporting to the Chief Operating Officer, is responsible for preparing and processing accounting and financial information. This responsibility is further defined in a specific Charter describing all responsibilities 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 reports;
- preparing and producing information on solvency and liquidity ratios, calculating the ratios and making the regulatory reports;
- preparing management control information and reporting (actuals and forecast) and providing the necessary support for financial steering; managing the risk associated with accounting and financial information (results, balance sheet, solvency and liquidity) by defining and implementing a permanent operational control framework;
- managing the input for the financial communications, ensuring a high quality and a clear perception by the markets;
- managing the financial structure;
- overseeing the architecture, design and deployment of the financial information systems (results, balance sheet, solvency, liquidity);
- defining and coordinating the Finance Function organization;
- designing the organisation and implementing the operational processing of activities related to the Finance Function;
- alerting the Executive Management to any problems

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 (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. The team is responsible for performing a second level of control on the operational departments which each perform their first level of control. 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 and validating 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 standardized questions, included in a generic control plan, 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, by performing a second level of control on these certificates and ensuring the final validation by the CFO.

The certification process encompasses:

- certification that the accounting data reported are reliable and comply with the BNP Paribas Group 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 analyzed.

Periodic control – General Inspection

General Inspection has a team of inspectors who are specialists in accounting and finance 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 2018, the accredited statutory auditor was PwC Bedrijfsrevisoren bcvba/PwC Reviseurs d'Entreprises sccrl, represented by Mr. Damien WALGRAVE.

The statutory auditor is 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 auditor is required to issue a report every financial year, in which he give his opinion regarding the fairness of the consolidated financial statements of BNP Paribas Fortis and its subsidiaries.

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

- examines any significant changes in accounting standards and presents his recommendations to the Audit Committee regarding choices that have a material impact;
- presents the relevant entity and the Finance department with his 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 his 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, protect ting 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 2018

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

IFRS 9 and IFRS 15 are applicable retrospectively as from 1 January 2018 and introduce the option not to restate the comparative figures for prior periods. Since the Group has retained this option, the comparative financial statements for 2017 have not been restated for these changes in method.

Presentation changes have however been performed on these comparative figures in order to harmonise item headings with those established by IFRS 9. These changes are described in note 2.a. Moreover, the synthetic balance sheet includes a comparative reference as at 1 January 2018 which takes into account the impacts of the IFRS 9 and IFRS 15 adoption (note 2.b). Comparative figures presented in the notes to the financial statements related to balance sheet items (note 5.) are based on that reference.

Profit and loss account for the year ended 31 December 2018

In millions of euros	Note	Year to 31 Dec. 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 [1] IAS 39
Interest income [2]	3.a	7,908	7,851
Interest expense [2]	3.a	(3,034)	(2,870)
Commission income	3.b	2,074	2,298
Commission expense	3.b	(717)	(868)
Net gain or loss on financial instruments at fair value through profit or loss	3.c	194	65
Net gain or loss on financial instruments at fair value through equity	3.d	85	189
Net gain or loss on the derecognition of financial assets at amortised cost	3.d	(4)	-
Income from other activities	3.e	10,520	9,345
Expense on other activities	3.e	(8,973)	(7,891)
Revenues		**8,053**	**8,119**
Salary and employee benefit expenses	7.a	(2,568)	(2,634)
Other operating expenses	3.f	(1,992)	(1,903)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	5.l	(287)	(294)
Gross operating income		**3,206**	**3,288**
Cost of risk	3.g	(395)	(338)
Operating income		**2,811**	**2,950**
Share of earnings of equity-method entities	5.k	201	278
Net gain on non-current assets		15	32
Goodwill	5.m	1	(112)
Pre-tax income		**3,028**	**3,148**
Corporate income tax	3.h	(683)	(775)
NET INCOME		**2,345**	**2,373**
of which net income attributable to minority Interests		413	476
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS		**1,932**	**1,897**

(1) Revised presentation based on the reclassifications and the re-labelling within Net Banking Income described in note 2.a: re-labelling of 'net gains on available-for sale financial assets and other assets not measured at fair value' to 'net gains on financial assets at fair value through equity' and 'net gains on derecognised financial assets at amortised cost', reclassification of interest on trading instruments within 'Net gains on financial instruments at fair value through profit or loss'.

(2) Due to the implementation of IFRS 9, the requirements of IAS 1.82(a) are detailed under disclosure '3.a Net interest income'.

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

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 (1) IAS 39
Net income for the period	**2,345**	**2,373**
Changes in assets and liabilities recognised directly in equity	**(636)**	**(450)**
Items that are or may be reclassified to profit or loss	**(735)**	**(461)**
Changes in exchange rate items	(452)	(415)
Changes in fair value of financial assets at fair value through equity		
Changes in fair value recognised in equity	*(111)*	*(39)*
Changes in fair value reported in net income	*(121)*	*(70)*
Changes in fair value of investments of insurance activities		
Changes in fair value recognised in equity	*(2)*	-
Changes in fair value reported in net income	*1*	-
Changes in fair value of hedging instruments		
Changes in fair value recognised in equity	*(3)*	*(92)*
Changes in fair value reported in net income	*(1)*	-
Income tax	59	111
Changes in equity-method investments	(105)	44
Items that will not be reclassified to profit or loss	**99**	**11**
Changes in fair value of financial assets at fair value through equity	-	
Changes in fair value recognised in equity	*70*	
Items sold during the period	-	
Debt remeasurement effect arising from BNP Paribas Fortis issuer risk	35	
Remeasurement gains (losses) related to post-employment benefit plans	5	33
Income tax	(12)	(23)
Changes in equity-method investments	1	1
TOTAL	**1,709**	**1,923**
Attributable to equity shareholders	1,448	1,644
Attributable to minority interests	261	279

(1) Revised presentation, including the changes described in note 2.a: reallocation of 'changes in fair value of available-for-sale financial assets, including those reclassified as loans and receivables' related to insurance activities into 'changes in fair value of investments of insurance activities' and the re-labelling of 'changes in fair value of available-for-sale financial assets, including those reclassified as loans and receivables' into 'changes in fair value of financial instruments at fair value through equity'.

Balance sheet at 31 December 2018

In millions of euros	Note	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 (1) IFRS 9 & IFRS 15	31 December 2017 (2) IAS 39
ASSETS				
Cash and balances at central banks		4,691	4,933	4,942
Financial instruments at fair value through profit or loss		15,474	11,790	11,064
Securities	5.a	*2,825*	*3,553*	*1,621*
Loans and repurchase agreements	5.a	*5,966*	*2,458*	*3,666*
Derivative financial instruments	5.a	*6,683*	*5,779*	*5,777*
Derivatives used for hedging purposes	5.b	1,361	2,009	2,011
Available-for-sale financial assets				23,697
Financial assets at fair value through equity		10,778	14,439	
Debt securities	5.c	*10,442*	*14,128*	
Equity securities	5.c	*336*	*311*	
Financial assets at amortised cost		220,282	209,806	200,730
Loans and advances to credit institutions	5.e	*28,105*	*24,961*	*24,962*
Loans and advances to customers	5.e	*179,267*	*174,101*	*173,062*
Debt securities	5.e	*12,910*	*10,744*	*2,706*
Remeasurement adjustment on interest-rate risk hedged portfolios		1,142	1,062	1,062
Held-to-maturity financial assets				511
Current and deferred tax assets	5.i	1,905	2,132	2,149
Accrued income and other assets	5.j	8,982	8,249	8,212
Equity-method investments	5.k	3,840	4,255	4,356
Property, plant and equipment and Investment property	5.l	19,454	17,387	17,387
Intangible assets		337	292	292
Goodwill	5.m	719	663	663
Non-current assets held for sale	5.q	2,355	367	366
TOTAL ASSETS		**291,320**	277,384	277,442
LIABILITIES				
Deposits from central banks		112	382	382
Financial instruments at fair value through profit or loss		20,467	12,918	13,190
Securities	5.a	*158*	*222*	*222*
Deposits and repurchase agreements	5.a	*12,093*	*4,913*	*4,913*
Issued debt securities	5.a	*3,344*	*3,941*	*3,941*
Derivative financial instruments	5.a	*4,872*	*3,842*	*4,114*
Derivatives used for hedging purposes	5.b	3,505	4,254	3,982
Financial liabilities at amortised cost		224,409	218,406	218,406
Deposits from credit institutions	5.g	*33,844*	*36,520*	*36,558*
Deposits from customers	5.g	*174,389*	*166,965*	*166,927*
Debt securities	5.h	*13,229*	*12,434*	*12,434*
Subordinated debt	5.h	*2,947*	*2,487*	*2,487*
Remeasurement adjustment on interest-rate risk hedged portfolios		581	441	441
Current and deferred tax liabilities	5.i	674	685	748
Accrued expenses and other liabilities	5.j	7,882	6,861	6,423
Provisions for contingencies and charges	5.n	4,211	4,464	4,732
Liabilities associated with non-current assets held for sale	5.q	2,099	834	831
TOTAL LIABILITIES		**263,940**	249,245	249,135
EQUITY				
Share capital, additional paid-in capital and retained earnings		*21,042*	*21,051*	*21,028*
Net income for the period attributable to shareholders		*1,932*	*1,897*	*1,897*
Total capital, retained earnings and net income for the period attributable to shareholders		22,974	22,948	22,925
Changes in assets and liabilities recognised directly in equity		(700)	(216)	(161)
Shareholders' equity		**22,274**	**22,732**	**22,764**
Minority interests	8.c	**5,106**	**5,407**	**5,543**
TOTAL EQUITY		**27,380**	28,139	28,307
TOTAL LIABILITIES & EQUITY		**291,320**	**277,384**	**277,442**

(1) As of 1 January 2018 after implementation of IFRS 9 and IFRS, as described in note 2.b.

(2) Revised presentation, based on reclassifications and adjustments detailed in note 2.a , mainly related to the re-labelling of financial instruments item headings and the impact of securities recognition at settlement date.

Cash flow statement for the year ended 31 December 2018

In millions of euros	Note	Year to 31 Dec. 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 IAS 39
Pre-tax income		3,028	3,148
Non-monetary items included in pre-tax net income and other adjustments		4,633	3,030
Net depreciation/amortisation expense on property, plant and equipment and intangible assets		3,668	3,085
Impairment of goodwill and other non-current assets		(50)	96
Net addition to provisions		287	194
Share of earnings of equity-method entities		(201)	(278)
Net expense (income) from investing activities		2	(19)
Net expense (income) from financing activities		(16)	41
Other movements		944	(89)
Net increase (decrease) in cash related to assets and liabilities generated by operating activities		(3,548)	(14,380)
Net increase (decrease) in cash related to transactions with customers and credit institutions		(3,652)	(13,972)
Net increase (decrease) in cash related to transactions involving other financial assets and liabilities		5,444	4,325
Net increase (decrease) in cash related to transactions involving non-financial assets and liabilities		(4,977)	(4,469)
Taxes paid		(363)	(264)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS GENERATED BY OPERATING ACTIVITIES		**4,113**	**(8,202)**
Net increase (decrease) in cash related to acquisitions and disposals of consolidated entities		(607)	(8,898)
Net increase (decrease) related to property, plant and equipment and intangible assets		81	(220)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS RELATED TO INVESTING ACTIVITIES		**(526)**	**(9,118)**
Net increase (decrease) in cash and equivalents related to transactions with shareholders		(2,233)	(1,505)
Net increase (decrease) in cash and equivalents generated by other financing activities		681	72
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS RELATED TO FINANCING ACTIVITIES*		**(1,552)**	**(1,433)**
EFFECT OF MOVEMENT IN EXCHANGE RATES ON CASH AND EQUIVALENTS		**(574)**	**(580)**
NON-MONETARY IMPACTS FROM NON-CURRENT ASSETS HELD FOR SALE		**(167)**	**9,618**
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS		**1,461**	**(19,333)**
Balance of cash and equivalent accounts at the start of the period		5,034	14,749
Cash and amounts due from central banks		4,937	14,033
Due to central banks		(382)	(157)
On-demand deposits with credit institutions	5.e	2,002	2,017
On-demand loans from credit institutions	5.g	(1,523)	(1,144)
Deduction of receivables and accrued interest on cash and equivalents		-	
Balance of cash and equivalent accounts at the end of the period		6,328	5,034
Cash and amounts due from central banks		4,694	4,937
Due to central banks		(112)	(382)
On-demand deposits with credit institutions	5.e	3,048	2,002
On-demand loans from credit institutions	5.g	(1,302)	(1,523)
Deduction of receivables and accrued interest on cash and equivalents		-	-
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS		**1,294**	**(9,715)**
Additional information:			
Interest paid		(3,191)	(3,053)
Interest received		7,886	7,951
Dividend paid/received		(1,622)	56

** Changes in liabilities arising from financing activities other than those arising from cash flows amount to EUR 86 million.*

Statement of changes in shareholders' equity between 1 January 2017 and 31 December 2018

	Capital and retained earnings			Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss				Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss							
In millions of euros	Share capital	Non distributed reserves	Total capital and retained earnings	Financial instruments designated as at fair value through equity	Own-credit valuation adjustment of debt securities designated as at fair value through profit or loss	Remeasurement gains (losses) related to post-employment benefits plans	Total	Exchange rates	Financial instruments at fair value through equity	Financial investments of insurance activities	Derivatives used for hedging purposes	Total	Total Shareholders' equity	Minority interests (note 8.c)	Total consolidated equity
Capital and retained earnings at 1 January 2017	**11,905**	**8,916**	**20,821**				**-**	**(997)**	**1,180**		**116**	**299**	**21,120**	**5,414**	**26,534**
Other movements	-	-	-				-					-	-	12	12
Dividends		-	-				-					-	-	(162)	(162)
Changes in assets and liabilities recognised directly in equity	-	7	7				-	(210)	14		(64)	(260)	(253)	(197)	(450)
Net income for 2017	**-**	**1,897**	**1,897**				**-**					**-**	**1,897**	**476**	**2,373**
Capital and retained earnings at 31 December 2017	**11,905**	**10,820**	**22,725**				**-**	**(1,207)**	**1,194**		**52**	**39**	**22,764**	**5,543**	**28,307**
Revised presentation (note 2.a)	-	201	201	-	-	(201)	(201)	-	(696)	696	-	-	-	-	-
Capital and retained earnings at 31 December 2017 new presentation	**11,905**	**11,021**	**22,926**			**(201)**	**(201)**	**(1,207)**	**498**	**696**	**52**	**39**	**22,764**	**5,543**	**28,307**
Impact of the application of IFRS 9 (note 2.b)	-	60	60	188	(55)	-	133	-	(186)	-	(1)	(187)	6	(136)	(130)
Impact of the application of IFRS 15 (note 2.b)	-	(38)	(38)	-	-	-	-	-	-	-	-	-	(38)	-	(38)
Capital and retained earnings at 1 January 2018 restated IFRS 9 & IFRS 15	**11,905**	**11,043**	**22,948**	**188**	**(55)**	**(201)**	**(68)**	**(1,207)**	**312**	**696**	**51**	**(148)**	**22,732**	**5,407**	**28,139**
Other movements	-	(7)	(7)				-					-	(7)	(287)	(294)
Dividends		(1,899)	(1,899)				-					-	(1,899)	(275)	(2,174)
Changes in assets and liabilities recognised directly in equity		-	-	18	25	-	43	(270)	(179)	(28)	(50)	(527)	(484)	(152)	(636)
Net income for 2018		**1,932**	**1,932**				**-**					**-**	**1,932**	**413**	**2,345**
Capital and retained earnings at 31 December 2018	**11,905**	**11,069**	**22,974**	**206**	**(30)**	**(201)**	**(25)**	**(1,477)**	**133**	**668**	**1**	**(675)**	**22,274**	**5,106**	**27,380**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2018

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.

IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers'

Since 1 January 2018 BNP Paribas Fortis applies:

- IFRS 9 'Financial Instruments' and amendments to IFRS 9: 'Prepayment Features with Negative Compensation' adopted by the European Union, on 22 November 2016 and on 22 March 2018 respectively.

  IFRS 9 replaces 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 (Phase 1), 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, lease and trade receivables and contract assets (Phase 2), as well as for general hedge accounting, i.e. micro hedging (Phase 3).

  IFRS 9 has modified the provisions relating to the own credit risk of financial liabilities designated as at fair value through profit or loss (fair value option).

  As regards hedge accounting ('micro hedging') BNP Paribas Fortis has maintained the hedge accounting principles under IAS 39. 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.

- The amendment to IFRS 4 'Insurance Contracts': '*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*' adopted by the European Union on 3 November 2017.

  This amendment provides the option for entities that predominantly undertake insurance activities to defer the effective date of IFRS 9 until 1 January 2021[2]. The effect of such a deferral is that those entities 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 amendment, has been extended to the insurance sector of financial conglomerates as defined by the Directive 2002/87/EC as adopted by the European Union. This exemption is subject to conditions, notably the absence of internal transfer of financial instruments, other than financial instruments that are measured at fair value through profit or loss, between insurance entities and other entities of the financial conglomerate.

  BNP Paribas Group applies this amendment 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.

- IFRS 15 'Revenue from contracts with customers' adopted by the European union on 22 September 2016.

IFRS 9 and IFRS 15 introduce the option not to restate the comparative figures for prior periods. Since BNP Paribas Fortis has retained this option, the comparative financial statements for 2017 have not been restated for these changes in method.

1 Le The full 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

2 At its 14 November 2018 Board meeting, the IASB decided to propose an amendment to IFRS 4 that would enable eligible insurance entities to defer the first application of IFRS 9 until 1 January 2022.

The introduction of other standards and amendments effective 1 January 2018 did not have an impact on the 2018 financial statements.

BNP Paribas Fortis did not anticipate the application of the new standards, amendments, and interpretations adopted by the European Union, when the application in 2018 was optional, except for the amendment to IFRS 9 '*Prepayment Features with Negative Compensation*'.

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

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 control of the right to use 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 assets will be amortised on a straight-line basis and the financial liabilities will be amortised on an actuarial basis over the lease period. The main change induced by this new standard is related to contracts which, under IAS 17, met the definition of operating leases, and as such, did not require recognition in the balance sheet of the leased assets.

Adopted by the European Union on 31 October 2017, IFRS 16 will become mandatory for annual periods beginning on or after 1 January 2019.

For the first application of IFRS 16, BNP Paribas Fortis decided to apply the simplified retrospective transition requirements.

The discount rate applicable for the measurement of both the right-of-use and the lease liability is the incremental borrowing rate at the date of the initial application of IFRS 16, based on the residual maturity of the contract at that date.

Most of the lease contracts identified are property leases, and to a lesser extent computer and banking equipment leases and vehicles leases. Property leases encompass either commercial agencies from retail banking, or office buildings serving as operating offices.

The key hypotheses used by BNP Paribas Fortis for the measurement of rights-of-use and lease liabilities will be the following:

- The lease term will correspond to the non-cancellable period, together with periods covered by an extension option if BNP Paribas Fortis is reasonably certain to exercise this option. In Belgium, the standard commercial lease contract is the so-called «three, six, nine» contract for which the maximum period of use is of 9 years, with a first non-cancellable period of 3 years followed by two optional extension periods of 3 years each.
- The discount rates used for measuring the right-of-use and the lease liability will be assessed for each contract, based on the incremental borrowing rate at the date of signature.

BNP Paribas Fortis will use both exemptions to the application of IFRS 16 requirements permitted by the standard, i.e. relating to leases whose term is shorter than or equal to 12 months, and to leases whose individual underlying asset value is below or equal to EUR 5,000 or USD 5,000 before tax.

BNP Paribas Fortis made the choice not to apply the exemption to the accounting of initial deferred tax assets (DTA) and deferred tax liabilities (DTL) permitted by paragraphs 15 and 24 of IAS 12 "Income Taxes". Consequently, distinct deferred tax assets and deferred tax liabilities will be accounted for with regards to the balance-sheet amounts of rights-of-use and lease liabilities of the lessee.

The main impacts expected from the application of IFRS 16 will be, on the balance-sheet:

- an increase of the fixed assets and the recognition of lease liabilities;
- an increase of deferred tax assets and deferred tax liabilities.

The main impact expected in the profit and loss account after the first application of the standard will be to replace rental expenses previously accounted for on a linear basis in operating expenses by additional interest expenses in Net Banking Income (NBI) in relation with lease liabilities, and to recognise additional amortizing expenses in relation with rights-of-use.

Following analysis performed on the standard, its principles and its interpretation, lease contracts have been inventoried and data collected in order to identify the impacts of the application of the new accounting model.

At this stage of the project, the estimation of the impacts of the first application of IFRS 16 is being finalized. The expected impact on financial statements of BNP Paribas Fortis is not significant.

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[1], after its adoption by the European Union for application in Europe.

1.b Segment reporting

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

- Banking activities in Belgium
- Banking activities in Luxembourg
- Banking activities in Turkey
- 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 At its 14 November 2018 Board meeting, the IASB decided to propose an amendment to IFRS 17 that would defer the mandatory initial application of IFRS 17 until 1 January 2022.

1.c Consolidation

1.c.1 Scope of consolidation

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

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

1.c.2 Consolidation methods

Exclusive control

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

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

Structured entities are 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.

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

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

Joint control

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

Significant influence

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

Changes in the net assets of associates (companies accounted for under the equity method) are recognised on the assets side of the balance sheet under 'Investments in equity-method entities' and in the relevant component of shareholders' equity. Goodwill recorded on associates is also included under '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 contracted a legal or constructive obligation, or has made payments on behalf of this entity.

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

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

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

1.c.3 Consolidation rules

Elimination of intragroup balances and transactions

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

Translation of accounts expressed in foreign currencies

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

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

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

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

On liquidation or disposal of some or all of an interest held in a foreign enterprise located outside the 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 exchange differences at the date of liquidation or sale, determined according to the step method, is recognised in the profit and loss account.

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

1.c.4 Business combination and measurement of goodwill

Business combinations

Business combinations are accounted for using the purchase method.

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

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

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

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

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

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

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

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

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

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

As permitted under IFRS 1, business combinations that took place before 1 January 2004 and were recorded in accordance with the previously applicable accounting standards (Belgian GAAP), 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[1]. 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.

1 IAS 36 'Impairment of Assets' considers the concept of 'cash generating unit' as a homogeneous group of business.

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 Translation of foreign currency transactions

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

Monetary assets and liabilities[1] expressed in foreign currencies

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

Non-monetary assets and liabilities expressed in foreign currencies

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

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

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

1.e.1 Net interest income

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

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

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

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

1.e.2 Commissions and income from other activities

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

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

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

Commission

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

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

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

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

Income from other activities

Regarding income from services provided in connection with lease contracts, BNP Paribas records them in profit or loss as the service is rendered, i.e. in proportion to the costs incurred for maintenance contracts.

1.f Financial assets and financial liabilities

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

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

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

1.f.1 Financial assets at amortised cost

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

Business model criterion

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

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

Cash flow criterion

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

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

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

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

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

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

Some contractual clauses may change the timing or the amount of cash flows. Early redemption options do not call into question the cash flow criterion if the prepayment amount substantially represents the principal amount outstanding and the interest thereon, which may include a reasonable compensation for the early termination of the contract. For example, regarding loans to retail customers, the compensation limited to 6 months of interest or 3% of the capital outstanding is considered as reasonable. Actuarial penalties, corresponding to the discount value of the difference between the residual contractual cash-flows of the loan, and their reinvestment in a loan to a similar counterparty or in the interbank market for a similar residual maturity are also considered as reasonable, even when the compensation can be positive or negative (i.e. so called 'symmetric' compensations). An option that permits the issuer or the holder of a financial instrument to change the interest rate from floating to fixed rate does not breach the cash flow criterion if the fixed rate is determined at origination, or if it represents the time value of money for the residual maturity of the instrument at the date of exercise of the option.

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

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

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

Recognition

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

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

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

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

Debt instruments

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

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

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

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

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

Equity instruments

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

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

1.f.3 Financing and guarantee commitments

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

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

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

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

General model

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

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

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

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

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

Definition of default

The definition of default is aligned with the Basel regulatory default definition, with a rebuttable presumption that the default occurs no later than 90 days past-due.

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

Doubtful credit-impaired financial assets

Definition

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

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

- the existence of accounts that are more than 90 days past due;
- knowledge or indications that the borrower meets significant financial difficulties, such that a risk can be considered to have arisen regardless of whether the borrower has missed any payments;
- concessions with respect to the credit terms granted to the borrower that the lender would not have considered had the borrower not been meeting financial difficulty (see section 'Restructuring of financial assets for financial difficulties').

Specific cases of purchased or originated credit-impaired assets

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

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

Simplified model

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

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

Significant increase in credit risk

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

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

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

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

The principles applied to assess the significant increase in credit risk are detailed in note 3.g Cost of risk.

Measurement of expected credit losses

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

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

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

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

Maturity

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

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

Probabilities of Default (PD)

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

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

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

Loss Given Default (LGD)

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

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

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

Exposure At Default (EAD)

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

Forward looking

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

The principles applied to take into account forward looking information when measuring expected credit losses are detailed in note 3.g Cost of risk.

Write-offs

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

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

Recoveries through the repossession of the collateral

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

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

Restructuring of financial assets for financial difficulties

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

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

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

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

Modifications of financial assets that are not due to the borrower's financial difficulties (i.e. commercial renegotiations) are generally analysed as the early prepayment of the former financial asset, which is then derecognised, followed by the set-up of a new financial asset at market conditions.

1.f.5 Cost of risk

Cost of risk includes the following items of income:

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

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

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

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

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

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

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

Financial liabilities measured at fair value through profit or loss

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

- for hybrid financial instruments containing one or more embedded derivatives which otherwise would have been separated and accounted for separately. An embedded derivative is such that its economic characteristics and risks are not closely related to those of the host contract;
- when using the option enables the entity to eliminate or significantly reduce a mismatch in the measurement and accounting treatment of assets and liabilities that would otherwise arise if they were to be classified in separate categories;

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

1.f.7 Financial liabilities and equity instruments

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

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

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

Debt securities and subordinated debt

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

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

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

Equity instruments

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

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

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

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

Distributions from a financial instrument classified as an equity instrument are recognised directly as a deduction from equity. Similarly, the transaction costs of an instrument classified as equity are recognised as a deduction from shareholders' equity.

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

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

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

1.f.8 Hedge accounting

BNP Paribas Fortis retained the option provided by the standard to maintain the hedge accounting requirements of IAS 39 until the future standard on macro-hedging is entered into force. Furthermore, IFRS 9 does not explicitly address the fair value hedge of the interest rate risk on a portfolio of financial assets or liabilities. The provisions in IAS 39 for these portfolio hedges, as adopted by the European Union, continue to apply.

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

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

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

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

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

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

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

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

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

'Remeasurement adjustment on interest rate risk hedged portfolios' in the case of a portfolio hedging relationship.

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

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

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

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

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

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

1.f.9 Determination of fair value

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

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

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

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

- Level 1: fair values are determined using directly quoted prices in active markets for identical assets and liabilities. Characteristics of an active market include the existence of a sufficient frequency and volume of activity and of readily available prices;
- Level 2: fair values are determined based on valuation techniques for which significant inputs are observable market data, either directly or indirectly. These techniques are regularly calibrated and the inputs are corroborated with information from active markets;

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

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

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

1.f.10 Derecognition of financial assets and financial liabilities

Derecognition of financial assets

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

Derecognition of financial liabilities

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

Repurchase agreements and securities lending/borrowing

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

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

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

1.f.11 Offsetting financial assets and financial liabilities

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

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

1.g Property, plant, equipment and intangible assets

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

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

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

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

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

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

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

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

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

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

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

1.h Leases

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

1.h.1 BNP Paribas Fortis entity as lessor

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

Finance leases

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

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

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

Operating leases

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

The asset is recognised under property, plant and equipment in the lessor's balance sheet and depreciated on a straight-line basis over its useful life. The depreciable amount excludes the residual value of the asset. The lease payments are taken to the profit and loss account in full on a straight-line basis over the lease term. Lease payments and depreciation expenses are taken to the profit and loss account under 'Income from other activities' and 'Expense on other activities'.

1.h.2 BNP Paribas Fortis entity as lessee

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

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

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

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

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

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

1.j Employee benefits

Employee benefits are classified in one of four categories:

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

Short-term benefits

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

Long-term benefits

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

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

Termination benefits

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

Post-employment benefits

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

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

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

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

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

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

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

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

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

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

1.k Share-based payments

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

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.

1.l 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.m 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.n Cash flow statement

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

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the BNP Paribas Fortis' operations, including those relating to negotiable certificates of deposit.

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

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

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

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

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

This applies in particular to:

- the analysis of the cash flow criterion for specific financial assets;
- the measurement of expected credit losses. This applies in particular to the assessment of significant increase in credit risk, the models and assumptions used to measure expected credit losses, the determination of the different economic scenarios and their weighting;
- the analysis of renegotiated loans;
- 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 'Financial assets at fair value through equity' or in 'Financial instruments at fair value through profit or loss', whether as assets and liabilities, 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 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 into account all available information at the date of the preparation of the financial statements, in particular the nature of the dispute, the underlying facts, the ongoing legal proceedings and court decisions, including those related to similar cases. 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 IMPACTS OF PRESENTATION CHANGES AND OF THE FIRST TIME ADOPTION OF IFRS 9 AND IFRS 15

As at 31 December 2017, BNP Paribas Fortis operated presentation changes and recognised securities at their settlement date:

- Ahead of the implementation of IFRS 9 'Financial instruments' as of 1 January 2018, a few item headings have been renamed in the balance sheet, the profit and loss account and in the statement of net income and changes in assets and liabilities recognised directly in equity;
- In order to align the definition of 'credit institutions' in the financial statements with the definition used in regulatory reporting, outstanding balances with some counterparties were reclassified from 'Loans and advances to credit institutions' to 'Loans and advances to customers';
- Securities transactions, previously recognised at trade date, are now recognised at settlement date. This new representation of securities converges with rules applied for liquidity ratios.

The impacts of these changes on the balance sheet, the profit and loss account and the statement of net income and change in assets and liabilities recognised directly in equity are presented in note 2.a.

As of 1 January 2018, BNP Paribas Fortis has applied the new accounting standards IFRS 9 and IFRS 15:

- Financial instruments held by non-insurance entities have been classified and measured in accordance with IFRS 9 'Financial instruments';
- IFRS 15 'Revenue from Contracts with Customers' has been applied without any significant change to the balance sheet.

The impacts of the IFRS 9 and IFRS 15 first time adoption are presented in note 2.b.

2.a Impacts of presentation changes and of the securities accounting at settlement date

Balance sheet

In millions of euros	31 December 2017 IAS 39 former presentation	Impact of settlement date accounting of securities	Other reclassi-fications	31 December 2017 IAS 39 revised presentation
ASSETS				
Cash and balances at central banks	4,942	-	-	4,942
Financial instruments at fair value through profit or loss				
Securities	*1,394*	*(76)*	*303*	*1,621*
Loans and repurchase agreements	*2,391*	*-*	*1,275*	*3,666*
Instruments designated as at fair value through profit or loss	*1,578*	*-*	*(1,578)*	*-*
Derivative financial instruments	*5,777*	*-*	*-*	*5,777*
Derivatives used for hedging purposes	2,011	-	-	2,011
Available-for-sale financial assets	23,697	-	-	23,697
Financial assets at fair value through equity				
Debt securities		*-*	*-*	
Equity securities		*-*	*-*	
Financial assets at amortised cost				
Loans and advances to credit institutions	*25,305*	*-*	*(343)*	*24,962*
Loans and advances to customers	*175,425*	*-*	*(2,363)*	*173,062*
Debt securities		*-*	*2,706*	*2,706*
Remeasurement adjustment on interest-rate risk hedged portfolios	1,062	-	-	1,062
Held-to-maturity financial assets	511	-	-	511
Current and deferred tax assets	2,149	-	-	2,149
Accrued income and other assets	8,340	(128)	-	8,212
Equity-method investments	4,356	-	-	4,356
Property, plant and equipment and Investment property	17,387	-	-	17,387
Intangible assets	292	-	-	292
Goodwill	663	-	-	663
Non-current assets held for sale	366	-	-	366
TOTAL ASSETS	277,646	(204)	-	277,442
LIABILITIES				
Deposits from central banks	382	-	-	382
Financial instruments at fair value through profit or loss				
Securities	*295*	*(73)*	*-*	*222*
Deposits and repurchase agreements	*4,706*	*-*	*207*	*4,913*
Instruments designated as at fair value through profit or loss	*4,190*	*-*	*(4,190)*	
Issued debt securities		*(43)*	*3,984*	*3,941*
Derivative financial instruments	*4,114*	*-*	*-*	*4,114*
Derivatives used for hedging purposes	3,982	-	-	3,982
Financial liabilities at amortised cost				
Deposits from credit institutions	*36,558*	*-*	*(38)*	*36,520*
Deposits from customers	*166,927*	*-*	*38*	*166,965*
Debt securities	*12,434*	*-*	*-*	*12,434*
Subordinated debt	*2,487*	*-*	*-*	*2,487*
Remeasurement adjustment on interest-rate risk hedged portfolios	441	-	-	441
Current and deferred tax liabilities	748	-	-	748
Accrued expenses and other liabilities	6,512	(88)	(1)	6,423
Provisions for contingencies and charges	4,732	-	-	4,732
Liabilities associated with non-current assets held for sale	831	-	-	831
TOTAL LIABILITIES	249,339	(204)	-	249,135

EQUITY				
Share capital, additional paid-in capital and retained earnings	*20,828*	*-*	*200*	*21,028*
Net income for the period attributable to shareholders	*1,897*	*-*	*-*	*1,897*
Total capital, retained earnings and net income for the period attributable to shareholders	22,725	-	200	22,925
Changes in assets and liabilities recognized directly in equity that will not be reclassified to profit or loss	*-*	*-*	*(200)*	*(200)*
Changes in assets and liabilities recognized directly in equity that may be reclassified to profit or loss	*39*	*-*	*-*	*39*
Shareholders' equity	**22,764**	**-**	**-**	**22,764**
Retained earnings and net income for the period attributable to minority interests	*5,784*	*-*	*-*	*5,784*
Changes in assets and liabilities recognized directly in equity that will not be reclassified to profit or loss	*(15)*	*-*	*-*	*(15)*
Changes in assets and liabilities recognized directly in equity that may be reclassified to profit or loss	*(226)*	*-*	*-*	*(226)*
Minority interests	**5,543**	**-**	**-**	**5,543**
TOTAL EQUITY	28,307	-	-	28,307
TOTAL LIABILITIES & EQUITY	**277,646**	**(204)**	**-**	**277,442**

The balance sheet as at 31 December 2017 has undergone the following presentation changes:

(a) ‘Instruments designated as at fair value through profit or loss’, previously presented on specific asset and liability lines, have been broken down by type of instruments within ‘Financial instruments at fair value through profit or loss’. On the liability side of the balance sheet, EUR 4.2 billion were split between EUR 4.0 billion of ‘Debt securities’ and EUR 0.2 billion of ‘Deposits and repurchase agreements’.

(b) In order to align the definition of ‘credit institutions’ in the financial statements and in the FINREP regulatory reports, some counterparties were reclassified from ‘Loans and advances to credit institutions’ to ‘Loans and advances to customers’ for an amount of EUR 0.3 billion.

(c) Securities previously included in ‘Loans and advances to customers’ and ‘Loans and advances to credit institutions’ were grouped into the ‘Debt securities’ sub-section of ‘Financial assets at amortised cost’.

(d) Moreover, the settlement date accounting of securities led to a small decrease in the total balance sheet of EUR (0.2) billion.

Profit and loss account

In millions of euros	Year to 31 Dec. 2017 IAS 39 former presentation	Re-labelling of financial instruments item headings	Reclassification of interest income and expense on trading instruments	Year to 31 Dec. 2017 IAS 39 revised presentation
Interest income	7,967	-	(116)	7,851
Interest expense	(2,934)	-	64	(2,870)
Commission income	2,298	-	-	2,298
Commission expense	(868)	-	-	(868)
Net gain or loss on financial instruments at fair value through profit or loss	13	-	52	65
Net gain or loss on available-for-sale financial assets and other financial assets not measured at fair value	189	(189)	-	
Net gain or loss on financial instruments at fair value through equity		189	-	189
Income from other activities	9,345	-	-	9,345
Expense on other activities	(7,891)	-	-	(7,891)
Revenues	**8,119**	**-**	**-**	**8,119**
Salary and employee benefit expenses	(2,634)	-	-	(2,634)
Other operating expenses	(1,903)	-	-	(1,903)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	(294)	-	-	(294)
Gross operating income	**3,288**	**-**	**-**	**3,288**
Cost of risk	(338)	-	-	(338)
Operating income	**2,950**	**-**	**-**	**2,950**
Share of earnings of equity-method entities	278	-	-	278
Net gain on non-current assets	32	-	-	32
Goodwill	(112)	-	-	(112)
Pre-tax income	**3,148**	**-**	**-**	**3,148**
Corporate income tax	(775)	-	-	(775)
NET INCOME	**2,373**	**-**	**-**	**2,373**
of which net income attributable to minority interests	476	-	-	476
NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS	**1,897**	**-**	**-**	**1,897**

Interest income and expense from trading instruments, previously presented under 'Interest income/expense', are now presented within 'Net gain on financial instruments at fair value through profit or loss' (net amount of EUR 52 million for 2017).

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

In millions of euros	**Year to 31 Dec. 2017** IAS 39 former presentation	**Redenomination of financial instrument headings**	**Year to 31 Dec. 2017** IAS 39 revised presentation
Net income for the period	**2,373**	**-**	**2,373**
Changes in assets and liabilities recognised directly in equity	**(450)**	**-**	**(450)**
Items that are or may be reclassified to profit or loss	**(461)**	**-**	**(461)**
Changes in exchange rate items	(415)	-	(415)
Changes in fair value of financial assets at fair value through equity	-	-	-
Changes in fair value recognised in equity	-	*(39)*	*(39)*
Changes in fair value reclassified to net income	-	*(70)*	*(70)*
Changes in fair value of available-for-sale financial assets, including those reclassified as loans and receivables	-	-	-
Changes in fair value recognised in equity	*(39)*	*39*	-
Changes in fair value reclassified to net income	*(70)*	*70*	-
Changes in fair value of hedging instruments	-	-	-
Changes in fair value recognised in equity	*(92)*	-	*(92)*
Changes in fair value reclassified to net income	-	-	-
Income tax	111	-	111
Changes in equity-method investments	44	-	44
Items that will not be reclassified to profit or loss	**11**	**-**	**11**
Remeasurement gains (losses) related to post-employment benefit plans	33	-	33
Income tax	(23)	-	(23)
Changes in equity-method investments	**1**	**-**	**1**
TOTAL	**1,923**	**-**	**1,923**
Attributable to equity shareholders	1,644	-	1,644
Attributable to minority interests	279	-	279

2.b Impacts of the adoption of IFRS 9 and IFRS 15

Synthesis of IFRS 9 and IFRS 15 first time adoption impacts on the balance sheet as at 1 January 2018

In millions of euros	31 December 2017 IAS 39 revised presentation	Impacts of IFRS 9 adoption			Impacts of IFRS 15 adoption	1 January 2018 IFRS 9 & IFRS 15
		Reclassi-fications	Remeasurements			
			Phase 1	Phase 2		
ASSETS						
Cash and balances at central banks	4,942			(9)		4,933
Financial instruments at fair value through profit or loss						
Securities	*1,621*	*1,877*	*55*			*3,553*
Loans and repurchase agreements	*3,666*	*(1,209)*	*1*			*2,458*
Derivative financial instruments	*5,777*	*2*				*5,779*
Derivatives used for hedging purposes	2,011	(2)				2,009
Available-for-sale financial assets	23,697	(23,697)				
Financial assets at fair value through equity						
Debt securities		14,087	58	(17)		14,128
Equity securities		*302*	*9*			*311*
Financial assets at amortised cost						
Loans and advances to credit institutions	24,962			(1)		24,961
Loans and advances to customers	*173,062*	*1,209*		*(170)*		*174,101*
Debt securities	*2,706*	*7,942*	*98*	*(2)*		*10,744*
Remeasurement adjustment on interest-rate risk hedged portfolios	1,062					1,062
Held-to-maturity financial assets	511	(511)				
Current and deferred tax assets	2,149		(116)	83	16	2,132
Accrued income and other assets	8,212				37	8,249
Equity-method investments	4,356		(1)	(100)		4,255
Property, plant and equipment and Investment property	17,387					17,387
Intangible assets	292					292
Goodwill	663					663
Non-current assets held for sale	366		1			367
TOTAL ASSETS	**277,442**		**105**	**(216)**	**53**	**277,384**
LIABILITIES						
Deposits from central banks	382					382
Financial instruments at fair value through profit or loss						
Securities	*222*					*222*
Deposits and repurchase agreements	*4,913*					*4,913*
Issued debt securities	*3,941*					*3,941*
Derivative financial instruments	*4,114*	*(272)*				*3,842*
Derivatives used for hedging purposes	3,982	272				4,254
Financial liabilities at amortised cost						
Deposits from credit institutions	*36,520*					*36,520*
Deposits from customers	*166,965*					*166,965*
Debt securities	*12,434*					*12,434*
Subordinated debt	*2,487*					*2,487*
Remeasurement adjustment on interest-rate risk hedged portfolios	441					441
Current and deferred tax liabilities	748		(1)	(64)	2	685
Accrued expenses and other liabilities	6,423			1	437	6,861
Provisions for contingencies and charges	4,732			80	(348)	4,464
Liabilities associated with non-current assets held for sale	831		3			834
TOTAL LIABILITIES	**249,135**		**2**	**17**	**91**	**249,245**

EQUITY						
Share capital, additional paid-in capital and retained earnings	*21,028*	*171*	*10*	*(120)*	*(38)*	*21,051*
Net income for the period attributable to shareholders	*1,897*					*1,897*
Total capital, retained earnings and net income for the period attributable to shareholders	**22,925**	**171**	**10**	**(120)**	**(38)**	**22,948**
Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss	(200)	138	(6)			(68)
Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss	39	(309)	122			(148)
Shareholders' equity	**22,764**		**126**	**(120)**	**(38)**	**22,732**
Retained earnings and net income for the period attributable to minority interests	5,784	21	4	(113)		5,696
Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss	(15)	9	3			(3)
Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss	(226)	(30)	(30)			(286)
Minority interests	**5,543**		**(23)**	**(113)**		**5,407**
TOTAL EQUITY	28,307		103	(233)	(38)	28,139
TOTAL LIABILITIES & EQUITY	**277,442**		**105**	**(216)**	**53**	**277,384**

The application of IFRS 15 mainly consisted in reviewing the accounting treatment applied to commission income and income from other activities. As far as the latter are concerned, the post-tax impact of IFRS 15 adoption on shareholders' equity as at 1 January 2018 amounts to 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, previously recognized on a linear basis and now recognized to the extent of the costs incurred.

Income from these activities is recognised in the profit and loss account within 'Income/expense from other activities'.

The post-tax impact of IFRS 9 adoption on shareholders' equity as at 1 January 2018 amounts to EUR (130) millions.

Detail of the impacts of IFRS 9 and IFRS 15 adoption on the balance sheet

In millions of euros	31 December 2017 IAS 39 revised presentation	Reclassifications - Phase I								Balance sheet after Phase 1 reclassification
		IAS 39 original categories				Reclassification HFTO loans	Reclassification of Own Credit Spread	Other reclassification	TOTAL	
		Available-for-sale assets at fair value through equity		Financial assets at amortised cost						
		Debt securities	Equity securities	Held-to-maturity	Debt securities					
ASSETS										
Cash and balances at central banks	4,942	-	-	-	-	-	-	-	-	4,942
Financial instruments at fair value through profit or loss										
Securities	*1,621*	*686*	*506*	-	*685*	-	-	-	*1,877*	*3,498*
Loans and repurchase agreements	*3,666*	-	-	-	*69*	*(1,278)*	-	-	*(1,209)*	*2,457*
Derivative financial instruments	*5,777*	-	-	-	-	-	-	*2*	*2*	*5,779*
Derivatives used for hedging purposes	2,011	-	-	-	-	-	-	(2)	(2)	2,009
Available-for-sale financial assets	23,697	(22,889)	(808)	-	-	-	-	-	(23,697)	-
Financial assets at fair value through equity										
Debt securities	-	*12,595*	-	-	*1,492*	-	-	-	*14,087*	*14,087*
Equity securities	-	-	*302*	-	-	-	-	-	*302*	*302*
Financial assets at amortised cost										
Loans and advances to credit institutions	*24,962*	-	-	-	-	-	-	-	-	*24,962*
Loans and advances to customers	*173,062*	-	-	-	*(69)*	*1,278*	-	-	*1,209*	*174,271*
Debt securities	*2,706*	*9,608*	-	*511*	*(2,177)*	-	-	-	*7,942*	*10,648*
Remeasurement adjustment on interest-rate risk hedged portfolios	1,062	-	-	-	-	-	-	-	-	1,062
Held-to-maturity financial assets	511	-	-	(511)	-	-	-	-	(511)	-
Current and deferred tax assets	2,149	-	-	-	-	-	-	-	-	2,149
Accrued income and other assets	8,212	-	-	-	-	-	-	-	-	8,212
Equity-method investments	4,356	-	-	-	-	-	-	-	-	4,356
Property, plant and equipment and Investment property	17,387	-	-	-	-	-	-	-	-	17,387
Intangible assets	292	-	-	-	-	-	-	-	-	292
Goodwill	663	-	-	-	-	-	-	-	-	663
Non-current assets held for sale	366	-	-	-	-	-	-	-	-	366
TOTAL ASSETS	**277,442**	-	-	-	-	-	-	-	-	**277,442**
LIABILITIES										
Deposits from central banks	382	-	-	-	-	-	-	-	-	382
Financial instruments at fair value through profit or loss										
Securities	*222*	-	-	-	-	-	-	-	-	*222*
Deposits and repurchase agreements	*4,913*	-	-	-	-	-	-	-	-	*4,913*
Issued debt securities	*3,941*	-	-	-	-	-	-	-	-	*3,941*
Derivative financial instruments	*4,114*	-	-	-	-	*(272)*	-	-	*(272)*	*3,842*
Derivatives used for hedging purposes	3,982	-	-	-	-	272	-	-	272	4,254
Financial liabilities at amortised cost										
Deposits from credit institutions	*36,520*	-	-	-	-	-	-	-	-	*36,520*
Deposits from customers	*166,965*	-	-	-	-	-	-	-	-	*166,965*
Debt securities	*12,434*	-	-	-	-	-	-	-	-	*12,434*
Subordinated debt	*2,487*	-	-	-	-	-	-	-	-	*2,487*
Remeasurement adjustment on interest-rate risk hedged portfolios	441	-	-	-	-	-	-	-	-	441
Current and deferred tax liabilities	748	-	-	-	-	-	-	-	-	748
Accrued expenses and other liabilities	6,423	-	-	-	-	-	-	-	-	6,423
Provisions for contingencies and charges	4,732	-	-	-	-	-	-	-	-	4,732
Liabilities associated with non-current assets held for sale	831	-	-	-	-	-	-	-	-	831
TOTAL LIABILITIES	**249,135**	-	-	-	-	-	-	-	-	**249,135**

EQUITY										
Share capital, additional paid-in capital and retained earnings	*21,028*	*1*	*113*	*-*	*-*	*-*	*56*	*1*	*171*	*21,199*
Net income for the period attributable to shareholders	*1,897*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*1,897*
Total capital, retained earnings and net income for the period attributable to shareholders	**22,925**	**1**	**113**	**-**	**-**	**-**	**56**	**1**	**171**	**23,096**
Changes in assets and liabilities recognized directly in equity that will not be reclassified to profit or loss	(200)	-	194	-	-	-	(56)	-	138	(62)
Changes in assets and liabilities recognized directly in equity that may be reclassified to profit or loss	39	(1)	(307)	-	-	-	-	(1)	(309)	(270)
Changes in assets and liabilities recognised directly in equity	(161)	(1)	(113)	-	-	-	(56)	(1)	(171)	(332)
Shareholders' equity	**22,764**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22,764**
Retained earnings and net income for the period attributable to minority interests	5,784	5	18	-	-	-	(2)	-	21	5,805
Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss	(15)	-	7	-	-	-	2	-	9	(6)
Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss	(226)	(5)	(25)	-	-	-	-	-	(30)	(256)
Minority interests	**5,543**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,543**
TOTAL EQUITY	28,307	-	-	-	-	-	-	-	-	28,307
TOTAL LIABILITIES & EQUITY	**277,442**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**277,442**

The adoption of IFRS 9 provisions related to the classification and measurement of financial instruments led to the following impacts as of 1 January 2018:

a) Treasury bills, government bonds and other debt securities have been recognized, depending on the business model, at amortized cost for EUR 9.6 billion and at fair value through equity for EUR 12.6 billion. By way of exception, EUR 0.7 billion for which the contractual cash flows do not consist solely of payments relating to principal and interest on the principal are measured at fair value through profit and loss;

b) Investments in equity instruments such as shares are classified as financial instruments at fair value through profit or loss for EUR 0.3 billion and at fair value through equity for EUR 0.5 billion;

c) The reclassification of debt securities previously recognized as 'Loans and receivables' into 'Instruments at fair value through equity' for EUR 1.5 billion based on their 'collect and sell' business model. The remaining part (EUR 0.7 billion) has been classified as 'Instruments at fair value through profit or loss' (as the contractual cash flows do not consist solely of payments relating to principal and interest on the principal, or for which the business model does not allow a classification at amortised cost or at fair value through equity);

d) The reclassification of loans previously recognized as 'Instruments designated at fair value through profit and loss' into 'Loans and advances to customers' for EUR 1.2 billion. The derivatives covering this portfolio were also reclassified from trading derivatives (0.3 billion) to hedging derivatives.

Detail of the impacts of IFRS 9 and IFRS 15 adoption on the balance sheet

In millions of euros	Balance sheet after Phase 1 reclassification	Remeasurement - Phase 1					Total Phase 1	Impairment adjusments Phase 2	TOTAL IFRS 9 impact	IFRS 15 impact	1 January 2018 IFRS 9 & IFRS 15
		From available-for-sale debt securities to amortised cost	From Loans & receivables to financial assets at fair value through equity	From Loans & receivables to financial assets at fair value through profit or loss	Other adjustments	TOTAL					
ASSETS											
Cash and balances at central banks	4,942	-	-	-	-	-	-	(9)	(9)	-	4,933
Financial instruments at fair value through profit or loss											
Securities	*3,498*	-	-	*55*	-	*55*	*1,932*	-	*1,932*	-	*3,553*
Loans and repurchase agreements	*2,457*	-	-	*1*	-	*1*	*(1,208)*	-	*(1,208)*	-	*2,458*
Derivative financial instruments	*5,779*	-	-	-	-	-	*2*	-	*2*	-	*5,779*
Derivatives used for hedging purposes	2,009	-	-	-	-	-	(2)	-	(2)	-	2,009
Available-for-sale financial assets	-	-	-	-	-	-	(23,697)	-	(23,697)	-	-
Financial assets at fair value through equity											
Debt securities	*14,087*	*(26)*	*84*	-	-	*58*	*14,145*	*(17)*	*14,128*	-	*14,128*
Equity securities	*302*	-	-	-	*9*	*9*	*311*	-	*311*	-	*311*
Financial assets at amortised cost											
Loans and advances to credit institutions	*24,962*	-	-	-	-	-	-	*(1)*	*(1)*	-	*24,961*
Loans and advances to customers	*174,271*	-	-	-	-	-	*1,209*	*(170)*	*1,039*	-	*174,101*
Debt securities	*10,648*	*93*	-	-	*5*	*98*	*8,040*	*(2)*	*8,038*	-	*10,744*
Remeasurement adjustment on interest-rate risk hedged portfolios	1,062	-	-	-	-	-	-	-	-	-	1,062
Held-to-maturity financial assets	-	-	-	-	-	-	(511)	-	(511)	-	-
Current and deferred tax assets	2,149	(86)	(17)	(13)	-	(116)	(116)	83	(33)	16	2,132
Accrued income and other assets	8,212	-	-	-	-	-	-	-	-	37	8,249
Equity-method investments	4,356	(1)	-	-	-	(1)	(1)	(100)	(101)	-	4,255
Property, plant and equipment and Investment property	17,387	-	-	-	-	-	-	-	-	-	17,387
Intangible assets	292	-	-	-	-	-	-	-	-	-	292
Goodwill	663	-	-	-	-	-	-	-	-	-	663
Non-current assets held for sale	366	-	-	-	1	1	1	-	1	-	367
TOTAL ASSETS	277,442	(20)	67	43	15	105	105	(216)	(111)	53	277,384
LIABILITIES											
Deposits from central banks	382	-	-	-	-	-	-	-	-	-	382
Financial instruments at fair value through profit or loss	-	-	-	-	-	-	-	-	-	-	-
Securities	*222*	-	-	-	-	-	-	-	-	-	*222*
Deposits and repurchase agreements	*4,913*	-	-	-	-	-	-	-	-	-	*4,913*
Issued debt securities	*3,941*	-	-	-	-	-	-	-	-	-	*3,941*
Derivative financial instruments	*3,842*	-	-	-	-	-	*(272)*	-	*(272)*	-	*3,842*
Derivatives used for hedging purposes	4,254	-	-	-	-	-	272	-	272	-	4,254
Financial liabilities at amortised cost	-	-	-	-	-	-	-	-	-	-	-
Deposits from credit institutions	*36,520*	-	-	-	-	-	-	-	-	-	*36,558*
Deposits from customers	*166,965*	-	-	-	-	-	-	-	-	-	*166,927*
Debt securities	*12,434*	-	-	-	-	-	-	-	-	-	*12,434*
Subordinated debt	*2,487*	-	-	-	-	-	-	-	-	-	*2,487*
Remeasurement adjustment on interest-rate risk hedged portfolios	441	-	-	-	-	-	-	-	-	-	441
Current and deferred tax liabilities	748	(6)	4	2	(1)	(1)	(1)	(64)	(65)	2	685
Accrued expenses and other liabilities	6,423	-	-	-	-	-	-	1	1	437	6,861
Provisions for contingencies and charges	4,732	-	-	-	-	-	-	80	80	(348)	4,464
Liabilities associated with non-current assets held for sale	831	-	-	-	3	3	3	-	3	-	834
TOTAL LIABILITIES	249,135	(6)	4	2	2	2	2	17	19	91	249,245

EQUITY											
Share capital, additional paid-in capital and retained earnings	*21,199*	*-*	*-*	*7*	*3*	*10*	*181*	*(120)*	*61*	*(38)*	*21,051*
Net income for the period attributable to shareholders	*1,897*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*1,897*
Total capital, retained earnings and net income for the period attributable to shareholders	**23,096**	**-**	**-**	**7**	**3**	**10**	**181**	**(120)**	**61**	**(38)**	**22,948**
Changes in assets and liabilities recognised directly in equity	(332)	20	63	21	12	116	(55)	-	(55)	-	(216)
Shareholders' equity	**22,764**	**20**	**63**	**39**	**4**	**126**	**126**	**(120)**	**6**	**(38)**	**22,732**
Retained earnings and net income for the period attributable to minority interests	5,805	-	-	-	4	4	25	(113)	(88)	-	5,696
Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss	(6)	-	-	-	3	3	12	-	12	-	(3)
Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss	(256)	(34)	-	2	2	(30)	(60)	-	(60)	-	(286)
Minority interests	**5,543**	**(34)**	**-**	**2**	**9**	**(23)**	**(23)**	**(113)**	**(136)**	**-**	**5,407**
TOTAL EQUITY	28,307	(14)	63	41	13	103	103	(233)	(130)	(38)	28,139
TOTAL LIABILITIES & EQUITY	**277,442**	**(20)**	**67**	**43**	**15**	**105**	**105**	**(216)**	**(111)**	**53**	**277,384**

Reconciliation between IAS 39 and the IAS 37 impairment provisions and the IFRS 9 expected credit losses

The impact of the new impairment model defined by IFRS 9 is an increase in the impairment of financial instruments by EUR 279 million before tax (a decrease in the value of 'Loans and advances to customers' by EUR 199 million and an increase in the amount of 'Provisions for contingencies and charges' related to financing and guarantee commitments by EUR 80 million).

In millions of euros	**31 December 2017** IAS 39	**From loans and receivables to assets at fair value through profit and loss**	**From available for sale debt securities to amortised cost**	**From available for sale debt securities to assets at fair value through equity**	**From available for sale debt securities to assets at fair value through profit and loss**	**Change in impairment calculation method**	**Other impacts**	**1 January 2018** IFRS 9
Cash and balances at central banks	-	-	-	-	-	9	-	9
Financial instruments at fair value through profit or loss	25	-	-	-	-	-	30	55
Available-for-sale financial assets	11	-	-	(11)	-	-	-	-
Financial assets at fair value through equity	-	-	-	11	-	17	-	28
Financial assets at amortised cost								
Loans and advances to credit institutions	*58*	-	-	-	-	*1*	*33*	*92*
Loans and advances to customers	*2 764*	-	-	-	-	*170*	*67*	*3 001*
Debt securities	-	-	-	-	-	*2*	-	*2*
Other assets	7	-	-	-	-	-	-	7
Commitments and other items	156	-	-	-	-	80	1	237
Total expected credit losses	**3 021**	**-**	**-**	**-**	**-**	**279**	**131**	**3 431**

Financial instruments at fair value through equity under IAS 39, reclassified at amortised cost under IFRS 9

In millions of euros				
IAS 39 accounting categories	**IFRS 9 accounting categories**	**Carrying value at 31 December 2018**	**Fair value at 31 December 2018**	**Change in value which would be recognised in equity for the year to 31 December 2018**
Available-for-sale financial assets	**Financial assets at amortised cost**			
	Debt securities	8,997	8,843	(64)

3 NOTES TO THE PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018

3.a Net interest income

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

These items also include the interest income and expense of non-trading financial instruments the characteristics of which do not allow for recognition at amortised cost or at fair value through equity, as well as of financial instruments that the Bank has designated as at fair value through profit or loss. The change in fair value on financial instruments at fair value through profit or loss (excluding accrued interest) is recognised under 'Net gain on financial instruments at fair value through profit or loss'.

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

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15			Year to 31 Dec. 2017 IAS 39		
	Income	Expense	Net	Income	Expense	Net
Financial instruments at amortised cost	**6,893**	**(2,343)**	**4,550**	**6,541**	**(2,006)**	**4,535**
Deposits, loans and borrowings	5,890	(2,067)	3,823	5,672	(1,707)	3,965
Repurchase agreements	31	(22)	9	45	(14)	31
Finance leases	832	(64)	768	764	(46)	718
Debt securities	140	-	140	60	-	60
Issued debt securities and subordinated debts	-	(190)	(190)	-	(239)	(239)
Financial instruments at fair value through equity	**195**	**-**	**195**	**314**	**-**	**314**
Debt securities	195	-	195	314	-	314
Financial instruments at fair value through profit or loss (Trading securities excluded)	**15**	**(67)**	**(52)**	**53**	**(91)**	**(38)**
Cash flow hedge instruments	**412**	**(336)**	**76**	**525**	**(478)**	**47**
Interest rate portfolio hedge instruments	**393**	**(288)**	**105**	**418**	**(295)**	**123**
Net interest income/expense	**7,908**	**(3,034)**	**4,874**	**7,851**	**(2,870)**	**4,981**

Interest on financial instruments at amortised cost includes, for the year 2017, interest income and expenses on held-to-maturity financial assets, customer and interbank items and debt issued by the Bank (excluding issues that the Bank has designated as at fair value through profit or loss).

Interest on financial instruments at fair value through equity corresponds, for the year 2017, to interest on debt securities available for sale, of which about half of the portfolio was reclassified at amortised cost as of 31 December 2017. This reclassification mainly explains the variation of interest on debt securities within interest on financial instruments at amortised cost between the two periods.

Interest on financial instruments at fair value through profit or loss corresponds, for the year 2017, to interest income and expenses on financial instruments that the Group designated as at fair value through profit or loss. For the year 2018, this aggregate also includes interest on non-trading financial instruments whose characteristics prevent their classification at amortised cost or at fair value through equity.

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 40 bp interest incentive.

Interest income on individually impaired loans amounted to EUR 65 million in the year ending 31 December 2018, compared with EUR 38 million in the year ending 31 December 2017.

3.b Commission income and expense

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15			Year to 31 Dec. 2017 IAS 39		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
Customer transactions	94	(101)	(7)	87	(89)	(2)
Securities and derivatives transactions	906	(206)	700	906	(193)	713
Financing and guarantee commitments	195	(9)	186	208	(7)	201
Asset management and other services	627	-	627	635	(3)	632
Others	252	(401)	(149)	462	(576)	(114)
Net Commission income/expense	**2,074**	**(717)**	**1,357**	**2,298**	**(868)**	**1,430**
Of which net commission income related to trust and similar activities through which BNP Paribas Fortis holds or invests assets on behalf of clients, trusts, pension and personal risk funds or other institutions	*407*	*-*	*407*	*477*	*(3)*	*474*
Of which commission income and expense on financial instruments not measured at fair value through profit or loss	*431*	*(110)*	*321*	*425*	*(96)*	*329*

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

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

These income items include dividends on these instruments and exclude interest income and expense from financial instruments designated as at fair value through profit or loss and instruments whose cash flows are not only repayments of principal and interest on the principal or whose business model is not to collect cash flows nor to collect cash flows and sell the assets, which are presented in 'interest margin' (note 3.a).

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 IAS 39
Trading Book	**135**	**57**
Interest rate and credit instruments	8	34
Equity financial instruments	(34)	59
Foreign exchange financial instruments	124	(77)
Loans and repurchase agreements	37	37
Other financial instruments	-	4
Financial instruments designated as at fair value through profit or loss	**13**	**(13)**
of which debt remeasurement effect arising from BNP Paribas Fortis issuer risk (1)	-	(23)
Other financial instruments at fair value through profit and loss	**26**	**-**
Debt instruments	(15)	-
Equity instruments	41	-
Impact of hedge accounting	**20**	**21**
Fair value hedging derivatives	246	336
Hedged items in fair value hedge	(226)	(315)
Net gain or loss on financial instruments at fair value through profit or loss	**194**	**65**

(1) Debt remeasurement effect arising from BNP Paribas Fortis issuer risk (Own Credit Adjustment – OCA) is recognized as of 1 January 2018 in equity, Within 'Changes in assets and liabilities recognized in equity that will not be reclassified to profit or loss'.

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

Net gains on the trading book in 2018 and 2017 include a non-material amount related to the ineffective portion of cash flow hedges.

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

Cumulated changes in fair value related to discontinued cash flow hedge relationships, previously recognised in equity and included in the 2018 profit and loss account were not material, whether the hedged item ceased to exist or not.

3.d Net gain on financial instruments at fair value through equity and on financial assets at amortised cost

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 IAS 39
Net gain on debt instruments at fair value through equity	**80**	**68**
Debt securities [1]	80	68
Net gain on equity instruments at fair value through equity	**5**	**121**
Dividend income	5	22
Additions to impairment provisions	-	(11)
Net disposal gains	-	110
Net gain or loss on financial instruments at fair value through equity	**85**	**189**
Net gain on financial instruments at amortised cost	**(4)**	**-**
Loans and receivables	-	-
Debt securities [1]	(4)	-
Net gain or loss on derecognised financial assets at amortised cost	**(4)**	**-**

(1) Interest income from debt instruments is included in 'Net interest income' (Note 3.a), and impairment losses related to potential issuer default are included in 'Cost of risk' (Note 3.g).

For the year ended 31 December 2018, net gain on financial instruments at fair value through equity includes gains and losses from disposals of debt securities at fair value through equity and dividends on equity securities for which the bank applied the fair value through equity option; gains and losses on the latter are no longer recognised in profit and loss, but directly in equity.

For the year ended 31 December 2017, additions to impairment provisions and gains and losses from disposals of equity securities were those recognised under IAS 39 on available-for-sale securities.

Unrealised gains and losses on debt securities previously recorded under 'Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss' and included in the pre-tax income, amount to a gain of EUR 122 million for the year ended 31 December 2018.

3.e Net income from other activities

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15			Year to 31 Dec. 2017 IAS 39		
	Income	Expense	Net	Income	Expense	Net
Net income from investment property	102	(48)	54	110	(21)	89
Net income from assets held under operating leases	9,832	(8,400)	1,432	8,858	(7,504)	1,354
Other net income	586	(525)	61	377	(366)	11
Total net income from other activities	**10,520**	**(8,973)**	**1,547**	**9,345**	**(7,891)**	**1,454**

3.f Other operating expense

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 IAS 39
External services and other operating expenses	(1,617)	(1,517)
Taxes and contributions (1)	(375)	(386)
Other operating expenses	**(1,992)**	**(1,903)**

(1) Contributions to European resolution funds, including exceptional contributions, amount to EUR (68) million in 2018 (EUR (57) million in 2017).

3.g Cost of risk

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

- Assessing whether there has been a significant increase in credit risk since initial recognition; and
- Measuring impairment allowance as either 12-month expected credit losses or lifetime expected credit losses.

Both steps shall rely on forward looking information.

Significant increase in credit risk

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

The internal credit rating methodology used by BNP Paribas Fortis is described in the Pillar 3 disclosure document (section 4.a Credit risk).

Wholesale (Corporates/Financial institutions/ Sovereigns) and bonds

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

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

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

SME Corporates facilities and Retail

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

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

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

Furthermore, for all portfolios (except consumer credit specialized business):

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

Forward Looking Information

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

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

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

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

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

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

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

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

Macro-economic scenarios

The three macro-economic scenarios correspond to:

- A baseline scenario which describes the most likely path of the economy over the projection horizon. This scenario is updated on a quarterly basis. It is designed by Group Economic Research in collaboration with various experts within the Group. Projections are provided for key markets of the Group, through main macro-economic variables (GDP and its components, unemployment rate, consumer prices, interest rates, foreign exchange rates, oil prices, real estate prices…) which are drivers for risk parameter models used downstream in the credit stress testing process;
- An adverse scenario which describes the impact of the materialisation of some of the risks weighing on the baseline scenario, resulting in a much less favourable economic path. The starting point is a shock on GDP. This shock on GDP is applied with variable magnitudes, but simultaneously among economies when the crisis considered is a global contemporaneous crisis. These assumptions are broadly consistent with those proposed by the regulators. Other variables (unemployment, inflation, interest rate) are deducted on the basis of econometric relationships and expert judgment;

- A favourable scenario which reflects the impact of the materialisation of some of the upside risks for the economy, resulting in a much more favourable economic path. To achieve an unbiased estimation of provisions, the favourable scenario is designed in such a way that the probability of the shock on GDP growth (on average over the cycle) is equal to the probability of the corresponding shock in the adverse scenario. The magnitude of favourable GDP shocks generally corresponds to 80%-95% of the magnitude of adverse GDP shocks. Other variables (unemployment, inflation, interest rate) are deducted in the same way as in the adverse scenario.

Cost of risk for the period

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 IAS 39
Net allowances to impairment	(402)	(339)
Recoveries on loans and receivables previously written off	28	35
Losses on irrecoverable loans	(21)	(34)
Total cost of risk for the period	**(395)**	**(338)**

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

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 IAS 39
Cash and balances at central banks	-	-
Financial instruments at fair value through profit or loss	11	10
Financial assets at fair value through equity (1)	(7)	-
Financial assets at amortised cost	(408)	(347)
of which loans and receivables (2)	*(409)*	*(347)*
of which debt securities (3)	*1*	-
Other assets	-	(2)
Financing and guarantee commitments and other items	9	1
Total cost of risk for the period	**(395)**	**(338)**
Cost of risk on unimpaired assets and commitments	(7)	(39)
of which stage 1	*(27)*	
of which stage 2	*20*	
Cost of risk on impaired assets and commitments - stage 3	(388)	(299)

(1) 2017 figures represent the cost of risk related to fixed-income available-for-sale financial assets.

(2) 2017 figures represent the cost of risk related to loans and advances to credit institutions and customers.

(3) 2017 figures represent the cost of risk related to securities classified in loans and advances and to held-to-maturity financial assets.

Credit risk impairment

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

In millions of euros	1 January 2018 IFRS 9 & IFRS 15	Net allowance to impairment	Impairment provisions used	Effect of exchange rate movements and other items	31 December 2018 IFRS 9 & IFRS 15
Impairment of assets					
Amounts due from central banks	9	4	-	(3)	10
Financial instruments at fair value through profit or loss	55	(2)	-	(8)	45
Impairment of financial assets at fair value through equity	28	7	-	1	36
Financial assets at amortised cost	3,096	415	(372)	(225)	2,914
of which loans and receivables	*3,094*	*416*	*(372)*	*(225)*	*2,913*
of which debt securities	*2*	*(1)*	-	-	*1*
Other assets	7	-	-	-	7
Total impairment of financial assets	**3,195**	**424**	**(372)**	**(235)**	**3,012**
of which stage 1	*271*	*20*	-	*(29)*	*262*
of which stage 2	*525*	*(4)*	-	*(85)*	*436*
of which stage 3	*2,399*	*408*	*(372)*	*(121)*	*2,314*
Provisions recognised as liabilities			-	-	-
Provisions for commitments	198	2	(1)	(5)	194
Other provisions	39	(15)	-	1	25
Total provisions recognised for credit commitments	**237**	**(13)**	**(1)**	**(4)**	**219**
of which stage 1	*40*	*6*	-	*(3)*	*43*
of which stage 2	*57*	*(16)*	-	*(2)*	*39*
of which stage 3	*140*	*(3)*	*(1)*	*1*	*137*
Total impairment and provisions	**3,432**	**411**	**(373)**	**(239)**	**3,231**

Changes in impairment of financial assets at amortised cost over the period

In millions of euros IFRS 9 & IFRS 15	**Impairment on assets subject to 12-month Expected Credit Losses (Stage 1)**	**Impairment on assets subject to lifetime Expected Credit Losses (Stage 2)**	**Impairment on doubtful assets (Stage 3)**	**Total**
At 1 January 2018	**261**	**509**	**2,326**	**3,096**
Net allowances to impairment	15	(10)	410	415
Financial assets purchased or originated during the period	100	79	2	181
Financial assets derecognised during the period (1)	(33)	(43)	(79)	(155)
Transfer to Stage 2	(22)	220	(38)	160
Transfer to Stage 3	(21)	(32)	465	412
Transfer to Stage 1	24	(143)	(8)	(127)
Other allowances/reversals without stage transfer (2)	(33)	(91)	68	(56)
Impairment provisions used	-	-	(372)	(372)
Effect of exchange rate movements and other items	(29)	(84)	(112)	(225)
At 31 December 2018	**247**	**415**	**2,252**	**2,914**

(1) Including disposals.

(2) Including amortisation.

3.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. 2018** IFRS 9 & IFRS 15		**Year to 31 Dec. 2017** IAS 39	
	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)	**(838)**	**29.58%**	**(1,014)**	**33.99%**
Impact of differently taxed foreign profits	49	(1.7%)	112	(3.7%)
Impact of changes in tax rates	40	(1.4%)	(376)	12.6%
Impact of the taxation of securities	24	(0.8%)	50	(1.7%)
Tax impact of previously unrecognised deferred taxes (tax losses and temporary differences)	42	(1.5%)	427	(14.3%)
Tax impact of using tax losses for which no deferred tax asset was previously recognised	3	(0.1%)	6	(0.2%)
Other items	(3)	0.1%	20	(0.7%)
Corporate income tax expense	**(683)**	**24.12%**	**(775)**	**25.99%**
of which				
Current tax expense for the year to 31 December	*(438)*		*(353)*	
Deferred tax expense for the year to 31 December (Note 5.i)	*(245)*		*(422)*	

(1) Restarted for the share of profits in equity-method entities and goodwill imperment.

4 SEGMENT INFORMATION

4.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 678 branches, plus other channels such as ATMs and online banking facilities, including mobile banking. In its Retail banking activities, BNP Paribas Fortis operates under four complementary brands: the main brand BNP Paribas Fortis, plus Fintro, bpost bank/banque and Hello bank!, a 100% digital mobile banking service. In the insurance sector, BNP Paribas Fortis works in close cooperation with the Belgian market leader, AG Insurance.

Corporate Banking (CB) serves a wide range of clients, including small and medium-sized companies, Belgian and European corporates, financial institutions, institutional investors, public entities and local authorities. CB has a strong client base among large and medium-sized companies and is the market leader in these two categories, as well as a strong challenger in the public sector.

Providing a wide range of both traditional and bespoke specialised solutions and services, and drawing on the international network of the BNP Paribas Group in 73 countries, CB continues to meet the precise financing, transaction banking, investment banking and insurance needs of its clients.

Banking activities in Luxembourg

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

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

Banking activities in Turkey

BNP Paribas Fortis operates in Turkey via Türk Ekonomi 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 18 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.

4.b Information by operating segment

Income and expense by operating segment

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15						Year to 31 Dec. 2017 IAS 39					
	Banking activities in Belgium	Banking activities in Luxembourg	Banking activities in Turkey	Other Domestic Markets	Other	Total	Banking activities in Belgium	Banking activities in Luxembourg	Banking activities in Turkey	Other Domestic Markets	Other	Total
Revenues	4,126	613	950	2,006	358	8,053	4,217	631	1,030	1,841	400	8,119
Operating expense	(2,784)	(380)	(459)	(1,066)	(158)	(4,847)	(2,800)	(355)	(565)	(938)	(173)	(4,831)
Cost of risk	(13)	8	(205)	(116)	(69)	(395)	(39)	14	(192)	(76)	(45)	(338)
Operating Income	**1,329**	**241**	**286**	**824**	**131**	**2,811**	**1,378**	**290**	**273**	**827**	**182**	**2,950**
Non-operating items	7	-	1	(10)	219	217	9	5	(112)	34	262	198
Pre-tax income	**1,336**	**241**	**287**	**814**	**350**	**3,028**	**1,387**	**295**	**161**	**861**	**444**	**3,148**

Assets and liabilities by operating segment

In millions of euros	31 December 2018 IFRS 9 & IFRS 15						1 January 2018 IFRS 9 & IFRS 15					
	Banking activities in Belgium	Banking activities in Luxembourg	Banking activities in Turkey	Other Domestic Markets	Other	Total	Banking activities in Belgium	Banking activities in Luxembourg	Banking activities in Turkey	Other Domestic Markets	Other	Total
Assets	**186,991**	**27,409**	**16,740**	**47,126**	**13,054**	**291,320**	**179,371**	**23,891**	**19,533**	**42,153**	**12,436**	**277,384**
of which investments in associates and Joint ventures	*965*	*93*	*3*	*54*	*2,725*	*3,840*	*1,023*	*89*	-	*122*	*3,021*	*4,255*
Liabilities	**173,431**	**21,819**	**15,285**	**43,521**	**9,884**	**263,940**	**165,535**	**18,715**	**17,798**	**38,272**	**8,925**	**249,245**

4.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 2018, 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. 2018 (*)	Revenues	Pre-tax income	Current tax	Deferred tax	Corporate income tax	FTE (**) as at 31 Dec. 2018	Nature of activities
Belgium	**4,289**	**1,402**	**(137)**	**(246)**	**(383)**	**13,753**	
of which: BNP Paribas Fortis NV/SA (Including Bass & Esmée Master Issuer NV)	*3,943*	*1,204*	*(87)*	*(250)*	*(337)*	*12,705*	*Credit institution*
Turkey	**948**	**284**	**(40)**	**(26)**	**(66)**	**10,016**	
of which: Türk Ekonomi Bankası AS	*914*	*268*	*(36)*	*(24)*	*(60)*	*9,403*	*Credit institution*
Luxembourg	**658**	**273**	**(120)**	**55**	**(65)**	**2,364**	
of which: BGL BNP Paribas	*605*	*238*	*(129)*	*31*	*(98)*	*2,291*	*Credit institution*
France	**586**	**145**	**(33)**	**19**	**(14)**	**3,234**	
of which: BNP Paribas Lease Group BPLG	*129*	*30*	*(19)*	*18*	*(1)*	*1,303*	*Leasing firm*
Germany	**329**	**125**	**(34)**	**(4)**	**(38)**	**1,158**	
of which: Von Essen GMBH & CO. KG Bankgesellschaft	*159*	*63*	*(18)*	*(1)*	*(19)*	*405*	*Credit institution*
Poland	**26**	**7**	**(5)**	**4**	**(1)**	**361**	
United Kingdom	**297**	**140**	**(18)**	**(10)**	**(28)**	**1,202**	
Spain	**221**	**126**	**(6)**	**(25)**	**(31)**	**728**	
The Netherlands	**105**	**62**	**(11)**	**(1)**	**(12)**	**365**	
Italy	**378**	**191**	**(27)**	**-**	**(27)**	**1,031**	
Other	**216**	**72**	**(7)**	**(11)**	**(18)**	**1,754**	
TOTAL	**8,053**	**2,827**	**(438)**	**(245)**	**(683)**	**35,966**	

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

(**) Full-time equivalents (FTE) at 31 December 2018 in fully consolidated entities under exclusive control.

5 NOTES TO THE BALANCE SHEET AT 31 DECEMBER 2018

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

Financial assets and liabilities at fair value through profit or loss

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

In millions of euros	31 December 2018 IFRS 9 & IFRS 15				1 January 2018 IFRS 9 & IFRS 15			
	Trading Book	Financial instruments designated as at fair value through profit or loss	Other financial assets at fair value through profit or loss	Total	Trading Book	Financial instruments designated as at fair value through profit or loss	Other financial assets at fair value through profit or loss	Total
Securities	962	-	1,863	2,825	1,317	-	2,236	3,553
Loans and repurchase agreements	5,888	4	74	5,966	2,391	8	59	2,458
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	**6,850**	**4**	**1,937**	**8,791**	**3,708**	**8**	**2,295**	**6,011**
Securities	158	-	-	158	222	-	-	222
Deposits and repurchase agreements	11,899	194	-	12,093	4,706	207	-	4,913
Issued debt securities (note 5.h)	-	3,344	-	3,344	-	3,941	-	3,941
Of which subordinated debt	-	*763*	-	*763*	-	*821*	-	*821*
Of which non subordinated debt	-	*2,581*	-	*2,581*	-	*3,120*	-	*3,120*
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**12,057**	**3,538**	**-**	**15,595**	**4,928**	**4,148**	**-**	**9,076**

Detail of these assets and liabilities is provided in note 5.d.

Financial liabilities designated as at fair value through profit or loss

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

The redemption value of debt issued and designated as at fair value through profit or loss at 31 December 2018 was EUR 3,830 million (EUR 4,342 million at 1 January 2018).

Other financial assets measured at fair value through profit or loss

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

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

Derivative financial instruments

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

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

	31 December 2018 IFRS 9 & IFRS 15		1 January 2018 IFRS 9 & IFRS 15	
In millions of euros	**Positive market value**	**Negative market value**	**Positive market value**	**Negative market value**
Interest rate derivatives	4,447	3,104	4,024	2,449
Foreign exchange derivatives	1,745	1,673	1,349	1,318
Credit derivatives	-	4	3	6
Equity derivatives	491	91	403	69
Other derivatives	-	-	-	-
Derivative financial instruments	**6,683**	**4,872**	**5,779**	**3,842**

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 2018 IFRS 9 & IFRS 15				1 January 2018 IFRS 9 & IFRS 15			
	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	30,387	37,644	774,726	842,757	51,407	52,770	564,798	668,975
Foreign exchange derivatives	-	-	109,816	109,816	115	-	141,029	141,144
Credit derivatives	-	-	70	70	-	-	121	121
Equity derivatives	344	-	2,134	2,478	87	-	1,821	1,908
Other derivatives	-	-	-	-	13	-	-	13
Derivative financial instruments	**30,731**	**37,644**	**886,746**	**955,121**	**51,622**	**52,770**	**707,769**	**812,161**

5.b Derivatives used for hedging purposes

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

In millions of euros	31 December 2018 IFRS 9 & IFRS 15			1 January 2018 IFRS 9 & IFRS 15		
	Notional amounts	Positive fair value	Negative fair value	Notional amounts	Positive fair value	Negative fair value
Fair value hedges	**100,115**	**1,035**	**3,368**	**91,195**	**1,603**	**4,099**
Interest rate derivatives	99,279	1,006	3,327	88,886	1,447	4,048
Foreign exchange derivatives	836	29	41	2,309	156	51
Cash flow hedges	**20,205**	**326**	**135**	**27,327**	**406**	**145**
Interest rate derivatives	6,644	79	36	13,797	50	83
Foreign exchange derivatives	13,561	247	99	13,530	356	62
Other derivatives	-	-	-	-	-	-
Net foreign investment hedges	**300**	**-**	**2**	**300**	**-**	**10**
Foreign exchange derivatives	300	-	2	300	-	10
Derivatives used for hedging purposes	**120,620**	**1,361**	**3,505**	**118,822**	**2,009**	**4,254**

Interest rate risk and foreign exchange risk management strategies are described in Chapter 5 - Risk Management and Capital Adequacy of the Annual Report.

The table below shows the detail of the identified fair value hedge relationships and the financial instruments portfolios still hedged as at 31 December 2018:

as at 31 December 2018 In millions of euros	Hedging instruments				Hedged instruments			
	Notional amounts	Positive fair value	Negative fair value	Cumulated change in fair value used as the basis for recognising ineffectiveness	Carrying amount - asset	Cumulated amount of fair value hedge adjustments - assets	Carrying amount - liabilities	Cumulated amount of fair value hedge adjustments - liabilities
Fair value hedges of identified instruments	13,790	78	1,890	(1,733)	13,384	1,659	2,498	22
Interest rate derivatives hedging the interest rate risk related to	**13,174**	**69**	**1,888**	**(1,732)**	**13,345**	**1,658**	**1,915**	**22**
Loans and receivables	*1,052*	*13*	*269*	*(241)*	*1,285*	*241*	*-*	*-*
Securities	*10,210*	*22*	*1,616*	*(1,513)*	*12,060*	*1,417*	*-*	*-*
Deposits	*43*	*1*			*-*	*-*	*44*	
Debt securities	*1,869*	*33*	*3*	*22*	*-*	*-*	*1,871*	*22*
Others	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Foreign exchange derivatives hedging the interest rate and foreign exchange risks related to	**616**	**9**	**2**	**(1)**	**39**	**1**	**583**	
Loans and receivables	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Securities	*39*	*-*	*2*	*(1)*	*39*	*1*	*-*	*-*
Deposits	*73*	*2*	*()*	*()*	*-*	*-*	*74*	
Debt securities	*504*	*7*	*()*	*()*	*-*	*-*	*509*	*()*
Interest-rate risk hedged portfolios	86,323	957	1,460	(565)	34,748	1,142	52,182	581
Interest rate derivatives hedging the interest rate risk related to	**86,103**	**937**	**1,439**	**(565)**	**34,547**	**1,142**	**52,182**	**581**
Loans and receivables	*34,361*	*130*	*1,289*	*(1,149)*	*34,547*	*1,142*	*0*	*0*
Securities	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Deposits	*51,742*	*807*	*150*	*584*	*-*	*-*	*52,182*	*581*
Others	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Foreign exchange derivatives hedging the interest rate and foreign exchange risks related to	**220**	**20**	**21**	**-**	**201**	**-**	**-**	**-**
Loans and receivables	*220*	*20*	*21*	*-*	*201*	*-*	*-*	*-*
Deposits	*-*	*-*	*-*	*-*	*-*	*-*	*-*	*-*
Total fair value hedge	**100,113**	**1,035**	**3,350**	**(2,298)**	**48,132**	**2,801**	**54,680**	**603**

An asset or a liability or set of assets and liabilities, can be hedged over several periods of time with different derivative financial instruments. Besides, some hedges are achieved by the combination of two derivative instruments (for example, to exchange the variable rate index of the first instrument from Euribor to Eonia). In this case, the notional amounts add up and their total amount is higher than the hedged amount. The first situation is observed more particularly for interest rate risk hedged portfolios and the second for hedges of issued debt securities

The notional amount of cash flow hedge derivatives is EUR 20,204 million as at 31 December 2018. Changes in assets and liabilities recognised directly in equity amount to EUR 57 million. The hedge ineffectiveness related to cash flow hedges, recognised in the profit and loss account for the year ended 31 December 2018, was non-material.

Notional amounts of hedge instruments by maturity date are detailed as follows:

as at 31 December 2018 In millions of euros	Maturity date Less than 1 year	Between 1 to 5 years	Over 5 years
Fair value hedges	**14,825**	**50,339**	**34,951**
Interest rate derivatives	14,532	49,835	34,912
Foreign exchange derivatives	293	504	39
Cash flow hedges	**12,879**	**6,253**	**1,073**
Interest rate derivatives	1,644	4,118	882
Foreign exchange derivatives	11,235	2,135	191
Other derivatives	-	-	-
Net foreign investments hedges	**-**	**300**	**-**
Foreign exchange derivatives	-	300	-

5.c Financial assets at fair value through equity

In millions of euros	31 December 2018 IFRS 9 & IFRS 15 Fair value	of which changes in value taken directly in equity	1 January 2018 IFRS 9 & IFRS 15 Fair value	of which changes in value taken directly in equity
Debt securities	**10,442**	**92**	**14,128**	**330**
Governments	5,616	112	9,081	303
Other public administrations	2,686	36	3,157	71
Credit institutions	942	(2)	486	5
Others	1,198	(54)	1,404	(49)
Equity securities	**336**	**271**	**311**	**200**
Total financial assets at fair value through equity	**10,778**	**363**	**14,439**	**530**

Debt securities at fair value through equity include EUR 0 million classified as stage 3 at 31 December 2018 (EUR 0 million at 1 January 2018). For these securities, the credit impairment recognised in the profit and loss account has been charged to the negative changes in value recognised in equity for EUR 11 million at 31 December 2018 (EUR 11 million at 1 January 2018).

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

During the year ended 2018, the bank sold several equity securities measured at fair value through equity. However, the gains and losses thus reclassified into retained earnings were immaterial. No dividend related to these securities was recognised in the profit and loss account during the year ended 31 December 2018.

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

In millions of euros	31 December 2018 IFRS 9 & IFRS 15			1 January 2018 IFRS 9 & IFRS 15		
	Debt securities	Equities and other variable-income securities	Total	Debt securities	Equities and other variable-income securities	Total
Non-hedged changes in value of securities, recognised in 'Financial assets at fair value through equity'	**92**	**271**	**363**	**330**	**200**	**530**
Deferred tax linked to these changes in value	(33)	(3)	(36)	(92)	(3)	(95)
Share of changes in value of financial assets at fair value through equity owned by equity-method entities, after deferred tax	41	1	42	61		61
Expected credit loss recognised in profit or loss	36	-	36	28		28
Other variations	(4)	1	(3)	1	1	2
Changes in value of assets taken directly to equity under the heading 'Financial assets at fair value through equity'	**132**	**270**	**402**	**328**	**198**	**526**
Attributable to equity shareholders	133	206	339	312	188	500
Attributable to minority interests	(1)	64	63	16	10	26

5.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 collateralized 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 36 million as at 31 December 2018, compared with an increase in value of EUR 73 million as at 1 January 2018, i.e. a EUR (37) million variation recognised in 'net gain on financial instruments at fair value through profit or loss' (note 3.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.f.9), financial instruments measured at fair value are categorised into a fair value hierarchy consisting of three levels.

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

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

In millions of euros	31 December 2018 IFRS 9 & IFRS 15											
	Trading Book				Instruments at fair value through profit or loss not held for trading				Financial assets at fair value through equity			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Securities	554	408	-	962	249	1,115	499	1,863	8,884	1,674	220	10,778
Governments	467	3	-	470	-	246	-	246	5,305	304	-	5,609
Asset Backed Securities	-	3	-	3	-	349	-	349	-	1,104	-	1,104
Other Asset Backed Securities	-	*3*	-	*3*	-	*349*	-	*349*	-	*1,104*	-	*1,104*
Other debt securities	87	47	-	134	-	496	64	560	3,464	266	-	3,730
Equities and other equity securities	-	355	-	355	249	24	435	708	115	-	220	335
Loans and repurchase agreements	-	5,888	-	5,888	-	4	74	78	-	-	-	-
Loans	-	27	-	27	-	4	74	78	-	-	-	-
Repurchase agreements	-	5,861	-	5,861	-	-	-	-	-	-	-	-
Financial assets at fair value	**554**	**6,296**	**-**	**6,850**	**249**	**1,119**	**573**	**1,941**	**8,884**	**1,674**	**220**	**10,778**
Securities	158	-	-	158	-	-	-	-	-	-	-	-
Governments	158	-	-	158	-	-	-	-	-	-	-	-
Other debt securities	-	-	-	-	-	-	-	-	-	-	-	-
Equities and other equity securities	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings and repurchase agreements	-	11,899	-	11,899	-	194	-	194	-	-	-	-
Borrowings	-	18	-	18	-	194	-	194	-	-	-	-
Repurchase agreements	-	11,881	-	11,881	-	-	-	-	-	-	-	-
Issued debt securities (Note 5.h)	-	-	-	-	-	2,064	1,280	3,344	-	-	-	-
Subordinated debt (Note 5.h)	-	-	-	-	-	763	-	763	-	-	-	-
Non subordinated debt (Note 5.h)	-	-	-	-	-	1,301	1,280	2,581	-	-	-	-
Financial liabilities at fair value	**158**	**11,899**	**-**	**12,057**	**-**	**2,258**	**1,280**	**3,538**	**-**	**-**	**-**	**-**

In millions of euros	1 January 2018 IFRS 9 & IFRS 15											
	Trading Book				Instruments at fair value through profit or loss not held for trading				Financial assets at fair value through equity			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Securities	1,033	284	-	1,317	321	1,467	448	2,236	12,471	1,707	261	14,439
Governments	932	167	-	**1,099**	-	253	-	**253**	8,904	155	-	**9,059**
Asset Backed Securities	-	10	-	**10**	-	574	-	**574**	-	1,386	-	**1,386**
Other Asset Backed Securities	-	*10*	-	**10**	-	*574*	-	**574**	-	*1,386*	-	**1,386**
Other debt securities	101	20	-	**121**	-	620	35	**655**	3,518	166	-	**3,684**
Equities and other equity securities	-	87	-	**87**	321	20	413	**754**	49	-	261	**310**
Loans and repurchase agreements	-	2,391	-	2,391	-	8	59	67				
Loans	-	-	-	**-**	-	8	59	**67**				
Repurchase agreements	-	2,391	-	**2,391**	-	-	-	**-**				
Financial assets at fair value	**1,033**	**2,675**	**-**	**3,708**	**321**	**1,475**	**507**	**2,303**	**12,471**	**1,707**	**261**	**14,439**
Securities	222	-	-	222	-	-	-	-				
Governments	222	-	-	**222**	-	-	-	**-**				
Other debt securities	-	-	-	**-**	-	-	-	**-**				
Equities and other equity securities	-	-	-	**-**	-	-	-	**-**				
Borrowings and repurchase agreements	-	4,706	-	4,706	-	207	-	207				
Borrowings	-	18	-	**18**	-	207	-	**207**				
Repurchase agreements	-	4,688	-	**4,688**	-	-	-	**-**				
Issued debt securities (Note 5.h)	-	-	-	**-**	-	2,978	963	3,941				
Subordinated debt (Note 5.h)	-	-	-	**-**	-	821	-	**821**				
Non subordinated debt (Note 5.h)	-	-	-	**-**	-	2,157	963	**3,120**				
Financial liabilities at fair value	**222**	**4,706**	**-**	**4,928**	**-**	**3,185**	**963**	**4,148**				

In millions of euros	31 December 2018 IFRS 9 & IFRS 15							
	Positive market value				Negative market value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Interest rate derivatives	-	4,386	61	4,447	1	3,062	41	3,104
Foreign exchange derivatives	-	1,730	15	1,745	-	1,660	13	1,673
Credit derivatives	-	-	-	-	-	4	-	4
Equity derivatives	-	491	-	491	-	91	-	91
Other derivatives	-	-	-	-	-	-	-	-
Derivative financial instruments not used for hedging purposes	**-**	**6,607**	**76**	**6,683**	**1**	**4,817**	**54**	**4,872**
Derivative financial instruments used for hedging purposes	**-**	**1,361**	**-**	**1,361**	**-**	**3,505**	**-**	**3,505**

In millions of euros	1 January 2018 IFRS 9 & IFRS 15							
	Positive market value				Negative market value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Interest rate derivatives	-	3,877	147	4,024	-	2,345	104	2,449
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	**-**	**5,625**	**154**	**5,779**	**-**	**3,733**	**109**	**3,842**
Derivative financial instruments used for hedging purposes	**-**	**2,009**	**-**	**2,009**	**-**	**4,254**	**-**	**4,254**

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 2018, transfers between Level 1 and Level 2 were not significant.

Description of main instruments in each level

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

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

Level 1

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

Level 1 includes notably equity securities and liquid bonds, short selling of these instruments, derivative instruments traded on organised markets (futures, options, ...). It includes shares of funds and UCITS, for which the net asset value is calculated on a daily basis, as well as debt representative of shares of consolidated funds held by third parties.

Level 2

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

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

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

Derivatives classified in Level 2 comprise mainly the following instruments:

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

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

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

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

Level 3

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

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

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

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

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

Derivatives

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

- **Interest rate derivatives:** exposures mainly comprise swap products in less liquid currencies. Classification is driven by the lower liquidity of some maturities, while observation capabilities through consensus may be available. The valuation technique is standard, and uses external market information and extrapolation techniques;
- **Credit derivatives (CDS):** exposures mainly comprise CDSs beyond the maximum observable maturity and, to a much lesser extent, CDSs on illiquid or distressed names and CDSs on loan indices. Classification is driven by the lack of liquidity while observation capabilities may be available notably through consensus. Level 3 exposures also comprise CDS and Total Return Swaps (TRS) positions on securitised assets. These are priced along the same modelling techniques as the underlying bonds, taking into consideration the funding basis and specific risk premium;

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

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

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

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

- **Structured interest rate options** are classified in Level 3 when they involve currencies where there is not sufficient observation or when they include a quanto feature where the pay-off is measured with a forex forward fixed rate (except for the main currencies). Long term structured derivatives are also classified in Level 3;
- **Hybrid FX/Interest rate products** essentially comprise a specific product family known as Power Reverse Dual Currency (PRDC). The valuation of PRDCs requires sophisticated modelling of joint behaviour of FX and interest rate, and is notably sensitive to the unobservable FX/ interest rate correlations. PRDCs valuations are corroborated with recent trade data and consensus data;
- **Securitisation swaps** mainly comprise fixed rate swaps, cross currency or basis swaps whose notional is indexed to the prepayment behaviour of some underlying portfolio. The estimation of the maturity profile of securitisation swaps is corroborated by statistical estimates using external historical data;
- **Forward volatility options** are generally products whose pay-off is indexed to the future variability of a rate index such as volatility swaps. These products involve material model risk as it is difficult to infer forward volatility information from the market-traded instruments. The valuation adjustment framework is calibrated to the uncertainty inherent in the product, and to the range of uncertainty from the existing external consensus data;
- **Inflation derivatives** classified in Level 3 mainly comprise swap products on inflation indices that are not associated with a liquid indexed bond market, optional products on inflation indices (such as caps and floors) and other forms of inflation indices involving optionality on the inflation indices or on the inflation annual rate. Valuation techniques used for inflation derivatives are predominantly standard market models. Proxy techniques are used for a few limited exposures. Although the valuations are corroborated through monthly consensus data, these products are classified as Level 3 due to their lack of liquidity and some uncertainties inherent in the calibration;
- The valuation of **bespoke CDOs** requires correlation of default events. This information is inferred from the active index tranche market through a proprietary projection technique and involves proprietary extrapolation and interpolation techniques. Multi-geography CDOs further require an additional correlation assumption. Finally, the bespoke CDO model also involves proprietary assumptions and parameters related to the dynamic of the recovery factor. CDO modelling, is calibrated on the observable index tranche markets, and is regularly back-tested against consensus data on standardised pools. The uncertainty arises from the model risk associated with the projection and geography mixing technique, and the uncertainty of associated parameters, together with the recovery modelling;
- **N to Default baskets** are other forms of credit correlation products, modelled through standard copula techniques. The main inputs required are the pair-wise correlations between the basket components which can be observed in the consensus and the transactions. Linear baskets are considered observable;

- **Equity and equity-hybrid correlation products** are instruments whose pay-off is dependent on the joint behaviour of a basket of equities/indices leading to a sensitivity of the fair value measurement to the correlation amongst the basket components. Hybrid versions of these instruments involve baskets that mix equity and non-equity underlyings such as commodity indices. Only a subset of the Equity/index correlation matrix is regularly observable and traded, while most cross-asset correlations are not active. Therefore, classification in Level 3 depends on the composition of the basket, the maturity, and the hybrid nature of the product. The correlation input is derived from a proprietary model combining historical estimators, and other adjustment factors, that are corroborated by reference to recent trades or external data. The correlation matrix is essentially available from consensus services, and when a correlation between two underlying instruments is not available, it might be obtained from extrapolation or proxy techniques.

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

Valuation adjustments (CVA, DVA and FVA)

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

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

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

Risk classes	Balance Sheet valuation (In millions of euros)		Main product types composing the Level 3 stock within the risk class	Valuation technique used for the product types considered	Main unobservable inputs for the product types considered	Range of unobservable input across Level 3 population considered	Weighted average
	Asset	Liability					
Interest rate derivatives	61	41	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%	(a)
					Volatility of the year on year inflation rate	0.2% - 2.0%	
			Forward volatility products such as volatility swaps, mainly in euro	Interest rates option pricing model	Forward volatility of interest rates	0.3% - 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 2017 and 31 December 2018:

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 not held for trading	Financial assets at fair value through equity	TOTAL	Financial instruments at fair value through profit or loss held for trading	Financial instruments designated as at fair value through profit or loss not held for trading	TOTAL
At 1 January 2017 IAS 39	**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)**
Reclassifications	-	-	-	**-**	-	-	**-**
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	-	-	-	**-**	-	-	**-**
- Items related to exchange rate movements	-	-	(3)	**(3)**	-	-	**-**
- Changes in assets and liabilities recognised in equity	-	-	75	**75**	-	-	**-**
At 31 December 2017 IAS 39	**154**	**109**	**624**	**887**	**109**	**999**	**1,108**
Impact of the application of IFRS 9	-	398	(363)	**35**	-	(36)	**(36)**
At 1 January 2018 IFRS 9 & IFRS 15	**154**	**507**	**261**	**922**	**109**	**963**	**1,072**
Purchases	-	98	-	**98**	-	-	**-**
Issues	-	-	-	**-**	-	93	**93**
Sales	-	(132)	-	**(132)**	-	-	**-**
Settlements (1)	(106)	13	2	**(91)**	(15)	(58)	**(73)**
Reclassifications	-	72	(43)	**29**	-	-	**-**
Transfers to Level 3	13	47	-	**60**	-	306	**306**
Transfers from Level 3	(16)	-	-	**(16)**	(41)	(28)	**(69)**
Gains or (losses) recognised in profit or loss with respect to transactions expired or terminated during the period	(4)	(34)	-	**(38)**	-	4	**4**
Gains or (losses) recognised in profit or loss with respect to unexpired instruments at the end of the period	35	(1)	-	**34**	1	-	**1**
Changes in fair value of assets and liabilities recognised directly in equity	-	-	-	**-**	-	-	**-**
- Items related to exchange rate movements	-	*3*	(4)	**(1)**	-	-	**-**
- Changes in assets and liabilities recognised in equity	-	-	4	**4**	-	-	**-**
At 31 December 2018 IFRS 9 & IFRS 15	**76**	**573**	**220**	**869**	**54**	**1,280**	**1,334**

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

Transfers out of Level 3 of derivatives at fair value include mainly the update of the observability tenor of certain yield curves, and of market parameters related to repurchase agreements and credit transactions but also the effect of derivatives becoming only or mainly sensitive to observable inputs due to the shortening of their lifetime.

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

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

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

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

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

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

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

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

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

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

	31 December 2018	
In millions of euros	**Potential impact on income**	**Potential impact on equity**
Fixed-income securities	+/-1	
Equities and other equity securities	+/-4	+/-2
Loans and repurchase agreements	+/-1	
Derivative financial instruments	+/-17	
Interest rate and foreign exchange derivatives	+/-17	
Credit derivatives	+/-0	
Equity derivatives	+/-0	
Other derivatives	+/-0	
Sensitivity of Level 3 financial instruments	**+/-24**	**+/-2**

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.

5.e Financial assets at amortised cost

Detail of loans and advances by nature

In millions of euros	31 December 2018 IFRS 9 & IFRS 15			1 January 2018 IFRS 9 & IFRS 15		
	Gross value	Impairment (note 3.g)	Carrying amount	Gross value	Impairment (note 3.g)	Carrying amount
Loans and advances to credit institutions	**28,193**	**(88)**	**28,105**	**25,055**	**(94)**	**24,961**
On demand accounts	3,048	(2)	3,046	1,997	(2)	1,995
Loans [(1)]	7,474	(86)	7,388	10,566	(92)	10,474
Repurchase agreements	17,671	-	17,671	12,492	-	12,492
Loans and advances to customers	**182,092**	**(2,825)**	**179,267**	**177,101**	**(3,000)**	**174,101**
On demand accounts	3,430	(193)	3,237	3,134	(166)	2,968
Loans to customers	161,229	(2,229)	159,000	158,670	(2,468)	156,202
Finance leases	17,433	(403)	17,030	15,297	(366)	14,931
Repurchase agreements	-	-	-	-	-	-
Total loans and advances at amortised cost	**210,285**	**(2,913)**	**207,372**	**202,156**	**(3,094)**	**199,062**

(1) Loans and advances to credit institutions include term deposits made with central banks, which amounted to EUR 1,274 million as at 31 December 2018 (EUR 319 million as at 1 January 2018).

Detail of debt securities

In millions of euros	31 December 2018 IFRS 9 & IFRS 15			1 January 2018 IFRS 9 & IFRS 15		
	Gross value	Impairment (note 3.g)	Carrying amount	Gross value	Impairment (note 3.g)	Carrying amount
Governments	5,553	(1)	5,552	6,352	(1)	6,351
Other public administrations	2,915	-	2,915	2,925	-	2,925
Credit institutions	4,053	-	4,053	1,053	-	1,053
Other	390	-	390	416	(1)	415
Total debt securities at amortised cost	**12,911**	**(1)**	**12,910**	**10,746**	**(2)**	**10,744**

Detail of loans and advances and debt securities by stage

In millions of euros	31 December 2018 IFRS 9 & IFRS 15			1 January 2018 IFRS 9 & IFRS 15		
	Gross value	Impairment (note 3.g)	Carrying amount	Gross value	Impairment (note 3.g)	Carrying amount
Loans and advances to credit institutions	**28,193**	**(88)**	**28,105**	**25,055**	**(94)**	**24,961**
Stage 1	27,992	(2)	27,990	24,901	(3)	24,898
Stage 2	99	(23)	76	43	(31)	12
Stage 3	102	(63)	39	111	(60)	51
Loans and advances to customers	**182,092**	**(2,825)**	**179,267**	**177,101**	**(3,000)**	**174,101**
Stage 1	155,033	(244)	154,789	146,435	(257)	146,178
Stage 2	22,388	(392)	21,996	25,919	(477)	25,442
Stage 3	4,671	(2,189)	2,482	4,747	(2,266)	2,481
Debt securities	**12,911**	**(1)**	**12,910**	**10,746**	**(2)**	**10,744**
Stage 1	12,911	(1)	12,910	10,554	(1)	10,553
Stage 2	-	-	-	192	(1)	191
Stage 3	-	-	-	-	-	-

Breakdown of finance leases

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Gross investment	**18,175**	**17,705**
Receivable within 1 year	5,701	6,134
Receivable after 1 year but within 5 years	11,138	10,437
Receivable beyond 5 years	1,336	1,134
Unearned interest income	(742)	(2,408)
Net investment before impairment	**17,433**	**15,297**
Receivable within 1 year	5,394	5,249
Receivable after 1 year but within 5 years	10,805	9,055
Receivable beyond 5 years	1,234	993
Impairment provisions	(403)	(366)
Net investment after impairment	**17,030**	**14,931**

5.f Impaired financial assets

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

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

In millions of euros	31 December 2018 IFRS 9 & IFRS 15			
	Stage 3 assets			
	Gross value	Impairment	Net	Collateral received
Loans and advances to credit institutions (note 5.e)	102	(62)	40	61
Loans and advances to customers (note 5.e)	4,671	(2,189)	2,482	1,727
Debt securities at amortised cost (note 5.e)	-	-	-	-
Total amortised cost impaired assets (stage 3)	**4,773**	**(2,251)**	**2,522**	**1,788**
Financing commitments given	215	(8)	207	52
Guarantee commitments given	314	(103)	211	57
Total off-balance sheet impaired commitments (stage 3)	**529**	**(111)**	**418**	**109**

In millions of euros	1 January 2018 IFRS 9 & IFRS 15			
	Stage 3 assets			
	Gross value	Impairment	Net	Collateral received
Loans and advances to credit institutions (note5.e)	111	(60)	51	66
Loans and advances to customers (note 5.e)	4,747	(2,266)	2,481	1,847
Debt securities at amortised cost (note 5.e)	-	-	-	-
Total amortised cost impaired assets (stage 3)	**4,858**	**(2,326)**	**2,532**	**1,913**
Financing commitments given	238	(4)	234	76
Guarantee commitments given	326	(97)	229	79
Total off-balance sheet impaired commitments (stage 3)	**564**	**(101)**	**463**	**155**

5.g Financial liabilities at amortised cost due to credit institutions and customers

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Deposits from credit institutions	**33,844**	**36,520**
On demand accounts	1,302	1,523
Interbank borrowings (1)	32,532	34,508
Repurchase agreements	10	489
Deposits from customers	**174,389**	**166,965**
On demand deposits	71,441	65,281
Savings accounts	80,061	82,667
Term accounts and short-term notes	22,884	19,007
Repurchase agreements	3	10

(1) Interbank borrowings from credit institutions include term deposits from central banks.

5.h 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 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Negotiable certificates of deposit and other debt securities	12,091	11,645
Bond issues	1,138	789
Total debt securities at amortised cost	**13,229**	**12,434**

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

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Debt securities	2,581	3,120
Subordinated debt	763	821
Total debt securities and subordinated debt at fair value through profit or loss	**3,344**	**3,941**

Subordinated debt measured at amortised cost

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Redeemable subordinated debt	2,916	2,380
Undated subordinated debt	31	107
Total subordinated debt measured at amortised cost	**2,947**	**2,487**

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 superseded the previous one.

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

As at 31 December 2018, the subordinated liability is eligible to Tier 1 capital for EUR 205 million (considering the transitional period).

5.i Current and deferred taxes

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Current taxes	111	111
Deferred taxes	1,794	2,021
Current and deferred tax assets	**1,905**	**2,132**
Current taxes	178	145
Deferred taxes	496	540
Current and deferred tax liabilities	**674**	**685**

Changes in deferred tax by nature over the period

In millions of euros	1 January 2018 IFRS 9 & IFRS 15	Changes recognised through profit or loss	Changes recognised through equity that may be reclassified to profit or loss	Changes recognised through equity that will not be reclassified to profit or loss	Changes in the consolidation scope, in exchange rate movements and other items	31 December 2018 IFRS 9 & IFRS 15
Financial instruments	(130)	(38)	58	(9)	18	(101)
Provisions for employee benefit obligations	106	18	-	(3)	2	123
Unrealised finance lease reserve	(171)	13	-	-	(7)	(165)
Credit risk impairment	396	114	-	-	(11)	499
Tax loss carryforwards	1,422	(293)	-	-	8	1,137
Other items	(142)	(59)	-	-	6	(195)
Net deferred taxes	**1,481**	**(245)**	**58**	**(12)**	**16**	**1,298**
Deferred tax assets	2,021	-	-	-	-	1,794
Deferred tax liabilities	540	-	-	-	-	496

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 956 million, with a 6-year expected recovery period (unlimited carryforward period).

Unrecognised deferred tax assets totalled EUR 168 million as at 31 December 2018 compared with EUR 357 million as at 31 December 2017.

In 2017, the Belgian government carried out an important corporate tax reform which decreased the corporate tax rate in Belgium of 33.99% down to 29.58% in 2018 and 25% as from 2020. 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.

5.j Accrued income/expense and other assets/liabilities

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Guarantee deposits and bank guarantees paid	2,350	2,106
Collection accounts	61	86
Accrued income and prepaid expenses	736	601
Other debtors and miscellaneous assets	5,835	5,456
Total accrued income and other assets	**8,982**	**8,249**
Guarantee deposits received	484	443
Collection accounts	347	140
Accrued expense and deferred income	1,744	1,655
Other creditors and miscellaneous liabilities	5,307	4,623
Total accrued expense and other liabilities	**7,882**	**6,861**

5.k 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. 2018 IFRS 9 & IFRS 15			31 December 2018	Year to 31 Dec. 2017 IAS 39			1 January 2018
	Share of net income	Share of changes in assets and liabilities recognised directly in equity	Share of net income and changes in assets and liabilities recognised directly in equity	Equity-method investments	Share of net income	Share of changes in assets and liabilities recognised directly in equity	Share of net income and changes in assets and liabilities recognised directly in equity	Equity-method investments
Joint ventures	18	(67)	(49)	246	15	(39)	(24)	314
Associates [(1)]	183	(37)	146	3,594	263	84	347	3,940
Total equity-method entities	**201**	**(104)**	**97**	**3,840**	**278**	**45**	**323**	**4,255**

(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 8.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	Country of registration	Activity	31 December 2018 IFRS 9 & IFRS 15		1 January 2018 IFRS 9 & IFRS 15	
			Interest %	Equity-method investments	Interest %	Equity-method investments
Joint ventures						
bpost bank	Belgium	Retail banking	50%	249	50%	266
Associates						
AG Insurance	Belgium	Insurance	25%	1,792	25%	1,832
BNP Paribas Asset Management	France	Asset management	30.85%	462	30.85%	773
Bank BGŻ BNP Paribas	Poland	Retail banking	24.07%	594	28.35%	423

AG Insurance

In millions of euros	Year to 31 Dec. 2018	Year to 31 Dec. 2017
Total net income	518	554
Changes in assets and liabilities recognised directly in equity	(88)	261

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Total assets	75,073	75,382
Total liabilities	68,368	68,564
Net assets of the equity associate	**6,705**	**6,818**

BNP Paribas Asset Management

In millions of euros	Year to 31 Dec. 2018	Year to 31 Dec. 2017
Total net income	174	231
Changes in assets and liabilities recognised directly in equity	(122)	(14)

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Total assets	2,431	3,550
Total liabilities	926	967
Net assets of the equity associate	**1,505**	**2,583**

Bank BGŻ BNP Paribas

In millions of euros	Year to 31 Dec. 2018	Year to 31 Dec. 2017
Total net income	19	300
Changes in assets and liabilities recognised directly in equity	51	157

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Total assets	107,342	71,295
Total liabilities	97,102	65,452
Net assets of the equity associate	**10,240**	**5,843**

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 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Total net assets	6,704	6,818
Minority interest at AG Insurance level	(250)	(250)
Purchase Price Allocations (PPA) and other adjustments	(156)	(115)
Adjusted total net assets	**6,298**	**6,453**
BNP Paribas Fortis' interest % in AG Insurance	25%	25%
BNP Paribas Fortis' share in AG Insurance	1,574	1,613
Goodwill	218	219
Carrying amount	**1,792**	**1,832**

BNP Paribas Fortis received dividends of EUR 146 million from AG Insurance in 2018 (EUR 130 million in 2017).

Impairment testing on investments in equity associates

IFRS-rules require to assess at the end of each reporting period whether there is any objective evidence that (the value of) an investment in an equity-method entity should be tested for impairment or not. Upon testing, if the recoverable amount of this investment (being the highest of its fair market value and its value in use) is lower than its book value, the book value is reduced to its recoverable amount by recording an impairment. The DCF approach (discounted cash flows) 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, 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 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 2018, impairment tests were performed on the investments held by BNP Paribas Fortis in BNP Paribas Asset Management, in Bank BGŻ BNP Paribas and in AG Insurance. None of these tests demonstrated the need to record an impairment on the investments.

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

In millions of euros	31 December 2018	
	BNPP-AM	Bank BGŻ BNP Paribas
Cost of capital		
Adverse change (+10 basis points)	(14)	(11)
Positive change (-10 basis points)	15	12
Cost/income ratio		
Adverse change (+1%)	(27)	(28)
Positive change (-1%)	27	28
Cost of risk		
Adverse change (+5%)	-	(15)
Positive change (-5%)	-	15
Long-term growth rate		
Adverse change (-50 basis points)	(46)	(15)
Positive change (+50 basis points)	53	17

5.l Property, plant, equipment and intangible assets used in operations, investment property

In millions of euros	31 December 2018 IFRS 9 & IFRS 15			1 January 2018 IFRS 9 & IFRS 15		
	Gross value	Accumulated depreciation, amortisation and impairment	Carrying amount	Gross value	Accumulated depreciation, amortisation and impairment	Carrying amount
Investment property	**471**	**(210)**	**261**	**475**	**(246)**	**229**
Land and buildings	2,204	(1,248)	956	2,195	(1,186)	1,009
Equipment, furniture and fixtures	937	(700)	237	1,057	(798)	259
Plant and equipment leased as lessor under operating leases	24,416	(6,743)	17,673	21,427	(5,826)	15,601
Other property, plant and equipment	541	(214)	327	535	(246)	289
Property, plant and equipment	**28,098**	**(8,905)**	**19,193**	**25,214**	**(8,056)**	**17,158**
Purchased software	324	(273)	51	359	(307)	52
Internally-developed software	377	(251)	126	389	(267)	122
Other intangible assets	212	(52)	160	173	(55)	118
Intangible assets	**913**	**(576)**	**337**	**921**	**(629)**	**292**

Investment property

Land and buildings leased by the bank as lessor under operating leases are recorded in 'Investment property'.

The estimated fair value of investment property accounted for at amortised cost at 31 December 2018 is EUR 331 million, compared with EUR 281 million at 1 January 2018.

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 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Future minimum lease payments receivable under non-cancellable leases	**6,484**	**4,854**
Payments receivable within 1 year	2,605	2,078
Payments receivable after 1 year but within 5 years	3,851	2,739
Payments receivable beyond 5 years	28	37

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 the bank.

Depreciation, amortisation and impairment

The total depreciation, amortisation and impairment of property, plant and equipment and intangible assets for the year ending 31 December 2018 was EUR (287) million, compared with EUR (294) million for the year ending 31 December 2017.

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 2018 for EUR (1) million, compared with a net reversal to impairment provisions of EUR (2) million for the year ended 31 December 2017.

5.m Goodwill

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 IAS 39
Carrying amount at start of period	**663**	**795**
Acquisitions	56	-
Divestments	-	-
Impairment recognised during the period	-	(112)
Exchange rate adjustments	(3)	(22)
Other movements	3	2
Carrying amount at end of period	**719**	**663**
Gross value	925	896
Accumulated impairment recognised at the end of period	(206)	(233)

Goodwill by cash-generating unit is as follows:

	Carrying amount		Impairment recognised during the period		Acquisition of the period	
In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 IAS 39	Year to 31 Dec. 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 IAS 39
BNP Paribas Fortis in Belgium	**28**	**28**	**-**	**-**	**-**	**-**
Alpha Credit	*22*	*22*	-	-	-	-
Factoring	*6*	*6*	-	-	-	-
BNP Paribas Fortis in Luxembourg	**188**	**132**	**-**	**-**	**56**	**-**
Leasing (BPLS)	*149*	*132*	-	-	*17*	-
Wealth Management	*39*	-	-	-	*39*	-
BNP Paribas Fortis in other countries	**503**	**503**	**-**	**(112)**	**-**	**-**
TEB Group	-	-	-	*(112)*	-	-
Arval	*503*	*503*	-	-	-	
Total goodwill	**719**	**663**	**-**	**(112)**	**56**	**-**

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 (CGU) to which goodwill is allocated are:

- **Alpha Credit** 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;
- **Arval:** As a specialist in vehicle long-term leasing, Arval offers corporates (from multinational companies to small business clients) tailored solutions that optimise their employees' mobility and outsource the risks associated with fleet management. Recently, clientele was expanded to include individuals;
- **ABN AMRO Bank (Luxembourg) S.A.** before its acquisition by and its absorption with BGL on September 3 2018, offered private banking and custody and depository services for investment funds. This integration allows BGL to reinforce its leadership position on the wealth management market in Luxembourg, and more specifically in the significant segment of European entrepreneurs.

Impairment tests

According to IFRS-rules, goodwill should be tested for impairment at least on an annual basis or upon occurrence of a triggering event by comparing the carrying amount of the entity with the recoverable amount. The recoverable amount corresponds to the highest of fair market value of an entity and its value in use. The DCF approach (discounted cash flows) is used to determine the value-in-use, as also applied at BNP Paribas Group level. If the recoverable amount is lower than the carrying amount (or book value), an impairment loss is recognised for the difference.

The DCF method is based on a number of assumptions in terms of future revenues, expenses and cost of risk (cash flows) based on medium-term business plans over a period of five years. Cash flow projections beyond the five-year forecast period are based on a 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 2018, an impairment test was performed for each of the following three CGUs: Alpha Credit, BNP Paribas Leasing Solutions (BPLS) and Arval, which did not reveal any need of recording an additional impairment.

The goodwill recognised on Factoring is considered as non-material and is therefore not tested for impairment.

Following the full impairment of the goodwill related to TEB at year-end 2017 for an amount of EUR (112) million, there is no more goodwill related to this entity in the accounts as per 31 December 2018.

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 2018		
	Alpha Credit	BPLS	Arval
Cost of capital			
Adverse change (+10 basis points)	(12)	(72)	(135)
Positive change (-10 basis points)	12	74	139
Cost/income ratio			
Adverse change (+1%)	(20)	(112)	(196)
Positive change (-1%)	20	112	196
Cost of risk			
Adverse change (+5%)	(21)	(61)	(34)
Positive change (-5%)	21	61	34
Long-term growth rate			
Adverse change (-50 basis points)	(28)	(191)	(418)
Positive change (+50 basis points)	32	221	487

5.n Provisions for contingencies and charges

In millions of euros	1 January 2018 IFRS 9 & IFRS 15	Net additions to provisions	Provisions used	Changes in value recognised directly in equity	Effect of movements in exchange rates and other movements	31 December 2018 IFRS 9 & IFRS 15
Provisions for employee benefits	3,678	215	(281)	(66)	(36)	3,511
of which post-employment benefits (Note 7.b)	*3,250*	*127*	*(202)*	*(69)*	*(33)*	*3,074*
of which post-employment healthcare benefits (Note 7.b)	*82*	*2*	*(2)*	*3*	*-*	*85*
of which provision for other long-term benefits (Note 7.c)	*86*	*15*	*(17)*		*(1)*	*83*
of which provision for voluntary departure, early retirement plans, and headcount adaptation plan (Note 7.d)	*248*	*70*	*(56)*		*(2)*	*260*
of which provision for share-based payment	*12*	*-*	*(4)*		*-*	*9*
Provisions for home savings accounts and plans	-	-	-	-	-	-
Provisions for credit commitments (Note 3.g)	236	-	(1)	-	(17)	219
Provisions for litigation	117	(4)	(6)	-	(1)	105
Other provisions for contingencies and charges	433	39	(93)	-	(4)	376
Total provisions for contingencies and charges	**4,464**	**250**	**(381)**	**(66)**	**(57)**	**4,211**

5.o Offsetting of financial assets and liabilities

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

'Amounts set off on the balance sheet' have been determined according to IAS 32. Thus, a financial asset and a financial liability are offset and the net amount presented on the balance sheet when and only when, BNP Paribas Fortis has a legally enforceable right to offset the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The amounts offset derive mainly from repurchase agreements and derivative instruments traded with clearing houses.

The 'Impacts of Master Netting Agreements and similar agreements' are relative to outstanding amounts of transactions within an enforceable agreement, which do not meet the offsetting criteria defined by IAS 32. This is the case of transactions for which offsetting can only be performed in case of default, insolvency or bankruptcy of one of the contracting parties.

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

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

31 December 2018 IFRS 9 & IFRS 15 In millions of euros	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements (MNA) and similar agreements	Financial instruments received as collateral	Net amounts
Assets						
Financial instruments at fair value through profit or loss	**16,985**	**(150)**	**16,385**	**(5,251)**	**(4,812)**	**6,772**
Securities	*2,825*	*-*	*2,825*	*-*	*-*	*2,825*
Loans and repurchase agreements	*6,116*	*(150)*	*5,966*	*(1,124)*	*(4,525)*	*317*
Derivative financial instruments (including derivatives used for hedging purposes)	*8,044*	*-*	*8,044*	*(4,127)*	*(287)*	*3,630*
Financial assets at amortised cost	**220,320**	**(38)**	**220,282**	**(3,329)**	**(13,398)**	**203,555**
of which repurchase agreements	*17,671*	*-*	*17,671*	*(3,329)*	*(13,398)*	*944*
Accrued income and other assets	**8,982**	**-**	**8,982**	**-**	**(2,177)**	**6,805**
of which guarantee deposits paid	*2,350*	*-*	*2,350*	*-*	*(2,177)*	*173*
Other assets not subject to offsetting	**45,221**	**-**	**45,221**	**-**	**-**	**45,221**
TOTAL ASSETS	**291,508**	**(188)**	**291,320**	**(8,580)**	**(20,387)**	**262,353**
Liabilities						
Financial instruments at fair value through profit or loss	**24,122**	**(150)**	**23,972**	**(8,575)**	**(9,504)**	**5,893**
Securities	*158*	*-*	*158*	*-*	*-*	*158*
Deposits and repurchase agreements	*12,243*	*(150)*	*12,093*	*(4,449)*	*(7,346)*	*298*
Issued debt securities	*3,344*	*-*	*3,344*	*-*	*-*	*3,344*
Derivative financial instruments (including derivatives used for hedging purposes)	*8,377*	*-*	*8,377*	*(4,126)*	*(2,158)*	*2,093*
Financial liabilities at amortised cost	**224,447**	**(38)**	**224,409**	**(5)**	**(8)**	**224,396**
of which repurchase agreements	*13*	*-*	*13*	*(5)*	*(8)*	*-*
Accrued expense and other liabilities	**7,882**	**-**	**7,882**	**-**	**(273)**	**7,609**
of which guarantee deposits received	*484*	*-*	*484*	*-*	*(273)*	*211*
Other liabilities not subject to offsetting	**7,678**	**-**	**7,678**	**-**	**-**	**7,678**
TOTAL LIABILITIES	**264,129**	**(188)**	**263,941**	**(8,580)**	**(9,785)**	**245,576**

1 January 2018 IFRS 9 & IFRS 15 **In millions of euros**	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements (MNA) and similar agreements	Financial instruments received as collateral	Net amounts
Assets						
Financial instruments at fair value through profit or loss	14,185	(386)	13,799	(3,748)	(425)	9,626
Securities	*3,553*	*-*	*3,553*	*-*	*-*	*3,553*
Loans and repurchase agreements	*2,495*	*(37)*	*2,458*	*(4)*	*4*	*2,458*
Derivative financial instruments (including derivatives used for hedging purposes)	*8,137*	*(349)*	*7,788*	*(3,744)*	*(429)*	*3,615*
Financial assets at amortised cost	210,019	(211)	209,808	(18)	18	209,808
of which repurchase agreements	*12,492*	*-*	*12,492*	*(18)*	*18*	*12,492*
Accrued income and other assets	8,249	-	8,249	-	(1,866)	6,383
of which guarantee deposits paid	*2,105*	*-*	*2,105*	*-*	*(1,866)*	*239*
Other assets not subject to offsetting	45,528	-	45,528	-	-	45,528
TOTAL ASSETS	**277,981**	**(597)**	**277,384**	**(3,766)**	**(2,273)**	**271,345**
Liabilities						
Financial instruments at fair value through profit or loss	17,557	(385)	17,172	(3,764)	(1,846)	11,562
Securities	*222*	*-*	*222*	*-*	*-*	*222*
Deposits and repurchase agreements	*4,950*	*(37)*	*4,913*	*(20)*	*20*	*4,913*
Issued debt securities	*3,941*	*-*	*3,941*	*-*	*-*	*3,941*
Derivative financial instruments (including derivatives used for hedging purposes)	*8,444*	*(348)*	*8,096*	*(3,744)*	*(1,866)*	*2,486*
Financial liabilities at amortised cost	218,618	(212)	218,406	(2)	2	218,406
of which repurchase agreements	*498*	*-*	*498*	*(2)*	*2*	*498*
Accrued expense and other liabilities	6,861	-	6,861	-	(329)	6,532
of which guarantee deposits received	*443*	*-*	*443*	*-*	*(330)*	*113*
Other liabilities not subject to offsetting	6,806	-	6,806	-	-	6,806
TOTAL LIABILITIES	**249,842**	**(597)**	**249,245**	**(3,766)**	**(2,173)**	**243,306**

5.p 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 applied by BNP Paribas Fortis'.

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 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

In millions of euros	31 December 2018 IFRS 9 & IFRS 15		1 January 2018 IFRS 9 & IFRS 15	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Securities lending operations				
Financial instruments at fair value through profit and loss	-	-	156	-
Financial assets at amortised cost	4,429	-	1,933	-
Financial assets at fair value through equity	403	-	1,653	-
Repurchase agreements				
Financial instruments at fair value through profit and loss	293	293	849	846
Financial assets at amortised cost	2,510	2,510	1,631	1,631
Financial assets at fair value through equity	1,199	1,199	583	583
Total	**8,834**	**4,002**	**6,805**	**3,060**

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

In millions of euros	31 December 2018 IFRS 9 & IFRS 15				
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities	Net position
Securitisation					
Financial instruments at fair value through profit or loss	163	163	163	163	-
Financial assets at amortised cost	35,020	1,216	35,020	1,216	33,804
Financial assets at fair value through equity	21	21	21	21	-
Total	**35,204**	**1,400**	**35,204**	**1,400**	**33,804**

In millions of euros	1 January 2018 IFRS 9 & IFRS 15				
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities	Net position
Securitisation					
Financial instruments at fair value through profit or loss	185	185	185	185	-
Financial assets at amortised cost	37,374	1,276	39,042	1,276	37,766
Financial assets at fair value through equity	23	23	23	23	-
Total	**37,582**	**1,484**	**39,250**	**1,484**	**37,766**

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.

5.q Non-current assets classified as Held for Sale and Discontinued operations

The assets and liabilities classified as held-for-sale relate to transactions approved by the Board of BNP Paribas Fortis and the Executive Committee of BNP Paribas for which the sale could not yet take place because of legal, regulatory and operational constraints.

As at 31 December 2018, it refers to not-yet-transferred assets and liabilities of Von Essen Bank GmbH that will be sold to BNP Paribas SA. The legal transfer of Von Essen Bank GmbH assets and liabilities will be completed in 2019.

Von Essen Bank GmbH 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 subsidiary 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 or 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 as at 31 December 2018.

In the consolidated financial statements at 1 January 2018, 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' branch in Madrid.

The Madrid branch of BNP Paribas Fortis qualified as a disposal group as defined in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. Most of the assets and liabilities have been sold to BNP Paribas Madrid Branch in October 2018.

Major classes of assets and liabilities classified as held for sale

The assets and liabilities classified as held for sale as at 31 December 2018 are shown below.

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
ASSETS		
Cash and balances at central banks	139	7
Financial assets at fair value through profit or loss	2	-
Derivatives used for hedging purposes	-	-
Financial assets at fair value through equity	-	-
Financial assets at amortised cost	2,201	303
Remeasurement adjustment on interest-rate risk hedged portfolios	-	-
Current and deferred tax assets	-	26
Accrued income and other assets	8	24
Equity-method investments	-	-
Investment property	-	-
Property, plant and equipment	5	1
Intangible assets	-	6
Goodwill	-	-
TOTAL ASSETS	**2,355**	**367**
LIABILITIES		
Deposits from central banks	-	-
Financial liabilities at fair value through profit or loss	-	-
Derivative financial instruments	-	-
Derivatives used for hedging purposes	-	-
Financial liabilities at amortised cost	2,027	733
Remeasurement adjustment on interest-rate risk hedged portfolios	-	-
Current and deferred tax liabilities	17	2
Accrued expenses and other liabilities	34	69
Provisions for contingencies and charges	21	30
TOTAL LIABILITIES	**2,099**	**834**

6 COMMITMENTS GIVEN OR RECEIVED

6.a Financing commitments given or received

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

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Financing commitments given		
to credit institutions	285	278
to customers	49,301	51,006
Confirmed financing commitments	*35,698*	*37,705*
Other commitments given to customers	*13,603*	*13,301*
Total financing commitments given	**49,586**	**51,284**
of which stage 1	*45,748*	*47,725*
of which stage 2	*3,623*	*3,321*
of which stage 3	*215*	*238*
Financing commitments received	-	-
from credit institutions	18,553	21,496
from customers	163	26
Total financing commitments received	**18,716**	**21,522**

6.b Guarantee commitments given by signature

In millions of euros	31 December 2018 IFRS 9 & IFRS 15	1 January 2018 IFRS 9 & IFRS 15
Guarantee commitments given		
to credit institutions	3,956	8,722
to customers	15,526	16,616
Property guarantees	-	-
Sureties provided to tax and other authorities, other sureties	*11,871*	*11,823*
Other guarantees	*3,655*	*4,793*
Total guarantee commitments given	**19,482**	**25,338**
of which stage 1	*18,157*	*23,406*
of which stage 2	*1,011*	*1,605*
of which stage 3	*314*	*327*

6.c Securities commitments

In connexion with the settlement date accounting for securities (cf. note 2.a), commitments representing securities to be delivered or securities to be received are the following:

In millions of euros	**31 December 2018** IFRS 9 & IFRS 15	**1 January 2018** IFRS 9 & IFRS 15
Securities to be delivered	240	128
Securities to be received	247	89

6.d Other guarantee commitments

Financial instruments given as collateral

In millions of euros	**31 December 2018** IFRS 9 & IFRS 15	**1 January 2018** IFRS 9 & IFRS 15
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	23,970	27,120
Used as collateral with central banks	*6,133*	*6,418*
Available for refinancing transactions	*17,837*	*20,702*
Securities sold under repurchase agreements	11,987	5,566
Other financial assets pledged as collateral for transactions with credit institutions, financial customers	7,109	5,743

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 12,008 million at 31 December 2018 (EUR 5,608 million at 1 January 2018).

Financial instruments received as collateral

In millions of euros	**31 December 2018** IFRS 9 & IFRS 15	**1 January 2018** IFRS 9 & IFRS 15
Financial instruments received as collateral (excluding repurchase agreements)	6,089	5,777
of which instruments that BNP Paribas Fortis is authorised to sell and reuse as collateral	*221*	*460*
Securities received under reverse repurchase agreements	23,436	14,839

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 5,097 million at 31 December 2018 (compared with EUR 1,552 million at 1 January 2018).

Financial instruments given or received as collateral are mainly measured at fair value.

7 SALARIES AND EMPLOYEE BENEFITS

7.a Salary and employee benefit expenses

In millions of euros	Year to 31 Dec. 2018	Year to 31 Dec. 2017
Fixed and variable remuneration, incentive bonuses and profit-sharing	(1,922)	(1,956)
Employee benefit expense	(633)	(665)
Payroll taxes	(13)	(13)
Total salary and employee benefit expenses	**(2,568)**	**(2,634)**

7.b Post-employment benefits

IAS 19 distinguishes between two categories of plans, each handled differently depending on the risk incurred by the entity. When the entity is committed to pay 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 ended 31 December 2018 was EUR 77 million, compared with EUR 95 million for the year ended 31 December 2017.

The breakdown by major contributors is determined as follows:

Contribution amount In millions of euros	Year to 31 Dec. 2018	Year to 31 Dec. 2017
Belgium	2	3
France	34	33
Eurozone (except Belgium and France)	4	13
United Kingdom	3	3
Turkey	30	37
Other	**4**	**6**
TOTAL	**77**	**95**

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 92% at 31 December 2018 (90% at 31 December 2017) 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 96% (97% at end 2017) 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 new scheme.

In 2018, BNP Paribas Fortis converted her last Belgian pension plan with life annuity commitment into a pension plan with lump sum commitment. This plan covers employees of the former Belgolaise Bank already in service before 2006.

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.

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 2018, 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 2018 stood at 262% (156% at 31 December 2017).

Obligations under defined-benefit plans

Assets and liabilities recognised on the balance sheet

In millions of euros, at 31 December 2018	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	2,984	21	3,005	(30)	(2,838)	-	137	(2,838)	-	(2,838)	2,975
United Kingdom	182	-	182	(213)	-	-	(31)	(32)	(32)	-	1
Turkey	140	29	169	(366)	-	226	29	-	-	-	29
Others	172	38	210	(141)	(1)	-	68	(1)	-	(1)	69
TOTAL	**3,478**	**88**	**3,566**	**(750)**	**(2,839)**	**226**	**203**	**(2,871)**	**(32)**	**(2,839)**	**3,074**

In millions of euros, 1 January 2018	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
United Kingdom	208	-	208	(229)	-	-	(21)	(26)	(26)	-	5
Turkey	270	27	297	(422)	-	152	27	-	-	-	27
Others	192	44	236	(150)	(1)	-	85	(1)	-	(1)	86
TOTAL	**3,795**	**92**	**3,887**	**(815)**	**(2,931)**	**152**	**293**	**(2,957)**	**(26)**	**(2,931)**	**3,250**

(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. 2018	Year to 31 Dec. 2017
Present value of defined-benefit obligation at start of period	**3,887**	**3,973**
Current service cost	128	141
Interest cost	43	47
Past service costs	(12)	(1)
Settlements	1	2
Actuarial (gains)/losses on change in demographic assumptions	(12)	3
Actuarial (gains)/losses on change in financial assumptions	(215)	101
Actuarial (gains)/losses on experience gaps	64	49
Actual employee contributions	10	10
Benefits paid directly by the employer	(36)	(29)
Benefits paid from assets/reimbursement rights	(235)	(241)
Exchange rate (gains)/losses on the obligation	(72)	(69)
(Gains)/losses on the obligation related to changes in the consolidation scope	15	(100)
Others	-	1
Present value of defined-benefit obligation at end of period	**3,566**	**3,887**

Change in the fair value of plan assets and reimbursement rights

	Plan assets		Reimbursement rights	
In millions of euros	Year to 31 Dec. 2018	Year to 31 Dec. 2017	Year to 31 Dec. 2018	Year to 31 Dec. 2017
Fair value of assets at start of period	**815**	**939**	**2,931**	**2,913**
Expected return on assets	25	30	27	28
Settlements	-	-	-	-
Actuarial (gains)/losses on assets	24	19	(64)	149
Actual employee contributions	-	-	10	10
Employer contributions	17	20	140	87
Benefits paid from assets	(29)	(21)	(206)	(220)
Exchange rate (gains)/losses on assets	(111)	(98)	-	-
Gains/(losses) on assets related to changes in the consolidation scope	9	(74)	1	(37)
Other	-	-	-	1
Fair value of assets at end of period	**750**	**815**	**2,839**	**2,931**

Components of the cost of defined-benefit plans

In millions of euros	Year to 31 Dec. 2018	Year to 31 Dec. 2017
Administration fees	1	1
Service costs	117	142
Current service cost	128	141
Past service cost	(12)	(1)
Settlements	1	2
Net financial expense	4	5
Interest cost	43	47
Interest income on plan assets	(26)	(31)
Interest income on reimbursement rights	(27)	(28)
Return on Asset Limitation	14	17
Total recognised in 'Salary and employee benefit expense'	**122**	**148**

Other items recognised directly in equity

In millions of euros	Year to 31 Dec. 2018	Year to 31 Dec. 2017
Other items recognised directly in equity	**12**	**33**
Actuarial (losses)/gains on plan assets or reimbursement rights	(40)	168
Actuarial (losses)/gains of demographic assumptions on the present value of obligations	12	(3)
Actuarial (losses)/gains of financial assumptions on the present value of obligations	215	(101)
Experience (losses)/gains on obligations	(64)	(49)
Variation of the effect of asset limitation	(111)	18

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 2018		31 December 2017	
	Discount rate	Compensation increase rate (1)	Discount rate	Compensation increase rate (1)
Eurozone	0.80% - 1.90%	1.90% - 3.40%	0.60% - 1.90%	3.20% - 3.40%
United Kingdom	2.80%	3.55%	2.40%	4.70%
Turkey	16.70%	12.20%	11.80%	6.00%

(1) Including price increases (inflation)

In the Eurozone, the observed weighted average discount rates are as follows: 1.22% at 31 December 2018, and 0.97% at 31 December 2017.

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 2018		31 December 2017	
	Discount rate -100bp	Discount rate +100bp	Discount rate -100bp	Discount rate +100bp
Eurozone	343	(279)	349	(319)
United Kingdom	37	(29)	41	(31)
Turkey	15	(12)	10	(8)

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

In % (1)	Year to 31 Dec. 2018	Year to 31 Dec. 2017
	Range of value (existence of several plans in the same country)	Range of value (existence of several plans in the same country)
Belgium	(2.00%) - 4.66%	1.25% - 5.62%
United Kingdom	(1.90%) - (0.20%)	2.30% - 4.70%
Turkey	13.12%	10.53%

(1) Range of value, reflecting the existence of several plans in the same country.

Breakdown of plan assets

In %	31 December 2018						31 December 2017					
	Shares	Governmental bonds	Non-Governmental bonds	Real estate	Deposit account	Others	Shares	Governmental bonds	Non-Governmental bonds	Real estate	Deposit account	Others
Belgium	6%	53%	19%	2%	0%	20%	6%	52%	19%	1%	0%	22%
United Kingdom	9%	72%	13%	0%	2%	4%	12%	81%	7%	0%	0%	0%
Turkey	0%	0%	0%	5%	94%	1%	0%	0%	0%	5%	93%	2%
Others	8%	25%	29%	2%	3%	33%	7%	29%	27%	2%	4%	30%
BNP Paribas Fortis	**6%**	**47%**	**17%**	**2%**	**10%**	**18%**	**6%**	**47%**	**17%**	**2%**	**11%**	**17%**

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 terms 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 85 million at 31 December 2018, compared to EUR 82 million at 31 December 2017, implying an increase of EUR 3 million during the year 2018.

The expense for post-employment healthcare benefits amounts to EUR 2 million for the year at 31 December 2018, against EUR 2 million for the year at 31 December 2017.

Other items related to post-employment healthcare and directly accounted for in equity amount to EUR 3 million for 31 December 2018, against EUR (6) million at 31 December 2017.

7.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 82 million at 31 December 2018 (EUR 86 million at 31 December 2017).

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 2018	31 December 2017
Net provisions for other long-term benefits	**82**	**86**
Asset recognised in the balance sheet under 'Other long-term benefits'	-	-
Obligation recognised in the balance sheet under 'Other long-term benefits'	82	86

7.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 2018	31 December 2017
Provision for voluntary departure and early retirement plans, and headcount adaptation plans	260	248

8 ADDITIONAL INFORMATION

8.a Contingent liabilities: legal proceeding and arbitration

Legacy 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.

Fortis Legacy proceedings in Belgium and The Netherlands

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 in Belgium and in The Netherlands.

On 14 March 2016 Ageas and several claimants' organisations announced a settlement 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. The Amsterdam Court of Appeal has declared the Ageas Settlement binding in a judgment dated 13 July 2018.

BNP Paribas Fortis is one of the releasees under the Ageas Settlement. This means that each eligible shareholder will be deemed to have fully released BNP Paribas Fortis from any and all claims that such shareholder may have against BNP Paribas Fortis in relation to the 2007 and 2008 events as defined in the Ageas Settlement. Eligible shareholders had the right to opt-out from the Ageas Settlement during a period ending on 31 December 2018. After having opted-out these shareholders could proceed with legal actions against BNP Paribas Fortis. If this would be the case, it can not be excluded that such legal proceedings would have monetary consequences.

On 21 December 2018 Ageas has announced that it waives its right to terminate the settlement, which has thus become final except for the shareholders that have opted-out. The Dutch procedures initiated by the claimants' organisations have been terminated on 6 February 2019.

The examining magistrate of the Court of First Instance in Brussels in charge since 2008 of investigating the case relating to the above-mentioned events has concluded his investigation. The Public Prosecutor has never asked the referral of the bank to the criminal court and he has stated on 20 December 2018 that he sees no reasons to request the Council's chamber of the Court to order a referral. It is therefore expected that these proceedings will be terminated but no timeframe can be given at this moment since the Council's chamber has not rendered a decision yet.

Other claims before the Belgian Courts that are not related to Fortis Legacy

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 1,285 million and the appointment of an expert. The Brussels Court of Appeal has on 1 February 2019 dismissed all these claims.

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.

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

Operations realised in 2018

Integration of CMV Médiforce

CMV Médiforce offers specialized financing to medical professionals in France.

As at 3 January 2018, CMV Médiforce, previously held by BNP Paribas Personal Finance (80%) and BNP Paribas SA (20%), has been fully acquired by BNP Paribas Leasing Solutions and is fully consolidated.

The combination of CMV Médiforce and BNP Paribas Leasing Solutions that has also developed a medical business, would create a major player in France, through both vendor and direct channels, with a reinforced commercial set-up and cross-selling capacity. The acquisition being treated under 'pooling of interest', it does not trigger any result impact.

Consolidation of Belgian Mobile ID (BMID)

This entity is consolidated by equity method, following a capital increase subscribed by BNP Paribas Fortis giving 15% interest.

BMID is the company commercializing 'Itsme', the secure mobile App equivalent to a mobile-id card allowing users to authenticate their identification on web and mobile platforms such as banks, telecom providers, public services as well as commercial retailers.

Merger and consolidation of Bancontact Payconiq

This entity is consolidated by equity method following the merger of Payconiq Belgium and Bancontact as at June 29th 2018 and a capital increase subscribed by BNP Paribas Fortis giving 22.5% interest in the merged entity.

Bancontact is 'the' domestic debit card scheme in Belgium with a dominant market share in card transactions.

Payconiq Belgium offers a pure mobile payment App that does not require any special device such as a terminal at the merchant side, which makes it a very easy solution, notably for small shops.

From a commercial point of view, these entities offer complementary products and this merger should generate important development synergies (marketing, sales, IT developments...) and provide efficient, secured and friendly payment solutions to the whole market.

Acquisition of Landkreditt Finans AS

Landkreditt Finans AS is a Norwegian company specialized in financing agricultural, forestry and construction equipment. Its acquisition is a strategic move for BNP Paribas Leasing Solutions SA in its development in Nordic countries. Following its acquisition completed on 2 July 2018, Landkreditt Finans AS, renamed BNP Paribas Leasing Solutions AS is fully consolidated. As result of the transaction, a goodwill is booked for EUR 17.4 million.

Acquisition and merger of ABN AMRO Bank (Luxembourg) S.A.

As at 3 September 2018, ABN AMRO Bank (Luxembourg) S.A. and its fully owned subsidiary ABN AMRO Life S.A. have been acquired by BGL BNP Paribas. As part of this transaction, the insurance company has been taken over by Cardif Lux Vie and renamed Cardif Life.

ABN AMRO Bank (Luxembourg) S.A., renamed BNP Paribas Wealth Management Luxembourg S.A. in September 2018, offers private banking solutions (EUR 5.6 billion asset under management) and custodian and depositary services for Private Equity and Investments Funds (EUR 2.2 billion asset under management). This transaction allows to strengthen BGL's leading position in Wealth Management in Luxembourg, especially in the significant European entrepreneur segment.

Finally, in November 2018, BNP Paribas Wealth Management Luxembourg S.A. has been merged into BGL BNP Paribas. The transaction as a whole generates a goodwill for EUR 39.2 million.

Acquisition of the core banking activity of Raiffeisen Bank Polska

The Core banking activities of Raiffeisen Bank Polska (further referred to as 'The Core Bank'), includes all activities excluding the foreign currency retail mortgage loan portfolio and a limited number of other assets.

Corporate and retail gross loans of the Core Bank amount roughly to EUR 4.4 billion and customer deposits to EUR 8.2 billion at year-end 2017.

As at 31 October 2018, the Core Bank has been contributed in kind to Bank BGŻ BNP Paribas, the combined bank ranking as the sixth bank in the Polish market, with over 6% market share in loans and deposits (based on end 2017 data).

The expertise of the teams of the Core Bank, in particular in SME, Corporate banking and Factoring, in affluent/private banking, as well as its retail network, reinforce the role of Bank BGŻ BNP Paribas as a key player in the Polish banking sector.

Following this transaction and a related share purchase from BNP Paribas S.A., Bank BGŻ BNP Paribas is held at 24.07% as at 31 December 2018 against 28.35% as at 31 December 2017. The transaction as a whole does not generate a goodwill nor a material result impact.

Acquisition of IKB Leasing Romania

IKB Leasing Finance IFN SA and IKB Leasing SRL (together 'IKB Leasing Romania') have been acquired by BNP Paribas Lease Group as at 27 November 2018.

IKB Leasing Romania is specialized in financing agricultural and industrial equipment for German based clients in the country. The acquisition of the third market player enables BNP Paribas Leasing Solutions to take a leading position on this market in Romania. IKB Leasing Finance IFN SA renamed RD Leasing IFN SA is fully consolidated and has a total balance sheet impact of EUR 0.2 billion. IKB Leasing S.R.L. renamed RD Renting SA is not consolidated.

Disposal of activities from the BNP Paribas Fortis Madrid branch

The restructuring of the European branch network of BNP Paribas Group and BNP Paribas Fortis aims to optimize and create 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.

In this context, the BNP Paribas Fortis Madrid branch is the last European branch of BNP Paribas Fortis that has transferred to the BNP Paribas Madrid Branch most of its assets and liabilities, with an impact on the total balance sheet of EUR 0.4 billion.

Changes in the consolidation scope

In 2018, following a deep analysis launched in September 2017, some entities entered the consolidation scope (of which Louveo, BNPP Lease Group GmbH & Co KG, BNPP Factor AB) with a total impact on the balance sheet of EUR 0.4 billion.

For some entities the consolidation method changed from equity method to full consolidation (mainly in Arval and Leasing Solutions businesses) with a total impact on the balance sheet of EUR 0.9 billion.

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 the improvement of the 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 19.1 billion.

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.

8.c Minority interests

In millions of euros	Capital and retained earnings	Changes in assets and liabilities recognised directly in equity that will not be reclassified to profit or loss	Changes in assets and liabilities recognised directly in equity that may be reclassified to profit or loss	Minority interests
Capital and retained earnings at 1 January 2017	**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**
Revised presentation (note 2.a)	15	(15)	-	-
Capital and retained earnings at 31 December 2017 new presentation	**5,784**	**(15)**	**(226)**	**5,543**
Impact of the application of IFRS 9 (note 2.b)	(88)	12	(60)	(136)
Impact of the application of IFRS 15 (note 2.b)	-	-	-	-
Capital and retained earnings at 1 January 2018 restated for IFRS 9 & 15	**5,696**	**(3)**	**(286)**	**5,407**
Other movements	(287)	-	-	(287)
Dividends	(275)	-	-	(275)
Changes in assets and liabilities recognised directly in equity	-	58	(210)	(152)
Net income for 2018	413	-	-	413
Capital and retained earnings at 31 December 2018	**5,547**	**55**	**(496)**	**5,106**

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 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2018 IFRS 9 & IFRS 15						
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	50,613	690	211	175	50%	146	205	199
Other minority interests						81	(16)	18
TOTAL						**227**	**189**	**217**

	1 January 2018 IFRS 9 & IFRS 15	Year to 31 Dec. 2017 IAS 39						
In millions of euros	**Total assets before elimination of intra-group transactions**	**Revenues**	**Net income**	**Net income and changes in assets and liabilities recognised directly in equity**	**Interest (%)**	**Net income attributable to minority interests**	**Net income and changes in assets and liabilities recognised directly in equity - attributable to minority interests**	**Dividends paid to minority shareholders**
Contribution of the entities belonging to the BGL BNP Paribas Group	44,632	657	251	215	50%	162	144	160
Other minority interests						65	4	1
TOTAL						**227**	**148**	**161**

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

No significant internal restructuring operation occurred during 2018, nor during 2017.

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 219 million at 31 December 2018, compared with EUR 225 million at 31 December 2017.

8.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 2017 and 2018, no BNP Paribas Fortis entity was subject to significant restrictions other than those arising from regulatory requirements.

Significant restrictions relating to BNP Paribas Fortis' ability to use the assets lodged in consolidated structured entities

Access to the assets of consolidated structured entities in which third-party investors (other than BNP Paribas Group entities) have invested is limited in as much as these entities' assets are reserved for the holders of units or securities. These assets totalled EUR 0.2 billion as at 31 December 2018 compared with EUR 0.2 billion as at 31 December 2017.

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 5.p and 6.d.

Significant restrictions relating to liquidity reserves

Significant restrictions related to liquidity reserves correspond to the mandatory deposits placed with central banks presented in Chapter 'Risk management and capital adequacy - Liquidity and refinancing risk'.

8.e Structured entities

BNP Paribas Fortis considers that it has sponsored a structured entity when it has been involved in its design.

BNP Paribas Fortis is engaged in transactions with sponsored structured entities primarily through its activities of securitisation of financial assets as either the originator or the sponsor, fund management and specialised asset financing.

In addition, BNP Paribas Fortis is also engaged in transactions with structured entities that it has not sponsored, notably in the form of investments in funds or securitisation vehicles.

The method for assessing control of structured entities is detailed in Note 1.c.2 'Consolidation methods'.

Consolidated structured entities

The main categories of consolidated structured entities are:

ABCP (Asset-Backed Commercial Paper) conduits: the Scaldis ABCP securitisation conduits are securitisation transactions managed by BNP Paribas Fortis on behalf of its customers. Details on how these are financed and BNP Paribas Fortis' risk exposure are reported in Chapter "Risk Management and capital adequacy" under "Securitisation as sponsor on behalf of clients/Short-term refinancing".

Proprietary securitisation: proprietary securitisation positions originated and held by BNP Paribas Fortis.

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:

Interests on BNP Paribas Fortis balance sheet	31 December 2018 IFRS 9 & IFRS 15				
In millions of euros	Securitisation	Funds	Asset Financing	Others	Total
ASSETS					
Financial instruments at fair value through profit and loss	163	-	-	-	163
Derivatives used for hedging purposes	-	-	-	-	-
Financial assets at fair value through equity	19	1	-	-	20
Financial assets at amortised cost	82	-	154	1	237
Other assets		-	-	-	-
TOTAL ASSETS	264	1	154	1	420
LIABILITIES					
Financial instruments at fair value through profit and loss	-	8	-	18	26
Derivatives used for hedging purposes	-	-	-	-	-
Financial liabilities at amortised cost	10	303	-	-	313
Other liabilities	-	-	-	-	-
TOTAL LIABILITIES	10	311	-	18	339
Funded exposure	264	1	154	1	420
Unfunded exposure	-	-	128	229	357
Financing commitments	-	-	1	229	230
Guarantee commitments and derivatives	-	-	127	-	127
MAXIMUM EXPOSURE TO LOSS	264	1	282	230	777
SIZE OF STRUCTURED ENTITIES (1)	3,819	3,092	307	55	7,273

Interests on BNP Paribas Fortis balance sheet	1 January 2018 IFRS 9 & IFRS 15				
In millions of euros	Securitisation	Funds	Asset Financing	Others	Total
ASSETS					
Financial instruments at fair value through profit or loss	196	-	-	1	197
Derivatives used for hedging purposes	-	-	-	-	-
Financial assets at fair value through equity	23	-	-	-	23
Financial assets at amortised cost	(4)	-	207	35	238
Other assets	-	-			-
TOTAL ASSETS	215	-	207	-	458
LIABILITIES					
Financial instruments at fair value through profit or loss	-	50	-	19	69
Derivatives used for hedging purposes	-	-	-	-	-
Financial liabilities at amortised cost	35	773	3	-	811
Other liabilities	-	-	-	-	-
TOTAL LIABILITIES	35	823	3	19	880
Funded exposure	215		207	36	458
Unfunded exposure	-	-	176	229	405
Financing commitments	-	-	33	229	262
Guarantee commitments and derivatives	-	-	143	-	143
MAXIMUM EXPOSURE TO LOSS	215	-	383	265	863
SIZE OF STRUCTURED ENTITIES (1)	4,511	22,578	268	64	27,421

(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 0.2 billion as at 31 December 2017, but only a limited investment remained in 2018.

- Investments in securitisation vehicles: the investments in securitisation vehicles amounted to EUR 1.3 billion as at 31 December 2018 (EUR 1.8 billion as at 31 December 2017). Furthermore, BNP Paribas Fortis also has positions on SPVs that are sponsored by BNP Paribas Group, but not sponsored by BNP Paribas Fortis, these investments represent EUR 0.2 billion on-balance and EUR 0.6 billion off-balance as at 31 December 2018 (EUR 0.1 billion and EUR 0.8 billion as at 31 December 2017).

8.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 2018.

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 19 April 2018, during which the principle of keeping the maximum Board remuneration at a total of EUR 1.1 million per annum was confirmed.

However, the Group BNP Paribas has decided to change the policy regarding compensation paid for directorships exercised by the Group's employees in any Group entity in France and abroad and requires that these directorships are exercised without remuneration. BNP Paribas Fortis has adopted this policy as from 1 January 2018.

For the non-executive directors that are not BNP Paribas SA employees this entails no consequence as they are no employees of BNP Paribas Fortis SA/NV or BNP Paribas SA; The non-executive directors that are BNP Paribas SA employees are no longer entitles to receive any remuneration for their mandates held within BNP Paribas Fortis SA/NV; As for the executive directors of BNP Paribas Fortis SA/NV, the implementation of the policy entails that they will not be entitled to receive any remuneration for their mandates held within the BNP Paribas Group, besides of course for their mandate within BNP Paribas Fortis SA/NV itself. The mandates held within BGL BNP Paribas SA have been excluded and can therefore be remunerated.

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 2018 to each member of the Board of Directors.

In euros		Fixed fees	Attendance fees board*	Total 2018
Herman DAEMS	Chairman	50,000	99,000	149,000
Didier BEAUVOIS	Executive	25,000	22,000	47,000
Dirk BOOGMANS	Non-executive	25,000	88,000	113,000
Antoinette D'ASPREMONT LYNDEN	Non-executive	25,000	57,200	82,200
Filip DIERCKX	Executive	25,000	22,000	47,000
Sophie DUTORDOIR	Non-executive	25,000	53,200	78,200
Maxime JADOT	Executive	25,000	16,000	41,000
Piet VAN AKEN	Executive	25,000	22,000	47,000
Michael ANSEEUW	Executive (as from 26 April 2018)	25,000	7,750	32,750
Stéphane VERMEIRE	Executive (as from 26 April 2018)	25,000	9,750	34,750
Total		**275,000**	**396,900**	**671,900**

(*) This column includes the Board fees for all Committees.

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.

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 2018, including benefits in kind and Director's fees.

	2018		2017	
	Chief Executive Officer	Other Members of the Executive Board	Chief Executive Officer	Other Members of the Executive Board
Remuneration				
Fixed	978,513	2,266,424	978,513	2,331,805
Cash part of variable	159,200	483,360	159,200	329,960
Deferred part of variable	140,800	194,973	140,800	167,040
Multi-annual variable compensation (1)	98,000	224,233	98,000	144,900
Director's fees (2)	100,516	281,016	106,016	249,266
Benefits in Kind (3)	4,317	44,366	6,432	45,519
Pension, life insurance and orphan's pension (4)	279,015	214,431	275,063	185,416
TOTAL	**1,760,361**	**3,708,803**	**1,764,024**	**3,453,906**

1 *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.*

2 *In order to comply with article 96 of the Companies Code we have included the board fees received in the controlled perimeter.*

3 *The members of the Executive Board each have a company car and a mobile phone.*

4 *For defined contribution plan and defined benefit plan: sum of employer contributions*

Information on Multi-annual variable compensation

2015, 2016, 2017 and 2018

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 started 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 started 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 started 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%.

For the allocation in respect with the performance year 2018 the Vesting Period starts on 1 January 2019 and ends on 1 January 2024. There is a retention period of 6 months between 1 January 2024 and 30 June 2024. The beneficiary is entitled to receive on the Date of Payment an amount of interest calculated from 1 January 2024 to 30 June 2024. The annual interest rate is equal to 1.25%.

Information on severance pay

In 2018 no termination benefits were paid to members of the Executive Board.

Relations with key management personnel

At 31 December 2018, total outstanding loans granted directly or indirectly to the members of the Board of Directors amounted to EUR 2.9 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.

8.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 8.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 2018 IFRS 9 & IFRS 15			1 January 2018 IFRS 9 & IFRS 15		
	Entities of the BNP Paribas Group	Joint ventures	Associates (1)	Entities of the BNP Paribas Group	Joint ventures	Associates (1)
ASSETS						
Demand accounts	2,135	2	21	1,539	2	24
Loans	23,258	59	295	21,925	-	668
Securities	3,117	-	64	120	-	35
Other assets	1,664	3	101	1,381	2	119
Total assets	**30,174**	**64**	**481**	**24,965**	**4**	**846**
LIABILITIES	-	-	-	-	-	-
Demand accounts	469	88	354	816	28	636
Other borrowings	26,583	45	2,060	27,608	45	2,236
Other liabilities	283	-	59	431	-	54
Total liabilities	**27,335**	**133**	**2,473**	**28,855**	**73**	**2,926**
FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS	-	-	-	-	-	-
Financing commitments given	643	58	66	901	2	82
Guarantee commitments given	6,463	2,503	65	10,845	3,002	139
Total	**7,106**	**2,561**	**131**	**11,746**	**3,004**	**221**

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

BNP Paribas Fortis also carries out trading transactions with related parties involving derivatives (swaps, options and forwards, etc.) and financial instruments (equities, bonds, etc.).

Related-party profit and loss items

In millions of euros	Year to 31 Dec. 2018 IFRS 9 & IFRS 15			Year to 31 Dec. 2017 IAS 39		
	Entities of the BNP Paribas Group	Joint ventures	Associates (1)	Entities of the BNP Paribas Group	Joint ventures	Associates (1)
Interest income	702	-	11	440	(5)	11
Interest expense	(889)	(2)	(11)	(577)	-	(16)
Commission income	135	3	533	164	3	526
Commission expense	(126)	-	(5)	(96)	-	(5)
Services provided	2	1	2	2	1	7
Services received	(49)	-	-	(43)	-	(5)
Lease income	59	-	10	41	-	12
Total	**(166)**	**2**	**540**	**(69)**	**(1)**	**530**

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

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

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

8.h Financial instruments by maturity

The table below gives a breakdown of balance sheet items by contractual maturity for single-maturity contracts, and by cash flows for assets with a repayment date.

The source of the data in this table is identical to that used to prepare the regulatory liquidity reporting (such as the Liquidity Coverage Ratio or the Net Stable Financing Ratio).

Financial liabilities are mainly classified under the heading 'on demand' given the importance of sight deposits and savings deposits, while financial assets are mostly classified under the heading 'more than one year', as a result of the long maturities of term loans and mortgage loans.

The maturities of the 'trading portfolio' transactions 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 derivative hedging instruments are also deemed to be 'undetermined'.

In millions of euros, at 31 December 2018 IFRS 9 & IFRS 15	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 balances at central banks	-	4,691	-	-	-	-	-	4,691
Financial instruments at fair value through profit or loss	9,508	-	1,154	1,666	1,855	1,278	13	15,474
Derivatives used for hedging purposes	2,503	-	-	-	-	-	-	2,503
Financial assets at fair value through equity	114	-	158	239	1,023	6,708	2,536	10,778
Financial assets at amortised cost	-	4,280	36,252	10,686	27,941	75,637	65,486	220,282
Financial assets by maturity	**12,125**	**8,971**	**37,564**	**12,591**	**30,819**	**83,623**	**68,035**	**253,728**
Deposits from central banks	-	112	-	-	-	-	-	112
Financial instruments at fair value through profit or loss	4,872	145	9,490	1,550	196	1,931	2,284	20,467
Derivatives used for hedging purposes	4,086	-	-	-	-	-	-	4,086
Financial liabilities at amortised cost	-	152,336	13,359	11,815	16,195	22,981	7,722	224,409
Financial liabilities by maturity	**8,958**	**152,594**	**22,849**	**13,365**	**16,391**	**24,912**	**10,006**	**249,074**

In millions of euros, at 1 January 2018 IFRS 9 & IFRS 15	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 balances at central banks	-	4,933	-	-	-	-	-	4,933
Financial instruments at fair value through profit or loss	9,332	-	1,469	242	645	89	12	11,790
Derivatives used for hedging purposes	3,071	-	-	-	-	-	-	3,071
Financial assets at fair value through equity	659	-	39	704	1,775	4,327	6,935	14,439
Financial assets at amortised cost	(708)	2,257	25,325	12,212	31,231	78,239	61,250	209,806
Financial assets by maturity	**12,354**	**7,190**	**26,833**	**13,158**	**33,651**	**82,655**	**68,197**	**244,039**
Deposits from central banks	-	382	-	-	-	-	-	382
Financial instruments at fair value through profit or loss	3,842	297	3,450	830	995	1,091	2,414	12,918
Derivatives used for hedging purposes	4,695	-	-	-	-	-	-	4,695
Financial liabilities at amortised cost	-	147,965	17,607	12,094	15,609	19,184	5,947	218,406
Financial liabilities by maturity	**8,537**	**148,643**	**21,057**	**12,924**	**16,604**	**20,275**	**8,361**	**236,401**

8.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 2018. 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 2018 IFRS 9 & IFRS 15 **In millions of euros**	**Estimated fair value**				**Carrying value**
	Level 1	**Level 2**	**Level 3**	**Total**	
FINANCIAL ASSETS					
Loans and advances to credit institutions and customers (1)	-	31,081	162,247	193,328	190,342
Debt securities at amortised cost (note 5.e)	8,218	4,664	-	12,883	12,910
FINANCIAL LIABILITIES					
Deposits from credit institutions and customers	-	208,697	-	208,697	208,233
Debt securities (note 5.h)	-	13,227	-	13,227	13,229
Subordinated debt (note 5.h)	-	2,951	-	2,951	2,947

1 January 2018 IFRS 9 & IFRS 15 **In millions of euros**	**Estimated fair value**				**Carrying value**
	Level 1	**Level 2**	**Level 3**	**Total**	
FINANCIAL ASSETS					
Loans and advances to credit institutions and customers (1)	-	28,215	159,486	187,701	184,131
Debt securities at amortised cost (note 5.e)	9,083	1,554	45	10,682	10,744
FINANCIAL LIABILITIES	-				
Deposits from credit institutions and customers	-	203,914	-	203,914	203,485
Debt securities (note 5.h)	-	12,423	-	12,423	12,434
Subordinated debt (note 5.h)	-	2,498	-	2,498	2,487

(1) Finance leases excluded.

The valuation techniques and assumptions used by BNP Paribas Fortis ensure that the fair value of financial assets and liabilities carried at amortised cost is measured on a consistent basis throughout the Bank. Fair value is based on prices quoted in an active market when these are available. In other cases, fair value is determined using valuation techniques such as discounting of estimated future cash flows for loans, liabilities and debt securities at amortised cost, or specific valuation models for other financial instruments as described in Note 1, 'Summary of significant accounting policies applied by BNP Paribas Fortis'. The description of the fair value hierarchy levels is also presented in the accounting principles (Note 1.d.9). In the case of loans, liabilities and debt securities at amortised cost that have an initial maturity of less than one year (including demand deposits) or of most regulated savings products, fair value equates to the carrying amount. These instruments have been classified in Level 2, except for loans to customers which are classified in Level 3.

8.j Scope of consolidation

Name	Country	31 December 2018 Method	Voting (%)	Interest (%)	Ref.	31 December 2017 Method	Voting (%)	Interest (%)	Ref.
Consolidating company									
BNP Paribas Fortis	**Belgium**								
Belgium									
AG Insurance	Belgium	Equity	25%	25%		Equity	25%	25%	
Alpha Card S.C.R.L.	Belgium								S2
Alpha Crédit SA	Belgium	Full	99.99%	99.99%		Full	99.99%	99.99%	
Arval Belgium NV SA	Belgium	Full	100%	99.99%		Full	100%	99.99%	
Bancontact Payconiq	Belgium	Equity	22.50%	22.50%	E1				
Banking Funding Company SA	Belgium	Equity	33.52%	33.52%		Equity	33.52%	33.52%	E1
Belgian Mobile ID	Belgium	Equity	15%	15%	E3				
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	99.99%	99.99%	
BNP Paribas Fortis Private Equity Management	Belgium	Full	99.99%	99.99%		Full	99.99%	99.99%	D1
BNPP Fortis Film Finance	Belgium	Full	99%	99%	E1				
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%		Full	100%	99.99%	E1
Credissimo Hainaut SA	Belgium	Full	99.72%	99.72%		Full	99.72%	99.72%	E1
Crédit pour Habitations Sociales	Belgium	Full	81.66%	81.66%		Full	81.66%	81.66%	E1
Demetris N.V.	Belgium				S3	Equity 1	99.99%	99.99%	
Eos Aremas Belgium S.A./N.V.	Belgium	Equity	49.97%	49.97%		Equity	49.97%	49.97%	
Epimede	Belgium	Equity	20%	20%	E1				
Es-Finance	Belgium	Full	99.99%	99.99%		Full	99.99%	99.99%	
Favor Finance	Belgium				S3	Full	51%	50.99%	E1
Fortis Lease Belgium	Belgium	Full	100%	25%		Full	100%	25%	
FScholen	Belgium	Equity 2	50%	50%		Equity	50%	50%	
Gemma Frisius Fonds KU Leuven	Belgium	FV	40%	40%	E1				
Het Anker NV	Belgium	FV	27.82%	27.82%	E1				
Holding PCS	Belgium	FV	31.72%	31.72%	E1				

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E3 Purchase, gain of control or significant influence

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S1 Cessation of activity (including dissolution, liquidation)
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S3 Entities removed from the scope because < qualifying thresholds
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V4 Increase in %

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		31 December 2018				31 December 2017			
Name	**Country**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**
Immo Beaulieu	Belgium	Equity	25%	25%	E1				
Immobilière Sauvenière S.A.	Belgium	Full	99.99%	99.99%	D1	Equity 1	99.99%	99.99%	
Isabel SA NV	Belgium	Equity	25.33%	25.33%	E1				
Locadif	Belgium	Full	100%	99.99%		Full	100%	99.99%	
Microstart	Belgium	Full	85.46%	66.20%	E1				
Novy Invest	Belgium	FV	33.69%	33.69%	D1	Equity	33.69%	33.69%	E1
Omega Invest	Belgium	FV	28.35%	28.35%	E1				
Penne International	Belgium	FV	74.90%	74.90%	D1	Equity	74.90%	74.90%	E1
Sowo Invest SA NV	Belgium	Full	87.50%	87.50%	E1				
Studio 100	Belgium	FV	32.47%	32.47%	D1	Equity	32.47%	32.47%	E1
Belgium - Special Purpose Entities									
Bass Master Issuer NV	Belgium	Full				Full			
BNPP B Institutional II - Treasury 17	Belgium				S3	Full			E1
Esmée Master Issuer	Belgium	Full				Full			
FL Zeebrugge	Belgium	Full			D1	Equity			E1
Luxembourg									
Arval Luxembourg SA	Luxembourg	Full	100%	99.99%		Full	100%	99.99%	D1
BGL BNP Paribas	Luxembourg	Full	50%	50%		Full	50%	50%	
BNP Paribas Fortis Funding S.A.	Luxembourg	Full	99.99%	99.99%		Full	99.99%	99.99%	
BNP Paribas Lease Group Luxembourg S.A.	Luxembourg	Full	100%	50%		Full	100%	50%	
BNP Paribas Leasing Solutions	Luxembourg	Full	50%	25%		Full	50%	25%	
Cardif Lux Vie	Luxembourg	Equity	33.33%	16.67%	V1	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%	
Visalux	Luxembourg	Equity	23.51%	11.76%	E1				
Luxembourg - Special Purpose Entities									
Elimmo	Luxembourg	Full			E1				
Rest of the world									
Albury Asset Rentals Limited	United Kingdom				S1	Full	100%	25%	
All In One Vermietung GmbH	Austria	Full	100%	25%	E1				

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Name	Country	Method	Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
All In One Vermietungsgesellschaft Fur Telekommunikationsanlagen Mbh	Germany								S3
Alpha Murcia Holding B.V.	The Netherlands				S1	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	Full	100%	99.99%	D1	Equity	100%	99.99%	
Arval AB	Sweden	Full	100%	99.99%	D1	Equity	100%	99.99%	
Arval AS	Denmark	Full	100%	99.99%		Full	100%	99.99%	D1
Arval Austria GmbH	Austria	Full	100%	99.99%		Full	100%	99.99%	D1
Arval Benelux BV	The Netherlands	Full	100%	99.99%		Full	100%	99.99%	
Arval Brasil Ltda	Brazil	Full	99.99%	99.99%		Full	99.99%	99.99%	
Arval BV	The Netherlands	Full	100%	99.99%		Full	100%	99.99%	
Arval CZ SRO	Czech Republic	Full	100%	99.99%		Full	100%	99.99%	
Arval Deutschland GmbH	Germany	Full	100%	99.99%		Full	100%	99.99%	
Arval Fleet Services	France	Full	100%	99.99%		Full	100%	99.99%	
Arval Fleet Services BV	The Netherlands								S4
Arval Hellas Car Rental SA	Greece	Full	100%	99.99%	D1	Equity	100%	99.99%	
Arval India Private Ltd	India	Full	100%	99.99%	D1	Equity	100%	99.99%	
Arval Italy Fleet Services SRL	Italy								S4
Arval Juitong	China				V2/ S2	Equity	39.99%	39.99%	
Arval Magyarorszag KFT	Hungary	Full	100%	99.99%	D1	Equity	100%	100%	
Arval Maroc SA	Morocco	Full	66.66%	66.66%	D1	Equity	66.66%	66.66%	
Arval OOO	Russia	Full	99.99%	99.99%		Full	99.99%	99.99%	
Arval Oy	Finland	Full	100%	99.99%		Full	100%	99.99%	D1
Arval Relsa SPA	Chile	Equity 2	50%	49.99%	E1				
Arval Schweiz AG	Switzerland	Full	100%	99.99%		Full	100%	99.99%	D1
Arval Service Lease	France	Full	99.99%	99.99%		Full	99.99%	99.99%	
Arval Service Lease Aluger Operational Automoveis SA	Portugal	Full	99.99%	99.99%	D1	Equity	99.99%	99.99%	
Arval Service Lease Italia SPA	Italy	Full	100%	99.99%		Full	100%	99.99%	
Arval Service Lease Polska SP ZOO	Poland	Full	100%	99.99%		Full	100%	99.99%	
Arval Service Lease Romania SRL	Romania	Full	100%	99.99%	D1	Equity	100%	99.99%	
Arval Service Lease SA	Spain	Full	99.99%	99.99%		Full	99.99%	99.99%	

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Name	**Country**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**	**Method**	**Voting (%)**	**Interest (%)**	**Ref.**
Arval Slovakia	Slovakia	Full	100%	99.99%		Full	100%	99.99%	D1
Arval Trading	France	Full	100%	99.99%		Full	100%	99.99%	D1
Arval UK Group Ltd	United Kingdom	Full	100%	99.99%		Full	100%	99.99%	
Arval UK Leasing Services Ltd	United Kingdom	Full	100%	99.99%		Full	100%	99.99%	
Arval UK Ltd	United Kingdom	Full	100%	99.99%		Full	100%	99.99%	
Bank BGŻ BNP Paribas SA	Poland	Equity	24.07%	24.07%	V3	Equity	28.35%	28.35%	
Bantas Nakit AS	Turkey	Equity 2	33.33%	16.67%	E1				
BGL BNP Paribas S.A. Zweigniederlassung Deutschland	Germany	Full	100%	50%		Full	100%	50%	
BNP Paribas Commercial Finance Limited	United Kingdom	Full	100%	99.99%		Full	100%	100%	
BNP Paribas Factor A/S	Denmark	Full	100%	99.99%		Full	100%	100%	D1
BNP Paribas Factor Deutschland B.V.	The Netherlands				S4	Full	100%	100%	
BNP Paribas Factor Gmbh	Germany	Full	100%	99.99%		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
BNP Paribas Fortis (Czech Republic branch)	Czech Republic				S1	Full	100%	100%	
BNP Paribas Fortis (Denmark branch)	Denmark				S1	Full	100%	100%	
BNP Paribas Fortis (Finland branch)	Finland								S4
BNP Paribas Fortis (Netherlands branch)	The Netherlands								S4
BNP Paribas Fortis (Norway branch)	Norway								S4
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
BNP Paribas Fortis (U.S.A branch)	United States	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis Yatirimlar Holding AS	Turkey	Full	99.99%	99.99%		Full	99.99%	99.99%	
BNP Paribas Lease Group	France	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group Ifn S.A.	Romania	Full	99.94%	24.99%		Full	99.94%	24.99%	D1
BNP Paribas Lease Group Kft.	Hungary								S3
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
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 Rentals Limited	United Kingdom	Full	100%	25%		Full	100%	25%	

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Name	Country	31 December 2018 Method	Voting (%)	Interest (%)	Ref.	31 December 2017 Method	Voting (%)	Interest (%)	Ref.
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%		Full	100%	25%	D1
BNP Paribas Leasing Solutions Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
BNP Paribas Leasing Solutions N.V.	The Netherlands	Full	100%	25%		Full	100%	25%	
BNP Paribas Leasing Solutions Suisse SA	Switzerland	Full	100%	25%	D1	Equity 1	100%	25%	
BNPP Asset Management Holding	France	Equity	33.33%	30.85%		Equity	33.33%	30.85%	
BNPP Factor AB	Sweden	Full	100%	100%	E1				
BNPP Factor NV	The Netherlands	Full	100%	100%		Full	100%	100%	E1
BNPP Factoring Support (Ex- BNPP Factoring Coverage Europe Holding NV)	The Netherlands	Full	100%	100%		Full	100%	100%	
BNPP Fleet Holdings Ltd	United Kingdom	Full	100%	100%		Full	100%	100%	
BNPP Lease Group GmbH & Co KG	Austria	Full	100%	25%	E1				
BNPP Leasing Solution AS	Norway	Full	100%	25%	E3				
BNPP Rental Solutions Ltd	United Kingdom	Full	100%	25%		Full	100%	25%	D1
BNPP Rental Solutions SPA	Italy	Full	100%	25%	D1	Equity	100%	25%	
Cetelem Renting	France	Full	100%	99.99%	E1				
Claas Financial Services	France	Full	51%	12.75%		Full	51%	12.75%	V2
Claas Financial Services Germany Branch	Germany	Full	100%	12.75%		Full	100%	12.75%	V3
Claas Financial Services Italy Branch	Italy	Full	100%	12.75%		Full	100%	12.75%	V3
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%		Full	100%	12.75%	V3
Claas Financial Services, S.A.S., S.E. Spain Branch	Spain	Full	100%	12.75%		Full	100%	12.75%	V3
CMV Mediforce	France	Full	100%	25%	E1				
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	The 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%	

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Name	Country	31 December 2018 Method	Voting (%)	Interest (%)	Ref.	31 December 2017 Method	Voting (%)	Interest (%)	Ref.
Commercial Vehicle Finance Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
Folea Grundstucksverwaltungs und Vermietungs Gmbh & Co	Germany	Full	94%	1.50%	D1	Equity	94%	1.50%	E1
Fortis Lease	France	Full	99.99%	25%		Full	99.99%	25%	
Fortis Lease Deutschland Gmbh	Germany	Full	100%	25%		Full	100%	25%	D1
Fortis Lease Iberia SA	Spain	Full	100%	41.04%		Full	100%	41.04%	D1
Fortis Lease Portugal	Portugal	Full	100%	25%		Full	100%	25%	D1
Fortis Lease Uk Ltd	United Kingdom	Full	100%	25%	D1	Equity 1	100%	25%	
Fortis Vastgoedlease B.V.	The Netherlands	Full	100%	25%	D1	Equity 1	100%	25%	
Heffiq Heftruck Verhuur BV	The Netherlands	Full	50.05%	12.51%	E1				
Humberclyde Commercial Investments Limited	United Kingdom				S1	Full	100%	25%	
Inkasso Kodat Gmbh & Co. Kg	Germany				S3	Equity 1	100%	100%	
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%	
Louveo	France	Full	100%	99.99%	E1				
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%	100%		Full	100%	100%	D1
RD Leasing IFN SA	Romania	Full	100%	100%	E3				
RD Portofoliu SRL	Romania								S3
Same Deutz Fahr Finance	France	Full	100%	25%		Full	100%	25%	
Same Deutz Fahr Finance Limited	United Kingdom				S1	Full	100%	25%	
Teb Arval Arac Filo Kiralama A.S.	Turkey	Full	99.99%	74.99%		Full	99.99%	74.99%	
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 Bank GmbH	Germany	Full	100%	100%		Full	100%	100%	
Rest of the world - Special Purpose Entities									
Scaldis Capital Limited	Jersey	Full				Full			

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8.k Fees paid to the statutory auditors

Since several years, Deloitte and PwC were in a joint audit. The 3 years mandate (2015, 2016 and 2017) of Deloitte has ended with the General Shareholders meeting of 19/04/2018.

All audit works on 2018 financial year are now performed by PwC as the bank's sole auditor.

The table below shows the fees paid to the auditors (PwC, Deloitte, Mazars and others) of all consolidated entities.

Excluding tax, in thousands of euros	Year to 31 Dec. 2018						Year to 31 Dec. 2017							
	PwC		Others		Total		PwC		Deloitte		Others		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Audit														
Statutory audit engagement	**2,293**	**65%**	**5,244**	**91%**	**7,537**	**81%**	**2,807**	**76%**	**1,031**	**66%**	**3,675**	**96%**	**7,513**	**83%**
- BNP Paribas Fortis	*1,074*	*30%*	*113*	*2%*	*1,187*	*13%*	*847*	*23%*	*858*	*55%*	*89*	*2%*	*1,794*	*20%*
- Consolidated subsidiaries	*1,219*	*35%*	*5,131*	*89%*	*6,350*	*68%*	*1,960*	*53%*	*173*	*11%*	*3,586*	*94%*	*5,179*	*63%*
Services other than those required for the statutory audit engagement	**1,259**	**35%**	**547**	**9%**	**1,806**	**19%**	**879**	**24%**	**537**	**34%**	**152**	**4%**	**1,568**	**17%**
- BNP Paribas Fortis	*525*	*15%*	*45*	*1%*	*570*	*6%*	*491*	*13%*	*506*	*32%*	*-*	*0%*	*997*	*11%*
- Consolidated subsidiaries	*734*	*20%*	*502*	*8%*	*1,236*	*13%*	*388*	*11%*	*31*	*2%*	*152*	*4%*	*571*	*6%*
TOTAL	3,552	100%	5,791	100%	9,343	100%	3,686	100%	1,568	100%	3,827	100%	9,081	100%

The fees paid to the various networks of the Statutory Auditors other than the one certifying the Consolidated and Non-Consolidated Financial Statements of BNP Paribas Fortis (mainly Deloitte and Mazars), shown in the table above, amount to EUR 5,791,000 for the year 2018.

The decrease in fees for the audit of the financial statements observed in 2018 (in 2017, fees of PwC and Deloitte of EUR 1,705,000) is partly explained by the exceptional amounts paid in 2017 in connection with the implementation of IFRS9.

In 2018, an increase in PwC's services other than financial certification was observed. This is mainly justified by the fact that the financial year took over an important legal and fiscal mission at BGL related to the regime applicable in Belgium to the capital prescribed under one-time voluntary declaration (DLU IV-EBA IV).

8.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 2018.

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 2018.

BNP Paribas Fortis' risk measures are presented according to the Basel III principles. These risks, calculated using methods approved by the Belgian banking supervisor, i.e. the National Bank of Belgium (NBB) and the European banking supervisor, i.e. the European Central Bank (ECB), 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 'Pillar 3 disclosure'.

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 2018.

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 Banking excl. CIB);
- 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;
- Risk DPO (Data Protection Officer) is responsible for monitoring compliancy with regulatory requirements in the context of personal data privacy and protection.

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 Liability 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 improvements.

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 2018	
	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	9,137	-
Accumulated other comprehensive income (and other reserves)	(700)	-
Funds for general banking risk	-	-
Minority interests (amount allowed in consolidated CET 1)	1,667	-
Independently reviewed interim profits net of any foreseeable charge or dividend	934	-
COMMON EQUITY TIER 1 (CET1) CAPITAL BEFORE REGULATORY ADJUSTMENTS	**22,943**	**-**
Common Equity Tier 1 (CET1): regulatory adjustments	**(3,757)**	**-**
COMMON EQUITY TIER 1 (CET1) CAPITAL	**19,186**	**-**
Additional Tier 1 (AT1) capital: instruments	**499**	**205**
Additional Tier 1 (AT1) capital: regulatory adjustments	**-**	**-**
ADDITIONAL TIER 1 (AT1) CAPITAL	**499**	**205**
TIER 1 CAPITAL (T1 = CET1 + AT1)	**19,685**	**205**
Tier 2 (T2) capital: instruments and provisions	**2,993**	**87**
Tier 2 (T2) capital: regulatory adjustments	**(206)**	**-**
TIER 2 (T2) CAPITAL	**2,787**	**87**
TOTAL CAPITAL (TC = T1 + T2)	**22,472**	**292**

(*) 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 2018	31 December 2017
Common equity Tier 1 Capital (CET1)	19,186	21,371
Tier 1 Capital	19,685	21,818
Total Capital	22,472	23,658
Risk weighted commitments		
Credit risk	113,741	117,241
Securitisation	654	480
Counterparty Risk	2,186	1,800
Equity Risk	7,014	7,577
Market risk	1,843	1,659
Operational risk	12,821	11,471
TOTAL RISK WEIGHTED COMMITMENTS	**138,259**	**140,228**
CET 1 ratio	13.9%	15.2%
Tier 1 ratio	14.2%	15.6%
Total capital ratio	16.3%	16.9%

The table below shows the leverage ratio (phase-in):

In millions of euros	31 December 2018	31 December 2017
On-Balance Exposure (Excl. Repo & Derivatives)	265,577	259,919
Repo's and Derivatives	28,960	22,272
Repurchase agreements and securities lending/borrowing	25,316	18,574
Replacement cost of derivatives transactions	2,864	2,390
Add-on for potential future risk derivatives	3,362	3,428
Cash variation margins	(2,582)	(2,120)
Off-Balance Exposure (adjusted for conversion to credit equivalent. art.429 CRR)	29,054	42,205
TOTAL EXPOSURE	323,591	324,396
Regulatory adjustments	(3,757)	(3,896)
Tier 1 capital	19,685	21,818
Leverage Ratio	6.15%	6.79%

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 2018			31 December 2017		
	IRBA	Standardised Approach	Total	IRBA	Standardised Approach	Total
Central governments and central banks	21,770	7,107	28,877	27,983	7,185	35,168
Corporates	106,197	24,988	131,185	102,211	29,543	131,754
Institutions **	16,820	8,115	24,935	19,546	11,410	30,956
Retail	82,628	33,046	115,674	79,835	32,640	112,475
Securitisation positions	2,362	-	2,362	3,034	-	3,034
Other non-credit-obligation assets ***	409	14,895	15,304	381	13,198	13,579
Total exposure	**230,186**	**88,151**	**318,337**	**232,990**	**93,976**	**326,966**

(*) 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 2018.

Breakdown of credit risk * by Basel III Asset Class and by corporate industry at 31 December 2018

In millions of euros	31 December 2018		31 December 2017	
	Exposure	%	Exposure	%
Agriculture, Food, Tobacco	12,982	4%	13,586	4%
Financial services	39,387	12%	44,581	14%
Chemicals excluding Pharmaceuticals	3,777	1%	3,268	1%
Construction	9,821	3%	9,174	3%
Retailers	7,393	2%	6,826	2%
Equipment excluding IT	6,495	2%	7,169	2%
Real estate	22,590	7%	21,995	7%
Metals & Mining	5,421	2%	4,642	1%
Wholesale & Trading	15,307	5%	16,630	5%
Business services	27,924	9%	29,866	9%
Transportation & Logistics	9,618	3%	8,778	3%
Utilities (electricity, gas, water, etc.)	9,105	3%	9,779	3%
Retail	96,330	31%	91,123	28%
Sovereign & public sector	23,292	7%	29,529	9%
Other	26,533	9%	26,985	9%
TOTAL	**315,975**	**100%**	**323,931**	**100%**

(*) Credit risk exposure excludes DTA's risk weighted at 250%, default fund contributions to CCPs and securitisation positions.

Geographical breakdown of credit risk * at 31 December 2018 by counterparty's country of location

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 2018.

In millions of euros	31 December 2018					
	Basel III					
	Central governments and central banks	Corporates	Institutions	Retail	Total	%
Europe	**23,821**	**113,697**	**22,644**	**120,228**	**280,390**	**89%**
Belgium	12,947	63,749	8,694	81,071	166,461	53%
Netherlands	683	3,770	578	2,047	7,078	2%
Luxembourg	4,179	10,661	237	7,930	23,007	7%
France	1,608	6,002	11,069	8,574	27,253	9%
Other European countries	4,404	29,515	2,066	20,606	56,591	18%
North America	**170**	**3,872**	**398**	**53**	**4,493**	**1%**
Asia & Pacific	**209**	**726**	**286**	**93**	**1,314**	**0%**
Rest of the World	**4,677**	**12,889**	**1,607**	**10,605**	**29,778**	**10%**
TOTAL	28,877	131,184	24,935	130,979	315,975	100%

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%

(*) 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.

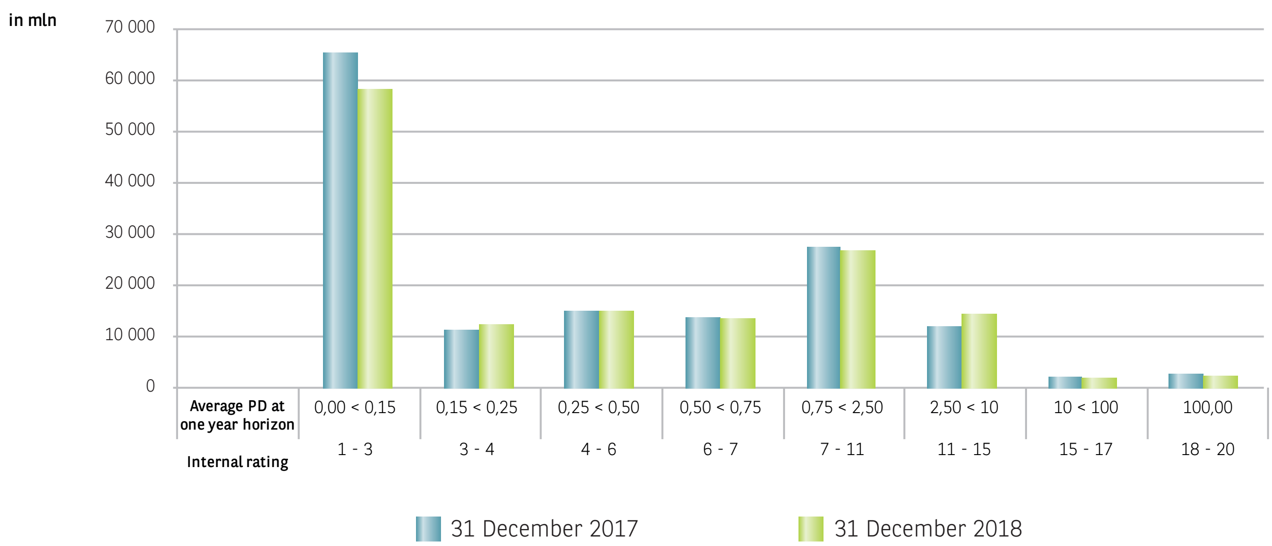
Internal rating system

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 downward evolution in credit risk exposure for the internal ratings 1-3 was mainly driven by lower investments in government bonds and a decreased exposure towards BNP Paribas Group.

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 2018	31 December 2017	Variation	31 December 2018	31 December 2017	Variation
Internal model	**1,373**	**1,105**	**268**	**110**	**88**	**22**
VAR	250	268	(18)	20	21	(1)
Stressed VAR	919	692	227	74	55	19
Incremental Risk Change (IRC)	204	145	59	16	12	4
Comprehensive Risk Measure (CRM)	-	-	-	-	-	-
Standardised approach	**470**	**554**	**(84)**	**38**	**44**	**(6)**
Trading book securitisation positions	**-**	**-**	**-**	**-**	**-**	**-**
MARKET RISK	1,843	1,659	184	148	132	16

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 Institutional 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 supervisor, exposure to currency risk is determined under the Standardised approach, using the option provided by the banking regulator 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 BNP Paribas ALM Treasury Domestic Markets Steering and the Head of the Bank ALM Treasury Steering; other ALCo members belong to ALM Treasury, Risk or Finance. The Bank ALCo which meets on a monthly basis 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 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 (repricing or gap risk, basis risk and optional risk); 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 (High Quality Liquid Asset) securities which are accounted for in 'Hold to Collect and Sell'.

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 bonds.

The Bank holds sovereign bonds as part of its liquidity management process. Liquidity management is based amongst others on holding bonds which are eligible as collateral for refinancing by central banks; a substantial share of this 'liquidity buffer' consists of highly rated debt securities issued by governments, supra-national authorities and agencies, representing a low level of risk. A part of this same portfolio has interest rate characteristics that contribute to the banking book interest rate risk hedging strategies.

BNP Paribas Fortis' sovereign bond portfolio is shown in the table below:

Banking Book **In millions of euros**	**31 December 2018** IFRS 9 & IFRS 15	**1 January 2018** IFRS 9 & IFRS 15
Eurozone		
Belgium	6,856	9,797
Italy	1,137	1,165
Spain	662	660
The Netherlands	548	553
France	447	725
Austria	319	911
Luxembourg	197	198
Finland	52	53
Ireland	87	152
Portugal	50	146
Total eurozone	**10,355**	**14,360**
Other countries in European Economic Area (EEA)		
Czech Republic	50	73
Total other EEA	**50**	**73**
Turkey	1,001	1,105
Total	**11,406**	**15,538**

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; fiscal deontology, anti-bribery and anti-corruption;
- 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.

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

The Compliance function has been reviewed in 2015. It is organised as an independent, integrated and decentralized function. BNP Paribas Fortis' Chief Compliance Officer reports hierarchically to BNP Paribas' Head of Domestic Markets Compliance and has a functional reporting 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 RISK

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 auditors' report to the general shareholders' meeting of BNP Paribas Fortis sa/nv on the consolidated financial statements for the year ended 31 december 2018

We present to you our Statutory Auditors' report in the context of our statutory audit of the consolidated financial statements of BNP Paribas Fortis SA/NV (the 'Company') and its subsidiaries (jointly 'the Group'). This report includes our report on the consolidated financial statements, as well as the other statements required by law and regulations. It forms part of an integrated whole and is indivisible.

We have been appointed as Statutory Auditor 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. Our mandate will expire on the date of the General Shareholders' Meeting which will deliberate on the annual accounts for the year ended 31 December 2019. We have performed the statutory audit of the consolidated financial statements of BNP Paribas Fortis SA/NV for 20 consecutive years.

Report on the consolidated financial statements

Unqualified opinion

We have performed the statutory audit of the Group's consolidated financial statements, which comprise the balance sheet as at 31 December 2018, the profit and loss account, the statement of net income and change in assets and liabilities recognised directly in equity, the statement of changes in shareholder's equity and the 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 291,320 '000,000'and a net income for the year of EUR 1,932 '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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards ('IFRS') as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for unqualified opinion

We conducted our audit in accordance with International Standards on Auditing ('ISA') as applicable in Belgium. Furthermore, we have applied the International Standards on Auditing as approved by the IAASB for the years ending as from 31 December 2018, which are not yet approved at the national level. Our responsibilities under those standards are further described in the 'Statutory Auditors' 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.

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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 note 8.a to the consolidated financial statements with respect to significant litigations, in which is described that, as a result of 2007 and 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 reporting 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 advances

Key audit matter

BNP Paribas Fortis SA/NV has significant loans and advances, for an amount of EUR 220,282 '000,000' at year-end 2018. IFRS 9, which became applicable on 1 January 2018, introduces an expected loss model of provisioning and requires credit exposures to be classified according to three stages. Impairment losses are posted on all loans and receivables to address an expected loss event that has an impact on the estimated future cash flows of these loans and receivables.

For defaulted loans, the identification and determination of the recoverable amount are part of an estimation process which includes, among others, an assessment of existence of a default event, assessing the financial position of the counterparty, estimating the expected future cash flows and assessing the value of collateral.

The determination of the impairment allowances involves judgment in determining assumptions, methodology, modelling techniques and parameters.

Due to the substantial amount of loans and advances recognized in the balance sheet, of the cost of risk recognized in the income statement (EUR 395 '000,000') and the significant impact of the judgments applied on the carrying amount of loans and advances, 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 challenged the methodology applied as well as the assumptions made by management as described in the preceding paragraph:

- We have assessed the governance process of assessing the stage of credit risk (as defined by IFRS 9) and downgrading, including the continuous re-assessment of the appropriateness of assumptions used in the impairment models for determining the 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 models and manual processes for identification of impairment events or significant changes in credit risk, collateral valuation, estimates of recovery on default and determination of the impairment. We have not identified significant weaknesses on their adequacy and operating effectively;
- Together with our experts, 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 the implementation of IFRS 9 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 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 IFRS as adopted by the European Union.

Reference to disclosures

We refer to Notes 5.e and 3.g to the consolidated financial statements. In addition, 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 IFRS 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 IFRS as adopted by the European Union.

Reference to disclosures

Please refer to disclosure Note 8.a to the consolidated financial statements, in which the main legal proceedings are disclosed.

Valuation of goodwill, of goodwill embedded in investments consolidated by applying the equity-method and of options to minority shareholders of consolidated entities

Key Audit Matter

The Company's 31 December 2018 consolidated financial statements show a 'Goodwill' caption amounting to EUR 719 '000,000', and an 'Equity-method investments' caption of EUR 3,840 '000,000'. The consolidated financial statements moreover contain the fair value of written put options to minority shareholders of consolidated entities, under caption 'Minority interests', for an amount of EUR 219 '000,000'. These intangible and financial 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 IFRS prescribe that goodwill is subject to an annual impairment assessment, and that written options be valued at the intrinsic value of the financial instrument.

We identified these intangible and financial 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 IFRS as adopted by the European Union.

Reference to disclosures

We refer to the consolidated financial statements, including the Note 5.m 'Goodwill', the Note 5.k 'Equity-method investments' and the Note 8.c 'Minority Interests'.

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 IFRS 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 IFRS as adopted by the European Union.

Reference to disclosures

Please refer to Notes 5.d 'Measurement of the fair value of financial instruments' and 1 'Summary of significant accounting policies applied by BNP Paribas Fortis'.

Responsibilities of the Board of Directors for the preparation of 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 the IFRS as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium, and for such internal control as it determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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 when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

In performing our audit, we comply with the legal, regulatory and normative framework applicable to the audit of the consolidated financial statements in Belgium.

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 responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of 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 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 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 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, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors and the Audit Committee with a statement that we have complied 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 are therefore the key audit matters. We describe these matters in our Statutory Auditors' report unless law or regulation precludes public disclosure about the matter.

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, the separate report on non-financial information and the other information included in the annual report.

Statutory Auditors' responsibilities

In the context of our mandate and in accordance with the Belgian standard (Revised in 2018) which is complementary to the International Standards on Auditing as applicable in Belgium, our responsibility is to verify, in all material respects, the Directors' report on the consolidated financial statements, the separate report on non-financial information and the other information included in the annual report and to report on these matters.

Aspects related to the Directors' report on the consolidated financial statements and to the other information included in the annual report

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 accounting year, 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 and the other information included in the annual report on the consolidated financial statements, containing:

- the Statement of the Board of Directors;
- the Corporate Governance Statement;
- the Risk Management and Capital Adequacy chapter; and
- the other information chapter;

are 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.

Statements related to independence

- Our registered audit firm and our network did not provide services which are incompatible with the statutory audit of the consolidated financial statements, and our registered audit firm remained independent of the Group in the course of our mandate;
- The fees for additional services which are compatible with the statutory audit of the consolidated financial statements referred to in article 134 of the Companies' Code 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.

Sint-Stevens-Woluwe, 3 April 2019

The Statutory Auditor

PwC Bedrijfsrevisoren cvba
Represented by

Damien Walgrave
Reviseur d'Entreprises / Bedrijfsrevisor

BNP PARIBAS FORTIS ANNUAL REPORT 2018 (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** as at 31 December 2018 amounted to EUR 203.7 billion, up by EUR 10.8 billion or 6% compared with 31 December 2017. As at 31 December 2018, the yield on assets was 1%.

Assets

Cash in hand, balances with central banks and giro offices remained stable at EUR 0.5 billion.

Amounts receivable from credit institutions increased by EUR 1.1 billion or 6% compared with end of 2017. The evolution was mainly attributable to an increase of reverse repurchase agreements by EUR 3.2 billion and higher monetary reserves for EUR 0.5 billion. This was partly offset by a decrease on current and term accounts by EUR (2.7) billion following the reimbursement at maturity of a loan granted to BNP Paribas SA (EUR (3.0) billion).

Amounts receivable from customers stood at EUR 106.4 billion as at 31 December 2018, up by EUR 9.4 billion compared to 31 December 2017.

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 2018. 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 6.2 billion, spread over different type of loans such as investment loans and funding given to subsidiaries. In a still low interest rates environment, mortgage loans continued to increase by EUR 1.7 billion thanks to new production. In addition, reverse repurchase agreements increased by EUR 1.6 billion.

The term loans in our foreign branches decreased by EUR (0.3) billion due to the transfer of activities of the BNP Paribas Fortis' branch in Madrid to BNP Paribas SA.

Bonds and other fixed-income securities totalled EUR 56.2 billion as at 31 December 2018, down by EUR (0.3) billion compared with EUR 56.5 billion as at 31 December 2017.

The amount of EUR 56.2 billion consists mostly of bonds issued by public authorities (EUR 11.0 billion, down by EUR (3.8) billion compared with 2017 following the arrival at maturity and sales of some government bonds), by 'Special Purpose Vehicles' (EUR 37.3 billion) and by other issuers (EUR 7.9 billion, up by EUR 3.1 billion compared with 2017 following the subscription to a new bond issued by BNP Paribas SA).

Financial fixed assets amounted to EUR 10.2 billion as at 31 December 2018, stable compared with 31 December 2017.

Deferred charges and accrued income stood at EUR 6.9 billion as at 31 December 2018, up by EUR 0.3 billion compared with EUR 6.6 billion as at 31 December 2017 following the evolution of the interest and currency rate derivatives.

Liabilities and Equity

Amounts owed to credit institutions totalled EUR 23.3 billion as at 31 December 2018, up by EUR 3.5 billion compared with 31 December 2017.

The evolution was mainly attributable to the increase in repurchase agreements (EUR 6.5 billion with BNP Paribas SA), partly compensated by a decrease in funds received from other entities of the BNP Paribas Group (EUR (2.6) billion).

Amounts payable to clients stood at EUR 134.6 billion as at 31 December 2018, up by EUR 4.2 billion or 3% compared with EUR 130.4 billion as at 31 December 2017.

In Belgium, current accounts and saving accounts increased respectively by EUR 2.9 billion and EUR 3.0 billion, mainly in private and retail banking. Repurchase agreements increased by EUR 0.7 billion. This evolution was partly offset by a decrease in Term deposits for EUR (1.7) billion.

At foreign branches, the evolution (EUR (0.7) billion) resulted mainly from the transfer of activities of the BNP Paribas Fortis' branch in Madrid to BNP Paribas.

Debts evidenced by certificates totalled EUR 13.7 billion as at 31 December 2018, representing an increase by EUR 1.6 billion, mainly due to new issues of covered bonds.

Accrued charges and deferred income stood at EUR 4.7 billion, up by EUR 0.6 billion compared with 31 December 2017, following the evolution of the interest and currency rate derivatives.

Subordinated liabilities amounted to EUR 3.6 billion as at 31 December 2018, up by EUR 0.4 billion compared with 31 December 2017. The increase was mainly related to the issuance of a new subordinated debt partly counterbalanced by the arrival at maturity of other subordinated debts.

Shareholders' equity stood at EUR 17.0 billion as at 31 December 2018, down by EUR (1.8) billion compared with 31 December 2017. The evolution was impacted by the proposal of a dividend distribution of EUR 3.7 billion (of which an interim dividend of EUR 1.9 billion paid in 2018) counterbalanced partially by the amount of retained profit (EUR 1.9 billion).

Comments on the evolution of the income statement

BNP Paribas Fortis realised a **net profit of the year** of EUR 1,897 million, compared to EUR 1,560 million in 2017.

The **interest margin** (Headings I and II) amounted to EUR 2,754 million in 2018, up by EUR 35 million compared to 2017, essentially in Belgium for EUR 37 million.

In Belgium, in a context of low interest rates, interest income on customer loans increased supported by good volume growth (mainly term loans and mortgage loans). The increase on interest margin was also supported by lower interest expenses on subordinated debts following the arrival at maturity of securities with a high yield. Furthermore, interest expenses related to clients' deposits decreased.

These elements were partly counterbalanced by less interest income on fixed-income securities related to the sale and redemption of securities with high yields and higher interest paid to other banks following growing average capital.

Income from variable-yield securities (Heading III) amounted to EUR 863 million in 2018, up by EUR 320 million compared to 2017, mainly due to an increase in dividends received from participating interests.

Commissions (Headings IV and V) amounted to EUR 956 million in 2018, down by EUR (40) million compared to 2017.

On foreign branches, commissions were down by EUR (21) million following the transfer of activities of BNP Paribas Fortis European branches to BNP Paribas.

In Belgium, commissions decreased by EUR (19) million due to lower fees received on asset management and higher fees paid to growing independent network.

Profit on financial operations (Heading VI) amounted to EUR 165 million, down by EUR (59) million compared to previous year.

The disposal of investment securities, mainly government bonds, generated a profit of EUR 129 million in 2018, increasing compared to EUR 81 million in 2017. Consequently, this higher result was partly compensated by higher breakage fees paid on the derivatives hedging the interest rate risk on these securities in comparison to 2017. Furthermore, there was also an increase in results on foreign exchange transactions.

General administrative expenses (Heading VII) came to EUR (2,454) million, an increase of EUR (65) million compared to 2017.

Remuneration, social charges and pensions decreased by EUR 11 million mainly due to the transfer of activities of BNP Paribas Fortis' European branches to BNP Paribas.

Other administrative expenses increased by EUR (76) million compared to previous year. The evolution was mainly due to higher IT costs.

Depreciation and amounts written off on formation expenses, intangible and tangible fixed assets (Heading VIII) amounted to EUR (91) million compared to EUR (119) million in 2017.

Amounts written off on the amounts receivable and the investment portfolio (Headings IX and X) totalled EUR (23) million, compared to EUR 28 million in 2017, i.e. a decrease of EUR (51) million.

Provisions for risks and charges (Headings XI and XII) showed a net reversal of EUR 36 million in 2018 against a net reversal of EUR 8 million in 2017. The increase was mainly related to higher provisions on interest margins heading booked in 2017.

Other operating income (Heading XIV) amounted to EUR 132 million in 2018, down by EUR (33) million compared to previous year. The evolution was partly related to the re-invoicing of costs to entities of BNP Paribas Group.

Other operating charges (Heading XV) amounted to EUR (399) million in 2018, down by EUR 14 million compared to 2017. The decrease was generated by less costs coming from other entities of the group following the transfer of activities of BNP Paribas Fortis branches to BNP Paribas.

Extraordinary income (Heading XVII) came to EUR 331 million in 2018, up by EUR 280 million compared to 2017. The evolution was mainly driven by the reversal of impairments on financial fixed assets for EUR 104 million (of which EUR 115 million on Von Essen Bank following its upcoming sale to BNP Paribas German branch of Frankfurt) and the gains following the exchange of shares in a financial holding company for EUR 165 million.

Extraordinary charges (Heading XVIII) came to EUR (298) million in 2018, an increase by EUR (47) million compared to 2017. The evolution resulted mainly from impairments on financial fixed assets (EUR (62) million, of which EUR (89) million on BNP Paribas Fortis Yatirimlar Holding AS) and from the loss in 2017 on transfer of activities of BNP Paribas Fortis branches to BNP Paribas S.A. (EUR (26) million).

Income taxes (Heading XX) amounted to EUR (75) million in 2018, compared to EUR (2) million in 2017, an increase mainly related to the 2018 tax reform.

PROPOSED APPROPRIATION OF THE RESULT FOR THE ACCOUNTING PERIOD

Profit for the year for appropriation	EUR	1,896.6	million
Profit brought forward from the previous year	EUR	5,329.4	million
Profit to be appropriated	EUR	7,226.0	million
Profit to be carried forward	EUR	3,498.9	million
Interim dividend	EUR	1,899.1	million
Complementary ordinary dividend	EUR	1,808.6	million
Other allocations *	EUR	19.4	million

* *This amount represents the profit bonus which is calculated per employee of BNP Paribas Fortis N.V./S.A. as the sum of 2.35% of the individual annual remuneration and a lump sum of EUR 250 gross (prorata temporis) 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 2018, the Board of Directors of BNP Paribas Fortis SA/NV will request the approval of the General Meeting of Shareholders to distribute an interim gross dividend of EUR 3.36 per share, or EUR 1,899.1 million and an complementary ordinary gross dividend of EUR 3.20 per share, or EUR 1,808.6 million. The interim dividend has been paid on 4 December 2018.

INFORMATION RELATED TO ARTICLE 523 OF THE COMPANIES CODE

Remuneration and benefits awarded to the members of the Executive Board of BNP Paribas Fortis

Meetings of the board of directors of 8 and 28 March 2018

On 8 and 28 March 2018, 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 remunerations and benefits of the members of the Executive Board of BNP Paribas Fortis were also analysed and validated by the Remuneration Committee.

The remunerations of the Chairman of the Executive Board and of the five other members of the Executive Board is mentioned under note 8.f.2 of the current annual report.

Resolution of the board of directors of BNP Paribas Fortis granting an indemnity to Mr. M. Anseeuw and Mr. S. Vermeire

Meeting of the board of directors of April 26, 2018

"During meetings that took place in 2009, 2010, 2011, 2012, 2013, 2014 and 2016, the Board of Directors of BNP Paribas Fortis SA/NV (the "Bank") decided that the potential liability incurred by its directors in the exercise of their mandate should be indemnified by the Bank in certain circumstances.

The Chairman explains that the Bank should consider also granting an indemnity to Mr. M. Anseeuw and Mr. S. Vermeire to protect them from the liability that they may incur as Directors of the Bank. This indemnity should be granted to each of them individually.

The Chairman refers to the considerations underlying the decisions of the Board of 2009, 2010, 2011, 2012, 2013, 2014 and 2016, which remain relevant to date. The Chairman therefore proposes that the Bank undertakes to indemnify Mr. M. Anseeuw and Mr. S. Vermeire in all instances where they acted in good faith and in a manner they believed to be in the best interest of the Bank, except where the liability of the concerned director would arise out of a fraud or willful misconduct or where such liability would be covered by an insurance policy (whether or not subscribed by the Bank) benefiting to such director.

The Chairman enacts that, in compliance with article 523 of the Company Code, prior to any deliberation, Mr. M. Anseeuw and Mr. S. Vermeire informed the other directors and the auditors of the Bank that they have to be considered as having an interest conflicting with the decisions to be taken by the Board in connection with this item of the agenda given that they would benefit personally from the indemnity described above.

Mr. M. Anseeuw and Mr. S. Vermeire leave the meeting and do not participate to the deliberation and the resolution of the Board regarding the indemnity.

The other directors acknowledge that the indemnity described above is in line with market practices in Belgium considering the specificities of the Bank. This indemnity would be in the best interest of the Bank since the latter needs to be able to attract and maintain directors and to benefit from their valuable contribution. Furthermore, the other directors benefit from a similar indemnity and not granting such indemnity to these directors would be a difference in treatment that cannot be justified and that would make it very difficult to attract and maintain directors going forward. The directors participating in the deliberation further acknowledge that there should be no financial consequences for the Bank arising from this indemnity other than those resulting from any payment made by the Bank there under.

The other directors then proceed with the deliberation. They discuss the indemnification undertaking and unanimously decide that the Bank shall indemnify and shall hold harmless Mr. M. Anseeuw and Mr. S. Vermeire, each individually, to the fullest extent permitted by applicable law, against or from all liabilities, expenses, damages or other amounts reasonably incurred or borne by them in connection with any proceeding or claim brought by a third party (including, without limitation, a shareholder of the Bank acting for his own account) against them as directors of the Bank in respect of any decision, action or omission which was made or occurred (or which is claimed to have been made or to have occurred) before, on or after the date of this meeting, provided however that:

(a) the concerned director acted in good faith and in a manner he believed to be in the best interest of the Bank; and

(b) this indemnification undertaking shall not be applicable (i) in respect of liabilities, expenses, damages or other amounts arising out of a fraud or willful misconduct of a director; nor (ii) if, and to the extent that, any such liabilities, expenses, damages or other amounts are covered by an insurance policy (whether or not subscribed by the Bank) benefiting the relevant director."

INFORMATION REGARDING RELATED PARTY TRANSACTIONS

Board procedure

Background

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 2018, no transaction required the application of the Procedure.

BNP PARIBAS FORTIS FINANCIAL STATEMENTS 2018 (NON-CONSOLIDATED)

BALANCE SHEET AFTER APPROPRIATION

			Codes	Current period	Previous period
ASSETS					
I.	**Cash in hand, balances with central banks and giro offices**	**10100**	**10100**	**548,370**	**443,434**
II.	**Government securities eligible for refinancing with the central bank**	**10200**	**10200**	**-**	**-**
III.	**Amounts receivable from credit institutions**	**10300**	**10300**	**20,466,880**	**19,364,910**
	A. At sight	*10310*	*10310*	*4,287,132*	*3,024,297*
	B. Other amounts receivable (at fixed term or period of notice)	*10320*	*10320*	*16,179,748*	*16,340,613*
IV.	**Amounts receivable from customers**	**10400**	**10400**	**106,351,351**	**96,972,375**
V.	**Bonds and other fixed-income securities**	**10500**	**10500**	**56,170,933**	**56,481,597**
	A. Issued by public bodies	*10510*	*10510*	*11,029,601*	*14,418,820*
	B. Issued by other borrowers	*10520*	*10520*	*45,141,332*	*42,062,777*
VI.	**Shares and other variable-yield securities**	**10600**	**10600**	**116,492**	**162,213**
VII.	**Financial fixed assets**	**10700**	**10700**	**10,183,790**	**10,133,825**
	A. Participating interests in affiliated enterprises	*10710*	*10710*	*6,575,837*	*6,894,408*
	B. Participating interests in other enterprises linked by participating interests	*10720*	*10720*	*2,702,419*	*2,508,051*
	C. Other shares held as financial fixed assets	*10730*	*10730*	*397,224*	*233,649*
	D. Subordinated loans to affiliated enterprises and to other enterprises linked by participating interests	*10740*	*10740*	*508,310*	*497,717*
VIII.	**Formation expenses and intangible fixed assets**	**10800**	**10800**	**135,954**	**164,609**
IX.	**Tangible fixed assets**	**10900**	**10900**	**958,797**	**947,773**
X.	**Own shares**	**11000**	**11000**	**-**	**-**
XI.	**Other assets**	**11100**	**11100**	**1,856,394**	**1,629,909**
XII.	**Deferred charges and accrued income**	**11200**	**11200**	**6,910,040**	**6,631,197**
TOTAL ASSETS		**19900**	**19900**	**203,699,001**	**192,931,842**

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		Codes	Current period	Previous period
LIABILITIES				
BORROWINGS		**201/208**	**186,657,209**	**174,059,585**
I.	**Amounts owed to credit institutions**	**20100**	**23,345,047**	**19,850,612**
	A. At sight	*20110*	*273,727*	*3,513,911*
	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*	*23,071,320*	*16,336,701*
II.	**Amounts payable to clients**	**20200**	**134,613,440**	**130,419,426**
	A. Savings deposits	*20210*	*61,430,324*	*58,446,490*
	B. Other debts	*20220*	*73,183,116*	*71,972,936*
	1. At sight	*20221*	*62,422,995*	*60,292,157*
	2. At fixed term or period of notice	*20222*	*10,760,121*	*11,680,779*
	3. As a result of the rediscounting of trade bills	*20223*	-	-
III.	**Debts evidenced by certificates**	**20300**	**13,738,560**	**12,140,775**
	A. Debt securities and other fixed-income securities in circulation	*20310*	*6,960,617*	*5,048,218*
	B. Other	*20320*	*6,777,943*	*7,092,557*
IV.	**Other amounts payable**	**20400**	**5,350,538**	**3,053,641**
V.	**Accrued charges and deferred income**	**20500**	**4,712,773**	**4,111,578**
VI.	**Provisions and deferred taxes**	**20600**	**385,975**	**397,200**
	A. Provisions for risks and charges	*20610*	*385,975*	*397,200*
	1. Pensions and similar obligations	*20611*	-	-
	2. Fiscal charges	*20612*	*25,397*	*19,388*
	3. Other risks and charges	*20613*	*360,578*	*377,812*
	B. Deferred taxes	*20620*	-	-
VII.	**Fund for general banking risks**	**20700**	**871,681**	**871,681**
VIII.	**Subordinated liabilities**	**20800**	**3,639,195**	**3,214,672**
SHAREHOLDERS' EQUITY		**209/213**	**17,041,792**	**18,872,257**
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**	**1,637,546**	**1,637,545**
	A. Statutory reserve	*21210*	*1,096,477*	*1,096,476*
	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**	**3,498,896**	**5,329,362**
TOTAL LIABILITIES		**29900**	**203,699,001**	**192,931,842**

INCOME STATEMENT (presentation in vertical form)

			Codes	Current period	Previous period
I.	**Interest receivable and similar income**		**40100**	**3,474,968**	**3,558,110**
	A. Of which: from fixed-income securities		*40110*	*552,671*	*637,959*
II.	**Interest payable and similar charges**		**40200**	**721,161**	**839,477**
III.	**Income from variable-yield securities**		**40300**	**862,919**	**543,370**
	A. From shares and other variable-yield securities		*40310*	*38,604*	*51,493*
	B. From participating interests in affiliated enterprises		*40320*	*368,735*	*342,038*
	C. From participating interests in other enterprises linked by participating interests		*40330*	*448,174*	*144,587*
	D. From other shares held as financial fixed assets		*40340*	*7,406*	*5,252*
IV.	**Commissions receivable**		**40400**	**1,365,623**	**1,391,679**
	A. Brokerage and related commissions		*40410*	*445,288*	*516,455*
	B. Management, consultancy and conservation commissions		*40420*	*311,897*	*338,465*
	C. Other commissions received		*40430*	*608,438*	*536,759*
V.	**Commissions paid**		**40500**	**409,784**	**395,954**
VI.	**Profit (loss) on financial transactions**	(+)/(-)	**40600**	**165,228**	**224,225**
	A. On trading of securities and other financial instruments		*40610*	*36,180*	*143,337*
	B. On disposal of investment securities		*40620*	*129,048*	*80,888*
VII.	**General administrative expenses**		**40700**	**2,454,097**	**2,389,203**
	A. Remuneration, social security costs and pensions		*40710*	*1,337,845*	*1,349,179*
	B. Other administrative expenses		*40720*	*1,116,252*	*1,040,024*
VIII.	**Depreciation/amortization of and other write-downs on formation expenses, intangible and tangible fixed assets.**		**40800**	**91,084**	**119,122**
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**	**19,343**	**920**
X.	**Decrease in write-downs on the investment portfolio of bonds, shares and other fixed-income or variable-yield securities.**	(+)/(-)	**41000**	**3,955**	**(28,732)**
XI.	**Utilization and write-backs of provisions for liabilities and charges other than those included in the off-balance sheet captions**	(+)/(-)	**41100**	**(58,495)**	**(64,775)**
XII.	**Provisions for risks and charges other than those included in the off-balance sheet captions.**		**41200**	**22,233**	**57,195**
XIII.	**Transfer from (Appropriation to) the fund for general banking risks**	(+)/(-)	**41300**	**-**	**-**
XIV.	**Other operating income**		**41400**	**131,640**	**165,470**
XV.	**Other operating charges**		**41500**	**398,830**	**413,056**
XVI.	**Profits (losses) on ordinary activities before taxes**	(+)/(-)	**41600**	**1,938,386**	**1,761,434**

				Codes	Current period	Previous period
XVII.	**Extraordinary income**			**41700**	**331,295**	**51,159**
	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*	*133,165*	*29,298*
	C.	*Adjustments to provisions for extraordinary risks and charges*		*41730*	*-*	*-*
	D.	*Capital gains on disposal of fixed assets*		*41740*	*182,544*	*16,105*
	E.	*Other extraordinary income*		*41750*	*15,586*	*4,577*
XVIII.	**Extraordinary charges**			**41800**	**297,855**	**250,885**
	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*	*233,900*	*171,448*
	C.	*Provisions for extraordinary risks and charges*	*(+/-)*	*41830*	*-*	*-*
	D.	*Capital losses on disposal of fixed assets*		*41840*	*2,798*	*3,092*
	E.	*Other extraordinary charges*		*41850*	*5,612*	*30,519*
XIX.	**Profits (Losses) for the period before taxes**		**(+/-)**	**41910**		
XIXbis.	**A.**	**Transfer to deferred taxes**		**41921**		
	B.	**Transfer from deferred taxes**		**41922**		
XX.	**Income taxes**		**(+/-)**	**42000**	**75,168**	**1,492**
	A.	*Income taxes*		*42010*	*107,546*	*52,727*
	B.	*Adjustment of income taxes and write-back of tax provisions*		*42020*	*32,378*	*51,235*
XXI.	**Profits (Losses) for the period**		**(+/-)**	**42100**	**1,896,658**	**1,560,216**
XXII.	**Transfer to (or from) untaxed reserves**		**(+/-)**	**42200**		
XXIII.	**Profit (Losses) for the period available for appropriation**		**(+/-)**	**42300**	**1,896,658**	**1,560,216**

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	565,021,153
Dematerialized shares	51802	xxxxxxxxxxxxxx	173,055

	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 2018

The monthly high and low for BNP Paribas Fortis shares at the weekly auctions of Euronext Brussels (Euronext expert Market) in 2018 were as follows (in EUR):

Month	Low	High
January	27.2	27.4
February	26.6	28.0
March	26.6	26.6
April	26.6	26.8
May	26.8	26.8
June	26.6	30.0
July	24.2	27.0
August	26.4	26.4
September	26.2	26.6
October	27.0	27.0
November	26.0	26.0
December	No transactions	No transactions

External posts held by directors and effective leaders on the 31st of December 2018 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 'Regulation'), 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*'.

This Regulation stipulates a.o. 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.* director's mandates – that are subject to disclosure are the ones held in companies other than patrimonial 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	Holding company (Chairman of the board of directors)	-
Unibreda SA/NV	Holding company (Chairman of board of directors - independent director)	-
Max JADOT **(Chairman of the executive board)**		
Bekaert SA/NV	Steel Industry (Non-executive director)	Euronext Brussels
Baltisse SA/NV	Investment Company (Non-executive 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)	-
SD Worx Holding SA/NV	Holding company (Chairman of the board of directors)	-
SD Worx Staffing and career solutions SA/NV	Administrative Services (Chairman of the board of directors)	- -
HR Worx Holding SA/NV	Administrative Services (Chairman of the board of directors)	-
Dirk BOOGMANS **(independent director)**		
Smile Invest SA/NV	Investment Fund (Member of the investment committee)	-
Smile Invest Management Company SA/NV	Investment Company (Non-executive director)	-
Vinçotte International SA/NV	Inspection, control and certification services (Non-executive director and chairman of the audit committee)	-
Newton Biocapital SA/NV	Investment Fund (Non-executive director)	-
Antoinette d'ASPREMONT LYNDEN **(independent director)**		
Groupe Bruxelles Lambert SA/NV	Holding Company (Non-executive director and chairman of the audit committee)	Euronext Brussels
Stefaan DECRAENE **(non-executive director)**		
Ardo Holding SA/NV	Holding Company (Non-executive director)	-

Name, Surname (Post) Company	Business Activity (Post)	Listed
Sophie DUTORDOIR **(independent director)**		
Nationale Maatschappij der Belgische Spoorwegen SA/NV	Railway (Chief Executive Officer – executive director)	-
Eurogare SA/NV	Railway (Director)	-
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)	-
Aveve	Agriculture and horticulture (Non-executive director)	-
Sofia MERLO **(non-executive director)**		
Line Data Services S.A.	Computer software & System Integration Services (Non-executive director)	Euronext Paris
Stéphane VERMEIRE **(Executive director)**		
Procomin SA/NV	Gears and propulsions (Chairman of the board of directors)	-
Aciers Crustin SA/NV	Metal, steel (Chairman of the board of directors)	-
Vermeire Aandrijvingen SA/NV	Gears and propulsions (Chairman of the board of directors)	-
Vermeire Transmissions SA/NV	Machines and tools (Chairman of the board of directors)	-

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 forecasted 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).

Collateralized debt obligation (CDO)
A type of assets backed up by securities and structured credit products resulting in a risk position in a portfolio of fixed renting assets. The credit risk is divided into several tranches, each with a different risk profile.

Collateralised Loan Obligation (CLO)
A form of securitisation where payments from multiple commercial 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 tier 1 capital
Total available capital at group level (based on the banking definition of Tier 1 capital), excluding the innovative hybrid loans.

Credit default swap (CDS)
A credit derivative contract between two counterparties. The buyer of a CDS receives credit protection, while the seller of a CDS guarantees the creditworthiness of 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 used as 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 the 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 (or a portion thereof). 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.

Goodwill
This represents the excess of the fair value of the assets given, liabilities incurred or assumed, and equity instruments issued over BNP Paribas Fortis SA/NV's interest in the fair value of assets acquired and liabilities and contingent liabilities assumed.

Hedge accounting
Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.

IFRS
International Financial Reporting Standards, used as a standard for all listed companies within the European Union as of 1 January 2005 to ensure transparent and comparable accounting and disclosure.

Impairment
A decline in value whereby the carrying amount of the asset exceeds the recoverable amount. In such a case, the carrying amount will be reduced to its recoverable amount through the income statement.

Intangible asset
An identifiable non-monetary asset without physical substance which is recognised at cost if and only if it will generate future economic benefits and if the cost of the asset can be measured reliably.

Investment property
Property held by BNP Paribas Fortis SA/NV to earn rental income or for capital appreciation.

Joint venture
A contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Lifetime expected credit losses
The expected credit losses that result from all possible default events over the expected life of a financial instrument.

Loss given Default (LGD)
The average amount to be lost in the event of default of the counterpart. LGD is a parameter used in the calculation of Expected Loss.

Macro hedge
A hedge used to eliminate the risk of a portfolio of assets.

Net investment hedge
A hedge used to reduce the financial risks of a reporting entity's share in the net assets of a foreign business activity by entering into transactions that provide an offsetting risk profile.

Notional amount
Amount of currency units, number of shares, a number of units of weight or volume or other units specified in a derivative contract.

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.

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 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
A company in which BNP Paribas Fortis SA/NV has the power to govern, either directly or indirectly, the financial and operating policies, 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 risks.

Trade date
The date when BNP Paribas Fortis SA/NV becomes a party to the contractual provisions of a financial instrument.

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.

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
CGU	Cash Generating Unit
CIB	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
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
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