



# **FINANCIAL REPORT**

**First half 2016**



**BNP PARIBAS**  
**FORTIS**

The bank for a changing world

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## Introduction

This Financial Report of BNP Paribas Fortis SA/NV for the first half-year of 2016 includes the Interim Report of the Board of Directors, the Statement of the Board of Directors, the composition of the Board, the Consolidated Interim Financial Statements and the notes to the Consolidated Interim Financial Statements for the first half-year of 2016.

The BNP Paribas Fortis Consolidated Interim Financial Statements for the first half-year of 2016, including the 2015 comparative figures, have been prepared at 30 June 2016 in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. It includes condensed financial statements (balance sheet, profit and loss account, statement of net income and changes in fair value of assets and liabilities recognised directly in equity, statement of changes in shareholders' equity, minority interests and statement of cash flows) and selected explanatory notes. The BNP Paribas Fortis Consolidated Interim Financial Statements should be read in conjunction with the audited BNP Paribas Fortis Consolidated Financial Statements 2015, which are available on <http://www.bnpparibasfortis.com>.

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

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

*BNP Paribas Fortis refers in the Consolidated Interim Financial Statements to the BNP Paribas Fortis SA/NV consolidated situation unless stated otherwise.*

*All information in the Financial Report of BNP Paribas Fortis SA/NV for the first half-year of 2016 relates to the BNP Paribas Fortis statutory consolidated financial statements and does not cover the contribution of BNP Paribas Fortis to the BNP Paribas Group consolidated results, which can be found on the BNP Paribas website: [www.bnpparibas.com](http://www.bnpparibas.com).*

*The Financial Report of BNP Paribas Fortis SA/NV for the first half-year of 2016 is available on the website: [www.bnpparibasfortis.com](http://www.bnpparibasfortis.com)*

## Report of the Board of Directors

This section provides a summary of the evolutions in the first half-year of 2016 and elaborates on the following key developments:

- Economic context
- Results of the first half-year of 2016 and the balance sheet as at 30 June 2016
- Status of liquidity and solvency
- Principal risks and uncertainties

## Economic context

Growth in the euro zone remains largely stable, following the further support measures announced by the European Central Bank (ECB) earlier this year. The general situation is that the euro-bloc countries are mainly counting on rising domestic spending to compensate to some extent for falling foreign demand.

The ECB's low interest rate policy is making it easier for governments to reduce national budget deficits by creating some extra fiscal room for manoeuvre. The recovery is not yet complete, in spite of the positive growth figures posted in successive quarters, and inflation in the euro zone remains low.

Belgium's public debt, at over 106% of Gross Domestic Product, remains high and a balanced budget in structural terms by 2018 will be no easy task. The budget deficit is expected to be higher than the 2.5% recorded in 2015, in spite of a drop in interest charges.

The Belgian economy is currently holding up well. In contrast to other European countries, international trade remains a strong motor. The wage restraint policy, aided by the temporary decoupling of wages from the Consumer Price Index, has helped to a great extent to close the wage gap with neighbouring countries, leading to an improvement in international competitiveness. Consequently, Belgian exporting firms have succeeded in claiming a larger share of a nevertheless slower growing market.

The reduction in employment tax is once again helping to boost job creation. The Economic Planning Office is forecasting that 230,000 extra jobs will be created during the 2016-2021 period. The unemployment rate has fallen again, to 8%, a significantly lower level than the European average and meanwhile the increasing proportion of new hirings in the private sector is a welcome development.

As regards inflation, Belgium is one of Europe's front runners. The combination of a number of new tax regulations and price rises in inter alia the telecoms and education sectors are driving core inflation upwards.

## Comments on the evolution of the results

BNP Paribas Fortis realised a net income attributable to equity holders of EUR 1,019 million in the first half of 2016 compared to EUR 811 million in the first half of 2015.

BNP Paribas Fortis delivered a good operating performance during the first half of 2016, mainly supported by a resilient business activity and despite a persistently low interest rate environment.

Operating income amounted to EUR 1,158 million, almost stable compared to last year, with a slight increase of 2 million compared to 2015. Lower net interest income and lower net commission income impacted the commercial revenues in the persistently low interest rate environment. Financial revenues were mainly driven by capital gains realised on the sale of fixed-income securities in 2016. Total expenses were positively impacted by overall strict cost control in most geographies, despite higher investments in selected areas of growth. The cost of risk was slightly higher than in 2015 but remained at a relatively low level.

Comparison between the 2016 and 2015 results is impacted by the change in consolidation method with regard to BNP Paribas Bank Polska. On 30 April 2015, BNP Paribas Bank Polska (that was fully consolidated by BNP Paribas Fortis) merged with Bank BGŻ. Following the merger, BNP Paribas Fortis holds a participation of 28.35% in the merged bank, operating under the name Bank BGŻ BNP Paribas S.A. and consolidated by equity method as from 1st May 2015.

The comparison of both periods is also significantly impacted by the foreign exchange variations, and more particularly by the negative evolution of the average rate of the Turkish lira against euro (from 2.95 in 2015 to 3.27 in 2016).

From a geographical point of view, based on the segment reporting of the BNP Paribas Fortis entities, 58% of the revenues were generated in Belgium, 9% in Luxembourg and 33% in other countries.

**Net interest income** reached EUR 2,669 million in the first half of 2016, a decrease of EUR (95) million or (3%) compared to the same period in 2015. Excluding the impact of the change in consolidation method in Poland in 2015 (EUR (43) million) and the FX effect in Turkey (EUR (68) million), net interest income increased with EUR 16 million, mainly driven by higher net interest income in Turkey, Leasing and Personal Finance, partly compensated by a lower net interest income in Belgium and in Luxembourg. The lower result in Belgium was mainly attributable to a high level of prepayment fees in 2015 (in relation with the credit refinancings) and to lower interest income on loans due to a lower average margin despite an increase in volumes (mainly on mortgage loans and term loans). The lower net interest income in Luxembourg resulted from lower interest income on loans (due to a lower margin effect). Interest revenues in Turkey, at Leasing and Personal Finance benefited from strong production growth.

**Net commission income** amounted to EUR 747 million in the first half of 2016, a decline by EUR (113) million or (13%) compared to the same period in 2015, of which the impact of the change of consolidation method in Poland in the course of 2015 was EUR (11) million and the foreign currency effect related to the variation of the Turkish lira was EUR (22) million. The remaining decrease was mainly located in Belgium, in Luxembourg and in Turkey. Commission income in Belgium was negatively impacted by the lower number of transactions on securities and derivatives in 2016, compared to a very productive first half 2015. The lower commission income in Luxembourg and in Turkey mainly arose respectively from lower commissions on stock exchange orders and lower payment services business.

**Net results on financial instruments at fair value through profit or loss** stood at EUR 32 million, down by EUR (53) million compared to the first half of 2015. Apart from the impact of the evolution of the Turkish lira, the decrease amounted to EUR (40) million. This decrease was mainly due to the negative impact of the remeasurement of valuation reserves in Belgium (FVA, DVA and CVA) as a result of the decrease in interest rates, partly offset by the positive change in fair value revaluation of own debt as credit spread has widened. Additionally, more fixed-income securities classified as available-for-sale financial assets were sold in the first half of 2016 compared with the same period last year, as these securities were considered as hedged items in the fair value hedges, the related derivatives designated as hedging instruments were terminated giving rise to a negative impact. All this was partly compensated by the positive impact of the mark-to-market revaluation of derivatives in Turkey compared to the same period last year.

**Net results on available-for-sale financial assets** amounted to EUR 172 million for the first six months of 2016, an increase of EUR 141 million compared to 2015. This rise was mainly located in Belgium, where more capital gains were realised on the sale of fixed-income securities in 2016.

**Net income from other activities** totalled EUR 11 million in the first half of 2016 compared to EUR (11) million in the same period of 2015. The increase was mainly due to the negative impact of an exceptional item in Belgium in 2015.

**Salary and employee benefit expenses** amounted to EUR (1,176) million in the first half of 2016, i.e. a decline of EUR 61 million or (5%) compared to the first half of 2015, or EUR 5 million excluding the impact of the change in consolidation method in Poland (EUR 34 million) and the FX effect in Turkey (EUR 22 million). Staff expenses were lower mainly in Belgium (fewer FTEs and lower social security charges), partly compensated by higher staff expenses in Turkey and in Leasing, in line with the effect of business developments in these entities.

**Other operating expenses** amounted to EUR (973) million in the first half of 2016, EUR 45 million or (4%) lower than in the same period of 2015, or at almost the same level exclusive of the impact of the change in consolidation method in Poland (EUR 33 million) and the FX effect in Turkey (EUR 17 million). The cost evolution in Belgium was positively impacted by lower marketing expenses, service support costs and professional fees, despite a continuously high level of banking taxes (EUR (269) million in 2016 compared to EUR (268) million in 2015). Cost increase in Turkey was mainly due to the continued development of activity in line with the growth ambitions in that country.

**Depreciation charges** stood at EUR (109) million in the first half of 2016, at the same level compared to the first half of 2015.

**Cost of risk** totalled EUR (215) million in the first half of 2016, compared to EUR (209) million in the same period in 2015. Excluding the impact of the change in consolidation method in Poland (EUR 15 million) and the impact of the FX variation in Turkey (EUR 10 million), cost of risk was lower in Belgium (impacted by some releases of collective provisions), more than compensated by higher cost of risk in Turkey (in line with the increased activity and due to a deterioration of market conditions in the country) and in the (CIB) branch of Spain (driven by net releases of collective provisions that occurred during the same period in 2015).

**Share of earnings of equity-method entities** amounted to EUR 139 million in the first half of 2016, compared to EUR 91 million in the first half of 2015, up EUR 48 million. The share of earnings in Leasing associates increased by EUR 15 million, mainly in relation with our Indian joint-venture SREI that has been sold in 2016 and that encountered difficult economic conditions in 2015 (mainly impacting the cost of risk and the revenues). The contributions of BNP Paribas Investment Partners, higher by EUR 17 million, and of AG insurance, also up by EUR 17 million, were mainly impacted, in both cases, by positive exceptional items.

**Net gain on non-current assets** came in at EUR (70) million in the first half of 2016 versus EUR 134 million in the first half of 2015. The result in 2016 was mainly driven by the anticipated loss related to the transfer of the activities of BNP Paribas Fortis' European (CIB) branches (excluding the branch of Madrid and New York) for EUR (43) million, the realised loss on the sale of the Leasing joint-venture in India for EUR (18) million and the realised loss on the sale of entity SADE (Société Alsacienne d'Expansion et de Développement) for EUR (12) million.

**Corporate income tax** in the first half of 2016 totalled EUR 17 million, compared to an amount of EUR (341) million for the same period in 2015. The corporate income tax in 2016 was impacted by the activation of losses carried forward on foreign branches. Excluding this technical exceptional element and the share of earnings of equity-method entities (reported net of income taxes), the effective tax rate stood at 31%, compared to 26% for the first half of 2015.

**Net income attributable to minority interests** amounted to EUR 225 million in the first half of 2016, stable compared to the amount of EUR 229 million recorded in the first half of 2015, mainly driven by the impact of the sale of SREI in Leasing, and by lower results in Luxembourg partly impacted by the sale of SADE.

**Net income attributable to equity holders** totalled EUR 1,019 million in the first half of 2016, compared to EUR 811 million in the first half of 2015.

## Comments on the evolution of the balance sheet

The total balance sheet of BNP Paribas Fortis amounted to EUR 296.2 billion as at 30 June 2016, up by EUR 22.5 billion or 8% compared with EUR 273.7 billion at the end of 2015.

The major scope change during the first half of 2016 was related to the transfer of the assets and liabilities of BNP Paribas Fortis' branches in Norway, Sweden, Denmark, Finland, Austria, Czech Republic, Romania and the Netherlands to BNP Paribas. The legal transfer of the assets and liabilities will be completed in 2017.

These branches of BNP Paribas Fortis qualified as a disposal group as defined in IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. In accordance with IFRS 5, as at 30 June 2016, the assets and liabilities of the disposal group were reclassified and presented in the separate line items - 'Assets classified as held for sale' (EUR 14.7 billion) and 'Liabilities classified as held for sale' (EUR 17.9 billion) respectively in BNP Paribas Fortis' consolidated balance sheet. Comparative figures of 31 December 2015 were not adjusted. The reclassification did not change the total amount of BNP Paribas Fortis' consolidated balance sheet although it impacted the variances in some of the balance sheet captions. (i.e. mainly 'Cash and amounts due from central banks', 'L&R due from customers' and 'Due to customers', mainly related to the branch in the Netherlands)

Excluding the IFRS 5 impact, during the first half year of 2016, both customer loans and deposits showed continuous growth. Higher customer loans of EUR 3.7 billion consisted of mainly mortgage loans and term loans (in Belgium and Turkey), consumer loans (Alpha credit and Von Essen in Germany) and finance lease loans in leasing entities in Belgium and Italy. Customer deposits, were up by EUR 6.1 billion which was the result of significant inflow of liquidity deposited in the current and term accounts, mainly in Belgium and Luxemburg as well as deposits in non-regulated saving accounts in Belgium and Turkey.

As at 30 June 2016, in Belgium, the excess liquidity arising from customer deposits was invested in the reverse repurchase market rather than being placed as overnight deposit at the Central Bank of Belgium. Consequently, the volume of reverse repurchase activities as well as repurchase activities were significantly higher compared with the year-end 2015 while overnight deposit at the NBB decreased in Belgium.

In terms of funding, both short-term deposits from central banks and interbank borrowings (from central banks or BNP Paribas group entities) dropped, however counterbalanced by the increase of commercial paper issuance in the US market by the New York Branch, which placed part of its fund in US Dollar at the Federal Reserve as at 30 June 2016. Subordinated debt reduced following the call on a Tier 2 instrument previously issued by BNP Paribas Fortis.

Since beginning of this year, the extreme low interest rate environment persisted and the interest rate has been decreasing during the first half of 2016, which prompted the rise in the fair value of the derivative instruments on both assets and liabilities sides, along with the level of collateral relating to the margin calls on these derivative instruments.

On a geographical breakdown, based on the location of the various BNP Paribas Fortis companies, 67% of the assets are located in Belgium, 8% in Luxembourg and 25% in other countries.

## ■ Assets

**Cash and amounts due from central banks** amounted to EUR 10.0 billion, down by EUR (6.5) billion or (39)% compared to the end of 2015. Excluding the IFRS 5 impact of EUR (3.5) billion, the remaining variance of EUR (3.0) billion was mainly linked to lower amount of overnight deposit at the Central bank of Belgium (EUR (6.1) billion) as the excess liquidity was placed in reverse repurchase market rather than at the central bank. The decrease was in part offset by higher overnight deposit (EUR 1.3 billion) placed by BNP Paribas BGL and the branch in New York (EUR 1.4 billion). Monetary reserves at the central banks increased by EUR 0.2 billion, mainly in Turkey.

**Financial assets at fair value through profit or loss** increased by EUR 3.1 billion or 24%, standing at EUR 16.1 billion compared with EUR 13.0 billion at the end of 2015. This evolution is mainly attributable to, on the one hand, higher trading on reverse repurchase activities of EUR 1.8 billion, and

on the other hand, a rise in the fair value (EUR 1.1 billion) of the derivative instruments (mainly interest rate derivatives), which was primarily driven by the continuous decline in the interest rate during the first six months of 2016. Net trading activities on the securities portfolio was EUR 0.3 billion higher compared to end of 2015.

**Available-for-sale financial assets** stood at EUR 32.1 billion, EUR (0.6) billion or (2)% lower than EUR 32.7 billion as at 31 December 2015. The net investments in government bonds dropped by EUR (0.6) billion or (2)% due to sale and reimbursements, linked to less net investments in government bonds issued by Belgium (EUR (0.6) billion), France (EUR (0.2) billion) and Germany (EUR (0.1) billion), only slightly offset by higher level of investments in Turkish (EUR 0.1 billion) and Austrian (EUR 0.2 billion) government bonds. Net investments in other bonds remained stable, however it was a combination of various acquisitions and reimbursements of the positions, mainly in bonds issued by the German, Belgian, Dutch administrations as well as some financial institutions in the Eurozone.

**Loans and receivables due from credit institutions** amounted to EUR 29.4 billion as at 30 June 2016, increased considerably by EUR 16.3 billion or 124% compared with EUR 13.1 billion at the year-end 2015. This increase was largely explained by the significant rise in the reverse repurchase activities (EUR 13.8 billion) in Belgium. In addition, both interbank loans and deposits went up by EUR 2.0 billion and EUR 0.5 billion respectively, mainly with BNP Paribas group entities.

**Loans and receivables due from customers** amounted to EUR 168.6 billion, down by EUR (8.0) billion or (5)% from EUR 176.6 billion. Excluding IFRS 5 impact of EUR (9.2) billion, the increase of EUR 1.2 billion was mainly driven by the increase in loans to customers of EUR 3.7 billion, counterbalanced by lower activities in the reverse repurchase transactions of EUR (2.5) billion in Belgium.

Increase in Term loans (EUR 2.4 billion), primarily in Belgium (EUR 1.5 billion) and Turkey (EUR 0.7 billion) was the main factor behind the growth in loans to customers. Furthermore, mortgage loans, mainly in Belgium, grew by EUR 0.6 billion and consumer loans increased by EUR 0.6 billion thanks to the strong contribution from Von Essen in Germany and Alpha credit in Belgium. Finance lease loans, up by EUR 0.6 billion, was the result of good performance in leasing entities, mainly in Belgium and Italy. Securities classified as loans and receivables declined by EUR (0.4) billion, due to reimbursements in the structured credit portfolios which have been in run-down mode since several years.

**Accrued income and other assets** went up by EUR 2.3 billion or 27%, standing at EUR 10.8 billion at the end of June 2016, largely due to higher cash collateral (EUR 1.1 billion) on the margin call accounts mainly in relation to the derivative transactions with BNP Paribas. The continuous decline in interest rates was the main driver of the margin call increase. Other assets increased by EUR 1.0 billion, mostly linked to the difference between trade and settlement date at the quarter end.

**Current and deferred tax assets** amounted to EUR 2.7 billion, up by EUR 0.2 billion compared with EUR 2.5 billion at the end of 2015, mainly linked to the activation of losses carried forward on foreign branches.

**Equity-method investments** amounted to EUR 4.3 billion at the end of June 2016, down by EUR (0.1) billion or (2)% compared with the end of previous period, mainly attributable to the disposal of SREI in the second quarter of 2016.

**Assets classified as held for sale** stood at EUR 14.7 billion as at 30 June 2016, as the assets and liabilities of BNP Paribas Fortis' eight branches were reclassified and presented in the separate lines - 'Assets classified as held for sale' and 'Liabilities classified as held for sale' in accordance with IFRS 5.

## ■ Liabilities and equity

**Cash due to central banks** went down by EUR (1.1) billion or (92)%, compared with the end of previous year, as on 30 June 2016, some central banks no longer placed their deposits at BNP Paribas Fortis.

**Financial liabilities at fair value through profit or loss** increased by EUR 4.4 billion or 26%, totalling EUR 21.5 billion at the end of June 2016 compared with EUR 17.1 billion at the end of 2015. Similar to the trend observed on the asset side, trading in repurchase transactions on the liability side increased by EUR 3.9 billion while the securities portfolios were down by EUR (0.4) billion. The fair value of derivative instruments increased by EUR 1.4 billion, driven by the drop in interest rates during the first half year of 2016. In addition, liabilities held at fair value decreased by EUR (0.5) billion in part due to reimbursements and buy back of Cashes.

**Due to credit institutions** stood at EUR 24.1 billion as at 30 June 2016, EUR 1.5 billion or 7% higher compared with the EUR 22.6 billion at the end of 2015. This increase is for the most part explained by higher (EUR 2.1 billion) reverse repurchase activities in Belgium, offset by less interbank borrowings of EUR (1.0) billion with some central banks and BNP Paribas group entities. Demand deposits went up by EUR 0.4 billion.

**Due to customers** declined by EUR (4.6) billion or (3)% to stand at EUR 171.6 billion as at 30 June 2016, compared with EUR 176.2 billion at the end of 2015. Excluding IFRS 5 impact of EUR (16.1) billion, due to customers grew substantially by EUR 11.6 billion, due in part to higher volume of repurchase agreement transactions (EUR 5.5 billion) in Belgium and, most importantly, strong growth momentum in customer deposits of EUR 6.1 billion. Current deposits as well as term deposits in Belgium and Luxembourg contributed to an increase of EUR 5.5 billion, offset by EUR (0.9) billion as a result of maturing saving certificates.

Even though the volume in regulated saving deposits remained nearly flat compared with year-end 2015, non-regulated saving accounts grew by EUR 1.6 billion in Belgium (EUR 1.0 billion) and Turkey (EUR 0.6 billion). The overall trend of liquidity being placed in the current accounts rather than in the regulated savings accounts is mainly driven by the low interest rate environment.

**Debt securities** increased by EUR 3.3 billion or 30%, standing at EUR 14.4 billion as at 30 June 2016 compared with EUR 11.1 billion as at 31 December 2015. The increase was to a large extent linked to more commercial papers (EUR 3.9 billion) being issued in the US market by the branch in New York. In Belgium, the debt securities declined slightly by EUR (0.5) billion, as a result of more positions reaching maturity (EUR (2.3) billion) compared to new issuances (EUR 1.8 billion).

**Accrued expenses and other liabilities** decreased by EUR (0.6) billion or (9)%, amounting to EUR 6.0 billion as at 30 June 2016 compared with EUR 6.6 billion at the end of 2015, mainly due to lower balances on the margin call accounts (cash collateral on derivatives).

**Provisions for contingencies and charges** came in at EUR 4.1 billion, up by EUR 0.2 billion compared with the EUR 3.9 billion at the end of 2015, due mostly to higher provisions for long-term employee benefits as a consequence of the decrease in the discount rate.

**Subordinated debt** amounted to EUR 4.3 billion, down by EUR (0.8) billion or (16)% compared with EUR 5.1 billion at the end of 2015, mainly linked to the call of a Tier 2 instrument previously issued by BNP Paribas Fortis.

**Liabilities classified as held for sale** totalled EUR 17.8 billion as at 30 June 2016, as the assets and liabilities of BNP Paribas Fortis' eight branches were reclassified and presented in the separate lines - 'Assets classified as held for sale' and 'Liabilities classified as held for sale' in accordance with IFRS 5.

**Shareholders' equity** amounted to EUR 19.6 billion as at 30 June 2016, up by EUR 0.8 billion compared with EUR 18.8 billion at the end of 2015. Net income attributable to shareholders for the first half year 2016 contributed EUR 1.0 billion, offset marginally by the unrealised gains/losses on employee benefits of EUR (0.1) billion as a result of the downward review of the discount rate.

**Minority interests** remained unchanged at EUR 5.3 billion as at 30 June 2016 compared with previous year. Net income for the first half year 2016 attributable to minority interests amounted to EUR 0.2 billion offsetting the dividend payment (EUR 0.2 billion) to the minority shareholders.

## Liquidity and solvency

BNP Paribas Fortis' liquidity remained sound, with customer deposits standing at EUR 163 billion and customer loans at EUR 165 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 30 June 2016, BNP Paribas Fortis' phased-in Basel III Common Equity Tier 1 ratio (CET1 ratio, taking into account the CRD4 rules with application of the current transitional provisions) stood at 13.4 %. Total risk-weighted assets amounted to EUR 131.9 billion at 30 June 2016, of which EUR 110.0 billion are related to credit risk, EUR 2.3 billion to market risk and EUR 8.9 billion to operational risk, while counterparty risk, securitisation and equity risk worked out at EUR 2.5 billion, EUR 2.0 billion and EUR 6.2 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 2015.

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 5.a 'Contingent assets and liabilities' to the BNP Paribas Fortis Consolidated Interim Financial Statements 2016.

Events after the reporting period are further described in Note 5.i 'Events after the reporting period' for the BNP Paribas Fortis Interim Financial Statements for the first half year of 2016.

## Statement of the Board of Directors

In accordance with article 13 of the Royal Decree of 14 November 2007, we confirm that, to the best of our knowledge, as at 30 June 2016:

- (a) the condensed set of financial statements, prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position of BNP Paribas Fortis and the undertakings included in the consolidation as of 30 June 2016 and of the result and cash-flows of the period then ended.
- (b) the interim management report includes a fair review of the development, results and position of BNP Paribas Fortis and the undertakings included in the consolidation, together with a description of the principal risks and uncertainties with which they are confronted
- (c) The Board of Directors reviewed the BNP Paribas Fortis consolidated interim financial statements on 26 August 2016 and authorised their issue.

Brussels, 26 August 2016  
The Board of Directors of BNP Paribas Fortis SA/NV

## Composition of the board of directors

On 30 June 2016, the composition of the board of directors is as follows:

DAEMS Herman	Chairman of the board of directors; non-executive director; member of the board of directors since 14 May 2009. Board member mandate confirmed and renewed on 21 April 2016; expires at the 2020 annual general meeting of shareholders.
JADOT Maxime	Executive director; chairman of the executive board since 1 March 2011; member of the board of directors by co-optation since 13 January 2011. Board member mandate confirmed and renewed on 21 April 2011 and on 23 April 2015; expires at the 2019 annual general meeting of shareholders.
DIERCKX Filip	Executive director; vice chairman of the executive board; member of the board of directors since 28 October 1998. Board member mandate renewed on 18 April 2013; expires at the 2017 annual general meeting of shareholders.
VANDEKERCKHOVE Peter	Executive director; member of the board of directors and the executive board since 21 April 2011. Board member mandate renewed on 23 April 2015; expires at the 2019 annual general meeting of shareholders.
BEAUVOIS Didier	Executive director; member of the board of directors (by co-optation) and the executive board since 12 June 2014. Board member mandate confirmed and renewed on 23 April 2015; expires at the 2019 annual general meeting of shareholders.
BOOGMANS Dirk	Independent non-executive director; member of the board of directors since 1 October 2009. Board member mandate confirmed and renewed on 21 April 2016; expires at the 2020 annual general meeting of shareholders.
d'ASPREMONT LYNDEN Antoinette	Independent non-executive director; member of the board of directors since 19 April 2012. Board member mandate confirmed and renewed on 21 April 2016; expires at the 2020 annual general meeting of shareholders.
DECRAENE Stefaan	Non-executive director; member of the board of directors since 18 April 2013. Board member mandate expires at the 2017 annual general meeting of shareholders.
DUTORDOIR Sophie	Independent non-executive director; member of the board of directors by co-optation since 30 November 2010. Board member mandate confirmed and renewed on 21 April 2011 and on 23 April 2015; expires at the 2019 annual general meeting of shareholders.
VARÈNE Thierry	Non-executive director; member of the board of directors since 14 May 2009. Board member mandate confirmed and renewed on 21 April 2016; expires at the 2020 annual general meeting of shareholders.

LABORDE Thierry	Non-executive director; member of the board of directors since 19 November 2015 by co-optation. Board mandate confirmed on 23 December 2015; expires at the 2019 annual general meeting of shareholders.
AUBERNON Dominique	Non-executive director; member of the board of directors since 21 April 2016; expires at the 2020 annual general meeting of shareholders.
MERLO Sofia	Non-executive director; member of the board of directors since 21 April 2016; expires at the 2020 annual general meeting of shareholders.
VAN AKEN Piet	Executive director; member of the board of directors since 3 June 2016 (by co-optation) and the executive board.

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

**College of accredited Statutory Auditors:**

- PwC Bedrijfsrevisoren bcvba / PwC Reviseurs d'Entreprises scrl, represented by Mr Damien WALGRAVE
- Deloitte Bedrijfsrevisoren / Reviseurs d'Entreprises SC sfd SCRL, represented by Mr Yves DEHOGNE and Mr Bernard DE MEULEMEESTER.

# BNP Paribas Fortis Consolidated Interim Financial Statements

Prepared in accordance with  
IAS 34 'Interim Financial  
Reporting' as adopted by the  
European Union

## Profit and loss account for the first half of 2016

In millions of euros	Notes	First half 2016	First half 2015
Interest income	2.a	4,134	4,769
Interest expense	2.a	(1,465)	(2,005)
Commission income	2.b	1,156	1,266
Commission expense	2.b	(409)	(406)
Net gain/loss on financial instruments at fair value through profit or loss	2.c	32	85
Net gain/loss on available-for-sale financial assets and other financial assets not measured at fair value	2.d	172	31
Income from other activities	2.e	172	191
Expense on other activities	2.e	(161)	(202)
<b>REVENUES</b>		<b>3,631</b>	<b>3,729</b>
Salary and employee benefit expenses		(1,176)	(1,237)
Other operating expense		(973)	(1,018)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		(109)	(109)
<b>GROSS OPERATING INCOME</b>		<b>1,373</b>	<b>1,365</b>
Cost of risk	2.f	(215)	(209)
<b>OPERATING INCOME</b>		<b>1,158</b>	<b>1,156</b>
Share of earnings of equity-method entities		139	91
Net gain on non-current assets		(70)	134
Goodwill	4.i	-	-
<b>PRE-TAX INCOME</b>		<b>1,227</b>	<b>1,381</b>
Corporate income tax	2.g	17	(341)
<b>NET INCOME BEFORE DISCONTINUED OPERATIONS</b>		<b>1,244</b>	<b>1,040</b>
Net result of discontinued operations		-	-
<b>NET INCOME</b>		<b>1,244</b>	<b>1,040</b>
Net income attributable to minority interests		225	229
<b>NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>1,019</b>	<b>811</b>

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

In millions of euros	First half 2016	First half of 2015
Net income for the period	1,244	1,040
Changes in assets and liabilities recognised directly in equity	(173)	56
<b>Items that are or may be reclassified to profit or loss</b>	<b>(15)</b>	<b>(48)</b>
Changes in exchange rate movements	(41)	(62)
of which deferred tax	(11)	8
Changes in fair value of available-for-sale financial assets, including those reclassified as loans and receivables	80	(38)
of which deferred tax	(34)	29
Changes in fair value of available-for-sale assets reported in net income, including those reclassified as loans and receivables	(21)	(10)
of which deferred tax	5	4
Changes in fair value of hedging instruments designated as cash flow hedges	(48)	14
of which deferred tax	15	4
Changes in fair value of hedging instruments designated as cash flow hedges reported in net income	1	1
of which deferred tax	-	-
Charges in equity-method investments	14	47
of which deferred tax	(30)	-
<b>Items that will not be reclassified to profit or loss</b>	<b>(158)</b>	<b>104</b>
Remeasurement gains (losses) related to post-employment benefit plans	(146)	98
of which deferred tax	61	(43)
Items related to equity-method investments	(12)	6
of which deferred tax	6	(3)
<b>TOTAL</b>	<b>1,071</b>	<b>1,096</b>
- Attributable to equity shareholders	877	847
- Attributable to minority interests	194	249

## Balance sheet at 30 June 2016

In millions of euros	Note	30 June 2016	31 December 2015
<b>ASSETS</b>			
Cash and amounts due from central banks		10,028	16,505
Financial instruments at fair value through profit or loss			
Trading securities	4.a	2,285	1,970
Loans and repurchase agreements	4.a	3,699	1,870
Instruments designated as at fair value through profit or loss	4.a	1,854	1,946
Derivative financial instruments	4.a	8,281	7,180
Derivatives used for hedging purposes		2,293	1,907
Available-for-sale financial assets	4.b	32,120	32,729
Loans and receivables due from credit institutions	4.d	29,363	13,064
Loans and receivables due from customers	4.e	168,634	176,640
Remeasurement adjustment on interest-rate risk hedged portfolios		2,008	1,218
Held-to-maturity financial assets		573	582
Current and deferred tax assets	4.g	2,730	2,527
Accrued income and other assets	4.h	10,836	8,495
Equity-method investments		4,293	4,396
Investment property		128	125
Property, plant and equipment		1,849	2,034
Intangible assets		211	186
Goodwill	4.i	307	309
Assets classified as held for sale	5.c	14,663	-
<b>TOTAL ASSETS</b>		<b>296,155</b>	<b>273,683</b>
<b>LIABILITIES</b>			
Due to central banks		89	1,175
Financial instruments at fair value through profit or loss			
Trading securities	4.a	2,635	3,044
Borrowings and repurchase agreements	4.a	7,529	3,584
Instruments designated as at fair value through profit or loss	4.a	4,885	5,355
Derivative financial instruments	4.a	6,476	5,095
Derivatives used for hedging purposes		5,336	4,120
Due to credit institutions	4.d	24,062	22,609
Due to customers	4.e	171,626	176,161
Debt securities	4.f	14,366	11,133
Remeasurement adjustment on interest-rate risk hedged portfolios		1,241	1,067
Current and deferred tax liabilities	4.g	705	691
Accrued expenses and other liabilities	4.h	5,975	6,561
Provisions for contingencies and charges	4.j	4,121	3,957
Subordinated debt	4.f	4,277	5,084
Liabilities classified as held for sale	5.c	17,895	-
<b>TOTAL LIABILITIES</b>		<b>271,218</b>	<b>249,636</b>
<b>CONSOLIDATED EQUITY</b>			
Share capital and additional paid-in capital		9,605	9,605
Retained earnings		8,219	6,787
Net income for the period attributable to shareholders		1,019	1,575
Total capital, retained earnings and net income for the period attributable to shareholders		18,843	17,967
Changes in assets and liabilities recognised directly in equity		788	787
Shareholders' equity		19,631	18,754
Retained earnings and net income for the period attributable to minority interests		5,175	5,146
Changes in assets and liabilities recognised directly in equity		131	147
Total minority interests		5,306	5,293
<b>TOTAL CONSOLIDATED EQUITY</b>		<b>24,937</b>	<b>24,047</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>296,155</b>	<b>273,683</b>

## Cash flow statement for the first half of 2016

In millions of euros	Note	First half 2016	First half 2015
Pre-tax income		1,227	1,381
Non-monetary items included in pre-tax net income and other adjustments		(583)	1,375
Net depreciation/amortisation expense on property, plant and equipment and intangible assets		143	143
Impairment of goodwill and other non-current assets		(6)	(7)
Net addition to provisions		132	180
Share of earnings of equity-method entities		(139)	(91)
Net expense (income) from investing activities		85	(98)
Net expense from financing activities		-	-
Other movements		(798)	1,248
<b>Decrease in cash related to assets and liabilities generated by operating activities</b>		<b>(2,010)</b>	<b>(3,453)</b>
Net increase (decrease) in cash related to transactions with credit institutions		(14,267)	826
Net increase (decrease) in cash related to transactions with customers		11,760	(3,954)
Net increase (decrease) in cash related to transactions involving other financial assets and liabilities		671	(267)
Decrease in cash related to transactions involving non-financial assets and liabilities		(23)	(7)
Taxes paid		(151)	(51)
<b>DECREASE IN CASH AND EQUIVALENTS GENERATED BY OPERATING ACTIVITIES</b>		<b>(1,366)</b>	<b>(697)</b>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS GENERATED BY DISCONTINUED OPERATING ACTIVITIES</b>	5.c	<b>1,297</b>	<b>(117)</b>
Increase in cash related to acquisitions and disposals of consolidated entities		85	113
Decrease related to property, plant and equipment and intangible assets		(131)	(120)
<b>DECREASE IN CASH AND EQUIVALENTS RELATED TO CONTINUING INVESTING ACTIVITIES</b>		<b>(46)</b>	<b>(7)</b>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS RELATED TO DISCONTINUED INVESTING ACTIVITIES</b>		<b>-</b>	<b>(232)</b>
Net increase (decrease) in cash and equivalents related to transactions with shareholders		505	(1,297)
Decrease in cash and equivalents generated by other financing activities		(867)	(1,505)
<b>DECREASE IN CASH AND EQUIVALENTS RELATED TO FINANCING ACTIVITIES</b>		<b>(362)</b>	<b>(2,802)</b>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS RELATED TO DISCONTINUED FINANCING ACTIVITIES</b>	5.c	<b>(104)</b>	<b>-</b>
<b>EFFECT OF MOVEMENT IN EXCHANGE RATES ON CASH AND EQUIVALENTS</b>		<b>10</b>	<b>(16)</b>
<b>EFFECT OF MOVEMENT IN EXCHANGE RATES ON CASH AND EQUIVALENTS OF DISCONTINUED ACTIVITIES</b>		<b>(1)</b>	<b>2</b>
<b>Additional information:</b>			
Interest paid		(1,662)	(2,247)
Interest received		4,089	4,707
Dividend paid/received		332	(1,267)
<b>Balance of cash and equivalent accounts at the start of the period</b>		<b>12,820</b>	<b>11,519</b>
Cash and amounts due from central banks		13,013	10,758
Due to central banks		(1,174)	(337)
On-demand deposits with credit institutions	4.d	(833)	(1,156)
On-demand loans from credit institutions	4.d	1,814	2,254
Deduction of receivables and accrued interest on cash and equivalents			
<b>Balance of cash and equivalent accounts at the end of the period</b>		<b>11,109</b>	<b>7,997</b>
Cash and amounts due from central banks		10,024	8,191
Due to central banks		(89)	(2,519)
On-demand deposits with credit institutions	4.d	(1,282)	(1,306)
On-demand loans from credit institutions	4.d	2,456	3,631
Deduction of receivables and accrued interest on cash and equivalents			
<b>DECREASE IN CASH AND EQUIVALENTS OF CONTINUING ACTIVITIES</b>		<b>(1,711)</b>	<b>(3,522)</b>
Balance of cash and equivalent accounts of discontinued activities at the start of the period		3,557	347
Balance of cash and equivalent accounts of discontinued activities at the end of the period		4,697	-
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS OF DISCONTINUED ACTIVITIES</b>	5.c	<b>1,140</b>	<b>(347)</b>

## Statement of changes in shareholders' equity between 1 January 2015 and 30 June 2016

In millions of euros	Capital and retained earnings			Changes in assets and liabilities recognised directly in equity				Total Shareholders' equity
	Share capital	Non-distributed reserves	Total	Exchange rates	Financial assets available for sale and reclassified as loans and receivables	Derivatives used for hedging purposes	Total	
Capital and retained earnings at 31 December 2014	9,605	9,764	19,369	(455)	1,152	189	886	20,255
Other movements	-	14	14	-	-	-	-	14
Dividends	-	(1,247)	(1,247)	-	-	-	-	(1,247)
Changes in assets and liabilities recognised directly in equity	-	95	95	(69)	10	-	(59)	36
<b>Net income for the first half of 2015</b>	-	<b>811</b>	<b>811</b>	-	-	-	-	<b>811</b>
Capital and retained earnings at 30 June 2015	9,605	9,437	19,042	(524)	1,162	189	827	19,869
Other movements	-	3	3	-	-	-	-	3
Dividends	-	(2,005)	(2,005)	-	-	-	-	(2,005)
Changes in assets and liabilities recognised directly in equity	-	163	163	(126)	92	(6)	(40)	123
<b>Net income for the second half of 2015</b>	-	<b>764</b>	<b>764</b>	-	-	-	-	<b>764</b>
Capital and retained earnings at 31 December 2015	9,605	8,362	17,967	(650)	1,254	183	787	18,754
Other movements	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Changes in assets and liabilities recognised directly in equity	-	(143)	(143)	(20)	57	(36)	1	(142)
<b>Net income for the first half of 2016</b>	-	<b>1,019</b>	<b>1,019</b>	-	-	-	-	<b>1,019</b>
Capital and retained earnings at 30 June 2016	9,605	9,238	18,843	(670)	1,311	147	788	19,631

## Minority interests between 1 January 2015 and 30 June 2016

In millions of euros	Capital and retained earnings	Exchange rates, Financial assets available for sale and reclassified as loans and receivables, Derivatives used for hedging purposes	Total minority interests
Capital and retained earnings at 31 December 2014	4,966	174	5,140
Other movements	(142)	-	(142)
Dividends	(131)	-	(131)
Changes in assets and liabilities recognised directly in equity	9	11	20
<b>Net income for the first half of 2015</b>	<b>229</b>	<b>-</b>	<b>229</b>
Capital and retained earnings at 30 June 2015	4,931	185	5,116
Other movements	(2)	-	(2)
Dividends	-	-	-
Changes in assets and liabilities recognised directly in equity	5	(38)	(33)
<b>Net income for the second half of 2015</b>	<b>212</b>	<b>-</b>	<b>212</b>
Capital and retained earnings at 31 December 2015	5,146	147	5,293
Other movements	(181)	-	(181)
Dividends	-	-	-
Changes in assets and liabilities recognised directly in equity	(15)	(16)	(31)
<b>Net income for the first half of 2016</b>	<b>225</b>	<b>-</b>	<b>225</b>
Capital and retained earnings at 30 June 2016	5,175	131	5,306

# Notes to the Consolidated Interim Financial Statements

Prepared in accordance with  
IAS 34 'Interim Financial  
Reporting' 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<sup>1</sup>. Accordingly, certain provisions of IAS 39 on hedge accounting have been excluded, and certain recent texts have not yet undergone the approval process.

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

The introduction of the other standards which are mandatory as of 1 January 2016 has no effect on the condensed consolidated interim financial statements at 30 June 2016.

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

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

##### **IFRS 9 “Financial Instruments”**

IFRS 9 “Financial Instruments”, issued by the IASB in July 2014, will replace IAS 39 Financial Instruments: Recognition and Measurement, related to the classification and measurement of financial instruments. It sets out the new principles for the classification and measurement of financial instruments, for impairment for credit risk on financial assets and for general hedge accounting (i.e. micro hedging).

IFRS 9 is mandatory for annual periods beginning on or after 1 January 2018 after its adoption by the European Union for application in Europe.

##### *Classification and measurement*

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

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

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

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<sup>(1)</sup> The full set of standards adopted for use in the European Union can be found on the website of the European Commission at: [http://ec.europa.eu/internal\\_market/accounting/ias\\_en.htm#adopted-commission](http://ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission).

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

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

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

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

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

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

### *Impairment*

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

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

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

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

Expected credit losses at maturity (that result from the risk of default over the life of the financial instrument) must be recognised if the credit risk has increased significantly since initial recognition. Financial assets for which a 12-month expected credit loss will be recognised, will be included in "Stage 1". Interest income will be measured according to the effective interest method using the financial asset's gross value (before impairment).

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

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

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

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

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

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

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

#### *Hedge accounting*

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

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

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

#### *Transition*

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

IFRS 9 allows early application of the requirements for the presentation of gains and losses attributable to changes in the credit risk of the financial liabilities designated as at fair value through profit or loss (fair value option). However, early application will be possible only after the endorsement of IFRS 9 by the European Union.

#### *Implementation of IFRS 9 within BNP Paribas Fortis*

The implementation of IFRS 9 within BNP Paribas Fortis relies on a set of projects corresponding to each of the different phases of the standard. A Steering Committee bringing together the heads of the

Risk and Finance function has been set up, as well as operational committees dedicated to the various issues associated with the implementation of the new standard.

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

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

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

The work conducted from 2015 to this day has essentially focused on defining with BNP Paribas Group a common methodology for the new impairment model (see above). The model is currently being adapted to operational requirements and refined.

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

IFRS 15 Revenue from Contracts with Customers, issued in May 2014, will supersede a number of standards and interpretations on revenue recognition (in particular IAS 18 Revenue and IAS 11 Construction Contracts). This standard does not apply to revenues from lease contracts, insurance contracts or financial instruments. It is based on a five-step model framework to determine the timing and amount of recognition of revenue from ordinary activities. IFRS 15 is mandatory for annual periods beginning on or after 1 January 2018 and must first be endorsed by the European Union for application in Europe.

BNP Paribas Fortis is in the process of analysing the standard and its potential impacts, which are not expected to be material.

The implementation of IFRS 15 within BNP Paribas Fortis is based on a project structure managed by the Finance Department. The analysis of the standard and its potential impacts are set to continue until 2017. The required IT developments and adaptations are set to take place in 2016 and 2017.

### **IFRS 16 Leases**

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

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

For the lessee, IFRS 16 will require recognition in the balance sheet of all leases, in the form of a right-of-use on the leased asset presented under fixed assets, along with the recognition of a financial liability for the rent and other payments to be made over the leasing period. The right-of-use assets will be amortised on a straight-line basis and the financial liabilities will be amortised on an actuarial basis over the lease period. Under IAS 17, operating leases require no recognition in the balance sheet.

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

## **1.b SEGMENT REPORTING**

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

- Belgium
- Luxembourg
- Other

Operating segments are components of BNP Paribas Fortis:

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

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

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

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

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

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

## **1.c CONSOLIDATION**

### **1.c.1 SCOPE OF CONSOLIDATION**

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

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

### **1.c.2 CONSOLIDATION METHODS**

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

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

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

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

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

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

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

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

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

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

Whenever there is an indication of impairment, the carrying amount of the investment consolidated under the equity method (including goodwill) is subjected to an impairment test, by comparing its

recoverable value (the higher of value-in-use and market value less costs to sell) to its carrying amount. Where appropriate, impairment is recognised under "Share of earnings of equity-method entities" in the consolidated income statement and can be reversed at a later date.

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

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

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

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

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

### **1.c.3 CONSOLIDATION PROCEDURES**

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

- **Elimination of intragroup balances and transactions**

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

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

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

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

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

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

cumulative translation differences attributable to shareholders and to minority interests in the opening balance sheet at 1 January 2004 to retained earnings.

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

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

#### **1.c.4 BUSINESS COMBINATIONS AND MEASUREMENT OF GOODWILL**

##### **• Business combinations**

Business combinations are accounted for using the purchase method.

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

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

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

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

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

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

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

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

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

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

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

- **Measurement of goodwill**

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

- Cash-generating units

BNP Paribas Fortis has split all its activities into cash-generating units<sup>2</sup>, representing the major business lines. This split is consistent with the organisational structure and management methods of BNP Paribas Fortis, and reflects the independence of each unit in terms of results and management approach. It is reviewed on a regular basis in order to take account of events likely to affect the composition of cash-generating units, such as acquisitions, disposals and major reorganisations.

- Testing cash-generating units for impairment

Goodwill allocated to cash-generating units is tested for impairment annually and whenever there is an indication that a unit may be impaired, by comparing the carrying amount of the unit with its recoverable amount. If the recoverable amount is less than the carrying amount, an irreversible impairment loss is recognised, and the goodwill is written down by the excess of the carrying amount of the unit over its recoverable amount.

- Recoverable amount of a cash-generating unit

The recoverable amount of a cash-generating unit is the higher of the fair value of the unit less costs to sell, and its value in use.

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

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

### **Transactions under common control**

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

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<sup>2</sup> As defined by IAS 36

entities) is recognised. Any difference between the consideration paid/transferred and the share in the net assets measured at the predecessor carrying amount is presented as an adjustment in equity. This predecessor basis of accounting for the business combinations under common control is applied prospectively from the date of the acquisition.

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

## **1.d FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

### **1.d.1 LOANS AND RECEIVABLES**

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

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

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

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

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

### **1.d.2 SECURITIES**

#### **- Categories of securities**

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

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

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

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

Securities in this category are measured at fair value at the balance sheet date. Transaction costs are directly posted in the profit and loss account. Changes in fair value (excluding accrued interest on

fixed-income securities) are presented in the profit and loss account under “Net gain/loss on financial instruments at fair value through profit or loss”, along with dividends from variable-income securities and realised gains and losses on disposal.

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

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

#### - **Loans and receivables**

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

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

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

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

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

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

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

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

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

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

Securities temporarily acquired under reverse repurchase agreements are not recognised in BNP Paribas Fortis’ balance sheet. The corresponding receivable is recognised under “Loans and receivables”.

except in the case of reverse repurchase agreements contracted for trading purposes, where the corresponding receivable is recognised under “Financial assets at fair value through profit or loss”.

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

#### - **Date of recognition for securities transactions**

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

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

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

### **1.d.3 FOREIGN CURRENCY TRANSACTIONS**

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

#### - **Monetary assets and liabilities<sup>3</sup> expressed in foreign currencies**

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

#### - **Non-monetary assets and liabilities expressed in foreign currencies**

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

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

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<sup>(3)</sup> Monetary assets and liabilities are assets and liabilities to be received or paid in fixed or determinable amounts of cash.

#### **1.d.4 IMPAIRMENT AND RESTRUCTURING OF FINANCIAL ASSETS**

- **Doubtful assets**

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

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

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

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

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

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

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

Counterparties that are not individually impaired are risk-assessed on a portfolio basis with similar characteristics. This assessment draws upon an internal rating system based on historical data, adjusted as necessary to reflect circumstances prevailing at the balance sheet date. It enables BNP Paribas Fortis to identify groups of counterparties which, as a result of events occurring since inception of the loans, have collectively acquired a probability of default at maturity that provides objective evidence of impairment of the entire portfolio, but without it being possible at that stage to allocate the

impairment to individual counterparties. This assessment also estimates the amount of the loss on the portfolios in question, taking account of trends in the economic cycle during the assessment period. Changes in the amount of portfolio impairments are recognised in the profit and loss account under “Cost of risk”.

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

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

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

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

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

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

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

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

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

- **Restructuring of assets classified as “Loans and receivables”**

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

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

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

#### **1.d.5 RECLASSIFICATION OF FINANCIAL ASSETS**

The only authorised reclassifications of financial assets are the following:

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

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

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

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

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

#### **1.d.6 ISSUES OF DEBT SECURITIES**

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

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

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

#### **1.d.7 OWN EQUITY INSTRUMENTS AND OWN EQUITY INSTRUMENT DERIVATIVES**

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

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

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

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

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

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

#### **1.d.8 DERIVATIVE INSTRUMENTS AND HEDGE ACCOUNTING**

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

- **Derivatives held for trading purposes**

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

- **Derivatives and hedge accounting**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Embedded derivatives**

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

### **1.d.9 DETERMINATION OF FAIR VALUE**

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

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

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

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

- Level 1: fair values are determined using directly quoted prices in active markets for identical assets and liabilities. Characteristics of an active market include the existence of a sufficient frequency and volume of activity and of readily available prices.
- Level 2: fair values are determined based on valuation techniques for which significant inputs are observable market data, either directly or indirectly. These techniques are regularly calibrated and the inputs are corroborated with information from active markets.
- Level 3: fair values are determined using valuation techniques for which significant inputs are unobservable or cannot be corroborated by market-based observations, due for instance to illiquidity of the instrument and significant model risk. An unobservable input is a parameter for which there are no market data available and that is therefore derived from proprietary assumptions about what other market participants would consider when assessing fair value. The assessment of whether a product is illiquid or subject to significant model risks is a matter of judgment.

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

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

#### **1.d.10 FINANCIAL ASSETS AND LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS (FAIR VALUE OPTION)**

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

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

#### **1.d.11 INCOME AND EXPENSES ARISING FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

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

The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the asset or liability in the balance sheet. The effective interest rate calculation takes into

account all fees received or paid that are an integral part of the effective interest rate of the contract, transaction costs, and premiums and discounts.

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

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

#### **1.d.12 COST OF RISK**

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

#### **1.d.13 DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

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

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

#### **1.d.14 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 1.f LEASES

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

### 1.f.1 LESSOR ACCOUNTING

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

- **Finance leases**

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

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

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

- **Operating leases**

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

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

### 1.f.2 LESSEE ACCOUNTING

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

- **Finance leases**

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

- **Operating leases**

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

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

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

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

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

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

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

## **1.h EMPLOYEE BENEFITS**

Employee benefits are classified in one of four categories:

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

- **Short-term benefits**

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

- **Long-term benefits**

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

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

- **Termination benefits**

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

- **Post-employment benefits**

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

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

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

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

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

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

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

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

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

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

## **1.i SHARE-BASED PAYMENTS**

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

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

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

- **Stock option and share award plans**

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

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

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

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

- **Share price-linked cash-settled deferred compensation plans**

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

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

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

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

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

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

individual with an average risk profile. The forward sale price for the shares is determined on the basis of market parameters.

## **1.j PROVISIONS RECORDED UNDER LIABILITIES**

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

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

## **1.k CURRENT AND DEFERRED TAXES**

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

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

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

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

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

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

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

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

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

## 1.1 CASH FLOW STATEMENT

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

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

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

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

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

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

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

This applies in particular to:

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

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

## 2. Notes to the profit and loss account for the first half of 2016

### 2.a NET INTEREST INCOME

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

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

In millions of euros	First half 2016			First half 2015		
	Income	Expense	Net	Income	Expense	Net
<b>Customer items</b>	<b>3,292</b>	<b>(751)</b>	<b>2,541</b>	<b>3,424</b>	<b>(832)</b>	<b>2,592</b>
Deposits, loans and borrowings	2,922	(742)	2,180	3,082	(821)	2,261
Repurchase agreements	(7)	6	(1)	(3)	2	(1)
Finance leases	377	(15)	362	345	(13)	332
<b>Interbank items</b>	<b>101</b>	<b>(151)</b>	<b>(50)</b>	<b>152</b>	<b>(179)</b>	<b>(27)</b>
Deposits, loans and borrowings	111	(121)	(10)	136	(149)	(13)
Repurchase agreements	(10)	(30)	(40)	16	(30)	(14)
Debt securities issued	-	(147)	(147)	-	(154)	(154)
Cash flow hedge instruments	234	(191)	43	207	(176)	31
Interest rate portfolio hedge instruments	231	(140)	91	657	(558)	99
<b>Financial instruments at fair value through profit or loss</b>	<b>46</b>	<b>(85)</b>	<b>(39)</b>	<b>45</b>	<b>(106)</b>	<b>(61)</b>
Fixed-income securities	8	-	8	9	-	9
Loans / Borrowings	9	-	9	7	(1)	6
Repurchase agreements	29	(46)	(17)	29	(35)	(6)
Debt securities	-	(39)	(39)	-	(70)	(70)
Available-for-sale financial assets	217	-	217	264	-	264
Held-to-maturity financial assets	13	-	13	20	-	20
<b>Total interest income / (expense)</b>	<b>4,134</b>	<b>(1,465)</b>	<b>2,669</b>	<b>4,769</b>	<b>(2,005)</b>	<b>2,764</b>

Interest income on individually impaired loans amounted to EUR 18 million for the first half of 2016, compared with EUR 15 million for the first half of 2015.

### 2.b COMMISSION INCOME AND EXPENSE

In millions of euros	First half 2016			First half 2015		
	Income	Expense	Net	Income	Expense	Net
Financial instruments not measured at fair value through profit or loss	210	(40)	170	221	(44)	177
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	198	(1)	197	207	(1)	206
<b>Other commissions</b>	<b>748</b>	<b>(368)</b>	<b>380</b>	<b>838</b>	<b>(361)</b>	<b>477</b>
Payment services	218	(76)	142	263	(97)	166
Operations linked to securities and derivatives	117	(51)	66	159	(41)	118
Insurance activities	180	(4)	176	178	(4)	174
Other	233	(237)	(4)	238	(219)	19
<b>Total commissions</b>	<b>1,156</b>	<b>(409)</b>	<b>747</b>	<b>1,266</b>	<b>(406)</b>	<b>860</b>

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

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

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

In millions of euros	First half 2016	First half 2015
<b>Trading Book</b>	<b>(82)</b>	<b>59</b>
Interest rate and credit instruments	1	(36)
Equity financial instruments	(145)	124
Foreign exchange financial instruments	61	(32)
Other derivatives	-	2
Repurchase agreements	1	1
<b>Financial instruments designated as at fair value through profit or loss</b>	<b>148</b>	<b>1</b>
<i>of which debt remeasurement effect arising from BNP Paribas Fortis issuer risk (note 4.c)</i>	20	2
<b>Impact of hedge accounting</b>	<b>(34)</b>	<b>25</b>
Fair value hedging derivatives	(1,205)	372
Hedged items in fair value hedge	1,171	(347)
<b>Total</b>	<b>32</b>	<b>85</b>

Net gains on the trading Book for the first halves of 2016 and 2015 include a non-material amount relating to the ineffective portion of cash flow hedges.

## 2.d NET GAIN/LOSS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS AND OTHER FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE

In millions of euros	First half 2016	First half 2015
Loans and receivables, fixed-income securities <sup>(1)</sup>	125	28
Disposal gains and losses	125	28
Equities and other variable-income securities	47	3
Dividend income	28	14
Additions to impairment provisions	(13)	(19)
Net disposal gains	32	8
<b>Total</b>	<b>172</b>	<b>31</b>

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

The unrealised gains and losses previously recorded under 'Change in assets and liabilities recognised directly in shareholders' equity' and included in the pre-tax income, amount to a gain of EUR 27 million for the first half of 2016 compared with a net gain of EUR 19 million for the first half of 2015.

## 2.e NET INCOME FROM OTHER ACTIVITIES

In millions of euros	First half 2016			First half 2015		
	Income	Expense	Net	Income	Expense	Net
Net income from investment property	15	(5)	10	18	(9)	9
Net income from assets held under operating leases	64	(46)	18	65	(47)	18
Other net income and expense	93	(110)	(17)	108	(146)	(38)
<b>Total net income from other activities</b>	<b>172</b>	<b>(161)</b>	<b>11</b>	<b>191</b>	<b>(202)</b>	<b>(11)</b>

## 2.f COST OF RISK

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

### Cost of risk for the period

In millions of euros	First half 2016	First half 2015
Net allowances to impairment	(222)	(224)
Recoveries on loans and receivables previously written off	21	22
Irrecoverable loans and receivables not covered by impairment provisions	(14)	(7)
<b>Total cost of risk for the period</b>	<b>(215)</b>	<b>(209)</b>

### Cost of risk for the period by asset type

In millions of euros	First half 2016	First half 2015
Loans and receivables due from credit institutions	14	(12)
Loans and receivables due from customers	(220)	(187)
Financial instruments of trading activities	(7)	(5)
Other assets	2	-
Commitments given and other items	(4)	(5)
<b>Total cost of risk for the period</b>	<b>(215)</b>	<b>(209)</b>
<i>Cost of risk on a specific basis</i>	<i>(192)</i>	<i>(164)</i>
<i>Cost of risk on a collective basis</i>	<i>(23)</i>	<i>(45)</i>

## 2.g CORPORATE INCOME TAX

In millions of euros	First half 2016	First half 2015
Net current tax expense	(226)	(142)
Net deferred tax expense	243	(199)
<b>Corporate income tax expense</b>	<b>17</b>	<b>(341)</b>

### 3. Segment information

#### 3.a OPERATING SEGMENTS

##### **BNP Paribas Fortis 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 3.6 million individuals, professionals, SMEs and private banking customers. It has a very strong presence in the local market, through an extensive network of 788 branches, plus other channels such as ATMs and online banking facilities, including mobile banking. In its Retail banking activities, BNP Paribas Fortis operates under four complementary brands: the main brand BNP Paribas Fortis, plus Fintro, bpost bank/banque and Hello bank!, a 100% digital mobile banking service. In the insurance sector, BNP Paribas Fortis works in close cooperation with the Belgian market leader, AG Insurance.

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

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

##### **BNP Paribas Fortis 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.

##### **BNP Paribas Fortis in other countries**

The operating segment 'Other' covers all activities carried out by BNP Paribas Fortis outside Belgium and Luxembourg. This segment mainly comprises Türk Ekonomi Bankasi (TEB), BNP Paribas Leasing Solutions, BNP Paribas Investment Partners and the foreign branches of BNP Paribas Fortis.

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.

### 3.b INFORMATION BY OPERATING SEGMENT

#### Income and expense by operating segment

In millions of euros	First half 2016				First half 2015			
	Belgium	Luxembourg	Other	Total	Belgium	Luxembourg	Other	Total
Revenues	2,114	332	1,185	3,631	2,112	350	1,267	3,729
Operating expense	(1,477)	(182)	(599)	(2,258)	(1,511)	(177)	(676)	(2,364)
Cost of risk	(64)	(2)	(149)	(215)	(68)	(4)	(137)	(209)
Operating Income	573	148	437	1,158	533	169	454	1,156
Non-operating items	-	(13)	82	69	71	-	154	225
Pre-tax income	573	135	519	1,227	604	169	608	1,381

#### Assets and liabilities by operating segment

In millions of euros	30 June 2016				31 December 2015			
	Belgium	Luxembourg	Other	Total	Belgium	Luxembourg	Other	Total
Assets	198,624	23,306	74,225	296,155	182,529	23,015	68,139	273,683
<i>of which goodwill on acquisitions during the period</i>	-	-	-	-	-	-	-	-
<i>of which investments in associates and Joint ventures</i>	1,183	98	3,012	4,293	1,167	97	3,132	4,396
Liabilities	187,589	18,273	65,356	271,218	172,839	18,079	58,718	249,636

The total assets of the TEB entities amounted to EUR 23,428 million at 30 June 2016.

## 4. Notes to the balance sheet at 30 June 2016

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

#### Financial assets and liabilities at fair value through profit or loss

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

In millions of euros	30 June 2016		31 December 2015	
	Trading Book	Instruments designated as at fair value through profit or loss	Trading Book	Instruments designated as at fair value through profit or loss
Securities portfolio	2,285	411	1,970	502
Loans and repurchase agreements	3,699	1,443	1,870	1,444
<b>Financial assets at fair value through profit or loss</b>	<b>5,984</b>	<b>1,854</b>	<b>3,840</b>	<b>1,946</b>
Securities portfolio	2,635	-	3,044	-
Borrowings and repurchase agreements	7,529	236	3,584	249
Debt securities (Note 4.f)	-	3,523	-	3,776
Subordinated debt (Note 4.f)	-	1,126	-	1,330
<b>Financial liabilities at fair value through profit or loss</b>	<b>10,164</b>	<b>4,885</b>	<b>6,628</b>	<b>5,355</b>

#### Loans measured at fair value through profit or loss

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

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

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

The amortised cost of 'Loans held at fair value through profit or loss' at 30 June 2016 was EUR 1,097 million (31 December 2015: EUR 1,126 million).

In millions of euros	30 June 2016		31 December 2015	
	Positive market value	Negative market value	Positive market value	Negative market value
Interest rate derivatives	6,586	5,158	5,601	4,037
Foreign exchange derivatives	1,192	1,188	940	941
Credit derivatives	15	14	8	8
Equity derivatives	488	116	631	109
Other derivatives	-	-	-	-
<b>Derivative financial instruments</b>	<b>8,281</b>	<b>6,476</b>	<b>7,180</b>	<b>5,095</b>

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	30 June 2016			31 December 2015		
	Organised markets <sup>(1)</sup>	Over-the-counter	Total	Organised markets <sup>(1)</sup>	Over-the-counter	Total
Interest rate derivatives	149,045	763,845	912,890	126,790	959,648	1,086,438
Foreign exchange derivatives	-	100,652	100,652	-	89,561	89,561
Credit derivatives	-	179	179	-	216	216
Equity derivatives	32	1,857	1,889	32	1,803	1,835
Other derivatives	-	46	46	-	1	1
<b>Derivatives financial instruments</b>	<b>149,077</b>	<b>866,579</b>	<b>1,015,656</b>	<b>126,822</b>	<b>1,051,229</b>	<b>1,178,051</b>

<sup>(1)</sup> Financial instruments negotiated on organised markets are mainly traded with clearing houses

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

In millions of euros	30 June 2016			31 December 2015		
	Net	of which provisions for impairments recognised in the profit and loss account	of which changes in value recognised directly in equity	Net	of which provisions for impairments recognised in the profit and loss account	of which changes in value recognised directly in equity
Fixed-income securities	30,869	(11)	717	31,449	(11)	635
Treasury bills and Government bonds	22,204	-	424	22,765	-	382
Other fixed-income securities	8,665	(11)	293	8,684	(11)	253
Equities and other variable-income securities	1,251	(508)	198	1,280	(516)	244
Of which listed securities	64	-	21	55	-	34
Of which unlisted securities	1,187	(508)	177	1,225	(516)	210
<b>Total available-for-sale financial assets</b>	<b>32,120</b>	<b>(519)</b>	<b>915</b>	<b>32,729</b>	<b>(527)</b>	<b>879</b>

The gross amount of impaired fixed-income securities is EUR 11 million at 30 June 2016 (EUR 11 million at 31 December 2015).

The Visa Europe shares, included in the unlisted variable-income securities were sold in accordance with the terms of the agreement with Visa Inc. A net disposal gain of EUR 31.4 million before tax was recognised in the profit and loss account of the first half of 2016.

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

In millions of euros	30 June 2016			31 December 2015		
	Fixed-income securities	Equities and other variable-income securities	Total	Fixed-income securities	Equities and other variable-income securities	Total
Non-hedged changes in value of securities recognised in 'Available-for-sale financial assets'	717	198	915	635	244	879
Deferred tax linked to these changes in value	(142)	(8)	(150)	(104)	(17)	(121)
BNP Paribas Fortis' share of changes in value of available-for-sale securities owned by equity-method entities after deferred tax and insurance policyholders' surplus reserve	860	53	913	795	97	892
Unamortised changes in value of available-for-sale securities reclassified as loans and receivables	(246)	-	(246)	(297)	-	(297)
Other variations	-	2	2	-	2	2
<b>Changes in value of assets taken directly to equity under the heading 'Financial assets available for sale and reclassified as loans and receivables'</b>	<b>1,189</b>	<b>245</b>	<b>1,434</b>	<b>1,029</b>	<b>326</b>	<b>1,355</b>
Attributable to equity shareholders	1,083	228	1,311	951	303	1,254
Attributable to minority interests	106	17	123	78	23	101

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

### Valuation process

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

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

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

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

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

The main valuation adjustments are presented in the section below.

### Valuation adjustments

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

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

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

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

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

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

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

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

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

Thus, the carrying value of debt securities designated as at fair value through profit or loss is increased by EUR 22 million as at 30 June 2016, compared with an increase in value of EUR 42 million as at 31 December 2015, i.e. a EUR (20) million variation recognised in 'net gain on financial instruments at fair value through profit or loss' (Note 2.c).

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

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

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

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

In millions of euros	30 June 2016											
	Trading Book				Instruments designated as at fair value through profit or loss				Available-for-sale financial assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Securities portfolio	1,986	297	2	2,285	128	100	183	411	22,933	8,358	829	32,120
Treasury bills and government bonds	1,901	7	-	1,908	-	-	-	-	18,144	4,060	-	22,204
Asset Backed Securities	-	17	-	17	-	-	-	-	-	-	-	-
<i>CDOs / CLOs</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other Asset Backed Securities</i>	-	17	-	17	-	-	-	-	-	-	-	-
Other fixed-income securities	53	273	2	328	-	-	-	-	4,725	3,940	-	8,665
Equities and other variable-income securities	32	-	-	32	128	100	183	411	64	358	829	1,251
Loans and repurchase agreements	-	3,698	1	3,699	-	1,443	-	1,443	-	-	-	-
Loans	-	-	-	-	-	1,443	-	1,443	-	-	-	-
Repurchase agreements	-	3,698	1	3,699	-	-	-	-	-	-	-	-
<b>Financial assets at fair value through profit or loss and available-for-sale financial assets</b>	<b>1,986</b>	<b>3,995</b>	<b>3</b>	<b>5,984</b>	<b>128</b>	<b>1,543</b>	<b>183</b>	<b>1,854</b>	<b>22,933</b>	<b>8,358</b>	<b>829</b>	<b>32,120</b>
Securities portfolio	2,399	236	-	2,635	-	-	-	-	-	-	-	-
Treasury bills and government bonds	2,397	-	-	2,397	-	-	-	-	-	-	-	-
Other fixed-income securities	2	236	-	238	-	-	-	-	-	-	-	-
Equities and other variable-income securities	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings and repurchase agreements	-	7,296	233	7,529	-	236	-	236	-	-	-	-
Borrowings	-	19	-	19	-	236	-	236	-	-	-	-
Repurchase agreements	-	7,277	233	7,510	-	-	-	-	-	-	-	-
Debt securities (Note 4.f)	-	-	-	-	-	2,807	716	3,523	-	-	-	-
Subordinated debt (Note 4.f)	-	-	-	-	-	1,126	-	1,126	-	-	-	-
<b>Financial liabilities at fair value through profit or loss</b>	<b>2,399</b>	<b>7,532</b>	<b>233</b>	<b>10,164</b>	<b>-</b>	<b>4,169</b>	<b>716</b>	<b>4,885</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

In millions of euros	31 December 2015											
	Trading Book				Instruments designated as at fair value through profit or loss				Available-for-sale financial assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Securities portfolio	1,923	47	-	1,970	198	86	218	502	22,402	9,124	1,203	32,729
Treasury bills and government bonds	1,750	3	-	1,753	-	-	-	-	18,507	4,258	-	22,765
Asset Backed Securities	-	19	-	19	-	-	-	-	-	-	-	-
<i>CDOs / CLOs</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other Asset Backed Securities</i>	-	19	-	19	-	-	-	-	-	-	-	-
Other fixed-income securities	75	25	-	100	-	-	-	-	3,840	4,844	-	8,684
Equities and other variable-income securities	98	-	-	98	198	86	218	502	55	22	1,203	1,280
Loans and repurchase agreements	-	1,719	151	1,870	-	1,444	-	1,444	-	-	-	-
Loans	-	-	-	-	-	1,444	-	1,444	-	-	-	-
Repurchase agreements	-	1,719	151	1,870	-	-	-	-	-	-	-	-
<b>Financial assets at fair value through profit or loss and available-for-sale financial assets</b>	<b>1,923</b>	<b>1,766</b>	<b>151</b>	<b>3,840</b>	<b>198</b>	<b>1,530</b>	<b>218</b>	<b>1,946</b>	<b>22,402</b>	<b>9,124</b>	<b>1,203</b>	<b>32,729</b>
Securities portfolio	3,042	2	-	3,044	-	-	-	-	-	-	-	-
Treasury bills and government bonds	3,040	-	-	3,040	-	-	-	-	-	-	-	-
Other fixed-income securities	2	2	-	4	-	-	-	-	-	-	-	-
Equities and other variable-income securities	-	-	-	-	-	-	-	-	-	-	-	-
Borrowings and repurchase agreements	-	3,522	62	3,584	-	249	-	249	-	-	-	-
Borrowings	-	17	-	17	-	249	-	249	-	-	-	-
Repurchase agreements	-	3,505	62	3,567	-	-	-	-	-	-	-	-
Debt securities (Note 4.f)	-	-	-	-	-	3,168	608	3,776	-	-	-	-
Subordinated debt (Note 4.f)	-	-	-	-	-	1,330	-	1,330	-	-	-	-
<b>Financial liabilities at fair value through profit or loss</b>	<b>3,042</b>	<b>3,524</b>	<b>62</b>	<b>6,628</b>	<b>-</b>	<b>4,747</b>	<b>608</b>	<b>5,355</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

In millions of euros	30 June 2016							
	Positive market value				Negative market value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Interest rate derivatives		6,008	578	6,586		4,759	399	5,158
Foreign exchange derivatives		1,192		1,192		1,188		1,188
Credit derivatives		1	14	15		3	11	14
Equity derivatives		488		488		116		116
Other derivatives				-				-
Derivative financial instruments not used for hedging purposes	-	7,689	592	8,281	-	6,066	410	6,476
Derivative financial instruments used for hedging purposes	-	2,293		2,293	-	5,336	-	5,336

In millions of euros	31 December 2015							
	Positive market value				Negative market value			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Interest rate derivatives		5,286	315	5,601		3,855	182	4,037
Foreign exchange derivatives		940		940		941		941
Credit derivatives		3	5	8		4	4	8
Equity derivatives		631		631		109		109
Other derivatives				-				-
Derivative financial instruments not used for hedging purposes	-	6,860	320	7,180	-	4,909	186	5,095
Derivative financial instruments used for hedging purposes	-	1,907		1,907	-	4,120	-	4,120

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

During the first half of 2016, transfers between Level 1 and Level 2 were not significant.

## DESCRIPTION OF MAIN INSTRUMENTS IN EACH LEVEL

The following section provides a description of the instruments in each level in the hierarchy. It describes notably instruments classified in Level 3 and the associated valuation methodologies. For main Trading Book instruments and derivatives classified in Level 3, further quantitative information is provided about the inputs used to derive fair value.

### Level 1:

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

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

### Level 2:

**The Level 2 stock of securities** is composed of securities which are less liquid than the Level 1 bonds. They are predominantly government bonds, corporate debt securities, mortgage backed securities, fund shares and short-term securities such as certificates of deposit. They are classified in Level 2 notably when external prices for the same security can be regularly observed from a reasonable number of market makers that are active in this security, but these prices do not represent directly tradable

prices. This comprises amongst other, consensus pricing services with a reasonable number of contributors that are active market makers as well as indicative runs from active brokers and/or dealers. Other sources such as primary issuance market, collateral valuation and counterparty collateral valuation matching may also be used where relevant.

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

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

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

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

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

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

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

### **Level 3:**

**Unlisted private equities investments** are classified as Level 3, whose valuations are performed according to the BNP Paribas Fortis' valuation policy which follows the International Private Equity and Venture Capital Valuation (IPEV) guidelines. Fund units relate to hedge funds for which the observation of the net asset value is not frequent.

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

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

exposures are commensurate with the degree of uncertainty inherent in the modelling choices and amount of data available.

### **Derivatives**

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

- **Interest rate derivatives:** exposures mainly comprise swap products in less liquid currencies. Classification is driven by the lower liquidity of some maturities, while observation capabilities through consensus may be available. The valuation technique is standard, and uses external market information and extrapolation techniques.
- **Credit derivatives (CDS):** exposures mainly comprise CDSs beyond the maximum observable maturity and, to a much lesser extent, CDSs on illiquid or distressed names and CDSs on loan indices. Classification is driven by the lack of liquidity while observation capabilities may be available notably through consensus. Level 3 exposures also comprise CDS and Total Return Swaps (TRS) positions on securitised assets. These are priced along the same modelling techniques as the underlying bonds, taking into consideration the funding basis and specific risk premium.
- **Equity derivatives:** exposures essentially comprise long dated forward or volatility products or exposures where there is a limited market for optional products. The marking of the forward curves and volatility surfaces beyond the maximum observable maturity relies on extrapolation techniques. However, when there is no market for model input, volatility or forward is generally determined on the basis of proxy or historical analysis.

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

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

- **Complex interest rate options** are classified in Level 3 when they involve currencies where there is not sufficient observation or when they include a quanto feature where the pay-off is measured in a currency that is different from the payment currency. Long term complex derivatives are also classified in Level 3;
- **Hybrid products** for which the valuation requires complex modelling of joint behaviour of inflation, credit and interest rate, and is notably sensitive to the unobservable correlations;
- **Securitisation swaps** mainly comprise fixed rate swaps, cross currency or basis swaps whose notional is indexed to the prepayment behaviour of some underlying portfolio. The estimation of the maturity profile of securitisation swaps is corroborated by statistical estimates using external historical data;
- **Forward volatility options** are generally products whose pay-off is indexed to the future variability of a rate index such as volatility swaps. These products involve material model risk as it is difficult to infer forward volatility information from the market-traded instruments. The valuation adjustment framework is calibrated to the uncertainty inherent in the product, and to the range of uncertainty from the existing external consensus data;
- **Inflation derivatives** classified in Level 3 mainly comprise swap products on inflation indices that are not associated with a liquid indexed bond market, optional products on inflation indices (such as caps and floors) and other forms of inflation indices involving optionality on the inflation indices or on the inflation annual rate. Valuation techniques used for inflation derivatives are predominantly standard market models. Proxy techniques are used for a few limited exposures. Although the valuations are corroborated through monthly consensus data, these products are classified as Level 3 due to their lack of liquidity and some uncertainties inherent in the calibration;

These 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 since 2014, a specific process allows to identify individual deals for which the marginal contribution of these adjustments and related uncertainty is significant. Are particularly concerned some insufficiently collateralized vanilla interest rate instruments with very long residual maturity.

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

Risk classes	Balance Sheet valuation		Main product types composing the Level 3 stock within the risk class	Valuation technique used for the product types considered	Main unobservable inputs for the product types considered	Range of unobservable input across Level 3 population considered	Weighted average
	Asset	Liability					
Repurchase agreements	1	233	Long-term repo and reverse-repo agreements	Proxy techniques, based amongst others on the funding basis of a benchmark bond pool, that is actively traded and representative of the repo underlying	Long-term repo spread on private bonds (High Yield, High Grade) and on ABSs	0 bp-107 bp	69 bp (a)
Interest rate derivatives	578	399	Floors and caps on inflation rate or on the cumulative inflation (such as redemption floors), predominantly on European and French inflation	Inflation pricing model	Volatility of cumulative inflation	0.7% - 10.3%	(b)
			Forward volatility products such as volatility swaps, mainly in euro	Interest rates option pricing model	Volatility of the year on year inflation rate	0.3 % - 1.7 %	
Credit Derivatives	14	11	Single name Credit Default Swaps (other than CDS on ABSs and loans indices)	Stripping, extrapolation and interpolation	Credit default spreads beyond observation limit (10 years)	55 bp to 297 bp	227 bp (c)
					Illiquid credit default spread curves (across main tenors)	6 bp to 896 bp	164 bp (c)

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

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

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

### TABLE OF MOVEMENTS IN LEVEL 3 FINANCIAL INSTRUMENTS

For Level 3 financial instruments, the following movements occurred between 1 January 2015 and 30 June 2016:

In millions of euros	Financial Assets				Financial Liabilities		
	Financial instruments at fair value through profit or loss held for trading	Financial instruments designated as at fair value through profit or loss	Available-for-sale financial assets	TOTAL	Financial instruments at fair value through profit or loss held for trading	Financial instruments designated as at fair value through profit or loss	TOTAL
At 31 December 2014	225	305	561	1,091	577	874	1,451
Purchases	151	1	617	769			-
Issues				-	56	138	194
Sales		(54)	(6)	(60)			-
Settlements <sup>(1)</sup>	(44)		(14)	(58)	(492)	(14)	(506)
Transfers to level 3	324			324	89		89
Transfers from level 3	(25)			(25)		(340)	(340)
Gains or (losses) recognised in profit or loss with respect to transactions expired or terminated during the period			(24)	(24)		(50)	(50)
Gains or (losses) recognised in profit or loss with respect to unexpired instruments at the end of the period	(160)	(34)		(194)	18		18
- Exchange rate movements			(2)	(2)			-
- Changes in assets and liabilities recognised in equity			71	71			-
At 31 December 2015	471	218	1,203	1,892	248	608	856
Purchases			13	13			-
Issues				-		251	251
Sales		(35)	(27)	(62)			-
Settlements <sup>(1)</sup>	130	1		131	372	(33)	339
Transfers to level 3	(52)			(52)	6	50	56
Transfers from level 3	(96)		(337)	(433)		(142)	(142)
Gains or (losses) recognised in profit or loss with respect to transactions expired or terminated during the period	14	15	(13)	16			-
Gains or (losses) recognised in profit or loss with respect to unexpired instruments at the end of the period	128	(16)		112	17	(18)	(1)
- Exchange rate movements			(1)	(1)			-
- Changes in assets and liabilities recognised in equity			(9)	(9)			-
At 30 June 2016	595	183	829	1,607	643	716	1,359

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

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

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

Transfers have been reflected as if they had taken place at the 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 (CVA), the explicit funding valuation adjustment (FVA) and the parameter and model uncertainty adjustments related to Level 3.

Regarding the credit valuation (CVA) and the explicit funding valuation adjustment (FVA), the uncertainty was calibrated based on prudent valuation adjustments described in the technical standard 'Prudent Valuation' published by the European Banking Authority. For other 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 as much as twice the valuation adjustments considered by BNP Paribas Fortis for entering into a transaction.

In millions of euros	30 June 2016		31 December 2015	
	Potential impact on income	Potential impact on equity	Potential impact on income	Potential impact on equity
Treasury bills and government bonds				
Asset Backed Securities (ABS)				
CDOs / CLOs				
Other Asset Backed Securities				
Other fixed-income securities				
Equities and other variable-income securities	+/-2	+/-8	+/-2	+/-12
Repurchase agreements	+/-2		+/-1	
Derivative financial instruments	+/-40		+/-25	
Interest rate derivatives	+/-40		+/-25	
Credit derivatives	+/-0		+/-0	
Equity derivatives				
Other derivatives				
<b>Sensitivity of Level 3 financial instruments</b>	<b>+/-44</b>	<b>+/-8</b>	<b>+/-28</b>	<b>+/-12</b>

#### **DEFERRED MARGIN ON FINANCIAL INSTRUMENTS MEASURED USING TECHNIQUES DEVELOPED INTERNALLY AND BASED ON INPUTS PARTLY UNOBSERVABLE IN ACTIVE MARKETS**

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

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

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

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

## 4.d INTERBANK AND MONEY-MARKET ITEMS

### Loans and receivables due from credit institutions

In millions of euros	30 June 2016	31 December 2015
On demand accounts	2,457	1,973
Loans <sup>(1)</sup>	13,136	11,164
Repurchase agreements	13,859	32
<b>Total loans and receivables due from credit institutions, before impairment</b>	<b>29,452</b>	<b>13,169</b>
<i>of which doubtful loans</i>	211	160
<b>Impairment of loans and receivables due from credit institutions (Note 2.f)</b>	<b>(89)</b>	<b>(105)</b>
specific impairment	(88)	(90)
collective provisions	(1)	(15)
<b>Total loans and receivables due from credit institutions, net of impairment</b>	<b>29,363</b>	<b>13,064</b>

<sup>(1)</sup> Loans and receivables due from credit institutions include term deposits made with central banks, which amounted to EUR 460 million as at 30 June 2016 (EUR 308 million as at 31 December 2015).

### Due to credit institutions

In millions of euros	30 June 2016	31 December 2015
On demand accounts	1,282	924
Borrowings	19,771	20,782
Repurchase agreements	3,009	903
<b>Total due to credit institutions</b>	<b>24,062</b>	<b>22,609</b>

## 4.e CUSTOMER ITEMS

### Loans and receivables due from customers

In millions of euros	30 June 2016	31 December 2015
On demand accounts	2,722	9,405
Loans to customers	155,223	154,571
Repurchase agreements		2,489
Finance leases	13,693	13,120
<b>Total loans and receivables due from customers, before impairment</b>	<b>171,638</b>	<b>179,585</b>
<i>of which doubtful loans</i>	5,190	5,267
<b>Impairment of loans and receivables due from customers (Note 2.f)</b>	<b>(3,004)</b>	<b>(2,945)</b>
specific impairment	(2,361)	(2,338)
collective provisions	(643)	(607)
<b>Total loans and receivables due from customers, net of impairment</b>	<b>168,634</b>	<b>176,640</b>

### Due to customers

In millions of euros	30 June 2016	31 December 2015
On demand deposits	64,677	72,210
Term accounts and short-term notes	37,990	40,426
Regulated savings accounts	60,587	60,667
Repurchase agreements	8,372	2,858
<b>Total due to customers</b>	<b>171,626</b>	<b>176,161</b>

## 4.f 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	30 June 2016	31 December 2015
Negotiable certificates of deposit and other debt securities	14,212	11,049
Bond issues	154	84
<b>Total debt securities</b>	<b>14,366</b>	<b>11,133</b>

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

In millions of euros	30 June 2016	Amount accepted Tier 1	Amount accepted Tier 2	31 December 2015
Debt securities	3,523	-	-	3,776
Subordinated debt	1,126	198	230	1,330

*Subordinated debt measured at amortised cost*

In millions of euros	30 June 2016	Amount accepted Tier 1	Amount accepted Tier 2	31 December 2015
Redeemable subordinated debt	4,165	-	1,810	4,974
Undated subordinated debt	112	-	107	110
<b>Total subordinated debt at amortised cost</b>	<b>4,277</b>			<b>5,084</b>

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 will expire by year-end 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. During the first half of 2016, this prior agreement has been used for EUR 164 million, of which EUR 124 million converted into Ageas shares.

As at 30 June 2016, due to this prior agreement, the subordinated liability is eligible to Tier 1 capital for EUR 198 million (during the transitional period).

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

#### 4.g CURRENT AND DEFERRED TAXES

In millions of euros	30 June 2016	31 December 2015
Current taxes	31	70
Deferred taxes	2,699	2,457
Current and deferred tax assets	2,730	2,527
Current taxes	176	159
Deferred taxes	529	532
Current and deferred tax liabilities	705	691

#### 4.h ACCRUED INCOME/EXPENSE AND OTHER ASSETS/LIABILITIES

In millions of euros	30 June 2016	31 December 2015
Guarantee deposits and bank guarantees paid	4,549	3,407
Settlement accounts related to securities transactions	761	108
Collection accounts	24	36
Accrued income and prepaid expenses	428	358
Other debtors and miscellaneous assets	5,074	4,586
<b>Total accrued income and other assets</b>	<b>10,836</b>	<b>8,495</b>
Guarantee deposits received	407	1,241
Settlement accounts related to securities transactions	418	49
Collection accounts	81	60
Accrued expense and deferred income	771	976
Other creditors and miscellaneous liabilities	4,298	4,235
<b>Total accrued expense and other liabilities</b>	<b>5,975</b>	<b>6,561</b>

#### 4.i GOODWILL

In millions of euros	First half 2016
Carrying amount at start of period	309
Acquisitions	-
Divestments	-
Impairment recognised during the period	-
Exchange rate adjustments	(2)
Other movements	-
<b>Carrying amount at end of period</b>	<b>307</b>
Gross value	335
Accumulated impairment recognised at the end of period	(28)

Goodwill by cash-generating unit is as follows:

In millions of euros	Carrying amount	
	30 June 2016	31 December 2015
BNP Paribas Fortis in Belgium	28	28
Alpha Crédit	22	22
Fortis Commercial Finance	6	6
BNP Paribas Fortis in Luxembourg	135	137
Leasing (BPLS)	135	137
BNP Paribas Fortis in other countries	144	144
TEB Group	144	144
<b>Total goodwill</b>	<b>307</b>	<b>309</b>

#### 4.j PROVISIONS FOR CONTINGENCIES AND CHARGES

In millions of euros	31 December 2015	Net additions to provisions	Provisions used	Changes in value recognised directly in equity	Effect of movements in exchange rates and other movements	30 June 2016
Provisions for employee benefits	3,514	4	(16)	226	(16)	3,712
Provisions for credit commitments (Note 2.f)	81	3	(1)	-	(3)	80
Provisions for litigations	203	(14)	(6)	-	-	183
Other provisions for contingencies and charges	159	13	(29)	-	3	146
<b>Total provisions for contingencies and charges</b>	<b>3,957</b>	<b>6</b>	<b>(52)</b>	<b>226</b>	<b>(16)</b>	<b>4,121</b>

#### 4.k OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

In millions of euros at 30 June 2016	Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements (MNA) and similar agreements	Financial instruments received as collateral	Net amounts
<b>Assets</b>						
Financial instruments at fair value through profit or loss						
Trading securities	2,285	-	2,285	-	-	2,285
Loans	-	-	-	-	-	-
Repurchase agreements	7,343	(3,644)	3,699	(929)	(2,733)	37
Instruments designated as at fair value through profit or loss	1,854	-	1,854	-	-	1,854
Derivative financial instruments (including derivatives used for hedging purposes)	10,590	(16)	10,574	(5,499)	(517)	4,558
Loans and receivables due from customers and credit institutions	198,839	(842)	197,997	(3,482)	(10,241)	184,274
of which repurchase agreements	14,140	(281)	13,859	(3,482)	(10,239)	138
Accrued income and other assets	10,836	-	10,836	-	(3,862)	6,974
of which guarantee deposits paid	4,549	-	4,549	-	(3,862)	687
Other assets not subject to offsetting	68,910	-	68,910	-	-	68,910
<b>TOTAL ASSETS</b>	<b>300,657</b>	<b>(4,502)</b>	<b>296,155</b>	<b>(9,910)</b>	<b>(17,353)</b>	<b>268,892</b>

In millions of euros at 30 June 2016	Gross amounts of financial liabilities	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of Master Netting Agreements (MNA) and similar agreements	Financial instruments given as collateral	Net amounts
<b>Liabilities</b>						
Financial instruments at fair value through profit or loss						
Trading securities	2,635	-	2,635	-	-	2,635
Borrowings	19	-	19	-	-	19
Repurchase agreements	11,155	(3,645)	7,510	(1,754)	(5,385)	371
Instruments designated as at fair value through profit or loss	4,885	-	4,885	-	-	4,885
Derivative financial instruments (including derivatives used for hedging purposes)	11,827	(15)	11,812	(5,499)	(3,837)	2,476
Due to customers and to credit institutions	196,529	(841)	195,688	(2,657)	(8,160)	184,871
<i>of which repurchase agreements</i>	11,662	(281)	11,381	(2,657)	(8,160)	564
Accrued expense and other liabilities	5,975	-	5,975	-	(338)	5,637
<i>of which guarantee deposits received</i>	407	-	407	-	(338)	69
Other liabilities not subject to offsetting	42,694	-	42,694	-	-	42,694
<b>TOTAL LIABILITIES</b>	<b>275,719</b>	<b>(4,501)</b>	<b>271,218</b>	<b>(9,910)</b>	<b>(17,720)</b>	<b>243,588</b>

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

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

## 5. Additional information

### 5.a CONTINGENT LIABILITIES: LEGAL PROCEEDING AND ARBITRATION

BNP Paribas Fortis (and its consolidated subsidiaries) is involved as a defendant in various claims, disputes and legal proceedings in Belgium and in a number of foreign jurisdictions, arising in the ordinary course of its banking business, including inter alia in connection with its activities as lender, employer, investor and taxpayer.

BNP Paribas Fortis makes provisions for such matters when, in the opinion of its management and after consulting its legal advisors, it is probable that a payment will have to be made by BNP Paribas Fortis and when the amount can be reasonably estimated.

With respect to certain other claims and legal proceedings against BNP Paribas Fortis (and its consolidated subsidiaries) of which management is aware (and for which, according to the principles outlined above, no provision has been made), the management is of the opinion, after due consideration of appropriate advice, that, while it is often not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, such proceedings are without legal merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss in the BNP Paribas Fortis Consolidated Financial Statements.

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 groups representing shareholders, and other parties, initiated, or threatened to initiate, legal action against various entities of the former Fortis Group and/or certain members of their Board of Directors and management.

On 14 March 2016 Ageas and several claimants' organisations announced a settlement proposal with respect to all civil proceedings related to the former Fortis group for the events in 2007 and 2008 (the "Ageas Settlement"). On 23 May 2016 the parties to this settlement (which does not include BNP Paribas Fortis) have filed a request with the Amsterdam Court of Appeal to declare the settlement binding for all eligible Fortis shareholders in accordance with the Dutch Act on Collective Settlement of Mass Claims (the "WCAM procedure").

However, if these claims and legal proceedings were to be continued and successful, they could eventually result in monetary consequences for BNP Paribas Fortis. Such impact remains unquantifiable at this stage.

These legal actions include inter alia the following:

- Claims before the Dutch courts

These legal actions relate to a rights issue by Fortis at the time of the acquisition of ABN Amro and the role of BNP Paribas Fortis as underwriter.

In September 2007, BNP Paribas Fortis acted together with Merrill Lynch and other banks as underwriter of the rights issue by Fortis SA/NV and Fortis N.V. (now Ageas SA/NV) in the amount of EUR 13.4 billion. The purpose of this rights issue was to partly finance Fortis's participation in its acquisition of ABN Amro Bank N.V.

BNP Paribas Fortis received on 3 February 2011 a writ of summons from the Dutch association of shareholders 'VEB NCVB'. This association alleges that BNP Paribas Fortis, Ageas, Merrill Lynch and others are jointly and severally liable in connection with the alleged shortcomings of the prospectus. VEB NCVB is seeking declaratory relief that the statements and alleged omissions in the prospectus were misleading to all who purchased Fortis shares between 24 September 2007 and 3 October 2008 and that as a consequence BNP Paribas Fortis is jointly, with other banks and officers, liable for the damages sustained by those shareholders. On 7 July 2011 BNP Paribas Fortis received a writ of summons from a Dutch foundation named 'Stichting Investor Claims against Fortis'. This action

addresses the same subject matter and is largely based on the same allegations. Ageas and Merrill Lynch are co-defendants.

As these are Dutch legal proceedings relating to a declaration sought by an association, no actual claim for damages can be made at this stage. However, these proceedings may potentially lead to future individual damage claims.

On 20 August 2012, BNP Paribas Fortis (and eight other defendants) received a writ of summons from the foundation 'Stichting Investor Claims against Fortis' and other investors, seeking to have the defendants declared jointly and severally liable for the payment of damages arising inter alia, in so far as BNP Paribas Fortis is concerned, from the communication of allegedly incorrect or incomplete information to the market during the period from the acquisition of ABN Amro until 17 October 2008.

These Dutch proceedings have been stayed pursuant to the Ageas Settlement.

- Claims before the Belgian Courts

Retail and institutional investors in Fortis shares started legal actions before the courts of Brussels in order to obtain damages from BNP Paribas Fortis and Merrill Lynch in their role as overall coordinator of the rights issue of Fortis in September 2007, as described above. The claimants allege that the banks breached their duty as financial advisors, including with respect to the information to be provided to investors in the prospectus issued by Fortis. These Belgian proceedings have been stayed.

The examining magistrate of the Court of First Instance in Brussels in charge since 2008 of investigating the case relating to events which occurred within the Fortis Group in 2007 and 2008 passed his file to the Public Prosecutor in October 2012. In November 2012 seven individuals were indicted by the examining magistrate and in February 2013 the Public Prosecutor requested the court to order a trial. As additional investigative measures have been ordered, the hearing before the court has not yet taken place.

- MCS Noteholders claim against Ageas, BNP Paribas Fortis and others

Certain holders of Mandatory Convertible Securities (hereafter 'MCS') filed two actions against the co-issuers of the MCS, including BNP Paribas Fortis, and against Bank of New York Corporate Trustee Services Ltd in its capacity of trustee, before the Commercial Court of Brussels, firstly claiming annulment of the MCS Notes conversion and the restitution of their MCS Notes and, secondly, claiming damages. On 23 March 2012 the Commercial Court of Brussels dismissed both actions. Certain holders then filed an appeal in June 2012 claiming damages for a provisional amount of EUR 350 million and the appointment of an expert. BNP Paribas Fortis will continue to contest this case vigorously as it considers that these claims have no merit. This procedure is not concerned by the Ageas Settlement and has thus not been stayed.

- The Royal Bank of Scotland Group

On 1 April 2014 The Royal Bank of Scotland Group plc and The Royal Bank of Scotland NV (together "RBS") have filed suit against BNP Paribas Fortis and others. This issue relates to the acquisition in 2007 of ABN Amro Holding NV by the Consortium of RBS, Ageas and Santander on 17 October 2007 pursuant to the Consortium and Shareholders Agreement dated 28 May 2007. RBS is seeking to have the defendants to be declared jointly and severally liable for the payment of an alleged indemnity obligation of 75mio EUR. This procedure is not concerned by the Ageas Settlement and has thus not been stayed.

Like many other companies in the banking, investment, mutual funds and brokerage sectors, BNP Paribas Fortis (and its consolidated subsidiaries) has received or may receive requests for information from supervisory, governmental or self-regulatory agencies. BNP Paribas Fortis responds to such requests, cooperates with the relevant regulators and other parties and helps to address any issues they might raise.

## **5.b BUSINESS COMBINATIONS AND OTHER CHANGES OF THE CONSOLIDATION SCOPE**

### **Operations realised in 2016**

- **Disposal of SADE**

Société Alsacienne d'Expansion et de Développement (SADE), a wholly owned French subsidiary of BGL, was sold to BNP Paribas on 9 June 2016 for a consideration of 80.7m. The realised loss amounted to EUR (12.1) million which was recorded in the line 'Net gain on non-current assets'.

- **Disposal of SREI**

SREI, an Indian company in which BNP Paribas Lease Groupe SA ('BPLG') and SIFL each owned 50% in a joint venture partnership. SIFL acquired the 50% stake of SREI from BPLG for a consideration of EUR 20.2m representing 5% value of SIFL's shares. The net realized loss on the sale amounted to EUR (18.3) million.

### **Operations realised in 2015**

- **Merger between BNP Paribas Bank Polska and Bank BGŻ**

On 30 April 2015 the legal merger of BNP Paribas Bank Polska (in which BNP Paribas Fortis held 85% interest) with Bank BGŻ (held by BNP Paribas by 88.98%) was finalised. After the merger, BNP Paribas Fortis holds 28.35% in the merged bank operating under the name Bank BGŻ BNP Paribas S.A.

The merger was executed through a transfer of all assets, equity and liabilities of BNP Paribas Bank Polska to Bank BGŻ. Bank BGŻ increased its share capital through the issuance of the series I shares that were delivered by Bank BGŻ to the existing shareholders of BNP Paribas Bank Polska (merger by take-over). On 30 April 2015 the share capital of Bank BGŻ was increased by PLN 28,099,554 (Merger shares) from PLN 56,138,764 up to PLN 84,238,318 and is divided into 84,238,318 registered and bearer shares with a nominal value of PLN 1 each.

Under the term of exchange, for every six shares of BNP Paribas Bank Polska, the shareholders of BNP Paribas Bank Polska receive five Merger Shares of Bank BGŻ (the "Share Exchange Ratio").

At the moment of the merger BNP Paribas Fortis lost control in BNP Paribas Bank Polska (from 85% to 28.35%), this leads to the de-recognition of the assets and liabilities of BNP Paribas Bank Polska. The difference between 85% of the Net Asset Value (NAV) of BNP Paribas Bank Polska and the fair value of the consideration received (80.47 PLN/BGŻ share) at the date of the merger, amounted to EUR 82.2 million, which was recognised in the line 'Net gain on non-current assets' (GNAI) in the consolidated profit and loss account of BNP Paribas Fortis.

BNP Paribas Fortis accounts for the acquisition of the merged bank – Bank BGŻ BNP Paribas S.A. by applying the 'Predecessor basis of accounting method', meaning the net assets of Bank BGŻ BNP Paribas S.A. were measured at the predecessor carrying amounts at the date of merger as the transaction is under common control. The difference between the fair value of Bank BGŻ shares and 28.35% of the NAV of the merged bank BGŻ BNP Paribas at the date of the merger resulted in a goodwill of EUR 51.2 million which is presented in the line 'Equity-method investments' in the consolidated balance sheet of BNP Paribas Fortis. The goodwill was later adjusted to EUR 60.9 million.

As a result of the merger, Bank BGŻ BNP Paribas S.A. is consolidated by equity method by BNP Paribas Fortis.

- **Syigma Bank**

On 01 December 2015, Bank BGŻ BNP Paribas S.A. acquired from BNP Paribas Personal Finance, 100% of Syigma Bank Polska in view of complementing its product offering in the consumer finance market in Poland. As at 31 December 2015, Syigma Bank was consolidated in BNP Paribas Fortis' consolidated financial statements by equity method (28.35%). As a result of this operation, a badwill of EUR 5.3 million was recognised in the profit and loss account.

- **Société Immobilière du Royal Building**

In October 2015, Société Immobilière du Royal Building, a fully consolidated entity, was sold by BGL BNP Paribas to a group entity, Cardif Lux Vie, which is consolidated by equity method.

As a result of this operation, Société Immobilière du Royal Building changed its consolidation method from full consolidation to equity method, and BGL BNP Paribas recognised a net capital gain amounting to EUR 13.3 million.

- **TCG Fund I L.P.**

TCG Fund I L.P, the parent company of Cronos Holding Company Ltd, has been liquidated in September 2015. The result of its liquidation as at 31 December 2015 amounted to EUR 25.6 million (or USD 28.1 million), relating to the recycling of its foreign translation difference from equity to the profit and loss account.

- **Cronos Holding Company Limited**

On 20 January 2015, Cronos Holding Company Limited, previously consolidated by equity method, has been disposed of by TCG Funds I L.P. to an external party. The consideration amounted to EUR 165 million (or USD 199 million), and the capital gains amounted to EUR 68.9 million (or USD 77.5 million). Cronos Holding company Ltd was specialised in the activities of container leasing.

## **5.c NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS**

The assets and liabilities classified as held-for-sale as at 30 June 2016 are related to transactions approved by the Board of BNP Paribas Fortis and the Executive Committee of BNP Paribas, which are not subject to signed contracts yet and for which the sale could not yet take place because of legal, regulatory and operational constraints. These transactions refer to not-yet-transferred assets and liabilities of BNP Paribas Fortis' branches in Norway, Sweden, Denmark, Finland, Austria, Czech Republic, Romania and the Netherlands, which will be sold to BNP Paribas SA. The legal transfer of the branches assets and liabilities will be completed in 2017.

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

A disposal group shall be measured at the lower of its carrying amount and fair value less costs to sell. This specific disposal group is measured at its fair value less cost to sell which amounts to a loss of EUR (43.2) million, reported under 'Net gain/loss on non-current assets' in the consolidated income statement as at 30 June 2016.

### **Major classes of assets and liabilities classified as held for sale**

The assets and liabilities classified as held for sale as at 30 June 2016 are shown below.

In millions of euros	30 June 2016
<b>ASSETS</b>	
Cash and amounts due from central banks	4,351
Financial instruments at fair value through profit or loss	21
Derivatives used for hedging purposes	-
Available-for-sale financial assets	54
Loans and receivables due from credit institutions	634
Loans and receivables due from customers	9,609
Remeasurement adjustment on interest-rate risk hedged portfolios	-
Held-to-maturity financial assets	-
Current and deferred tax assets	8
Accrued income and other assets	26
Equity-method investments	-
Investment property	-
Property, plant and equipment	3
Intangible assets	-
Goodwill	-
Expected loss on sale	(43)
<b>TOTAL ASSETS</b>	<b>14,663</b>
<b>LIABILITIES</b>	
Due to central banks	3
Financial instruments at fair value through profit or loss	20
Derivatives used for hedging purposes	-
Due to credit institutions	403
Due to customers	17,358
Debt securities	-
Remeasurement adjustment on interest-rate risk hedged portfolios	-
Current and deferred tax liabilities	-
Accrued expenses and other liabilities	93
Provisions for contingencies and charges	18
Subordinated debt	-
<b>TOTAL LIABILITIES</b>	<b>17,895</b>

## 5.d MINORITY INTERESTS

### Main minority interests

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

In millions of euros	30 June 2016	First half 2016						
	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	44 997	666	213	221	50%	140	131	179
Other minority interests						85	63	-
<b>TOTAL</b>						<b>225</b>	<b>194</b>	<b>179</b>

In millions of euros	31 December 2015	First half 2015						
	Total assets before elimination of intra-group transactions	Revenues	Net income	Net income and changes in assets and liabilities recognised directly in equity	Interest (%)	Net income attributable to minority interests	Net income and changes in assets and liabilities recognised directly in equity - attributable to minority interests	Dividends paid to minority shareholders
Contribution of the entities belonging to the BGL BNP Paribas Group	43 196	688	232	235	50%	144	157	130
Other minority interests						85	92	1
<b>TOTAL</b>						<b>229</b>	<b>249</b>	<b>131</b>

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

No significant internal restructuring operation occurred during the first half of 2016, nor during the first half of 2015.

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

In millions of euros	First half 2016		First half 2015	
	Attributable to shareholders	Minority interests	Attributable to shareholders	Minority interests
BNP Paribas Polska SA				
Merger with Bank BGŻ				(71)
Turk Ekonomi Bankasi				
An additional acquisition of 2.96% of minority interest has been realised by BNP Paribas Fortis Yatirimlar Holding, lifting its interest percentage of Turk Ekonomi Bankasi AS to 48.72%			(9)	(39)
Other		(1)		3
<b>TOTAL</b>	<b>-</b>	<b>(1)</b>	<b>(9)</b>	<b>(107)</b>

### 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 315 million at 30 June 2016, compared with EUR 320 million at 31 December 2015.

## 5.e OTHER RELATED PARTIES

Other related parties of the BNP Paribas Fortis comprise:

- BNP Paribas (and all its subsidiaries) which has control over BNP Paribas Fortis,
- Consolidated companies of BNP Paribas Fortis (including entities consolidated under the equity method)
- and entities managing post-employment benefit plans offered to BNP Paribas Fortis' employees.

Transactions between the BNP Paribas Fortis and related parties are carried out on an arm's length basis.

### Relations between consolidated companies

A list of companies consolidated by the BNP Paribas Fortis is provided in note 5.h "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	30 June 2016			31 December 2015		
	Entities of the BNP Paribas Group	Joint ventures	Associates <sup>(1)</sup>	Entities of the BNP Paribas Group	Joint ventures	Associates <sup>(1)</sup>
<b>ASSETS</b>						
Loans, advances and securities						
<i>Demand accounts</i>	2,039	1	25	1,401	-	32
<i>Loans</i>	11,161	-	1,833	8,894	-	2,034
<i>Securities</i>	222	-	-	245	-	-
Securities held in the non-trading portfolio	1,196	-	-	1,626	-	-
Other assets	2,874	1	116	2,063	7	104
<b>Total</b>	<b>17,492</b>	<b>2</b>	<b>1,974</b>	<b>14,229</b>	<b>7</b>	<b>2,170</b>
<b>LIABILITIES</b>						
Deposits						
<i>Demand accounts</i>	592	297	643	391	178	442
<i>Other borrowings</i>	11,674	45	2,505	13,885	45	2,431
Debt securities	2,335	-	9	2,368	-	9
Other liabilities	228	-	59	798	-	72
<b>Total</b>	<b>14,829</b>	<b>342</b>	<b>3,216</b>	<b>17,442</b>	<b>223</b>	<b>2,954</b>
<b>FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS</b>						
Financing commitments given	2,429	3,411	489	3,097	2,414	1,577
Guarantee commitments given	8,482	-	153	7,220	-	192
<b>Total</b>	<b>10,911</b>	<b>3,411</b>	<b>642</b>	<b>10,317</b>	<b>2,414</b>	<b>1,769</b>

<sup>(1)</sup> 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	First half 2016			First half 2015		
	Entities of the BNP Paribas Group	Joint ventures	Associates <sup>(1)</sup>	Entities of the BNP Paribas Group	Joint ventures	Associates <sup>(1)</sup>
Interest income	187	1	9	467	-	10
Interest expense	(163)	(1)	(10)	(407)	-	(12)
Commission income	88	2	247	81	2	252
Commission expense	(54)	-	(2)	(36)	-	(2)
Services provided	1	1	-	1	1	-
Services received	-	-	-	-	-	-
Lease income	-	-	1	1	-	1
<b>Total</b>	<b>59</b>	<b>3</b>	<b>245</b>	<b>107</b>	<b>3</b>	<b>249</b>

<sup>(1)</sup> Including controlled but non material entities consolidated under the equity method

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

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

**5.f FAIR VALUE OF FINANCIAL INSTRUMENTS CARRIED AT AMORTISED COST**

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

- These fair values are an estimate of the value of the relevant instruments as at 30 June 2016. They are liable to fluctuate from day to day as a result of changes in various parameters, such as interest rates and credit quality of the counterparty. In particular, they may differ significantly from the amounts actually received or paid on maturity of the instrument. In most cases, the fair value is not intended to be realised immediately, and in practice might not be realised immediately. Consequently, this fair value does not reflect the actual value of the instrument to BNP Paribas Fortis as a going concern;
- Most of these fair values are not meaningful, and hence are not taken into account in the management of the commercial banking activities which use these instruments;
- Estimating a fair value for financial instruments carried at historical cost often requires the use of modelling techniques, hypotheses and assumptions that may vary from bank to bank. This means that comparisons between the fair values of financial instruments carried at historical cost as disclosed by different banks may not be meaningful;
- The fair values shown below do not include the fair values of finance lease transactions, non-financial instruments such as property, plant and equipment, goodwill and other intangible assets such as the value attributed to demand deposit portfolios or customer relationships. Consequently, these fair values should not be regarded as the actual contribution of the instruments concerned to the overall valuation of BNP Paribas Fortis.

In millions of euros	Note	30 June 2016					Carrying value
		Estimated fair value				Total	
		Level 1	Level 2	Level 3			
<b>FINANCIAL ASSETS</b>							
Loans and receivables due from credit institutions	4.d	-	29,363	-		29,363	29,363
Loans and receivables due from customers <sup>(1)</sup>	4.e	524	2,862	157,124		160,510	155,252
Held-to-maturity financial assets		465	152	-		617	573
<b>FINANCIAL LIABILITIES</b>							
Due to credit institutions	4.d	-	24,062	-		24,062	24,062
Due to customers	4.e	-	172,218	-		172,218	171,626
Debt securities	4.f	-	14,272	-		14,272	14,366
Subordinated debt	4.f	-	4,378	-		4,378	4,277

<sup>(1)</sup> Finance leases excluded

In millions of euros	Note	31 December 2015					Carrying value
		Estimated fair value				Total	
		Level 1	Level 2	Level 3			
<b>FINANCIAL ASSETS</b>							
Loans and receivables due from credit institutions	4.d	-	13,064	-		13,064	13,064
Loans and receivables due from customers <sup>(1)</sup>	4.e	534	12,586	154,530		167,650	163,851
Held-to-maturity financial assets		474	152	-		626	582
<b>FINANCIAL LIABILITIES</b>							
Due to credit institutions	4.d	-	22,835	-		22,835	22,609
Due to customers	4.e	-	176,849	-		176,849	176,161
Debt securities	4.f	-	11,232	-		11,232	11,133
Subordinated debt	4.f	-	5,228	-		5,228	5,084

<sup>(1)</sup> Finance leases excluded

The valuation techniques and assumptions used by BNP Paribas Fortis ensure that the fair value of financial assets and liabilities carried at amortised cost is measured on a consistent basis throughout the Bank. Fair value is based on prices quoted in an active market when these are available. In other cases, fair value is determined using valuation techniques such as discounting of estimated future cash flows for loans, liabilities and held-to-maturity financial assets, or specific valuation models for other financial instruments as described in Note 1, 'Summary of significant accounting policies applied by BNP Paribas Fortis'. The description of the fair value hierarchy levels is also presented in the accounting principles (Note 1.d.9). In the case of loans, liabilities and held-to-maturity financial assets that have an initial maturity of less than one year (including demand deposits) or of most regulated savings products, fair value equates to carrying amount. These instruments have been classified in Level 2, except for loans to customers which are classified in Level 3.

## 5.g SOVEREIGN RISKS

Sovereign risk is the risk of a State defaulting on its debt, i.e. a temporary or prolonged interruption of debt servicing (interest and/or principal).

BNP Paribas Fortis holds sovereign bonds as part of its liquidity management process. Liquidity management is based on holding securities eligible as collateral for refinancing by central banks and includes a substantial share of highly rated debt securities issued by governments, supra-national authorities and agencies, representing a low level of risk. Moreover, as part of its assets and liability management and structural interest rate risk management policy, BNP Paribas Fortis also holds a portfolio of assets including sovereign debt instruments, with interest rate characteristics that contribute to the asset & liability management hedging strategies. In addition, BNP Paribas Fortis is a primary dealer in sovereign debt securities in a number of countries, which leads it to take temporary long and short trading positions, some of which are hedged by derivatives.

BNP Paribas Fortis' euro sovereign bond portfolios are shown in the table below:

Banking Book In millions of euros	30 June 2016	31 December 2015
<b>Eurozone</b>		
Belgium	12,340	13,009
Austria	1,120	938
Netherlands	4,039	4,025
Italy	1,300	1,199
Spain	755	661
France	722	974
Luxembourg	187	188
Finland	33	11
Germany	-	116
<b>Countries receiving support</b>		
Portugal	340	330
Ireland	140	138
<b>Total eurozone</b>	<b>20,976</b>	<b>21,589</b>

## 5.1 SCOPE OF CONSOLIDATION

Name	Country	30 June 2016				31 December 2015			
		Method	Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
<b>Consolidated company</b>									
BNP Paribas Fortis	Belgium								
<b>Belgium</b>									
Ace Equipment Leasing	Belgium				S3	Full	99.80%	24.95%	V4
Ag Insurance	Belgium	Equity	25%	25%		Equity	25%	25%	
Alpha Card S.C.R.L.	Belgium	Equity	49.99%	49.99%		Equity	49.99%	49.99%	
Alpha Crédit S.A.	Belgium	Full	99.99%	99.99%		Full	99.99%	99.99%	
Belgian Mobile Wallet	Belgium				S3	Equity	20%	20%	V2-V3
BNP Paribas Fortis Factor Nv SA	Belgium	Full	99.99%	99.99%		Full	99.99%	99.99%	
BNP Paribas Fortis Private Equity Belgium N.V.	Belgium	Full	99.99%	99.99%		Full	99.99%	99.99%	
BNP Paribas Fortis Private Equity Expansion	Belgium	Full	100%	99.99%		Full	100%	99.99%	
BNP Paribas Fortis Private Equity Management	Belgium	Equity 1	100%	100%		Equity 1	100%	100%	
BNP Paribas Lease Group (Belgique)	Belgium	Full	99.99%	24.99%		Full	99.99%	24.99%	
Bpost Banque - Bpost Bank	Belgium	Equity 2	50%	50%		Equity 2	50%	50%	
CNH Industrial Capital Europe Belgium Branch	Belgium	Full	100%	12.53%		Full	100%	12.52%	
Demetris N.V.	Belgium	Equity 1	99.99%	99.99%		Equity 1	99.99%	99.99%	
Eos Aremas Belgium S.A./N.V.	Belgium	Equity	49.97%	49.97%		Equity	49.97%	49.97%	
Es-Finance	Belgium	Full	99.99%	99.99%		Full	100%	100%	
Fortis Lease Belgium	Belgium	Full	100%	25%		Full	100%	25%	
Immobilière Sauvenière S.A.	Belgium	Equity 1	99.99%	99.99%		Equity 1	99.99%	99.99%	
<b>Belgium - Special Purpose Entities</b>									
Bass Master Issuer Nv	Belgium	Full				Full			
Esmée Master Issuer	Belgium	Full				Full			
<b>Luxembourg</b>									
BGL BNP Paribas	Luxembourg	Full	50%	50%		Full	50%	50%	
BGL BNP Paribas Factor S.A.	Luxembourg	Full	100%	50%		Full	100%	50%	
BNP Paribas Fortis Funding S.A.	Luxembourg	Full	99.99%	99.99%		Full	99.99%	99.99%	
BNP Paribas Lease Group Luxembourg S.A.	Luxembourg	Full	100%	50%		Full	99.99%	49.99%	
BNP Paribas Leasing Solutions	Luxembourg	Full	50%	25%		Full	50%	25%	
Cardif Lux Vie	Luxembourg	Equity	33.33%	16.67%		Equity	33.33%	16.67%	
Cofhylux S.A.	Luxembourg	Full	100%	50%		Full	100%	50%	
Plagefin S.A.	Luxembourg	Full	100%	50%		Full	100%	50%	
<b>Luxembourg - Special Purpose Entities</b>									
Alleray S.A.R.L.	Luxembourg				S1	Full			
Societe Immobiliere De Monterey S.A.	Luxembourg	Full				Full			
<b>Rest of the world</b>									
Albury Asset Rentals Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
All In One Vermietung Gmbh	Austria	Equity 1	100%	25%		Equity 1	100%	25%	
All In One Vermietungsgesellschaft Fur Telekommunikationsanlagen Mbh	Germany	Equity 1	100%	25%		Equity 1	100%	25%	
Alpha Murcia Holding B.V.	Netherlands	Equity 1	100%	100%		Equity 1	100%	100%	
Aprolis Finance	France	Full	50.99%	12.75%		Full	50.99%	12.75%	
Aprolis Finance (Romania branch)	Romania								S1
Arius	France	Full	100%	25%		Full	100%	25%	
Artegy	France	Full	100%	25%		Full	100%	25%	

### New entries (E) in the scope of consolidation

- E1 Passing qualifying thresholds as defined by BNP Paribas Fortis (see note 1.c.1)  
 E2 Incorporation  
 E3 Purchase, gain of control or significant influence

### Removals (S) from the scope of consolidation

- S1 Cessation of activity (including dissolution, liquidation)  
 S2 Disposal, loss of control or loss of significant influence  
 S3 Entities removed from the scope because < qualifying thresholds (see note 1.c.1)  
 S4 Merger, Universal transfer of assets and liabilities

### Variance (V) in voting or ownership interest

- V1 Additional purchase  
 V2 Partial disposal  
 V3 Dilution  
 V4 Increase in %

### Miscellaneous

- D1 Consolidation method change not related to fluctuation in voting or ownership interest

### Prudential scope of consolidation

- 1 Controlled but non material entities consolidated under the equity method as associates (see note 1.c.1)  
 2 Jointly controlled entities under proportional consolidation for prudential purposes.

Full - Full consolidation  
 Equity - Equity Method

Name	Country	30 June 2016				31 December 2015			
		Method	Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
Artegy Limited	United Kingdom	Equity	100%	25%		Equity	100%	25%	
BGL BNP Paribas S.A. Zweigniederlassung Deutschland	Germany	Full	100%	50%		Full	100%	50%	
Bank BGZ BNP Paribas SA	Poland	Equity	28.35%	28.35%		Equity	28.35%	28.35%	E3
BNP Paribas Bank Polska S.A.	Poland								S4
BNP Paribas Commercial Finance Limited	United Kingdom	Full	100%	100%		Full	100%	100%	
BNP Paribas Factor A/S	Denmark	Equity 1	100%	100%		Equity 1	100%	100%	E1
BNP Paribas Factor Deutschland B.V.	Netherlands	Full	100%	100%		Full	100%	100%	
BNP Paribas Factor Gmbh	Germany	Full	100%	100%		Full	100%	100%	
BNP Paribas Factoring Coverage Europe Holding N.V.	Netherlands	Full	100%	100%		Full	100%	100%	
BNP Paribas Finansal Kiralama A.S.	Turkey	Full	99.99%	26.08%		Full	99.99%	26.06%	V1
BNP Paribas fortis (Austria branch)	Austria	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Czech Republic branch)	Czech republic	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Germany branch)	Germany	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Netherlands branch)	Netherlands	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Norway branch)	Norway	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Romania branch)	Romania	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Spain branch)	Spain	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Sweden branch)	Sweden	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (U.S.A branch)	United States	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (UK branch)	United Kingdom								S1
BNP Paribas Fortis (Finland branch)	Finland	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis (Denmark branch)	Denmark	Full	100%	100%		Full	100%	100%	
BNP Paribas Fortis Yatirimlar Holding Anonim Sirketi	Turkey	Full	99.99%	99.99%		Full	100%	100%	
BNP Paribas Investment Partners	France	Equity	33.33%	30.85%		Equity	33.33%	30.85%	
BNP Paribas Lease Group (Rentals) Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group Bplg	France	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group Ifn S.A.	Romania	Equity 1	99.94%	24.99%		Equity 1	99.94%	24.99%	
BNP Paribas Lease Group Leasing Solutions S.P.A.	Italy	Equity	26.17%	6.54%		Equity	26.17%	6.54%	
BNP Paribas Lease Group Lizing Rt	Hungary	Equity 1	100%	25%		Equity 1	100%	25%	
BNP Paribas Lease Group Milan Branch	Italy	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group PLC	United Kingdom	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group S.A. Zweigniederlassung Deutschland	Germany	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group Sa Portugal Branch	Portugal	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group Sa Sucursal En Espana	Spain	Full	100%	25%		Full	100%	25%	
BNP Paribas Lease Group Sp.Z.O.O	Poland	Equity 1	100%	25%		Equity 1	100%	25%	
BNP Paribas Leasing Solutions Immobilier Suisse	Switzerland								S4
BNP Paribas Leasing Solutions Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
BNP Paribas Leasing Solutions N.V.	Netherlands	Full	100%	25%		Full	100%	25%	
BNP Paribas Leasing Solutions Suisse Sa	Switzerland	Equity 1	100%	25%		Equity 1	100%	25%	
Claas Financial Services	France	Full	60.11%	15.03%		Full	60.11%	15.03%	
Claas Financial Services Germany Branch	Germany	Full	100%	15.03%		Full	100%	15.03%	
Claas Financial Services Inc	United States				S2	Full	100%	15.03%	
Claas Financial Services Italy Branch	Italy	Full	100%	15.03%		Full	100%	15.03%	
Claas Financial Services Ltd	United Kingdom	Full	51%	12.75%		Full	51%	12.75%	
Claas Financial Services Sas Branch In Poland	Poland	Full	100%	15.03%		Full	100%	15.03%	
Claas Financial Services, S.A.S., S.E. Spain Branch	Spain	Full	100%	15.03%		Full	100%	15.03%	
CNH Industrial Capital Europe SA.S Germany Branch	Germany	Full	100%	12.53%		Full	100%	12.52%	
CNH Industrial Capital Europe	France	Full	50.10%	12.53%		Full	50.10%	12.52%	
CNH Industrial Capital Europe Bv	Netherlands	Full	100%	12.53%		Full	100%	12.52%	
CNH Industrial Capital Europe Gmbh	Austria	Full	100%	12.53%		Full	100%	12.52%	

**New entries (E) in the scope of consolidation**

- E1 Passing qualifying thresholds as defined by BNP Paribas Fortis (see note 1.c.1)  
 E2 Incorporation  
 E3 Purchase, gain of control or significant influence

**Removals (S) from the scope of consolidation**

- S1 Cessation of activity (including dissolution, liquidation)  
 S2 Disposal, loss of control or loss of significant influence  
 S3 Entities removed from the scope because < qualifying thresholds (see note 1.c.1)  
 S4 Merger, Universal transfer of assets and liabilities

**Variance (V) in voting or ownership interest**

- V1 Additional purchase  
 V2 Partial disposal  
 V3 Dilution  
 V4 Increase in %

**Miscellaneous**

- D1 Consolidation method change not related to fluctuation in voting or ownership interest

**Prudential scope of consolidation**

- 1 Controlled but non material entities consolidated under the equity method as associates (see note 1.c.1)  
 2 Jointly controlled entities under proportional consolidation for prudential purposes.

Full - Full consolidation  
 Equity - Equity Method

Name	Country	30 June 2016				31 December 2015			
		Method	Voting (%)	Interest (%)	Ref.	Method	Voting (%)	Interest (%)	Ref.
CNH Industrial Capital Europe Italy Branch	Italy	Full	100%	12.53%		Full	100%	12.52%	
CNH Industrial Capital Europe Ltd	United Kingdom	Full	100%	12.53%		Full	100%	12.52%	
CNH Industrial Capital Europe Poland Branch	Poland	Full	100%	12.53%		Full	100%	12.52%	
CNH Industrial Capital Europe Sucursal En Espana	Spain	Full	100%	12.53%		Full	100%	12.52%	
Commercial Vehicle Finance Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
Cronos Holding Company Limited	Bermuda								S3
Fb Transportation Capital Llc	United States	Equity	100%	100%		Full	100%	100%	
Fortis Funding Llc	United States				S3	Full	100%	100%	
Fortis Lease	France	Full	99.99%	25%		Full	99.99%	24.99%	
Fortis Lease Deutschland Gmbh	Germany	Equity 1	100%	25%		Equity 1	100%	25%	
Fortis Lease Iberia Sa	Spain	Equity 1	100%	41.04%		Equity 1	100%	41.04%	
Fortis Lease Operativ Lizing Zartkoruen Mukodo Reszvenytarsasag	Hungary				S1	Equity 1	100%	25%	
Fortis Lease Portugal	Portugal	Equity 1	100%	25%		Equity 1	100%	25%	
Fortis Lease Romania Ifn Sa	Romania								S4
Bnp Paribas Lease Group Kft.	Hungary	Equity	100%	25%		Equity	100%	25%	
Fortis Lease Uk Ltd	United Kingdom	Equity 1	100%	25%		Equity 1	100%	25%	
Fortis Vastgoedlease B.V.	Netherlands	Equity 1	100%	25%		Equity 1	100%	25%	
Hfgl Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
Humberclyde Commercial Investments Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
Humberclyde Commercial Investments Limited N°1	United Kingdom				S1	Full	100%	25%	
Inkasso Kodat Gmbh & Co. Kg	Germany	Equity 1	100%	100%		Equity 1	100%	100%	
Jcb Finance	France	Full	100%	12.53%		Full	100%	12.53%	
Jcb Finance Holdings Ltd	United Kingdom	Full	50.10%	12.53%		Full	50.10%	12.53%	
JCB Finance S.A.S. Italy Branch	Italy	Full	100%	12.53%		Full	100%	12.53%	
JCB Finance S.A.S. Zweigniederlassung Deutschland	Germany	Full	100%	12.53%		Full	100%	12.53%	
Kronenburg Vastgoed N.V.	Netherlands								S3
Locatrice Italiana S.P.A.	Italy	Equity	100%	25%		Equity	100%	25%	V3
Manitou Finance Limited	United Kingdom	Full	51%	12.75%		Full	51%	12.75%	
Mff	France	Full	51%	12.75%		Full	51%	12.75%	
RD Portofoliu SRL	Romania	Equity 1	100%	25%		Equity 1	100%	25%	E2
Same Deutz Fahr Finance	France	Full	100%	25%		Full	100%	25%	
Same Deutz Fahr Finance Limited	United Kingdom	Full	100%	25%		Full	100%	25%	
Société Alsacienne De Développement Et D'Expansion	France				S2	Full	100%	50%	
Srei Equipment Finance Limited	India				S2	Equity 2	50%	12.50%	
Stichting Effecten Dienstverlening	Netherlands								S3
Syigma Bank Polska SA (Spolka Akcyjna)	Poland				S4	Equity	28.35%	28.35%	E3
Teb Arval Arac Filo Kiralama A.S.	Turkey	Equity	49.99%	24.99%		Equity	25%	25%	
Teb Faktoring A.S.	Turkey	Full	100%	48.72%		Full	100%	48.72%	V1
Teb Holding A.S.	Turkey	Full	50%	49.99%		Full	50%	50%	
Teb Portfoy Yonetimi A.S.	Turkey	Full	79.63%	39.11%		Full	79.63%	39%	V1
Teb Sh A	Serbia	Full	100%	49.99%		Full	100%	50%	
Teb Yatirim Menkul Degerler A.S.	Turkey	Full	100%	48.72%		Full	100%	48.72%	V1
The Economy Bank Nv	Netherlands								S3
TKB BNP Paribas Investment Partners Holding BV	Netherlands								S2
Turk Ekonomi Bankasi A.S.	Turkey	Full	76.22%	48.72%		Full	76.22%	48.72%	V1
Von Essen Gmbh & Co. Kg Bankgesellschaft	Germany	Full	100%	100%		Full	100%	100%	
<b>Rest of the world - Special Purpose Entities</b>									
Scaldis Capital Limited	Jersey	Full				Full			
Scaldis Capital Llc	United States								S1
Scaldis Capital Ltd	Ireland				S3	Full			
Tcg Fund I, L.P.	Cayman Islands								S1

**New entries (E) in the scope of consolidation**

- E1 Passing qualifying thresholds as defined by BNP Paribas Fortis (see note 1.c.1)  
E2 Incorporation  
E3 Purchase, gain of control or significant influence

**Removals (S) from the scope of consolidation**

- S1 Cessation of activity (including dissolution, liquidation)  
S2 Disposal, loss of control or loss of significant influence  
S3 Entities removed from the scope because < qualifying thresholds (see note 1.c.1)  
S4 Merger, Universal transfer of assets and liabilities

**Variance (V) in voting or ownership interest**

- V1 Additional purchase  
V2 Partial disposal  
V3 Dilution  
V4 Increase in %

**Miscellaneous**

- D1 Consolidation method change not related to fluctuation in voting or ownership interest

**Prudential scope of consolidation**

- 1 Controlled but non material entities consolidated under the equity method as associates (see note 1.c.1)  
2 Jointly controlled entities under proportional consolidation for prudential purposes.

Full - Full consolidation  
Equity - Equity Method

## **5.i 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 30 June 2016.

# Report of the accredited statutory auditors

STATUTORY AUDITORS' REPORT OF THE COMPANY BNP PARIBAS FORTIS SA/NV ON THE REVIEW OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016

*Introduction*

We have reviewed the accompanying Interim Consolidated Financial statements. The Interim Consolidated Financial statements comprise the profit and loss account and the statement of net income and changes in fair value of assets and liabilities recognized directly in equity for the first six months' period of 2016, the Balance sheet at 30 June 2016, the Statement of changes in shareholders' equity between 1 January 2015 and 30 June 2016, the Minority interests between 1 January 2015 and 30 June 2016, the Statement of cash flow for the first half year 2016 and notes 1 to 5.

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

*Scope of our review*

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

*Conclusion*

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

*Emphasis of Matter regarding certain pending legal proceedings*

Without further qualifying our conclusion, we draw the attention to the fact that, as described in note 5.a to the Interim Consolidated Financial Statements, and as a result of 2008 events having impacted the Fortis group, a number of claimants have initiated legal actions against the former Fortis group, including BNP Paribas Fortis SA/NV and/or certain members of their boards of directors and management. The ultimate outcome of these matters and the potential consequences for BNP Paribas Fortis SA/NV and its directors cannot presently be determined, and therefore no provisions have been recorded in the Interim Consolidated Financial Statements.

Brussels, 29 August 2016

The Joint Statutory Auditors

PwC Reviseurs d'Entreprises scrl/ Bedrijfsrevisoren bcvba  
Represented by

Damien Walgrave  
Reviseur d'Entreprises / Bedrijfsrevisor

Deloitte Reviseurs d'Entreprises sc sous forme d'une srl/ Bedrijfsrevisoren bv ovv cvba  
Represented by

Y. Dehogne  
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Reviseur d'Entreprises / Bedrijfsrevisor