CONSOLIDATED FINANCIAL STATEMENTS

BNP Paribas Cardif

31 December 2017

BNP PARIBAS CARDIF

The insurer for a changing world

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1. Balance sheet assets

In millions of euros	Notes	31 December 2017	31 December 2016	31 December 2015
Goodwill	5.1	248	192	194
Value of insurance company contract portfolios acquired	5.2	79	2	46
Other intangible assets	5.3	289	207	223
Intangible assets		**616**	**401**	**463**
Investment property	5.4	3 106	2 932	2 218
Held-to-maturity financial assets	5.5	4 228	5 543	7 185
Available-for-sale financial assets	5.6	109 537	108 763	104 095
Financial investments at fair value through profil and loss	5.7	33 760	29 587	26 729
Loans and receivables	5.8	1 837	1 918	1 998
Derivative instruments and separate embedded derivatives	5.9	379	339	182
Investments in equity-method investment entities	5.15	407	324	316
Unit-linked investments	5.10	48 044	42 505	39 561
Investments		**201 298**	**191 911**	**182 284**
Equity-method investments	5.15	**886**	**965**	**851**
Reinsurers' share in insurance and investment contracts liabilities	**5.22**	**3 169**	**3 020**	**3 045**
Tangible assets	5.16	378	382	392
Deferred acquisition costs and equivalent	5.17	1 503	1 439	1 308
Deferred tax assets	6.7	162	125	132
Receivables from direct insurance and reinsurance operations	5.18	936	935	910
Current tax receivables	6.7	255	140	34
Other receivables	5.19	1 101	1 386	833
Other assets		**4 335**	**4 407**	**3 609**
Cash and cash equivalents	**5**	**1 638**	**916**	**1 369**
TOTAL ASSETS		211 942	201 620	191 621

2. Balance sheet liabilities

In millions of euros	Notes	31 December 2017	31 December 2016	31 December 2015
Share capital	5.20	150	150	150
Additional paid-in capital		2 988	2 988	2 988
Changes in assets and liabilities recognised directly in equity		1 062	1 277	1 175
Non-distributed reserves		(265)	(333)	755
Net income for the period attributable to shareholders		1 007	498	11
Shareholders' equity - Group share		**4 942**	**4 580**	**5 079**
Minority interests		**46**	**40**	**45**
TOTAL SHAREHOLDERS' EQUITY		**4 988**	**4 620**	**5 124**
Subordinated debt	5.21	4 574	3 929	3 080
Financial debts due to banking sector companies	5.21	1 556	2 303	2 095
Financing debts	**5.21**	**6 130**	**6 232**	**5 175**
Technical liabilities arising from insurance contracts	5.22	90 267	88 339	85 107
Technical liabilities arising from unit-linked insurance contracts	5.22	44 568	38 839	35 938
Technical liabilities arising from insurance contracts	**5.22**	**134 835**	**127 178**	**121 045**
Technical liabilities arising from investment contracts with discretionary participating feature	5.22	29 335	28 542	27 913
Technical liabilities arising from unit-linked investment contracts	5.22	3 534	3 624	3 500
Technical liabilities arising from investment contracts	**5.22**	**32 869**	**32 166**	**31 413**
Policyholders' surplus reserve	**5.23**	**16 528**	**16 673**	**15 125**
TECHNICAL LIABILITIES ARISING FROM INSURANCE AND INVESTMENT CONTRACTS		**184 232**	**176 017**	**167 583**
Provisions for contingencies and charges	**5.24**	**292**	**291**	**244**
Deferred tax liabilities	6.7	228	203	232
Liabilities due to banking sector companies	5.25	10 466	9 135	8 437
Liabilities from direct insurance and reinsurance operations	5.26	3 253	3 293	3 430
Current tax liabilities	6.7	54	86	137
Derivative instruments liabilities	5.9	405	390	108
Other debts	5.19	1 894	1 353	1 151
Other liabilities		**16 300**	**14 460**	**13 495**
TOTAL LIABILITIES		**211 942**	**201 620**	**191 621**

3. Profit and loss account

In millions of euros	Notes	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Gross written premiums		22 188	20 133
Change in unearned premiums		(139)	(76)
Gross earned premiums		**22 049**	**20 057**
Income from other activities		**20**	**28**
Investment income		4 541	4 688
Investment expense		(411)	(531)
Gains and losses on disposed invested assets, net of depreciation and amortisation reversals		130	169
Share of earnings of equity-method investment entities	5.15	16	19
Net change in investments at fair-value through profit or loss		3 624	1 050
Net change in investment impairment		152	37
Investment income excluding financing expense	**6.1**	**8 052**	**5 432**
Technical charges related to contracts	6.2	(24 789)	(20 368)
Net result from ceded reinsurance	6.3	(25)	(98)
Expenses from other activities	6.4	(188)	(182)
Acquisition costs on contracts	6.4	(2 796)	(2 645)
Depreciation on acquired portfolios		-	(43)
Administration expenses	6.4	(1 223)	(1 149)
Other current operating income and expenses		13	(4)
Other current income and expenses		**(29 008)**	**(24 489)**
Other non-current operating income and expenses	6.5	375	2
Pre-tax operating income		**1 488**	**1 030**
Financing expenses	6.6	(160)	(168)
Share of earnings of equity-method entities	5.15	81	73
Corporate income tax	6.7	(402)	(441)
NET CONSOLIDATED INCOME		**1 007**	**494**
Net income attributable to minority interests		-	4
Net income attributable to equity shareholders		**1 007**	**498**

4. Statement of net income and changes in assets and liabilities recognised directly in equity

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Net consolidated income	**1 007**	**494**
Changes in foreign translation adjustments	(79)	8
Changes in fair value of available-for-sale financial assets	(595)	1 396
Changes in fair value of available-for-sale financial assets reported in net income	2	(162)
Changes in deferred fair value of hedging instruments	19	5
Changes in shadow accounting, net of deferred tax	496	(1 156)
Changes in equity-method investments	(61)	8
Items that are or may be reclassified to profit or loss	**(218)**	**99**
Remeasurement gains (losses) related to post-employment benefits plans	3	(4)
Changes in equity-method investments	-	-
Items that will not be reclassified to profit or loss	**3**	**(4)**
CHANGES IN ASSETS AND LIABILITIES RECOGNISED DIRECTLY IN EQUITY	**(215)**	**95**
TOTAL NET INCOME AND CHANGES IN ASSETS AND LIABILITIES RECOGNISED DIRECTLY IN EQUITY	792	590
Attributable to equity shareholders	792	599
Attributable to minority interests	(1)	(10)

5. Statement of changes in shareholders' equity

In millions of euros	Attributable to shareholders						
	Share capital	Additional paid-in capital	Total changes recognised directly in equity	Non-distributed reserves	Total	Minority interests	Total equity
CAPITAL AND RETAINED EARNINGS AS AT 31 DECEMBER 2015	**150**	**2 988**	**1 175**	**766**	**5 079**	**45**	**5 124**
Changes in assets and liabilities recognised directly in equity (1)	-	-	102	-	102	(7)	95
Net Consolidated income (2)	-	-	-	498	498	(3)	494
Total net income and changes in assets and liabilities recognised directly in equity (1) + (2)	**-**	**-**	**102**	**498**	**600**	**(10)**	**590**
Dividend distribution and interim payments (a)	-	-	-	(1 100)	(1 100)	-	(1 100)
Movements in own equity	-	-	-	1	1	4	5
Movements in consolidation scope	-	-	-	-	-	1	1
Changes in the holding companies without loss of control	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
CAPITAL AND RETAINED EARNINGS AS AT 31 DECEMBER 2016	**150**	**2 988**	**1 277**	**165**	**4 580**	**40**	**4 619**
Changes in assets and liabilities recognised directly in equity (3)	-	-	(215)	-	(215)	(1)	(216)
Net consolidated income (4)	-	-	-	1 007	1 007	-	1 007
Total net income and changes in assets and liabilities recognised directly in equity (3) + (4)	**-**	**-**	**(215)**	**1 007**	**793**	**(1)**	**791**
Dividend distribution and interim dividend payments (b)	-	-	-	(456)	(456)	-	(456)
Movements in own equity	-	-	-	-	-	-	-
Movements in consolidation scope	-	-	-	-	-	(2)	(2)
Changes in the holding companies without loss of control	-	-	-	27	27	9	36
Other changes	-	-	-	-	-	-	-
CAPITAL AND RETAINED EARNINGS AS AT 31 DECEMBER 2017	150	2 988	1 062	742	4 942	46	4 988

(a) of which €850 million in interim dividends in 2016

(b) of which €345 million in interim dividends in 2017

6. Cash flow statement

As permitted by ANC ("Autorité des Normes Comptables" or French accounting standards body) recommendation No 2013-05, the BNP Paribas Cardif Group has used the indirect method to prepare the cash flow statement.

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Pre-tax operating income	**1 488**	**1 030**
Gain and losses on disposed investments	(599)	(129)
Net depreciation/amortisation expense	120	(158)
Change in deferred acquisition costs	(80)	(53)
Change in depreciation	(227)	(226)
Net addition to technical provisions for insurance and financial liabilities	9 415	6 890
Net addition to other provisions	4	33
Change in value of financial instruments at fair value through profit and loss (non cash and cash equivalents)	(1 474)	(540)
Share in associates and joint-venture investments	(16)	(19)
Other items without cash out in operating income	622	(258)
Correction of items included in operating income with no corresponding cash flows and reclassification of financing and investment flows	**7 765**	**5 540**
Dividends received from equity-method entities	66	63
Change in operating receivables and liabilities	861	1 201
Change in securities sold or received under repurchase agreements	29	(31)
Net cash generated by other assets and liabilities	(55)	(68)
Net taxes paid	(444)	(599)
Net cash not related to income from operating activities	**457**	**566**
NET CASH AND EQUIVALENTS GENERATED BY OPERATING ACTIVITIES	**9 710**	**7 136**
Net cash related to movements in consolidation scope	**189**	**(79)**
Net cash on disposals and repayments of financial assets	**19 946**	**21 522**
Net cash related to acquisitions or issues of financial assets	**(29 210)**	**(28 492)**
Net cash related to acquisitions and disposals of tangible and intangible assets	**(40)**	**271**
NET CASH AND EQUIVALENTS GENERATED BY INVESTMENT ACTIVITIES	**(9 115)**	**(6 778)**
Issuance of capital instruments	36	58
Dividends paid	(462)	(1 100)
Net cash from transactions with shareholders and members	**(426)**	**(1 042)**
Cash generated by financing debts issuance	2 381	(6)
Cash allocated to financing debts repayments	(2 457)	286
Interest paid on financing debts	(68)	(89)
Net cash related to Group financing	**(144)**	**191**
NET CASH AND EQUIVALENTS GENERATED BY FINANCING ACTIVITIES	**(569)**	**(851)**
EFFECT OF MOVEMENT IN EXCHANGES RATES ON CASH AND EQUIVALENTS	**(11)**	**(6)**
BALANCE OF CASH AND EQUIVALENTS AT THE START OF THE PERIOD	**616**	**1 115**
Net cash generated by operating activities	9 710	7 136
Net cash generated by investment activities	(9 114)	(6 779)
Net cash generated by financing activities	(569)	(851)
Effect of changes in foreign exchange rates on cash and cash equivalents	(11)	(6)
BALANCE OF CASH AND EQUIVALENTS AT THE END OF THE PERIOD	632	615
Asset cash and cash equivalents (Note 1)	1 638	916
On demand debts (Note 5.25)	(1 010)	(300)
Of which related debts	4	-
Liability cash and cash equivalents	(1 007)	(300)

7. Notes to the consolidated financial statements

NOTE 1 ACCOUNTING PRINCIPLES AND METHODS

1.1 NORMATIVE ENVIRONMENT

1.1.1 IFRS first-time application

The financial statements presented below as at 31 December 2017 are published for the first time by the BNP Paribas Cardif Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

In accordance with IFRS 1 relating to the first-time adoption of IFRS, the 2016 financial statements published under French GAAP have been restated to comply with IFRS applicable in 2017 in order to be compared with the 2017 financial statements. The balance sheet restated as at 1 January 2016 therefore represents the balance sheet at the date of the first application of IFRS as defined by IFRS 1 (date of transition to IFRS).

In order to explain the impact of the transition to IFRS on the BNP Paribas Cardif Group's financial position at the end of the 2016 financial year, note 2 "Impact of transition to IFRS" includes the reconciliations required by IFRS 1, which show the impact of the transition to IFRS on balance sheet assets and liabilities, consolidated equity and the profit and loss account.

The BNP Paribas Cardif Group has chosen the IFRS 1 option to retain the valuations already used in the IFRS reporting to BNP Paribas Group to which it belongs, provided that they are compatible with the preparation of the consolidated financial statements for its subgroup.

1.1.2 Applicable accounting standards/statement of compliance

In accordance with Regulation EC No 1606/2002, the BNP Paribas Cardif Group consolidated financial statements have been prepared in accordance with the IAS/IFRS and IFRIC interpretations applicable as of 31 December 2017 as adopted by the European Union. This standard is available on the European Commission website[1].

The BNP Paribas Cardif Group did not choose to adopt in advance the new standards, amendments and interpretations adopted by the European Union wherever their application in 2017 was optional.

The financial statements are presented on the basis of Recommendation No 2013-05 of the French Accounting Standards Authority (*Autorité des Normes Comptables*, ANC) of 7 November 2013 with respect to the format of the consolidated financial statements of insurance institutions established in accordance with international accounting standards.

[1] The full set of standards adopted for use in the European Union can be found on the website of the European Commission at: http://ec.europa.eu/internal_market/accounting/ias_en.htm#adopted-commission

1.1.3 New accounting standards issued but not yet applicable

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" published by the IASB in July 2014 will replace IAS 39 "Financial Instruments: Recognition and Measurement" for the classification and measurement of financial instruments.

IFRS 9 defines new principles for the classification and measurement of financial instruments, impairment for credit risk of financial assets and general hedge accounting (or micro-hedging).

IFRS 9, which was adopted by the European Union on 22 November 2016, is mandatory for annual periods beginning on or after 1 January 2018 and will be applicable by European companies in all business sectors, except for insurance companies, which are, under certain conditions, authorised to postpone its application until 1 January 2021 at the latest.

IFRS 9 “Prepayment Features with Negative Compensation” was amended by the IASB in October 2017 to clarify the classification of financial assets with prepayment options at the borrower’s initiative leading the borrower to prepay the instrument at an amount less than the unpaid principal and interest owed. These amendments will be mandatory for annual periods beginning on or after 1 January 2019. An early application will be possible after adoption by the European Union.

Option for deferred application of IFRS 9

The amendment to IFRS 4 approved by Regulation No 2017-1988 of 3 November 2017 states that the following conditions are to be met by the insurance company to receive the temporary exemption (the so-called "deferral" option):

- the insurance company must not have previously applied any version of IFRS 9;
- its activities must be primarily related to insurance, and this condition is deemed to be met if the carrying amount of insurance-related liabilities represents more than 90% of the total liabilities on the balance sheet.

At 1 January 2016, the BNP Paribas Cardif Group complied with these two conditions[2] and therefore chose to defer the application of IFRS 9 to 1 January 2021, along with the "Prepayment option" amendment.

Study of the implementation of IFRS 9 within the BNP Paribas Cardif Group

The implementation of IFRS 9 in companies belonging to BNP Paribas Group relies on a project structure that covers the various aspects of the standard. Steering committees and technical committees dedicated to the various issues related to the implementation of the new standard have been established.

Accordingly, at BNP Paribas Cardif, the project structure adopted covers the classification and measurement of financial assets, the analysis of business models and the provisioning model.

[2] The balance sheet at 1 January 2016 corresponds to the BNP Paribas Cardif Group's first IFRS balance sheet. At that date, the liabilities related to insurance contracts, investment contracts and other liabilities related to the insurance business (including regulatory capital financing debts, deferred taxes and asset-related derivatives) represented 99% of total liabilities on the balance sheet.

The classification and measurement project is co-managed by the Finance Department and the Risk Management Department and has dedicated governance.

The work relating to the analysis of business models and the contractual cash flows characteristics of the BNP Paribas Cardif Group's assets is in progress. The work has been mostly completed for domestic markets but has yet to be rolled out across the international scope.

The work performed has also enabled the BNP Paribas Cardif Group to define its methodology for the provisioning model to comply with the one adopted by BNP Paribas Group, whose operational implementation is underway.

The work to implement IFRS 9 was initially organised to allow the first-time application of IFRS 9 as of 1 January 2018, along with the rest of BNP Paribas Group. Starting in the second half of 2017, after the application deferral was obtained, the objective was to define how to provide the information required in the notes during the transitional period, in particular the information relating to assets that meet or exceed the SPPI test ("Solely Payment of Principal and Interests") and the information related to the credit quality of bond assets (excluding assets at fair value through profit or loss).

As for hedge accounting, the analyses carried out to date have led BNP Paribas Group to maintain the hedge accounting principles under IAS 39 until the new macro hedging standard comes into application, in accordance with the option allowed for that purpose by IFRS 9. Consequently, in accordance with the accounting methods defined by BNP Paribas Group, BNP Paribas Cardif does not intend to apply the new provisions of IFRS 9 regarding hedge accounting.

The preparatory work to implement the new standard at BNP Paribas Cardif will be spread over the deferral period and will take into account the BNP Paribas Group's position at the date that BNP Paribas Cardif applies IFRS 9 for the first time (for hedge accounting in particular).

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"). However, revenues from lease contracts, insurance contracts or financial instruments are excluded from the scope of this standard.

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

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

The analysis of the standard and the identification of its potential impacts was performed at BNP Paribas Group level and BNP Paribas Cardif participated in that work. The implementation of IFRS 15 within BNP Paribas Group is based on a project structure managed by the Group Finance Department. The analysis of the standard and the documentation and identification of its potential impacts were finalised in 2017.

At the BNP Paribas Cardif Group level, the new standard only applies to revenues generated by service activities and service entities are few in number. For these entities, the studies carried out in consultation with the BNP Paribas Group show that current revenue recognition methods are either in compliance with the principles of IFRS 15 or lead to a result that is slightly different from a strict application of IFRS 15.

IFRS 16 "Leases"

IFRS 16 “Leases”, which was issued in January 2016, will supersede IAS 17 “Leases” and the interpretations relating to the accounting of these contracts.

The new definition of leases relies on both the identification of an asset and the right to control the identified asset by the lessee.

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

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

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 its publication, the Group started to analyse the standard and define its potential impacts. These actions are still underway.

IFRS 17 "Insurance Contracts"

IFRS 17 "Insurance Contracts", which replaces the current standard (IFRS 4), was issued by the IASB on 18 May 2017, for mandatory application on 1 January 2021, and must first be adopted by the European Union for application in Europe.

The standard provides for a "Best Estimate" valuation of the liability, which corresponds to probable discounted future cash flows, in addition to a risk adjustment that covers estimate uncertainties and a contractual services margin representing expected future profits from the contract.

This approach, which corresponds to the general model, is adapted for participatory contracts that can under conditions receive more favourable treatment using a specific model (the "Variable Fee Approach" or VFA), in which the contractual services margin captures the impact of changes in estimates on both liabilities and underlying assets.

Short-term contracts may also use a simplified approach (the "Premium Allocation Approach"), which is similar to the deferral of premiums as currently practised for non-life policies. This approach can also be applied to longer-term contracts if it leads to results similar to the general model.

For the most part, BNP Paribas Cardif's participating contracts should be able to be valued according to the Variable Fee Approach. Borrower insurance (ADE or “assurance des emprunteurs”) and protection insurance contracts should be covered by the general model or the simplified approach if the conditions are met.

In addition to the expected changes in the valuation of insurance liabilities and reinsurance assets, the new standard should also lead to significant changes in the recognition of insurance contract revenue and the presentation of income and expenses related to them in the Statement of Comprehensive Income.

In the first half of 2017, BNP Paribas Cardif started a project to get prepared to the implementation of the standard, which should take place over the 2017–2020 period.

1.2 CONSOLIDATION PRINCIPLES AND METHODS

1.2.1 Scope of consolidation

Companies included in the scope of consolidation

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

Date of entry into the scope of consolidation

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

Sale of subsidiaries and affiliates

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

Profits and losses from sales of equity interests are recorded in the income statement under "Other non-current operating income and expenses".

1.2.2 Consolidation methods

Companies controlled by the BNP Paribas Cardif Group are fully consolidated. The Group 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, the Group 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 enable them to finance their activities without subordinated financial support.

For these entities, the analysis of control shall consider the original purpose of the entity, the risks to which the entity is designed to be exposed and to what extent the BNP Paribas Cardif Group absorbs the related variability. The assessment of control shall consider all facts and circumstances able to determine the BNP Paribas Cardif Group's 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 control, the BNP Paribas Cardif Group 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 taken.

Where the BNP Paribas Cardif Group contractually holds the decision-making power, for instance where the BNP Paribas Cardif Group 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 the Group is acting on its own account and that it thus has control over those entities.

Whenever the BNP Paribas Cardif Group 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 return) be taken unanimously, the BNP Paribas Cardif Group exercises joint control over the activity.

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

Companies under exclusive control

Companies under exclusive control are fully consolidated.

In the full consolidation method, the assets and liabilities of the consolidated company form an integral part of the assets and liabilities of the BNP Paribas Cardif Group, whereas the share of equity not directly or indirectly attributable to the parent company (called "non-controlling interests" or "minority interests") is handled separately.

The calculation of these minority interests takes into account the outstanding cumulative preferred shares classified as equity instruments issued by subsidiaries, when such shares are held outside the BNP Paribas Cardif Group.

Minority interests are presented separately in the consolidated profit and loss account and balance sheet within consolidated shareholders' equity.

Companies under joint control

Where the jointly controlled activity is not structured through a separate vehicle or where the partners have rights to the assets and obligations for the liabilities of the jointly controlled activity, the BNP Paribas Cardif Group accounts for its share of the assets, liabilities, revenues and expenses in accordance with the applicable IFRS.

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 consolidated using the equity method applied to companies over which the Group exercises significant influence.

Companies over which the Group exercises significant influence

Companies over which the Group 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 a company without exercising control. Significant influence is presumed to exist when the BNP Paribas Cardif Group holds, directly or indirectly, 20% or more of the voting rights of a company.

Interests of less than 20% are excluded from consolidation unless they represent a strategic investment and the BNP Paribas Cardif Group effectively exercises significant influence. This applies to companies developed in partnership with other groups, where the BNP Paribas Cardif Group 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 in balance sheet assets under "equity-method investments" and in the relevant component of shareholders' equity in the balance sheet liabilities. 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 subject to an impairment test by comparing its recoverable value of the company consolidated under the equity method (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 the Group's share of the losses of an equity-method entity equals or exceeds the carrying amount of its investment in this entity, the Group 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 the BNP Paribas Cardif Group has a legal or constructive obligation to do so, or has made payments on behalf of this entity.

Consolidated insurance company investment entities

For the purposes of their financial management activity, insurance companies are required to invest in entities that correspond economically to investment entities such as mutual funds and other vehicles for collective investments in securities and real estate companies or funds.

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

As provided for in ANC Recommendation No 2013-05, real estate investment property companies (SCIs) and mutual funds consolidated under the equity method are reclassified as insurance activity investments.

1.2.3 Harmonisation of accounting methods

The BNP Paribas Cardif Group is part of the scope of consolidation of BNP Paribas Group.

In accordance with IFRS 10 "Consolidated Financial Statements" and given the first-time application option selected, the BNP Paribas Cardif Group's consolidated financial statements are prepared in accordance with international accounting standards using accounting methods that are consistent with those applied by BNP Paribas Group for transactions and other similar events occurring under similar circumstances.

1.2.4 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.

1.2.5 Translation of financial statements expressed in foreign currencies

The consolidated financial statements of the BNP Paribas Cardif Group 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 closing date. Income and expense items are translated at the average exchange rate over the period.

The same method is applied to the financial statements of subsidiaries located in countries with hyperinflationary economies after adjusting for the effects of inflation by applying a general price index. To date, the BNP Paribas Cardif Group has no subsidiaries located in countries considered hyperinflationary.

Differences arising from the translation of balance sheet items and profit and loss items are recorded in shareholders' equity under "Changes in assets and liabilities recognised directly in equity" for the portion attributable to shareholders, and in "Minority interests" for the portion attributable to third-party investors.

Should the liquidation or disposal of some or all of an interest held in a foreign entity located outside the euro zone lead 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 is recognised in the profit and loss account.

Should the percentage interest 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 pro-rata to the percentage of the share capital held, if the company is fully consolidated.

For entities consolidated under the equity method, the translation adjustment is recognised in the profit and loss account for the portion related to the percentage interest sold.

In March 2017, the IFRS Interpretation Committee ("IFRS IC", formerly IFRIC) provisionally decided that it would not be appropriate to create an exception to IFRS 1 to allow a subsidiary that moves to IFRS after its parent company to retain the translation differences shown in the financial statements of its parent company for its own financial statements.

As a result of that decision, the Group, having adopted the option offered by IFRS 1, recorded that the translation reserves of the Group's entities in the opening balance sheet of 1 January 2016 were not reconstituted.

As a result of this option, the gain or loss recorded on the subsequent disposal of foreign operations will include the translation differences subsequent to the date of transition to IFRS but will exclude the prior translation differences.

1.2.6 Business combinations

Since the BNP Paribas Cardif Group chose the IFRS 1 option to maintain the valuations already used in the context of IFRS reporting to BNP Paribas Group provided that they are compatible with the preparation of consolidated financial statements at the level of its sub-group, business combinations that occurred before the date of BNP Paribas Cardif's transition to IFRS were kept at their value in the BNP Paribas Group financial statements.

Identification and initial valuation of assets and liabilities acquired

Acquisition method

Business combinations are accounted for using the acquisition method.

Under this method, the acquiree’s identifiable assets acquired and liabilities assumed are measured at the fair value (or its equivalent) at the acquisition date.

As an exception, non-current assets classified as assets held for sale are accounted for at fair value less costs to sell.

The acquiree's contingent liabilities are recognised in the consolidated balance sheet only if they represent a current obligation on the acquisition date and their fair value can be measured reliably.

Cost

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 acquisition

Costs directly attributable to the business combination are treated as a separate transaction and recognised through profit or loss.

Contingent consideration

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.

Business combinations achieved in stages

On the acquisition date, any previously held equity interest in the acquiree is remeasured at its fair value through profit or loss.

If a business combination is achieved through more than one exchange transaction (acquisition in stages), the identifiable assets and liabilities of the acquiree are revalued at market value at the effective date of control.

Subsequent valuation of acquired assets and liabilities

The Group may recognise any adjustments to the provisional accounting within 12 months of the acquisition date.

1.3 GOODWILL AND GOODWILL IMPAIRMENT

1.3.1 Initial measurement of goodwill

Goodwill represents the difference between the cost of the combination and the Group's interest in the net fair value of the identifiable assets and liabilities acquired, such fair value being determined at the effective date of control.

Positive goodwill is recognised in the acquirer’s balance sheet while negative goodwill is recognised immediately through profit or loss.

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

Minority interests correspond to the portion of the revalued net assets of the acquiree that does not belong to the Group.

The BNP Paribas Cardif Group did not select the option to value minority interests at fair value, so a fraction of goodwill thus determined is allocated to minority interests (the so-called "full goodwill" method).

However, like the BNP Paribas Group, the BNP Paribas Cardif Group can also choose, for each business combination, to measure minority interests at their fair value, and a fraction of the goodwill thus determined is then allocated to them.

1.3.2 Impairment tests of goodwill of fully consolidated companies

The BNP Paribas Cardif Group regularly conducts impairment tests on goodwill allocated to each homogeneous group of businesses.

Cash-generating units

The BNP Paribas Cardif Group has split all its activities into cash-generating units representing major business lines[3], which correspond in practice to geographic regions.

This split is consistent with the Group's organisational structure and management methods, 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

Tests to ensure that the goodwill allocated to all cash-generating units is not impacted by lasting impairments are carried out whenever there is an indication that a unit may be impaired, and at least once a year,

The carrying amount of the unit is compared with its recoverable amount. If the recoverable amount is less than the carrying amount, an irreversible impairment loss is recognised. This impairment is equal to the difference between the carrying amount and the recoverable amount of the relevant cash-generating unit.

Recoverable amount and value in use 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.

[3] The term defined by IAS 36 is "Cash Generating Unit".

Fair value is the price that would be obtained from selling the unit at the market conditions prevailing at the valuation date, 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 Group 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.

1.4 VALUE OF INSURANCE COMPANY CONTRACT PORTFOLIOS ACQUIRED

1.4.1 Initial value of contract portfolios

In accordance with IFRS 3 "Business Combinations", insurance contracts and investment contracts with discretionary participating feature acquired in a business combination, i.e. insurance liabilities assumed and assets acquired under insurance contracts, are valued at their fair value at the acquisition date.

The fair value of the insurance rights acquired is equal to the discounted value of the estimated future profits related to the existing contracts at the date of the acquisition. The present value of future profits takes into account the cost of capital and is estimated using actuarial assumptions based on projections made at the acquisition date, using a discount rate with a risk premium.

The BNP Paribas Cardif Group has adopted the IFRS 4 option which permits to use an expanded presentation that splits the fair value of acquired insurance contracts into two components:

- liabilities measured according to the insurer's accounting policies related to the insurance contracts it issues and;
- intangible assets representing the difference between the fair value of the contractual insurance rights acquired and the insurance obligations assumed and the liability measured according to the insurer's accounting methods.

1.4.2 Subsequent value of insurance company portfolios

The value of acquired insurance contract and investment contract portfolios with discretionary participation recognised in a business combination is amortised based on the recognition of the profits over the life of the contract portfolio. If specific monitoring of acquired contracts cannot be implemented, a straight-line depreciation over the estimated remaining term of the contracts is used.

A recoverability test is performed each year based on experience and expected changes in key assumptions.

1.5 TANGIBLE AND INTANGIBLE ASSETS

Fixed assets included in the BNP Paribas Cardif Group's balance sheet include tangible assets as property, plant and equipment (including investment properties) and intangible operating assets used for administrative purposes or for the production of services.

1.5.1 Initial valuation of fixed assets

Tangible 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

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

Expenditure that is regarded as upgrading the software or extending its useful life is included in the initial acquisition or development cost.

On the contrary, software maintenance costs are not capitalised and are recognised in the income statement as incurred.

Exclusive distribution agreements

The value of an exclusive distribution agreement represents the value of expected future flows of new business within the network of a partner covered by that agreement. These intangible assets are estimated according to the terms and conditions specific to each distribution agreement.

1.5.2 Subsequent valuation of fixed assets

At the closing date, fixed assets are measured at cost less accumulated depreciation or amortisation and any impairment losses recognised.

Depreciation and amortisation of fixed assets

The depreciable amount of tangible and intangible assets is calculated after deducting the residual value of the asset.

Only assets leased by the Group as the lessor under operating leases are presumed to have a residual value, as the useful life of tangible and intangible assets used in operations is generally the same as their economic life.

Fixed assets are depreciated or amortised using the straight-line method over the useful life of the asset. Depreciation and amortization expenses are recognised in the income statement in expenses according to their intended use.

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.

Softwares are amortised depending on their type, over a period of no more than eight years for infrastructure developments, and over a three or five year period for software developed primarily for customer services.

Exclusive distribution agreements are amortised over the life of the distribution agreement, taking into account any residual value.

Fixed asset impairment tests

Non-depreciable assets are tested for impairment at least annually, using the same method as for goodwill allocated to cash-generating units.

Depreciable tangible and intangible assets are tested for impairment if there is an indication of potential impairment at the closing date.

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 as corresponding expenses in the fixed asset category.

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.

1.5.3 Gains and losses on disposals of fixed assets

Gains or losses on disposals of operating assets are recorded in the profit and loss account under "Other current operating income and expenses".

1.5.4 Operating properties

Properties used in operations are recognised as investment properties measured at amortised cost (see below).

In accordance with the recommendation of the CNC working groups on the implementation of IFRS by insurance organisations (January 2007), internal rents and corresponding revenues recognised in the insurance companies' financial statements are eliminated without effect on the policyholders’ benefit participation.

1.6 INSURANCE COMPANY INVESTMENTS

1.6.1 Real estate investments

The "Real estate investments" item includes all real estate assets, with the exception of shares of real estate companies used to support unit-linked insurance contracts, which appear under the heading "Investments in unit-linked contracts" and shares of real estate companies, both listed and unlisted, classified as "Available-for-sale financial assets".

Investment property

Investment properties correspond to real estate held directly by insurance companies and consolidated real estate companies. They consist of land, buildings and, in certain cases, business assets acquired with the buildings.

Initial valuation of investment properties

Land and buildings appear on the balance sheet at their acquisition cost, which includes the directly attributable acquisition costs.

Under the component approach, the total cost of buildings is divided among its four different components: shell, facade, general and technical installations, fixtures and fittings, with each component being accounted for separately according to its useful life or the rate at which it provides economic benefits.

Real estate investments in the hotel industry can include acquired leaseholds rights that are non-depreciable and accessory to lands and constructions. Those leaseholds rights, under lease management or management contracts, are elements of the investments backing the general fund for insurance commitments, and generate financial yield.

Subsequent expenditure

Subsequent expenditures are capitalised if they can be measured reliably and are likely to generate future economic benefits.

Depreciation period of investment properties

The depreciation period of the components used by the Group, defined individually for each component, depends on the category of the building (prestige building or other buildings) and its intended use (offices, retail, housing, car parks).

The depreciation periods used by the Group are as follows:

- shell (depreciation period between 50 and 80 years);
- facades (25 to 30 years);
- general and technical installations (20 to 25 years);
- fixtures and fittings (12 to 15 years).

Subsequent valuation of investment properties

Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation or amortisation and any impairment losses.

At the closing date, the fair value of the investment properties corresponds to their realisable value, which is determined on the basis of a five-year appraisal carried out by an independent expert approved by the national supervisory authorities (in France, the *Autorité de Contrôle Prudentiel et de Résolution*). Between two appraisals, the realisable value is updated at least annually.

Creation of a provision for permanent impairment

If, at the closing date, the realisable value of the properties is more than 20% lower than their carrying amount, a special study is conducted to determine whether it is necessary to create a provision for permanent impairment.

The creation of a provision for permanent impairment makes it possible to reduce the carrying amount of the buildings to their realisable value and recognise the impairment loss through profit or loss.

If the realisable value of investment properties subsequently becomes higher than their carrying amount, the provision for permanent impairment is reversed through profit and loss.

Gains and losses on disposals of investment properties

Gains or losses on the sale of investment properties are recorded in the income statement under "Capital gains and losses on disposal of investments net of reversals of impairments and amortisation".

Shares of listed real estate companies

The shares of non-consolidated listed real estate companies are classified as available-for-sale financial assets and follow the rules of IAS 39 applicable to that class of assets.

Shares of unlisted real estate companies

Shares of unlisted real estate companies and their related receivables (notably current accounts and advances from partners) are treated as a global investment and classified as available-for-sale financial assets. The amount of this investment is valued in relation to the market value of the underlying assets.

The impairment criteria are similar to those for financial investments.

Shares and equity of real estate companies related to unit-linked policies

Shares of real-estate investment property (SCI or "société civile immobilière") and the shares or units of real-estate mutual funds (OPCI or "organisme de placement collectif en immobilier") held in unit-linked insurance contract portfolios are valued at their fair value (or its equivalent) on the closing date, with changes in fair value booked into profit or loss.

If those companies are fully consolidated, the properties they own are valued at fair value through profit or loss as permitted by IAS 40 "Investment property".

1.6.2 Financial investments

Financial investments of insurance activities are accounted for in accordance with the rules defined by IAS 39.

Classification of financial investments

IAS 39 classifies financial assets into four categories: held-to-maturity financial assets, financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets.

Held-to-maturity financial assets

Held-to-maturity financial assets are investments with fixed or determinable payments and fixed maturity that the Group has the intention and ability to hold until maturity.

Assets in this category are accounted for at amortised cost using the effective interest method, which includes acquisition costs (where material) and amortisation of premiums and discounts (corresponding to the difference between the purchase price and redemption value of these securities).

Income earned on these securities is presented under "Investment income" in the profit and loss account.

Financial instruments at fair value through profit or loss

With the exception of derivatives, the category of "Financial instruments at fair value through profit or loss" includes financial assets that the Group has chosen at its discretion to recognise and measure at fair value through profit or loss from the outset, in accordance with the option offered by IAS 39 and in compliance with the conditions set by that standard, namely:

- hybrid financial instruments containing one or more embedded derivatives which otherwise would have been separated and accounted for separately;
- when the use of the option provided by IAS 39 eliminates or significantly reduces an inconsistency in the valuation and recognition of assets and liabilities that would result from their classification in separate accounting 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 duly documented risk management and investment strategy.

Securities in this category are measured at fair value at the closing date. Acquisition costs are directly posted in the profit and loss account.

At the closing date, they are valued at their fair value.

The changes in value recorded compared to the last valuation, which were established excluding interest accrued for fixed-income securities, excluding dividends for variable-income securities and excluding realised gains and losses, are presented, in the event of profit or loss, under "Changes in value of investments recognised at fair value through profit or loss".

Income earned on fixed-income securities classified in this category is shown under "Investment Income".

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”.

In particular, subordinated notes that are not listed on an active market are included in "Loans and receivables".

Loans and receivables are initially measured at fair value or equivalent which, as a general rule, corresponds to the net amount initially disbursed.

Loans and receivables are subsequently measured at amortised cost using the effective interest method after deduction of capital repayments and any interest that may have accrued.

Interest is calculated using the effective interest rate method, which includes interest, transaction costs and commissions included in their initial value.

Available-for-sale financial assets

The category "Available-for-sale financial assets" includes fixed-income securities and variable-income securities that do not fall under the other three categories of financial assets defined by IAS 39.

Assets included in the available-for-sale category are initially recorded at fair value, plus acquisition costs where material.

At the closing 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, amounts previously recognised in shareholders’ equity will be transferred to profit or loss under "Capital gains and losses on disposal of investments net of reversals of impairments, depreciation and amortisation". The same applies in the event of impairment.

Revenue recognised using the effective interest method for fixed-income securities in this category are presented in "Investment income". The same applies to dividends received for variable-income securities on the date of payment.

Impairment of held-to-maturity assets and loans and receivables

An impairment loss is recognised against held-to-maturity financial assets and loans and receivables 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.

Analysis for evidence of an impairment

Analysis for evidence of an impairment is conducted at the individual level. An objective indication of impairment is any observable data pertaining to the following events:

- the existence of accounts that are more than three months past due;
- knowledge or indications that the borrower meets significant financial difficulty, such that a risk can be considered to have arisen regardless of whether the borrower has missed any payments;
- concessions granted to the loan terms that the lender would not have considered had the borrower not been experiencing financial difficulty.

Impairment is measured as the difference between the carrying amount of the asset before impairment and the value of its components deemed recoverable (principal, interest, guarantees, etc.).

The recoverable amount is the present value at the original effective interest rate of the estimated future cash flows.

Recognition of impairment in the profit and loss account

Changes in the value of the assets thus impaired are recorded in the profit and loss account under "Investment income excluding financing charges" and, depending on the nature of the asset concerned, under "Changes in provisions on investments".

Any subsequent reassessment of the asset due to an objective cause that occurred after its impairment is recognised through profit and loss, also under "Changes in impairments on investments".

Once an asset has been impaired, the theoretical income earned on the net carrying amount of the asset calculated at the original effective interest rate used to discount the estimated recoverable cash flows is recognised under “Investment income” in the profit and loss account.

Recognition of impairment of held-to-maturity assets and loans and receivables

Impairment losses on held-to-maturity assets and loans and receivables are recorded in a separate provision account which reduces the original recorded asset amount.

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.

Impairment of variable-income securities classified as available-for-sale financial assets

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 constant decline, which prompts the Group 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, the Group 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 constant 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. The Group 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.

Impairment of fixed-income securities classified as available-for-sale financial assets

For fixed-income securities, the impairment criteria are identical to those applied to the impairment of loans and receivables.

For fixed-income securities listed on an active market, impairment is determined based on the listed price. For all the others, it is determined based on model value.

Recognition of impairment in the profit and loss account

The impairment recognised for a security classified as available-for-sale financial assets, whether fixed-income or variable-income, is recognised under "Investment income excluding financing charges" under "Change in provisions on investments".

When a security is impaired, any subsequent decline in fair value constitutes an additional impairment loss, recognised in the profit and loss account.

Impairment of a variable-income security can only be reversed in the profit and loss account on the date the security is sold.

Impairment of a fixed-income security may be reversed in the profit and loss account if the market value of the security has appreciated due to an objective cause that occurred after the last impairment was recognised.

1.6.3 Securities financing transactions and deferred settlement transactions

Presentation of repurchase agreements on the balance sheet

Securities temporarily sold as part of a repurchase agreement are still recognised in the Group's balance sheet in their original portfolio, with the corresponding liability recognised under "Financial liabilities to companies in the banking sector".

Presentation of reverse repurchase agreements on the balance sheet

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

Securities lending and borrowing

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 the Group, the obligation to deliver the borrowed securities on maturity is recognised on the balance sheet under "Financial liabilities to companies in the banking sector".

1.6.4 Derivatives

Derivatives are contracts included in the scope of IAS 39 that meet the following three conditions:

- their value fluctuates according to changes in one or more underlying factors (interest rate, price, exchange rate, price index, credit rating, any other similar variable);
- they require a low initial net investment or none at all;
- such contracts are settled at a future date.

Initial recognition and subsequent valuation of derivatives

All derivatives are recognised in the balance sheet on the trading date at their transaction price.

At the closing date, they are revalued at their fair value.

Changes in market value between two valuations are recognised in the profit and loss account under "Changes in value of investments recognised at fair value through profit or loss", with the exception of derivatives designated as cash flow hedging instruments and net investments abroad.

Derivative instruments and hedge accounting

Derivatives contracted as part of a hedging relationship are designated according to the purpose of the hedge and the accounting principles for derivatives and hedged instruments depend on the hedging strategy.

Objectives pursued

A fair value hedge[4] is used to hedge the interest rate risk of fixed-rate assets or changes in share price.

Cash flow hedges[5] are used in particular to hedge the interest rate risk of floating-rate and fixed-rate assets, including rollovers, and foreign exchange risks of initial flows and highly probable future flows in foreign currencies.

Net investment hedges[6] in foreign currencies make it possible to hedge the foreign exchange position of the group in relation to its investments in foreign currencies abroad, investments in subsidiaries and branches in particular.

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[4] Fair Value Hedge

[5] Cash Flow Hedge

[6] Net Investment Hedge

Formal documentation prepared at the inception of the hedge

At the inception of the hedge, the Group 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, the Group assesses, in consistency with the original documentation, the actual (retrospective) and expected (prospective) effectiveness of the hedging relationship.

Retrospective effectiveness tests for hedges

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% (ratios applicable to fair value hedges and cash flow hedges).

Prospective effectiveness tests for hedges

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.

Recognition of a derivative in fair value hedging

For a fair value hedging relationship, derivatives are revalued in the balance sheet at their market value by counterparty in the profit and loss account under "Financial income excluding financing charges", in line with the revaluation of the instruments hedged for the risk in question.

In the balance sheet, the revaluation of the hedged component is recognised in accordance with the classification of the hedged instrument for a hedging relationship for identified assets or liabilities.

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.

Recognition of a carved-out fair-value hedge

A carved-out fair-value hedge is applied to hedge the interest rate risk of a fixed rate asset portfolio.

The hedge of financial assets reduces the change in value of portions of hedged items due to changes in interest rates.

Recognition of a derivative as a hedge of future income streams

In a cash flow hedging relationship, the derivatives are revalued at fair value in the balance sheet, offset by a specific line in other comprehensive income "Changes in deferred value of derivatives used for hedging purposes".

Amounts in this item over the life of the hedge are transferred to the profit and loss account under "Investment income excluding financing charges" as the cash flows of the hedged instrument impact profit and 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 revaluation 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.

Recognition of the ineffective portion of the hedge

Regardless of the hedging strategy adopted, the ineffective portion of a hedge is recognised in the profit and loss account under "Change in value of investments recognised at fair value through profit or loss".

Net foreign investment hedges in subsidiaries or branches

Hedges of net foreign currency investments in subsidiaries or 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.

The gain or loss on a hedging instrument related to the effective portion of the hedge is recognised in shareholders' equity. The gain or loss related to the ineffective portion of the hedge is immediately recognised in the profit and loss account.

Cumulative gains and losses in shareholders' equity are recorded in the profit and loss account on the disposal of the foreign entity. In the case of a partial disposal, only the proportionate share of the corresponding cumulative exchange differences is included in the profit and loss account.

Embedded derivatives

An embedded derivative is a component of a hybrid (composite) instrument that also includes a non-derivative host contract, which has the effect of making a portion of the cash flows of the compound instrument vary in a manner similar to an stand-alone derivative.

For financial contracts, the amendment to IAS 39 published by the IASB in 2005 and adopted by the European Commission allows a hybrid instrument (financial instrument with an embedded derivative) to be recognised in the category of financial instruments valued at fair value through profit or loss, without preliminary analysis of whether or not the embedded derivative has to be extracted.

The Group applies this accounting method and does not deconstruct structured securities with embedded derivatives, which are therefore measured at fair value through profit or loss.

1.6.5 Investments backing unit-linked contracts

Investments backing insurance or investment contracts whose financial risk is borne by policyholders (unit-linked contracts) are presented as a separate item in balance sheet assets under "Investments in unit-linked contracts", regardless of the nature of the assets backed by the liabilities (real estate investment, bonds, shares, etc.), in accordance with ANC Recommendation No 2013-05.

The corresponding liabilities are also presented as specific items in balance sheet liabilities under "Technical liabilities arising from unit-linked insurance contracts" and "Liabilities arising from unit-linked investment contracts".

1.6.6 Date of recognition for securities transactions

Regardless of their classification as assets in the balance sheet, securities are recognised on the trade date.

Temporary sales of securities and 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 recognised between the trade date and the settlement date when the transactions are recognised, respectively, as “Loans and receivables” and “Liabilities to companies in the banking sector”.

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

1.6.7 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 instruments at fair value through profit or loss” and into:
  - “Loans and receivables” if the asset meets the definition for this category and the Group 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 instruments 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.

1.6.8 Issues of debt securities

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

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

1.6.9 Own equity instruments and own equity instrument derivatives

Treatment of "own equity instruments" and similar shares

The term “own equity instruments” refers to shares issued by the parent company 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 the Group, also known as treasury shares, are deducted from consolidated shareholders’ equity irrespective of the purpose for which they are held. BNP Paribas Cardif does not hold its own shares.

Gains and losses arising on such instruments are eliminated from the consolidated profit and loss account. When the Group acquires equity instruments issued by subsidiaries under the exclusive control of BNP Paribas, the difference between the acquisition price and the share of net assets acquired is recorded in retained earnings attributable to BNP Paribas shareholders.

Treatment of "own equity instrument" derivatives

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 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 the Group's interest in a fully consolidated subsidiary is recognised in the Group's 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 for the Group, whether contingent or not, to repurchase its own shares, a debt is recognised at its present value with an offsetting entry in shareholders' equity.

1.6.10 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.

The Group determines the fair value of financial instruments for each financial asset or financial liability individually 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 maximise the use of observable inputs and minimise the use of unobservable inputs. These techniques are calibrated to reflect current market conditions. 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.

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.

1.6.11 Derecognition of financial assets and financial liabilities

The Group derecognises all or part of a financial asset either when the contractual rights to the cash flows from the asset expire or when the Group 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, the Group retains the asset in its balance sheet and recognises a liability for the obligation created as a result of the transfer of the asset.

The Group derecognises all or part of a financial liability when the liability is extinguished in full or in part.

1.6.12 Offsetting of financial assets and liabilities

A financial asset and a financial liability are offset and the net amount presented in the balance sheet if, and only if, the Group 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.

1.7 INVESTMENTS IN ENTITIES IN THE BANKING SECTOR AND OTHER SECTORS OF ACTIVITY

BNP Paribas Cardif does not consolidate companies in the banking sector but only companies in other sectors of activity.

The investments of those companies follow the classification, valuation and impairment rules defined by IAS 39. They are presented under a specific heading in balance sheet assets where material.

1.8 FOREIGN CURRENCY TRANSACTIONS

The methods used to account for assets and liabilities relating to foreign currency transactions entered into by the Group, 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.

1.8.1 Monetary assets and liabilities expressed in foreign currencies

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

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 (see paragraph "Derivative instruments and hedge accounting"), which are, in this case, recognized in shareholders' equity.

For French insurance companies, this treatment corresponds overall to the one used for assets and liabilities that create "operational" foreign exchange positions.

1.8.2 Non-monetary assets and liabilities expressed in foreign currencies

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

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

1.9 SHARE OF REINSURERS IN LIABILITIES RELATED TO INSURANCE AND INVESTMENT CONTRACTS

The reinsurers' share of insurance and investment contract liabilities represents the estimated risk transferred to reinsurers under the reinsurance treaties.

In accordance with IFRS 4 and IAS 1, it is presented as an asset on the balance sheet and is not offset by related insurance liabilities.

In accordance with IFRS 4, an impairment test is performed on assets held for reinsurance ceded. Assets for reinsurance ceded are impaired if:

- there is tangible evidence, as a result of an event occurring after initial recognition of the asset for reinsurance ceded, that the disposing company may not receive all amounts owed to it under the terms of the contract; and
- this event has a reliably measurable impact on the amounts that the disposing company will receive from the reinsurer.

1.10 DEFERRED ACQUISITION COSTS OF INSURANCE POLICIES AND INVESTMENT CONTRACTS

The direct costs related to the design of a new contract or the acquisition of an insurance or investment contract portfolio consist mostly of the remuneration of the contributors (agents, general agents, brokers), the cost of designing and issuing the contract, premium collection fees, etc. These fees constitute acquisition costs for which the accounting treatment depends on the classification of the contract at issue.

1.10.1 Deferred acquisition costs of contracts within the scope of IFRS 4

Expenses incurred in a given year for the acquisition of new origination (new contracts, additional payments on contracts in force, increase in guarantees) are generally covered by the premiums for the year. However, in some cases, they are recovered both on the income for the year in question and on subsequent revenues.

Since IFRS 4 authorises the recognition of assets and liabilities according to the standards existing before the application of IFRS, the deferred acquisition costs are therefore recognised according to the French consolidation rules applicable to insurance companies.

Life insurance contracts and investment contracts with discretionary participating feature

In life insurance, acquisition costs are deferred within the limits of the expected future net margins of the contracts at issue, including the duly justified financial margin, in particular when there is a difference between the discount rate used and the prudently evaluated projected rate of return for the assets.

They are amortised on the basis of the recognition rate of those future margins thus determined and revalued at the end of each financial year.

If future margins become insufficient under the amortisation plan, deferred acquisition costs are subject to extraordinary amortisation.

This treatment is mainly applied to upfront discounted commissions of life insurance contracts sold abroad.

According to French consolidation rules, the acquisition expenses included in the premiums must be carried forward symmetrically to the deferred acquisition costs. The BNP Paribas Cardif Group does not apply this rule when the acquisition costs are not carried forward.

Acquisition fees paid to affiliated companies of BNP Paribas Group are not carried forward, as the commissions paid are offset by the acquisition costs.

Non-Life Insurance Contracts

In non-life insurance, the deferred acquisition costs related to the borrowers' insurance contracts correspond solely to unvested commissions, and amortisation is carried out on a basis consistent with the one used for the deferral of unearned premiums.

1.10.2 Deferred acquisition costs of investment contracts without participating feature under IAS 39

Costs incurred at the inception of investment contracts without discretionary participation (additional external costs directly related to asset management services) are also recorded as balance sheet assets. These costs are amortised over the life of the contracts.

1.11 SHAREHOLDERS' EQUITY - GROUP SHARE

Changes in fair value of assets and liabilities recognised directly in equity

The item "Changes in fair value of assets and liabilities recognised directly in equity" in balance sheet liabilities includes differences arising from the revaluation at fair value of financial assets and the resulting cumulative impact of deferred taxes.

These differences correspond in particular to unrealised gains and losses resulting from the revaluation of available-for-sale financial assets carried out in accordance with the provisions defined by IAS 39, plus the cumulative impact of the shadow accounting expense or gain for those assets (see Policyholders' surplus reserve below).

These differences also include the impacts of the revaluation of the derivatives used for cash flow hedges.

Finally, in accordance with IAS 21 "Effects of Changes in Foreign Exchange Rates", these differences also include the effects of the revaluation of derivatives used as net foreign investment hedges.

1.12 NON-CONTROLLING INTERESTS

Non-controlling interests, also called minority interests, represent the share held by third parties in the net assets and net income of fully consolidated Group companies whose capital is not fully owned, directly or indirectly, by the consolidating parent company.

1.13 SUBORDINATED DEBT

The classification of undated subordinated debt as financing debt is based on the analysis of the contractual clauses and the criteria defined by IAS 32. These clauses specify that the issuing company reserves the right to repay its debt in advance.

Subordinated debt is measured at amortised cost, as are debt securities in issue (see "Issues of debt securities").

1.14 TECHNICAL LIABILITIES RELATED TO INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

1.14.1 Classification of contracts

The contracts issued by the BNP Paribas Cardif Group fall into two categories:

- insurance and reinsurance contracts and investment contracts with discretionary participating feature, which fall under IFRS 4 "Insurance Contracts";
- investment contracts with no discretionary participating feature, which fall under IAS 39 "Financial Instruments: Recognition and Measurement".

Contracts that fall under IFRS 4

Insurance and reinsurance contracts (acceptances)

IFRS 4 defines insurance contracts and the significant risks borne by insurers: "an insurance contract is a contract in which one party (the insurer) accepts a significant insurance risk from another party (the policyholder) by agreeing to indemnify the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder."

An insurance risk is significant if and only if the insured event can force the insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no noticeable effect on the economics of the transaction).

The main insurance risks relate to mortality (death coverage), longevity (life insurance, e.g. life annuities), morbidity (disability benefits), disability, health (medical coverage), unemployment and civil liability and damage to property.

These types of risks are controlled by the use of appropriate mortality tables (certified tables in the case of annuity-holders), medical screening appropriate to the level of benefit offered, statistical monitoring of insured populations, and reinsurance programmes.

In the case of savings contracts, BNP Paribas Cardif distinguishes two types of risks that enable these contracts to be classified as insurance contracts in accordance with IFRS 4:

- risk of survival: in the event of a life annuity in service or of a deferred life annuity, if the annuity is compulsory;

- risk of death: if the death benefit is greater than the surrender value of the contracts.

BNP Paribas Cardif thus refers to the following criteria to define the classification of these contracts as insurance contracts:

- minimum death coverage for the General Fund, where the death benefit is at least equal to 105% of the surrender value;
- minimum coverage for unit-linked contracts to cover unfavourable changes in the financial markets; this guarantee is always qualified as an insurance risk;
- annuities, if the annuity is in use or the annuity paid is optional after the accumulation phase but the rate is guaranteed at the time of the subscription, or the annuity paid is obligatory after the accumulation phase.

The following contracts meet the definition of an insurance contract and are considered as falling under IFRS 4:

- euro contracts backed by the General Fund with minimum coverage;
- multiple investments contracts with minimum coverage;
- unit-linked contracts with minimum coverage.

Investment contracts with discretionary participating feature

Investment contracts do not expose the insurer to significant insurance risk.

Discretionary participation is defined by IFRS 4 as the contractual right to receive, in addition to guaranteed benefits, complementary benefits:

- that probably represent a significant proportion of the total contractual benefits;
- whose amount or maturity is contractually at the discretion of the issuer; and
- those are contractually based on the performance of a specified set of contracts or a specified type of contract, for realised and/or unrealised investment returns on a portfolio of specified assets held by the issuer or on the profit and loss account of the company, a fund or other entity that issues the contract.

Savings contracts in euros and certain multiple investments contracts meet this definition and are therefore discretionary profit-sharing investment contracts.

The following contracts qualify as investment contracts with discretionary participating feature and thus fall within the scope of IFRS 4:

- euro contracts backed by the General Fund with no minimum coverage;
- multiple investments contracts with a General Fund component without minimum coverage.

Financial guarantee contracts

Financial guarantee contracts fall under IAS 39, but may be measured and recognised in accordance with IFRS 4 if they are issued in the form of insurance contracts that comply with the requirements of both standards. BNP Paribas Cardif has chosen to treat the contracts under IFRS 4.

Contracts that fall under IAS 39

Investment contracts without discretionary participating feature consist primarily of unit-linked contracts that do not meet the definition of insurance and investment contracts with discretionary participation.

1.14.2 Recognition of contracts under IFRS 4

General principles for recognising insurance liabilities under IFRS 4

Maintenance of accounting rules prior to transition to IFRS

IFRS 4 exempts an insurer temporarily (until the adoption of IFRS 17) from certain obligations arising from other IFRS, in particular regarding the accounting policies applicable to insurance contracts.

In general, IFRS 4 allows insurers to continue applying the accounting principles and methods related to insurance liabilities currently in force locally (CRC Regulation No. 2000-05 regarding the consolidated financial statements of insurance companies, whose provisions are based heavily on the French Insurance Code and ANC Regulation No 2015-11 regarding the annual financial statements of insurance companies), provided that they do not conflict with specific provisions of IFRS 4.

Specific provisions introduced by IFRS 4

IFRS 4 introduced specific rules that apply regardless of previous accounting standards.

Accordingly, IFRS 4 prohibits the recognition as a liability of provisions for future contingent claims (such as provisions for catastrophic risk and equalisation reserves) if such claims are generated by insurance contracts that have not yet been purchased, unless such provisions are contractually due to the policyholders or relate to contracts in progress on the closing date of the financial statements (see "Technical provisions for life insurance contracts and investment contracts with discretionary participating feature").

IFRS 4 also requires a liability adequacy test.

In addition, IFRS 4 requires insurers to keep insurance liabilities on its balance sheet until they are extinguished, cancelled, or expired.

Regarding reinsurance, the standard prohibits the offsetting of insurance liabilities with the corresponding reinsurance assets and the offsetting of reinsurance treaty income and expenses with the expenses or income arising from the corresponding insurance contracts and requires insurers to examine whether assets held for reinsurance ceded are impaired.

Finally, IFRS 4 allows an insurer to change its accounting policies for insurance contracts if and only if the change makes the financial statements more relevant and reliable.

Technical reserves for non-life insurance contracts

Technical reserves for non-life insurance contracts include provisions corresponding to the remaining guarantee period (provisions for unearned premiums, provisions for risks in progress and provisions for increasing risks) and provisions for claims incurred but not settled (provisions for claims payable and policy liabilities for annuities).

Unearned premiums reserve

For all current contracts, the purpose of unearned premiums reserve is to record the portion of premiums issued and premiums yet to be issued for the period between the inventory date and the next premium due date or, if missing that, the end of the contract.

Unexpired risks reserve

For all current contracts, the purpose of unexpired risks reserve is to cover the claims and contract expenses for the period between the inventory date and the first premium due date that may give rise to the revision of the premium or, failing that, between the inventory date and the end of the contract, for the part of that cost that is not covered by the provision for unearned premiums.

In the IFRS financial statements, this reserve is determined on the basis of a projected estimate of expenses, contrary to the retrospective approach in force in French GAAP.

Increasing risks reserve

The increasing risks reserve relates to risks of illness and disability. They are created for contracts with constant regular premiums, for which the risk increases with the age of the policyholders. Its amount is equal to the difference between the present values of the commitments taken by the Group and by the policyholder respectively.

Claims reserves

Claims reserves are the result of an estimate of the cost of all unpaid claims at the end of the year, whether they are reported or late, i.e.-- claims not yet reported or claims reported but whose valuation may be subject to subsequent changes. This estimate is made either by file or on the basis of triangulation methods or, if the history of claims is not sufficient, according to fixed-parameter approaches

Those are increased by a claims management handling reserve that corresponds to the estimate of the operating expenses attached to the claims provisioned.

These provisions are reduced by the amount of the recoveries to be received by reference to the remedies estimated by reference to the recoveries observed in prior years.

Mathematical reserves for annuities

The mathematical reserves for annuities represent the present value of the company's commitments with respect to annuities and associated costs.

Technical reserves for life insurance and investment contracts with discretionary profit-sharing

Mathematical reserves

The mathematical reserves for life insurance and investment contracts with discretionary participating feature represent the difference between the present values of the commitments taken by the Group and the commitments taken by the insureds, i.e. the difference between the value of the benefits to be financed by the Group and the premiums yet to be paid by the policyholder on the day of the calculation of the reserves, with this calculation taking into account the probability of realisation of those commitments.

The rates used by the Group for the discounting of commitments correspond to the rates authorised by regulations. These rates are broadly representative of rates that are at most equal to the conservatively estimated rate of return on the assets allocated to represent those commitments.

For certain collective contracts covering life risks (mainly death) and issued in branches, detailed information for each insured person is not available as required for the calculation of technical reserves. In such cases, the mathematical reserve is approximated using a premium deferral approach applied contract by contract after deduction of acquisition costs.

Handling expenses reserve

Future management expenses of the contracts are covered by a handling expenses reserve if they are not covered by future resources.

Reserves for unit-linked contracts under IFRS 4

Technical reserves on variable insurance contracts are revalued based on the fair value of the unit-linked contract at the closing date.

The minimum coverage in the event of death is subject to a separate provision calculation.

Claims reserves

Claims reserves relate to claims incurred and reported. They are valued by applying the technical bases used for risk pricing and including the estimate of claims settlement costs.

Late reported claims are valued either using a fixed rate where the claims history is not adequate, or using triangulation methods.

Financial assets insufficient yield reserve

The purpose of a provision for financial assets insufficient yield reserve is to offset a decline in the return on assets compared to guaranteed interest rate commitments on contracts other than unit-linked contracts.

Provisions for financial assets insufficient yield reserve recognised in the parent company financial statements are restated in the consolidated financial statements whenever the mathematical provisions are valued on the basis of conservative discount rates lower than or equal to the conservatively estimated provisional rates of return of the assets allocated to represent them in each entity.

Provisions specific to diversified life contracts and Eurocroissance

For diversified contracts and Eurocroissance, a technical diversification reserve is created to absorb fluctuations in the values of the assets backing the contract, and over which each policyholder holds individual rights in the form of units. This provision is supplemented by all or part of the premiums paid by policyholders and by the share of the contract return that is not allocated as technical reserves or collective provisions for deferred diversification. It can also be supplemented by the recovery of a collective provision for diversification. It is reduced by deduction of losses, fees charged, and withdrawals for benefits paid and by retention of the policyholders' shares in technical reserves.

For Eurocroissance contracts, the purpose of the collective diversification reserve is to smooth the value of contract repurchases. It can be supplemented by the share of the contract return that is not allocated in the form of a mathematical reserve or a provision for diversification. This provision is recovered through the provision for diversification.

Deferred participation reserve

Current deferred liability

At the closing of the financial statements, a current reserve for deferred liability is created when remuneration exceeding the guaranteed minimum is allocated to policyholders or subscribers and not distributed to them during the period.

Policyholders' surplus reserve

A policyholders' surplus (or benefit) reserve is also included if there is a temporary difference in valuations between the consolidated financial statements and the parent company financial statements, which has an impact on future obligations to policyholders. Policyholders' surplus reserve can be recorded in liabilities or assets.

There are two different types of deferred policyholder benefit recognised in the Group's financial statements.

In accordance with the French consolidation procedures (CRC No 2000-05), unconditional policyholders' participation is recognised whenever there is temporary difference between the bases for calculating future policyholder benefits according to the individual financial statements and those resulting from the bases used in the consolidated financial statements On the other hand, contingent policyholders' participation whose due date depends on a management decision or the occurrence of an event is recognised only if the management decision has been taken or if the event is highly probable. In the particular case of a restatement of the capitalisation reserve, only the amount likely to accrue to policyholders in certain extreme scenarios is kept in a surplus reserve.

The policyholders' surplus reserve also includes the amounts resulting from the application of shadow accounting described in IFRS 4, which makes it possible to offset the effects of the market valuation of financial and real estate assets on the value of insurance liabilities (when the remuneration of contracts includes realised gains and losses), deferred acquisition costs and acquired contract portfolios.

The amount of deferred participation for shadow accounting corresponds to the estimated share of gains and losses on the sale of assets that would accrue to policyholders if these assets were realised. It is determined by application to unrealised gains and losses of an estimated average policyholders' participation rate determined by stochastic calculations that simulate the future allocation to policyholders of gains and losses under regulatory and contractual conditions in the context of various scenarios.

The change in deferred participation on unrealised gains and losses on financial and real estate assets is recognised symmetrically with the change in the market value of the underlying assets (as the case may be, through profit and loss or in "other comprehensive income").

All deferred participation liabilities are taken into account.

Deferred profit-sharing assets are recognised only if their allocation to future, recognised or potential, benefit is highly probable. The recoverability of the policyholders' loss reserve is assessed prospectively, taking into account policyholders' surplus reserve recognised elsewhere, capital gains on financial assets that are not shadow accounted due to accounting elections made (held-to-maturity financial assets and property investments measured at cost) and the Company's ability and intention to hold the assets carrying the unrealised loss. The active holding is then recognised as an asset for its recoverable amount under "policyholders' surplus reserve – assets".

Technical reserves related to unit-linked contracts

Technical reserves corresponding to commitments in unit-linked contracts

Technical reserves for unit-linked contracts represent the Group's commitments to policyholders, which are expressed in Units of Account and valued on the basis of the realisable value at the closing date of the shares of assets that are admissible.

Minimum guaranteed death benefit reserve

If a minimum guaranteed death benefit is included in a unit-linked contract that guarantees to the beneficiary of the contract at least the initial capital invested regardless of changes in the value of the units of account, a minimum guaranteed death benefit reserve is created.

This reserve is determined on the basis of actuarial methods (puts method or deterministic method depending on the entity).

Technical reserves restated in the IFRS financial statements

Equalisation reserve

In accordance with IFRS 4, the equalisation reserve recognised in the individual financial statements is eliminated in the IFRS consolidated financial statements since they do not represent a liability to policyholders.

Capitalisation reserve

A capitalisation reserve is set up in individual statutory accounts of French life-insurance companies on the sale of amortisable securities in order to defer part of the net realised gain and -hence maintain the yield to maturity on the portfolio of admissible assets. In the consolidated financial statements, this reserve is reclassified into “policyholders’ surplus reserve” on the liabilities side of the consolidated balance sheet, to the extent that it is highly probable it will be used.

Capital losses on future assets sales reserve

The capital losses on future assets sales reserves recorded in the individual financial statements are eliminated in the IFRS consolidated financial statements.

Liability adequacy test

In accordance with IFRS 4, a liability adequacy test is performed at each closing date for each consolidated insurance entity.

This test ensures that the liabilities of insurance contracts and investment contracts with discretionary profit-sharing are adequate given current estimates of the future cash flows generated by those contracts.

If the assessment indicates that the carrying amount of the insurance liabilities (net of deferred acquisition costs and related intangible assets) is inadequate with regard to estimated future cash flows, the total deficiency corresponding to potential losses is recognised in the profit and loss account.

Recognition of revenue and expenses of contract covered by IFRS 4

Earned premiums

Written premiums correspond to premiums for life insurance contracts, investment contracts with discretionary profit-sharing, non-life insurance contracts and accepted reinsurance contracts in force during the year.

These include premiums net of cancellation but gross of disposals to reinsurers, corrected for reductions and rebates granted, and changes in premiums not yet issued and premiums to be cancelled.

Written premiums adjusted for changes in provisions for unearned premiums constitute earned premiums.

Technical expenses for contracts

Benefit expenses for life insurance contracts and investment contracts with discretionary participating feature include:

- all benefits once they have been settled by the beneficiary;
- technical interest and policyholders’ participation that may be included in those benefits;
- changes in technical reserves;
- all costs incurred in the management and payment of benefits.

Non-life insurance benefits expenses mainly include benefits and expenses paid, as well as the change in claim reserves payable.

1.14.3 Recognition of investment contracts under IAS 39

Investment contracts without participating feature fall under IAS 39. Most of these are pure unit-linked insurance contracts, with no guaranteed minimum coverage. They are recognised as deposits.

As a result, the premiums collected for these contracts are booked directly in the balance sheet as deposits received, without going through the profit and loss account. Similarly, benefits paid and claims settled are recognised on the balance sheet in the form of deposit refunds, without impact on the profit and loss account.

Incidental costs directly related to investment management of these investment contracts are also recognised as assets if they can be separately identified and reliably measured and may be recovered. They are then amortised over the contract management period symmetrically with the recognition of the corresponding profit.

Charges and operating expenses relating to investment contracts without participating feature are recognised in the profit and loss account. The same is true of revenues acquired, which are spread over the estimated term of the contract.

For unit-linked contracts, at the inventory date, the commitments related to those contracts are valued at the realisable value of the underlying reference assets at that date.

1.15 PROVISIONS FOR CONTINGENCIES AND CHARGES

Provisions for contingencies and charges are intended to cover clearly identified risks and expenses made probable by events that have occurred or are in progress at the end of the financial year but whose timing and amount are uncertain.

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.

At the closing date, provisions for contingencies and charges are determined on the basis of the best estimate of the expenditure required to extinguish the obligation existing at that date.

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.

1.16 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, including retirement bonuses in France and pension plans in other countries, some of which are operated through pension funds.

1.16.1 Short-term benefits

The Group recognises an expense when it has used services rendered by employees in exchange for employee benefits.

1.16.2 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.

1.16.3 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 the Group 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.

1.16.4 Post-employment benefits

Defined-contribution plans and defined-benefit plans

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

Defined-contribution plans do not give rise to an obligation for the Group 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 the Group. 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 determines whether the Group has a legal or constructive obligation to pay the agreed benefits to employees.

Valuation and recognition of post-employment benefit obligations under defined-benefit plans

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 the Group, using the projected unit credit method.

This method takes into account various parameters, specific to each country or Group entity, such as demographic assumptions, the probability that employees will leave before retirement age, salary inflation, a discount rate, and the general inflation rate. These parameters are specified in the note relating to obligations under defined-benefit plans and other post-employment benefits.

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 the Group 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 changes in the effect of asset ceiling (excluding amounts included in net interest on the defined-benefit liability or asset).

1.17 SHARE-BASED PAYMENTS

Share-based payment transactions are payments based on shares issued by the Group, 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.

BNP Paribas Group 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.

Some BNP Paribas Cardif employees have benefited from such plans in the past.

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.

1.18 CURRENT AND DEFERRED TAXES

1.18.1 Current 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 the Group operates during the period in which the income is generated.

1.18.2 Deferred taxes

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 the Group, where the Group 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 carry forwards 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.

1.18.3 Recognition of current taxes and deferred taxes

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

1.19 LEASES

Group companies may either be the lessee or the lessor in an operating lease.

1.19.1 Lessors under 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 tangible assets (property, plant and equipment) in the lessor’s balance sheet and depreciated on a straight-line basis over the term of the lease. 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.

The main contracts in which BNP Paribas Cardif acts as lessor are leases on investment properties. Rents for investment properties are presented in "Investment income" and depreciation thereof in "Investment expenses".

1.19.2 Lessees under operating leases

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

1.20 ANALYSIS OF EXPENSES BY TYPE

Overheads for entities in the "Other activities" segment are recognised by type, whilst those for insurance companies are recognised by function (intended use).

Recognition of expenses by their intended use is carried out individually for expenses that can be directly allocated to one category. Where an expense item has more than one function or cannot be directly allocated, it is split between categories using an allocation keys. The allocation of expenses to their intended use is carried out by the so called uniform sections method, which consists of analysing each consolidated company by cost centres which are allocated to the various functions.

Expenses related to insurance activity are broken down in the IFRS financial statements as follows:

- claims settlement costs are presented in "Technical expenses for contracts";
- contracts acquisition costs are presented separately;

- administration costs are presented separately;
- investment management fees are presented in "Investment Expenses";
- other technical expenses and expenses incurred for activities outside the scope of insurance activities are included in "Other current operating income and expenses";
- transactions that by their nature are non-recurring and non-operating are included in "Other non-current operating income and expenses".

Overheads of "Other businesses" are presented separately.

As provided under IAS 1, a comparison is shown in the notes with expenses by type according to the following breakdown:

- commissions;
- salary and employee benefit expenses;
- taxes;
- other current operating expenses;
- net charges/reversals to depreciation, amortisation and provisions.

1.21 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Where the Group 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.

1.22 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 that the managers rely on their judgement and use 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 impact on the financial statements.

The following examples are among the exogenous factors that may influence future achievements:

- national and international financial market activities;
- fluctuations in interest rates and foreign exchange rates;
- economic and political conditions in certain business sectors or countries;
- changes in laws or regulations;
- behaviour of policyholders;
- demographic changes.

The main balance sheet items requiring the exercise of judgement and the formulation of assumptions for their valuation include, but are not limited to:

- goodwill and securities in acquired portfolios, at first recognition and for subsequent valuations;
- mark-to-market financial instruments based on models, including unconsolidated investments;
- insurance and financial contracts liabilities;
- pension plans and other post-employment benefits;
- long-term impairments of available-for-sale securities and held-to-maturity financial assets;
- provisions for contingencies and charges;
- deferred tax assets;
- policyholders' surplus reserve.

1.23 CASH FLOW STATEMENT

The Cash Flow Statement is prepared using the indirect method in accordance with ANC Recommendation No 2013-05. The indirect method is the method generally used by insurers.

1.23.1 Classification of cash flows related to investing activities

Pursuant to ANC Recommendation No 2013-05, all investment-related flows, including flows of securities classified as available-for-sale securities, are presented as investment transactions in the cash flow statement.

This classification differs from the one adopted for the profit and loss account, in which, in accordance with the approach commonly used by insurance groups, income from financial investments is presented in operating income. This presentation, which is consistent with the one adopted by banking sector groups pursuant to ANC Recommendation No. 2013-04 relating to the format of consolidated financial statements of banking sector institutions, allows for more consistent cash flow statement presentation for bancassurance groups.

1.23.2 Classification of dividends and interest received

In accordance with the provisions of IAS 7 "Statement of Cash Flows" for financial institutions, dividends and interest received are presented as operating cash flows.

1.23.3 Presentation of investment activities

In addition to the flows related to investments broken down into acquisitions and disposals, this heading includes:

- acquisitions and disposals of intangible assets and tangible assets (excluding investment properties), including revenues (net of expenses) for those investments;
- changes in the scope of consolidation.

1.23.4 Presentation of financing activities

This heading includes only financing transactions, excluding investment transactions.

NOTE 2 IMPACT OF TRANSITION TO IFRS

Preliminary remarks

BNP Paribas Cardif published its most recent consolidated financial statements in accordance with French GAAP (CRC No 2000-05) as at 31 December 2016.

The first IFRS consolidated financial statements were prepared for the year ended 31 December 2017. As a result, in accordance with the provisions of IFRS 1 "First-Time Adoption of IFRS", the date of first-time application (FTA) of IFRS by the BNP Paribas Cardif Group is 1 January 2016. As such, the following are presented:

- an opening statement of financial position at 1 January 2016;
- a statement of financial position, a net income statement, a statement of other comprehensive income, a cash flow statement and a statement of changes in shareholders' equity as at 31 December 2016;
- a statement of financial position, a net income statement, a statement of other comprehensive income, a cash flow statement and a statement of changes in shareholders' equity as at 31 December 2017;

As stated in the accounting principles (see note 1.1), BNP Paribas Cardif chose the IFRS 1 option to maintain the valuations already used in the context of IFRS reporting for the BNP Paribas Group insofar provided that they are compatible with the preparation of consolidated financial statements at the BNP Paribas Cardif sub-group level. The only notable exception was the reversal of translation reserves at the FTA date in accordance with the March 2017 IFRS IC position.

In accordance with IFRS 1, the IFRS used for the preparation of the financial statements and comparative information are those applicable as at 31 December 2017.

The valuation and accounting methods used to prepare the financial statements under IFRS are detailed in the note 1 accounting principles and methods, to which reference should be made.

Impact of transition to IFRS on the balance sheet

The statements below show the impact of the transition of the BNP Paribas Cardif consolidated balance sheet as at 31 December 2016 from French GAAP to IFRS, with reference to the balance sheet prepared according to IFRS as at 1 January 2016.

	31 December 2016					1 January 2016
ASSETS (in millions of euros)	French GAAP	Reclassification for presentation purposes	Restatements related to differences in scope of consolidation	Valuation restatements	IFRS	IFRS
Goodwill	**164**		**(12)**	**40**	**192**	**194**
Other intangible assets	**232**		**(23)**	**-**	**209**	**269**
Insurance company investments	**131 432**	**(131 432)**				
Land and buildings	*5 709*	*(5 709)*				
Investments in affiliates and participating interests	*4 015*	*(4 015)*				
Others investments	*121 708*	*(121 708)*				
Investments backing unit-linked contracts	**41 932**	**(41 932)**				
Investments		**175 757**	**(1 661)**	**17 815**	**191 911**	**182 284**
Investment property		*631*	*2 301*	*-*	*2 932*	*2 218*
Held-to-maturity financial assets		*5 543*	*-*	*-*	*5 543*	*7 185*
Available-for-sale financial assets		*97 977*	*(3 399)*	*14 184*	*108 763*	*104 095*
Financial investments at fair value through profit or loss		*26 187*	*(178)*	*3 579*	*29 587*	*26 729*
Loans and receivables		*2 217*	*(393)*	*94*	*1 918*	*1 998*
Derivative instruments and separate embedded derivatives		*337*	*-*	*2*	*339*	*182*
Investments in equity-method investment entities		*306*	*18*	*-*	*324*	*316*
Unit-linked Investments		*42 558*	*(9)*	*(43)*	*42 506*	*39 560*
Investments from other companies	**241**	**(241)**				
Equity method investments	**649**	**(306)**	**527**	**96**	**965**	**851**
Reinsurers' share in insurance and investment contracts liabilities	**3 027**	**-**	**(7)**	**-**	**3 020**	**3 045**
Receivables from banking sector companies	930	(930)				
Other assets	21	(21)				
Accrued income and other assets	2 205	(2 205)				
Tangible assets		383	(1)	-	382	392
Deferred acquisition costs and equivalent	1 513	-	(75)	-	1 439	1 308
Deferred tax assets		657	(5)	(528)	125	132
Receivables from direct insurance and reinsurance operations	1 033	-	(73)	(25)	935	910
Current tax receivables		151	-	(10)	141	34
Other receivables	2 216	(745)	30	(116)	1 386	833
Cash and cash equivalents		**864**	**(28)**	**80**	**916**	**1 368**
TOTAL ASSETS	**185 595**	**-**	**(1 328)**	**17 353**	**201 620**	**191 621**

					31 December 2016	1 January 2016
LIABILITIES (in millions of euros)	French GAAP	Reclassification for presentation purposes	Restatements related to differences in scope of consolidation	Valuation restatements	IFRS	IFRS
Share capital	150	-	-	-	150	150
Additional paid-in capital	2 988	-	-	-	2 988	2 988
Consolidated reserves	(511)	511				
Changes in assets and liabilities recognised directly in equity		(141)	129	1 289	1 277	1 175
Non-distributed reserves		(370)	(206)	243	(333)	766
Net income for the period attributable to shareholders	438	-	(2)	62	498	
Minority interests	36	-	(0)	3	40	45
Total shareholders' equity	**3 102**	**-**	**(80)**	**1 598**	**4 619**	**5 124**
Subordinated debt	**3 934**	**-**	**-**	**(5)**	**3 929**	**3 080**
Financial debts due to banking sector companies		**2 303**	**-**	**-**	**2 303**	**2 095**
Gross technical reserves	**119 248**	**(119 248)**				
Life technical reserves	*115 258*	*(115 258)*				
Non-Life technical reserves	*3 990*	*(3 990)*				
Technical reserves on unit-linked contracts	**42 507**	**(42 507)**				
Technical liabilities arising from insurance contracts		**89 372**	**(1 069)**	**37**	**88 339**	**85 107**
Technical liabilities arising from unit-linked insurance contracts		**38 883**	**-**	**(45)**	**38 838**	**35 938**
Technical liabilities arising from investment contracts		**32 166**	**-**	**-**	**32 166**	**31 413**
Technical liabilities arising from investment contracts with discretionary participating feature		*28 542*	*-*	*-*	*28 542*	*27 913*
Technical liabilities arising from unit-linked investment contracts		*3 624*	*-*	*-*	*3 624*	*3 500*
Policyholders' surplus reserve		**1 335**	1	15 338	**16 673**	**15 125**
Provisions for contingencies and charges	**281**	**(68)**	(1)	79	**291**	**243**
Deferred tax liabilities		68	-	136	203	232
Liabilities due to banking sector companies	11 239	(2 312)	196	13	9 135	8 437
Liabilities from direct insurance and reinsurance operations	3 080	250	(88)	51	3 293	3 430
Current tax liabilities		87	(3)	1	85	136
Derivative instruments liabilities		290	-	100	390	108
Other debts	1 828	(243)	(282)	49	1 353	1 151
Accrued expenses and other liabilities	367	(367)				
Foreign exchange differences - liabilities	8	(8)				
TOTAL LIABILITIES	**185 595**	**-**	**(1 328)**	**17 353**	**201 620**	**191 621**

Main reclassifications of presentation

The classification criteria for financial assets are described in the note on accounting principles.

On the asset side, the main reclassification of presentation relates to the investment securities portfolio. The application of IAS 32 and IAS 39 has led to the reclassification of the items in the securities portfolio to take into account the classification rules based on the investment objectives of the financial instruments and their valuation method, and not on their type, as it was the case under French GAAP. Accordingly, using these criteria, the balance sheet presents in detail investments held by the General Fund, distinguishing between investment properties (which fall under IAS 40), which are mostly held by the consolidated real estate companies (EUR 2.9 billion as at 31 December 2016), and financial assets (EUR 146.5 billion as at 31 December 2016), whereas investments held for unit-linked contracts are presented under "Investments in unit-linked Contracts" and are described in a detailed note (EUR 42.5 billion as at 31 December 2016).

On the liabilities side, contrary to French GAAP, IFRS classification distinguishes between two categories of contracts issued by the BNP Paribas Cardif Group, a breakdown of which is presented in "Reclassifications for presentation purposes":

- insurance and reinsurance contracts and investment contracts with discretionary profit-sharing, which fall under IFRS 4, for an amount of EUR 155.7 billion as at 31 December 2016;
- investment contracts without discretionary participating feature, which are similar to customer deposits under IAS 39, for an amount of EUR 3.6 billion as at 31 December 2016.

The capitalisation reserve is cancelled in both standards, with a policyholders' surplus reserve created for the portion likely to accrue to policyholders. The latter is presented under "policyholders' surplus reserve" on the liabilities side of the balance sheet under IFRS, whereas it was presented in "Life technical reserves" under French GAAP.

Restatements related to differences in scope of consolidation

The application of IFRS 10 has led the BNP Paribas Cardif Group to abandon the proportional consolidation method provided for under French GAAP, which was applied to three joint ventures. These joint ventures are now consolidated under the equity method, which reduces the size of the consolidated balance sheet by EUR 1.3 billion.

In addition, the application of IFRS 10 has resulted in the consolidation of real estate and portfolio companies, which represent commitments to policyholders which, under French GAAP, were explicitly excluded from the scope of consolidation. In total, as at 31 December 2017, 65 additional entities are now fully consolidated (63 entities as at 31 December 2016) and 6 are consolidated under the equity method (3 entities as at 31 December 2016) and are divided as follows:

Investment categories and consolidation methods	Number of legal entities
Investments mainly allocated to the General Fund	
Fully consolidated real estate investments	35
Real estate investments consolidated under the equity method	5
Fully consolidated non-real estate investments	24
Non-real estate investments consolidated under the equity method	1
Investments mainly allocated to unit-linked contracts	
Fully consolidated real estate investments	6
Total consolidated investments as at 31 December 2017	**71**

The full details of the consolidated entities are found in the note about the scope of consolidation.

The consolidation of these entities has practically no effect on the balance sheet total since they are generally held and financed for the most part by BNP Paribas Cardif, but it allows a presentation by type of assets underlying those investments, which were previously recognised mostly as securities in "Other investments" of insurance companies.

Main valuation restatements

In accordance with IAS 39, "Available-for-sale financial assets" are valued at their fair value and changes in value, excluding accrued interest, are presented in "Other comprehensive income" (a specific heading under equity). As at 31 December 2016, this revaluation amounted to EUR 14.5 billion.

In addition, the category of "Financial instruments at fair value through profit or loss" includes financial assets that the Group recognises and values at fair value through profit or loss from inception because of their intended management use or by choice. As at 31 December 2016, this revaluation amounted to EUR 3.3 billion.

The other major restatements related to financial assets and liabilities mainly concern the amount of provisions for impairment of financial instruments and the valuation of derivatives, less cumulative earnings and reserves for EUR 0.2 billion, which in turn impact "Available-for-sale financial assets" (EUR 0.3 billion decrease), "Financial investments at fair value through profit or loss" (EUR 0.2 billion increase), and the net derivatives balance (EUR 0.1 billion decrease).

In correlation with these restatements, the "shadow accounting" mechanism authorised by IFRS 4 makes it possible to recognise a policyholders' surplus reserve. It recognises the latent rights that accrue to policyholders. Determined on the basis of unrealised gains and losses resulting from the revaluation of financial assets, it amounted to EUR 15.3 billion as at 31 December 2016, of which EUR 12.9 billion was deducted from "Gains and losses recognised directly in equity" and EUR 2.4 billion from non-distributed earnings and reserves.

Unless explicitly changed in the note 1 accounting principles and methods, insurance and reinsurance contracts and investment contracts with discretionary participating feature, which fall under IFRS 4, are valued and recognised in a manner similar to the treatment that was applied in the consolidated financial statements under French GAAP, as the implementation of the liability adequacy test did not result in the recognition of additional provisions.

Similarly, the reclassification of provisions for non-discretionary investment contracts as financial liabilities under IAS 39 did not lead to a change in their valuation in the balance sheet.

Unlike French GAAP, IAS 36 does not allow the impairment of goodwill and introduces a mandatory annual impairment test. The valuation tests performed by the Group concluded that there was no impairment as at 31 December 2016. Goodwill relating to companies consolidated under the equity method is now grouped together with the value of "Investments in companies consolidated under the equity method".

Other pre-tax restatements unrelated to financial instruments are negligible with respect to the BNP Paribas Cardif Group balance sheet.

Total deferred taxes recognised on all taxable adjustments amounted to EUR 0.7 billion, of which EUR 0.6 billion was deducted from "Gains and losses recognized directly in equity" and EUR 0.1 billion from non-distributed earnings and reserves.

Impact of the transition on shareholders' equity

The statement below shows the impact of the transition on BNP Paribas Cardif's shareholders' equity as at 1 January 2016 and as at 31 December 2016 between French GAAP and IFRS.

By type of restatement *(in millions of euros, at)*	31 December 2016	1 January 2016
Shareholders' equity in French GAAP	**3 102**	**3 744**
Differences in scope of consolidation	(80)	(86)
Revaluation of financial instruments, net of deferred profit-sharing and deferred taxes	1 542	1 384
As gains and losses recognised directly in equity	*1 293*	*1 190*
As cumulative results	*248*	*194*
Goodwill and amortisation and impairment	68	52
Other restatements	(12)	30
Shareholders' equity in IFRS	**4 619**	**5 124**

Impact of the transition to IFRS on the profit and loss account

The statement below shows the impact of the transition of the BNP Paribas Cardif consolidated income statement for the 2016 financial year between French GAAP and IFRS.

					Year to 31 Dec. 2016
In millions of euros	French GAAP	Reclassification for presentation purposes	Restatements related to differences in scope of consolidation	Valuation restatements	IFRS
Gross written premiums	20 808	(356)	(319)	-	20 133
Change in unearned premiums	(75)	-	(1)	1	(76)
Gross earned premiums	**20 733**	**(356)**	**(320)**	**1**	**20 057**
Operating revenues	**5 237**	**(5 237)**			
Income from other activities		**28**	**-**	**-**	**28**
Investment income		4 741	(53)	(1)	4 688
Investment expenses		(829)	2	295	(531)
Gains and losses on disposed invested assets, net of depreciation and amortisation reversals		136	(57)	90	169
Share of earnings from investment entities consolidated under the equity method		18	1	-	19
Net Change in investments at fair value through profit or loss		1 045	5	-	1 050
Net change in impairments on investments		(137)	(38)	214	38
Investment income excluding financing expenses		4 974	(140)	598	5 432
Operating expenses	**(25 184)**	**25 184**			
Technical charges related to contracts		(20 138)	306	(536)	(20 368)
Net result from ceded reinsurance		(103)	3	3	(98)
Expenses from other activities		(182)	-	-	(182)
Acquisition costs on contracts		(2 712)	66	-	(2 645)
Depreciation on acquired portfolios		(43)	-	-	(43)
Administration expenses		(1 193)	44	-	(1 149)
Other current operating income and expenses		(41)	-	37	(3)
Other current income and expenses		**(24 412)**	**418**	**(495)**	**(24 489)**
Other non-current operating income and expenses		(15)	-	17	2
Other income and expenses	-	-			
Pre-tax operating income	**786**	**166**	**(42)**	**120**	**1 030**
Exceptional result	(3)	3			
Goodwill amortisation	(17)	17			
Financing expenses		(168)	-	-	(168)
Share of earnings of equity method entities	57	(18)	30	5	73
Corporate income tax	(388)	-	6	(59)	(441)
NET CONSOLIDATED INCOME	**436**	**-**	**(6)**	**65**	**494**
Net income attributable to minority interests	(3)	-	-	(1)	(3)
Net income attributable to equity shareholders	**438**	**-**	**(6)**	**66**	**498**

Main reclassifications of presentation

According to both IFRS and French GAAP, expenses by type are broken down by function (intended use). In the IFRS presentation, contract acquisition and administration costs as well as investment expenses are presented separately in the summary profit and loss account. The breakdown of expenses by type is presented in the separate note to the financial statements.

Under IFRS, profits and losses related to investment contracts without discretionary profit-sharing, which are similar to customer deposits under IAS 39, are grouped in the line "Income from other activities", whereas under French GAAP, those same contracts give rise to the recognition of gross written premiums (income of EUR 0.4 billion in 2016), a financial result (net income of EUR 0.1 billion in 2016) and provisions and reversals of technical reserves (net expense of EUR 0.5 billion in 2016), which impact "earned premiums", "Operating revenues" and "Operating expenses" respectively.

In the from the IFRS profit and loss account, "financing charges" separate interest expense from the subordinated financings issued by the BNP Paribas Cardif Group.

Under IFRS, there is no concept of "exceptional items", whose components have been reclassified under the relevant lines of the profit and loss account.

Restatements related to differences in scope of consolidation

The impact on the BNP Paribas Cardif Group result presented above mainly concerns the discontinuation of the proportionate consolidation method. The impact of the consolidation of real estate and portfolio companies is negligible in the profit and loss account.

Main valuation restatements

The impact of the revaluation of "Financial investments at fair value through profit or loss" on the results established under IFRS represents net income of EUR 0.4 billion for the 2016 financial year.

Similarly, differences in the valuation of provisions for impairment of financial instruments, which are not reversible for variable-income securities under IFRS, and derivatives, which are measured at fair value under IFRS, result in a net income of EUR 0.2 billion for the 2016 financial year.

The provision for policyholders' benefit participation and deferred taxes created under IFRS for the 2016 financial year for those restatements represents an expense of EUR 0.6 billion.

Other restatements are not material as regards the BNP Paribas Cardif Group results.

Other reconciliations that may be required by IFRS 1

BNP Paribas Cardif has not used any of the following IFRS 1 options and therefore does not have to disclose any information that would have resulted from those options. More specifically:

- no financial assets were reclassified as Available-for-sale Assets at the transition date as permitted by IFRS 1 (§29) and the classification of financial assets and liabilities remains unchanged from the one previously used for reporting to the BNP Paribas SA Group;
- the fair value option (original cost) as permitted by IFRS 1 (§30) was not used for tangible and intangible assets;
- BNP Paribas Cardif did not use either the fair value option for its investments in subsidiaries, joint ventures and associates (IFRS 1 §31). It is therefore not affected by the cases referred to in paragraphs 31 A, B and C of IFRS 1.

Consequently, BNP Paribas Cardif does not have to present the information that would have resulted from the application of those options above.

NOTE 3 SCOPE OF CONSOLIDATION

3.1 SCOPE OF CONSOLIDATION

		31 December 2017				31 December 2016			
Name	Country	Consolidation method	Control (%)	Interest (%)	Ref.	Consolidation method	Control (%)	Interest (%)	Ref.
HOLDINGS									
BNP Paribas Cardif	France	Consolidating company	100,0	100,0		Consolidating company	100,0	100,0	
NCVP Participacoes SA	Brazil	Full	100,0	100,0		Full	100,0	100,0	
Icare Holding SA	France	Full	100,0	100,0		Full	100,0	100,0	
BNP Paribas Cardif BV	Netherlands	Full	100,0	100,0		Full	100,0	100,0	
Cardif Pinnacle Insurance Holdings PLC	UK	Full	100,0	100,0		Full	100,0	100,0	
CB (UK) - Fond 'C'	UK	Full	100,0	100,0		Full	100,0	100,0	
Cardif Nordic AB	Sweden	Full	100,0	100,0		Full	100,0	100,0	
INSURANCE									
Cardif Assurance Vie (Germany branch)	Germany	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance RD (Germany branch)	Germany	Full	100,0	100,0		Full	100,0	100,0	
Cardif Seguros	Argentina	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance Vie (Austria branch) Other	Austria	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance RD (Austria branch)	Austria	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assur. Vie succ. Belgique	Belgium	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assur. RD succ. Belg	Belgium	Full	100,0	100,0		Full	100,0	100,0	
Cardif Do Brasil Vida e Previdencia S.A	Brazil	Full	100,0	100,0		Full	100,0	100,0	
Cardif do Brasil Seguros e Garantias SA	Brazil	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance Vie (Bulgaria branch)	Bulgaria	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance RD (Bulgaria branch)	Bulgaria	Full	100,0	100,0		Full	100,0	100,0	
BNP Paribas Cardif Seguros Generales SA	Chile	Full	100,0	100,0		Full	100,0	100,0	
BNP Paribas Cardif Seguros de Vida SA	Chile	Full	100,0	100,0		Full	100,0	100,0	
Cardif Colombia Seguros Generales SA	Colombia	Full	100,0	100,0		Full	100,0	100,0	-
BNPP Cardif Life Insurance Co.	Korea	Full	85,0	85,0		Full	85,0	85,0	
Cardif Assurance RD (Spain branch)	Spain	Full	100,0	100,0		Full	100,0	100,0	-
Cardif Assurance Vie (Spain branch)	Spain	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance Vie SA	France	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance Risques Divers SA	France	Full	100,0	100,0		Full	100,0	100,0	
Icare Assurance SA	France	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance Vie (Italy branch) Italy	Italy	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance RD (Italy branch)	Italy	Full	100,0	100,0		Full	100,0	100,0	
BNP Paribas Cardif Vita Assicurazioni SPA	Italy	Full	100,0	100,0		Full	100,0	100,0	
CARGEAS Assicurazioni S.p.A	Italy	Full	100,0	100,0		EM	50,0	50,0	
Cardif Assurance Vie (Japan branch) Japan	Japan	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance RD (Japan branch) Japan	Japan	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance RD (Luxembourg branch) Luxembourg	Luxembourg	Full	100,0	100,0		Full	100,0	100,0	
BNP Paribas Cardif Schadeverzekeringen NV	Netherlands	Full	100,0	100,0		Full	100,0	100,0	
BNP Paribas Cardif Levensverzekeringen NV	Netherlands	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assur. RD succ. Pologne	Poland	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance Vie (Portugal branch)	Portugal	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance RD (Portugal branch)	Portugal	Full	100,0	100,0		Full	100,0	100,0	
BNP Paribas Cardif Pojistovna AS	Czech Republic	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assur. RD succ. Roumanie	Romania	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assur. Vie succ. Roumanie	Romania	Full	100,0	100,0		Full	100,0	100,0	
LLC Insurance Company Cardif	Russia	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance RD (Zurich branch)	Switzerland	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assurance Vie (Zurich branch)	Switzerland	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assur. Vie succ. Taiwan	Taiwan	Full	100,0	100,0		Full	100,0	100,0	
Cardif Assur. RD succ. Taiwan	Taiwan	Full	100,0	100,0		Full	100,0	100,0	
BNP Paribas Cardif Emeklilik AS	Turkey	Full	100,0	100,0		Full	100,0	100,0	
BoB Cardif Life Insurance Company	China	EM	50,0	50,0		EM	50,0	50,0	
SBI Life Insurance Company Ltd	India	EM	22,0	22,0		EM	26,0	26,0	
Cardif Lux Vie	Luxembourg	EM	33,3	33,3		EM	33,3	33,3	
Natio Assurance	France	EM	50,0	50,0		EM	50,0	50,0	
OPPCI POWERHOUSE	France	EM	47,4	47,4	(4)				
Powerhouse Habitat	France	EM	40,5	40,5	(4)				
SAFRAN	France	EM	40,5	40,5	(4)				
BNP Paribas Cardif TCB Life Insurance Company Ltd	Taiwan	EM	49,0	49,0		EM	49,0	49,0	
Luizaseg	Brazil	EM	50,0	50,0		EM	50,0	50,0	
Cardif EL Djazair	Algeria	EM (*)	100,0	100,0		EM (*)	100,0	100,0	
Cardif serbicio SA	Argentina	EM (*)	100,0	100,0	(4)				
BNP Paribas Cardif General Insurance Co Ltd	Korea	EM (*)	90,0	90,0	(2)	EM (*)	79,6	79,6	(2)
Cardif Livforsakring AB (Denmark branch)	Denmark	EM (*)	100,0	100,0		EM (*)	100,0	100,0	
Cardif Forsakring AB (Denmark branch)	Denmark	EM (*)	100,0	100,0		EM (*)	100,0	100,0	
Cardif IARD	France	EM (*)	83,0	83,0	(4)				
Cardif Mexico Seguros Generales SA	Mexico	EM (*)	100,0	100,0		EM (*)	100,0	100,0	
Cardif Mexico Seguros de Vida SA	Mexico	EM (*)	100,0	100,0		EM (*)	100,0	100,0	
Cardif Livforsakring AB (Norway branch)	Norway	EM (*)	100,0	100,0		EM (*)	100,0	100,0	
Cardif Forsakring AB (Norway branch)	Norway	EM (*)	100,0	100,0		EM (*)	100,0	100,0	
Cardif Compania de Seguros	Peru	EM (*)	100,0	100,0	(4)				
Cardif Polska	Poland	EM (*)	100,0	100,0		EM (*)	100,0	100,0	(3)
Poistovna Cardif Slovakia	Slovakia	EM (*)	100,0	100,0		EM (*)	100,0	100,0	
Cardif Forsakring	Sweden	EM (*)	100,0	100,0		EM (*)	100,0	100,0	

Name	Country	31 décembre 2017 Consolidation method	% of control	Interest (%)	Ref.	31 décembre 2016 Consolidation method	Control (%)	Interest (%)	Ref.
INSURANCE (cont.)									
Cardif LivForsakring AB	Sweden	EM (*)	100,0	100,0		EM (*)	100,0	100,0	
Cardif hayat Sigorta Anonim Sirketi Vie	Turkey	EM (*)	100,0	100,0	(4)				
Cardif Cardif Osiguranje	Croatia	Unconsolidated	0,0	0,0		EM (*)	100,0	100,0	
OTHER ACTIVITIES									
GIE BNP Paribas Cardif	France	Full	99,5	98,5		Full	99,5	98,5	
BNPP PSC Limited	UK	Full	100,0	100,0		Full	100,0	100,0	
Cardif Pinnacle Insurance Management Services	UK	Full	100,0	100,0		Full	100,0	100,0	
BNP Paribas Cardif Servicios y Asistencia Limitada	Chile	EM (*)	100,0	100,0		EM (*)	100,0	100,0	
Cardif I Services	France	EM (*)	100,0	100,0		EM (*)	100,0	100,0	
INSURANCE INVESTMENTS									
SCI Carma Grand Horizon SARL	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Reumal Investissements	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Corosa	France	Full	100,0	100,0		Full	100,0	100,0	
SCI 68/70 Rue de Lagny Montreuil	France	Full	100,0	100,0		Full	100,0	100,0	
SCI BNPP Pierre II	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Bobigny Jean Rostand	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Cardif Logement	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Citylight Boulogne	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Étoile du Nord	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Fontenay Plaisance	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Le Mans Gare	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Nanterre Guilleraies	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Nantes Carnot	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Pantin Les Moulins	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Paris Batignolles	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Paris Cours de Vincennes	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Porte d'Asnières	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Rue Moussorgski	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Rueil Caudron	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Saint-Denis Landy	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Saint-Denis Mitterrand	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Villeurbanne Stalingrad	France	Full	100,0	100,0		Full	100,0	100,0	
SCI BNPP Pierre I	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Défense Etoile	France	Full	100,0	100,0		Full	100,0	100,0	
SCI DEFENSE VENDOME	France	Full	100,0	100,0		Full	100,0	100,0	
SCI Odyssée	France	Full	100,0	100,0		Full	100,0	100,0	-
Valeur Pierre Épargne	France	Full	100,0	100,0		Full	100,0	100,0	
Rueil Ariane	France	Full	100,0	100,0		Full	100,0	100,0	
Opéra Rendement	France	Full	100,0	100,0		Full	100,0	100,0	
Cardimmo	France	Full	100,0	100,0		Full	100,0	100,0	-
Capital France Hôtel	France	Full	98,7	98,7		Full	98,7	98,7	(4)
CFH Montmartre	France	Full	100,0	98,6		Full	100,0	98,6	(4)
Hibernia	France	Full	100,0	98,6		Full	100,0	98,6	(4)
CFH Bercy	France	Full	100,0	98,6		Full	100,0	98,6	(4)
HVP	France	Full	100,0	98,6		Full	100,0	98,6	(4)
CFH Cap d'Ail	France	Full	100,0	98,6		Full	100,0	98,6	(4)
CFH Montparnasse	France	Full	100,0	98,6		Full	100,0	98,6	(4)
CFH Boulogne	France	Full	100,0	98,6		Full	100,0	98,6	(4)
CFH Bercy Intermédiaire	France	Full	100,0	98,6		Full	100,0	98,6	(4)
CFH Bercy Hotel	France	Full	100,0	98,6		Full	100,0	98,6	(4)
S.A.P.A - CFH Algonquin Management Partners France Italia	France	Full	100,0	98,6	(4)				
PEH Milan Holdco SRL	France	Full	100,0	98,6	(4)				
Fundamenta	Italy	Full	100,0	100,0		Full	100,0	100,0	
Assuvie	France	EM	50,0	50,0		EM	50,0	50,0	-
SCI SCOO	France	EM	46,4	46,4		EM	46,4	46,4	-
SCI Portes de Claye	France	EM	45,0	45,0		EM	45,0	45,0	-
Structured entities									
BNPP CP Cardif Alternative	France	Full	-	-		Full	-	-	
BNPP CP Cardif Private Debt	France	Full	-	-		Full	-	-	
BNPP France Crédit	France	Full	-	-		Full	-	-	
Camgestion Obliflexible	France	Full	-	-		Full	-	-	
CARDIF ALTERNATIVES PART 1	France	Full	-	-		Full	-	-	
Cardif BNPP IP Convertibles World	France	Full	-	-		Full	-	-	
CARDIF BNPP IP EQUITY FRONTIER MARKETS USD	France	Full	-	-		Full	-	-	
Cardif BNPP IP Signatures	France	Full	-	-		Full	-	-	
Cardif BNPP IP Smid Cap Euro	France	Full	-	-		Full	-	-	
Cardif BNPP IP Smid Cap Europe	France	Full	-	-		Full	-	-	
CARDIF CPR BASE CREDIT	France	Full	-	-		Full	-	-	
CARDIF EDRAM SIGNATURES	France	Full	-	-		Full	-	-	
CARDIF VITA CONVEX FUND EUR	France	Full	-	-		Full	-	-	
CEDRUS CARBON INITIATIVE TRENDS	France	Full	-	-		Full	-	-	
FP CARDIF CONVEX FUND USD	France	Full	-	-		Full	-	-	
G C THEMATIC OPPORTUNITIES II (IRELAND)	France	Full	-	-		Full	-	-	
Natio Fonds Athenes Investissement N 5	France	Full	-	-		Full	-	-	
Natio Fonds Colline International	France	Full	-	-		Full	-	-	
Natio Fonds Collines Investissement N 3	France	Full	-	-		Full	-	-	
NATIO FONDS COLLINES INVESTISSEMENT N1	France	Full	-	-		Full	-	-	
NEW ALPHA CARDIF INCUBATOR FUND	France	Full	-	-		Full	-	-	
PERMAL CARDIF CO-INVESTMENT FUND	France	Full	-	-		Full	-	-	
TIKEHAU CARDIF LOAN EUROPE	France	Full	-	-		Full	-	-	
VALTITRES FCP	France	Full	-	-		Full	-	-	

The percentage of voting indicates the Group's direct and indirect holding in the company concerned.

(1) Companies removed from the scope without sale

(2) Capital Increase: accretion

(3) Consolidation method change not related to fluctuation in voting or ownership interest

(4) Incoming entities

(*) Controlled but non materially significant entities consolidated under the equity method as associates

3.2 SIGNIFICANT RESTRICTIONS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

3.2.1 Significant restrictions related to the ability of entities to transfer cash to the Group

The ability of entities to pay dividends or to repay loans and advances depends, inter alia, on local regulatory requirements for capitalisation and legal reserves, and their financial and operating performance.

During 2016 and 2017, no BNP Paribas Cardif Group entity was subject to significant restrictions other than those related to regulatory requirements.

3.2.2 Significant restrictions related to the Group's ability to use assets pledged as collateral or under repurchase agreements

The financial instruments pledged by the BNP Paribas Cardif Group as collateral or under repurchase agreements are presented in notes 5.13 and 5.28.

3.3 MAIN MINORITY INTERESTS

The assessment of the materiality of minority interests is based on the contribution of the relevant subsidiaries to the Group balance sheet (before elimination of intragroup balances and transactions) and to the BNP Paribas Cardif Group profit and loss account. They consist mainly of minority interests of Cardif Life Insurances Co Ltd.

	Cardif Life Insurance Co Ltd	
In millions of euros, at	31 December 2017	31 December 2016
Percentage of equity securities owned by holders of non-controlling interests	15%	15%
Percentage of voting rights held by holders of non-controlling interests	15%	15%
Net income attributed to minority interests of the subsidiary	1	(2)
Cumulative minority interests of the subsidiary at the end of the reporting period	35	33
Dividends paid to minority shareholders	-	-
Total Balance Sheet (1)	3 222	3 245

(1) Amount before elimination of intragroup balances and transactions

NOTE 4 BUSINESS COMBINATIONS

On 28 December 2017, BNP Paribas Cardif obtained control of Italian non-life insurance company, Cargeas Assicurazioni, following the purchase of shares held by Ageas. Prior to the transaction, the BNP Paribas Cardif Group held 50% of the entity.

The BNP Paribas Cardif Group already had a significant influence on Cargeas Assicurazioni and this entity was previously consolidated under the equity method. This acquisition led to the full consolidation of this entity.

This acquisition resulted in a EUR 836 million increase in the BNP Paribas Cardif Group balance sheet at the purchase date.

The goodwill on Cargeas Assicurazioni amounts to EUR 57 million.

NOTE 5 NOTES TO THE CONSOLIDATED BALANCE SHEET

5.1 GOODWILL

In millions of euros	31 December 2017	31 December 2016
CARRYING AMOUNT AT START OF THE PERIOD	192	194
Acquisitions	57	-
Effect of movements in exchange rates	(1)	(2)
CARRYING AMOUNT AT END OF THE PERIOD	248	192
Gross carrying amount	248	192
Accumulated impairment recognised at the end of period	-	-

Goodwill by cash-generating unit is as follows:

	Carrying amount		Impairment recognised during the period		Acquisitions during the period	
In millions of euros	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
France	37	37	-	-	-	-
Italy	196	139	-	-	57	-
Rest of Europe	14	14	-	-	-	-
Asia	1	1	-	-	-	-
Latin America	-	-	-	-	-	-
TOTAL GOODWILL	248	192	-	-	57	-

Goodwill impairment tests may be based on three different methods: observation of transactions related to comparable businesses, or share price data for listed companies with a comparable business, or finaly the third based on expected future cash-flows and yield ("discounted cash flow method" or DCF).

If one of the two comparables-based methods indicates the need for impairment, or in the absence of available market parameters, the DCF method is used.

The DCF method is based on a few assumptions about projected revenues, expenses and capital requirements based on medium-term plans. Cash flows are projected beyond five years, and ultimately on the basis of a perpetual growth rate.

The major parameters sensitive to the assumptions are the discount rate, the margin rates and the growth rate to perpetuity.

The discount rate is determined on the basis of a risk-free rate and a risk-weighted market risk premium specific to each country. The values of these parameters are obtained from internal and external information sources.

The level of capital is determined, for each homogeneous group, according to the required solvency levels as defined by the insurance regulation, in line with the capital management policies of the legal entities that constitute the cash-generating unit.

The growth rate to perpetuity used is 2% for homogeneous group of entities.

5.2 VALUE OF INSURANCE COMPANY CONTRACT PORTFOLIOS ACQUIRED

In accordance with the IFRS 4 option, the value of the acquired insurance contract portfolios recorded as intangible assets in balance sheet assets represents the difference between the fair value of the contractual insurance rights acquired and the insurance obligations assumed and the liability measured according to the BNP Paribas Cardif Group accounting methods.

Consequently, the BNP Paribas Cardif Group presents the amortisation expense for the portfolio securities acquired on a separate line of the profit and loss account ("Depreciation on acquired portfolios").

In millions of euros	31 December 2017	31 December 2016
Value of insurance company portfolios acquired - gross	82	7
Value of insurance company portfolios acquired - amortisation	(3)	(5)
TOTAL VALUE OF INSURANCE COMPANY CONTRACT PORTFOLIOS ACQUIRED	79	2

The increase is mainly related to the acquisition of Cargeas Assicurazioni.

5.3 OTHER INTANGIBLE ASSETS

The table below presents the intangible assets other than goodwill and the value of insurance company portfolios acquired.

	31 December 2017			31 December 2016		
In millions of euros, at	Gross carrying amount	Accumulated depreciation, amortisation and impairment	Carrying amount	Gross carrying amount	Accumulated depreciation, amortisation and impairment	Carrying amount
Purchased software	158	(131)	27	132	(104)	28
Internally-developed software	337	(269)	68	308	(243)	64
Other intangible assets	251	(56)	195	168	(53)	115
OTHER INTANGIBLE ASSETS	746	(456)	289	608	(400)	207

Other intangible assets include leasehold rights, concessions, rights and patents, intangible business assets and intangible assets in progress acquired by the BNP Paribas Cardif Group.

Net depreciation and amortisation expense for 2017 was EUR 57 million, compared with EUR 52 million for 2016.

Net impairment reversals on intangible assets taken to the profit and loss account in 2017 amounted to EUR 12 million, compared with EUR 31 million for 2016.

5.4 INVESTMENT PROPERTY

Investment property corresponds to land, buildings and intangible business assets acquired with the properties. These are representative of the assets invested as part of life insurance activity (excluding assets supporting unit-linked contracts which are presented under "Investments in unit-linked contracts").

	31 December 2017				31 December 2016			
In millions of euros	Gross carrying amount	Accumulated depreciation, amortisation and impairment	Carrying amount	Market value	Gross carrying amount	Accumulated depreciation, amortisation and impairment	Carrying amount	Market value
TOTAL INVESTMENT PROPERTY	3 544	(438)	3 106	4 102	3 314	(382)	2 932	3 747

The net depreciation and amortisation expense for 2017 was EUR 57 million, compared with EUR 49 million in 2016.

5.5 HELD-TO-MATURITY FINANCIAL ASSETS

	31 December 2017		31 December 2016	
In millions of euros	Carrying amount	of which impairment	Carrying amount	of which impairment
Listed government bonds	4 170	-	5 485	-
Other listed bonds	58	-	58	-
TOTAL HELD-TO-MATURITY FINANCIAL ASSETS	4 228	-	5 543	-

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

5.6 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2017			31 December 2016		
In millions of euros	Net value	of which impairment	of which changes in value taken directly to equity	Net value	of which impairment	of which changes in value taken directly to equity
Equities and other variable-income securities	6 825	(373)	1 492	7 093	(577)	1 580
Bonds and other fixed-income securities	102 712	-	11 331	101 669	(3)	12 761
TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS	109 537	(373)	12 823	108 763	(581)	14 341

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

In millions of euros	31 December 2017			31 December 2016		
	Fixed-income securities	Equities and other variable-income securities	Total	Fixed-income securities	Equities and other variable-income securities	Total
Non-hedged changes in value of securities, recognised in "Available-for-sale financial assets"	**11 331**	**1 492**	**12 823**	**12 761**	**1 580**	**14 341**
Deferred tax linked to these changes in value	(3 069)	(397)	(3 466)	(3 910)	(487)	(4 396)
Insurance policyholders' surplus profit from insurance entities, after deferred tax	(7 258)	(975)	(8 232)	(7 773)	(973)	(8 746)
Group share of changes in value of available-for-sale securities owned by entities consolidated under the equity method, after deferred tax and deferred profit-sharing	11	45	56	25	50	76
Unamortised changes in value of available-for-sale securities reclassified as loans and receivables	(9)	-	(9)	(10)	-	(10)
TOTAL [(1)]	**1 005**	**166**	**1 171**	**1 094**	**171**	**1 264**

[(1)] *This total is included in the category "Total changes recognised directly in equity" in the table of changes in equity.*

5.7 FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

This item includes financial assets designated by the Group to be valued at market or model value through profit and loss.

In millions of euros	31 December 2017	31 December 2016
Equities and variable income securities	16 809	15 097
Bonds and other fixed-income securities	16 951	14 491
TOTAL FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	33 760	29 587

5.8 LOANS AND RECEIVABLES

In millions of euros	31 December 2017		31 December 2016	
	Carrying amount	of which impairment	Carrying amount	of which impairment
LOANS AND RECEIVABLES	1 837	-	1 918	-
of which insurance company investments	1 818	-	1 905	-
of which investments from other businesses	18	-	12	-

5.9 DERIVATIVE INSTRUMENTS AND SEPARATE EMBEDDED DERIVATIVES

The positive or negative fair value of derivative financial instruments classified in the trading portfolio represents the replacement value of those instruments.

5.9.1 Fair value by derivative financial instrument

The market value of derivative instruments on the assets and liabilities sides of the balance sheet breaks down as follows:

In millions of euros	31 December 2017		31 December 2016	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Interest rate derivatives	285	346	253	300
Foreign exchange derivatives	72	53	64	81
Equity derivatives	22	6	22	9
DERIVATIVE FINANCIAL INSTRUMENTS AND SEPARATE EMBEDDED DERIVATIVES	379	405	339	390
of which insurance company investments	*374*	*380*	*328*	*369*
of which investments from other businesses	*5*	*26*	*11*	*21*

These amounts include the fair values of the derivative financial instruments used for hedging purposes, which are detailed in the table below.

In millions of euros	31 December 2017		31 December 2016	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Foreign exchange derivatives	33	-	9	27
Cash flow hedges	**33**	**-**	**9**	**27**
Foreign exchange derivatives	8	29	41	1
Net foreign investment hedges	**8**	**29**	**41**	**1**
DERIVATIVES USED FOR HEDGING PURPOSES	41	29	50	28

5.9.2 Notional amounts of derivative financial instruments

The table below presents the notional amounts of derivative financial instruments. The notional amounts of derivative instruments are merely an indication of the volume of the BNP Paribas Cardif Group's activities in financial instruments markets, and do not reflect the market risks associated with such instruments.

In millions of euros	31 December 2017			31 December 2016		
	Exchanges	Over the counter	Total	Exchanges	Over the counter	Total
Interest rate derivatives	593	20 632	21 225	17	20 751	20 769
Foreign exchange derivatives	-	6 990	6 990	-	10 940	10 940
Equity derivatives	39	300	339	67	100	167
DERIVATIVES (NOTIONAL AMOUNTS)	632	27 922	28 554	85	31 792	31 876

The total notional amount of derivatives used for hedging purposes stood at EUR 4,419 million at 31 December 2017, compared with EUR 6,490 million at 31 December 2016.

5.10 UNIT-LINKED INVESTMENTS

Assets representing unit-linked contracts are valued at their fair value on the closing date.

In millions of euros	31 December 2017	31 December 2016
Equities and variable income securities	7 470	7 152
Share of real estate companies	1 382	964
Real estate investments in unit-linked contracts	1 912	1 768
Treasury bills	796	805
Government Bonds	55	73
Other bonds	1 209	1 476
UCIT bonds and shares	35 219	30 269
TOTAL UNIT-LINKED INVESTMENTS	**48 044**	**42 506**

5.11 DETERMINATION OF MARKET VALUE OF FINANCIAL INSTRUMENTS

5.11.1 Valuation process

BNP Paribas Cardif has retained the fundamental principle that it should have a single 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 BNP Paribas Cardif business decisions and risk management strategies.

In its regular assessment of asset valuation, the BNP Paribas Cardif Group has defined a policy for allocating levels ("Level Policy procedure"), a reference document containing the criteria to be taken into account for the positioning of financial instrument levels.

5.11.1 Description of main instruments in each level

As detailed in the note 1 "accounting principles and methods", financial instruments at market value are divided into three levels. This hierarchy is also applied to financial instruments, both assets and liabilities, which are recognised at amortised cost.

In millions of euros	31 December 2017				31 December 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial instruments at market value								
Available-for-sale financial assets	98 338	10 335	863	109 536	96 746	10 781	1 235	108 763
Financial instruments at fair value through profit or loss (1)	65 061	13 420	3 324	81 804	57 098	12 492	2 503	72 093
Derivatives and separate embedded derivatives	11	368	-	379	3	336	-	339
Fair value of financial instruments at amortised cost								
Loans and receivables	130	1 494	248	1 872	-	1 696	263	1 959
Held-to-maturity financial assets	4 816	-	-	4 816	6 372	-	-	6 372
FINANCIAL ASSETS	**168 356**	**25 617**	**4 435**	**198 408**	**160 220**	**25 305**	**4 001**	**189 526**
Financial instruments at market value								
Derivative liability instruments	1	404	-	405	2	389	-	390
Fair value of financial instruments at amortised cost								
Subordinated debt	-	4 783	-	4 783	-	4 060	-	4 060
Repurchase agreements granted	-	8 668	-	8 668	-	8 067	-	8 067
Loans from credit institutions	-	3 354	-	3 354	-	3 372	-	3 372
FINANCIAL LIABILITIES	**-**	**16 805**	**-**	**16 805**	**-**	**15 498**	**-**	**15 498**

(1) *including investments in unit-linked contracts*

Market value of financial instruments recognised at fair value

The following section provides a description of the criteria used to allocate the instruments in each level in the hierarchy.

- Level 1: this level includes all securities and derivatives that are listed on stock exchanges or quoted continuously in other active markets.

  This category includes, in particular, equity securities and liquid bonds and derivative instruments traded on organised markets (futures, options, etc.). It includes shares of funds and mutual funds whose net asset value is calculated daily.

- Level 2: the Level 2 stock of securities is composed of securities which are less liquid than those in the Level 1. 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 on this security, but these prices do not represent directly quoted 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.

  This category includes:

  - shares listed on a regulated market but whose quotation is more than weekly,
  - certain government or company bonds whose valuations are infrequent (less than one quotation per month),

  - shares of funds and mutual funds with a valuation at least quarterly,
  - derivatives on an over-the-counter market;

- Level 3: Level 3 securities consist primarily of fund shares and unlisted equities, mainly shares in non listed companies and venture capital funds.

  Unlisted Level 3 equities and other variable-income securities are valued using one of the following methods: share of revalued net assets, multiples of equivalent companies, discounting of future cash flows generated by the company's business, multi-criteria approach.

Fair value of financial instruments carried at amortised cost

The information regarding the market value of financial instruments recognised at amortised cost should 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 31 December 2017; They are liable to fluctuate from day to day as a result of changes in various parameters, such as interest rates and credit quality of the counterparty. In particular, they may differ significantly from the amounts actually received or paid on maturity of the instrument. in most cases, the fair value is not intended to be realised immediately, and in practice might not be realised immediately;
- 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 valuation techniques and assumptions used ensure a consistent measure of the fair value of the financial assets and liabilities recognised at amortised cost within the BNP Paribas Cardif Group: if prices listed on an active market are available, they are used to determine fair value. Otherwise, the fair value is determined using valuation techniques, such as discounting estimated future cash flows for loans, debts and held-to-maturity financial assets, or specific cash flow models for other financial instruments. The fair value used for loans, debts and held-to-maturity assets with an initial maturity of less than one year is the recognised value.

5.11.2 Table of movements in Level 3 financial instruments

For Level 3 financial instruments, the following movements occurred during the year:

In millions of euros	Financial Assets		
	Available-for-sale financial instruments	Financial instruments at fair value through profit or loss	Total
Position as at 1 January 2017	**1 235**	**2 503**	**3 739**
Incoming entities	-	-	-
Purchases	568	1 118	1 686
Sales	(663)	(491)	(1 154)
Settlements	(122)	(239)	(361)
Reclassification	15	(15)	-
Transfers to Level 3	3	251	254
Transfers from Level 3	(117)	(8)	(125)
Gains recognised in the income statement (assets +)	1	305	306
Losses recognised in the income statement (assets -)	(37)	(101)	(138)
Items related to exchange rate movements	(2)	-	(2)
Changes in assets recognised in equity	(18)	-	(18)
Position as at 31 December 2017	**863**	**3 324**	**4 187**

Transfers between levels may occur when an instrument fulfils the criteria defined in the new level, 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. Transfers have been reflected as if they had taken place at the beginning of the reporting period.

5.12 RECLASSIFICATION OF FINANCIAL INSTRUMENTS INITIALLY RECOGNISED AS AVAILABLE-FOR-SALE FINANCIAL ASSETS

The amendments to IAS 39 and IFRS 7 adopted by the European Union on 15 October 2008 make it possible, under certain conditions, to reclassify instruments initially classified as available for sale.

In millions of euros	31 December 2017		31 December 2016	
	Carrying value	Market value	Carrying value	Market value
Available-for-sale financial assets held to maturity reclassified as assets valued at amortised cost	95	130	93	134

Without these reclassifications, net income for 2017 and 2016 would not have been significantly different. Similarly, changes in value of assets and liabilities recognised directly in equity would not have been significantly different in 2017 neither in 2016.

5.13 TRANSFERS OF FINANCIAL ASSETS

5.13.1 Transfers of assets that have not been derecognised

Temporary sales of securities made under repurchase agreements are included under "Transfers of assets that have not been derecognised". The debt representing securities sold under repurchase agreements is included in the liabilities side of the balance sheet under "Liabilities due to banking sector companies".

	31 December 2017		31 December 2016	
In millions of euros	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Available-for-sale financial assets	8 496	8 656	8 066	8 066
Repurchase agreements	**8 496**	**8 656**	**8 066**	**8 066**

5.13.2 Disposal transactions resulting in an outflow of assets

The BNP Paribas Cardif Group has not carried out any significant transfers leading to partial or full derecognition of the financial assets and a continuing involvement in them.

5.14 OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

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

“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.

In millions of euros, at	31 December 2017 Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Financial instruments given / received as guarantees	Net amounts
Loans and receivables due from credit institutions	2 179	-	2 179	-	2 179
of which repurchase agreements	57	-	57	-	57
Loans and receivables due from customers	2 609	-	2 609	-	2 609
Derivatives on organised markets	379	-	379	-	379
Settlement accounts for securities transactions	106	-	106	-	106
TOTAL ASSETS	**5 274**	-	**5 274**	-	**5 274**
Debts due to credit institutions	12 023	-	12 023	(8 496)	20 518
of which repurchase agreements	8 668	-	8 668	(8 496)	17 164
Due to customers	6 567	-	6 567	-	6 567
Derivatives on organised markets	405	-	405	-	405
Settlement accounts for securities transactions	76	-	76	-	76
TOTAL LIABILITIES	**19 071**	-	**19 071**	**(8 496)**	**27 567**

In millions of euros	31 December 2016 Gross amounts of financial assets	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Financial instruments given / received as guarantees	Net amounts
Loans and receivables due from credit institutions	1 502	-	1 502	-	1 502
of which repurchase agreements	67	-	67	-	67
Loans and receivables due to customers	1 749	-	1 749	-	1 749
Derivatives on organised markets	339	-	339	-	339
Settlement accounts for securities transactions	152	-	152	-	152
TOTAL ASSETS	**3 742**	-	**3 742**	-	**3 742**
Debts due to credit institutions	11 439	-	11 439	(8 066)	19 505
of which repurchase agreements	8 067	-	8 067	(8 066)	16 133
Due to customers	5 777	-	5 777	-	5 777
Derivatives on organised markets	390	-	390	-	390
Settlement accounts for securities transactions	73	-	73	-	73
TOTAL LIABILITIES	**17 679**	-	**17 679**	**(8 066)**	**25 745**

5.15 EQUITY-METHOD INVESTMENTS

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

	Year to 31 Dec. 2017			31 December 2017	Year to 31 Dec. 2016			31 December 2016
In millions of euros	Share of net income	Share of changes in assets and liabilities recognised directly in equity	Share of net income and changes in assets and liabilities recognised directly in equity	Equity-method investments	Share of net income	Share of changes in assets and liabilities recognised directly in equity	Share of net income and changes in assets and liabilities recognised directly in equity	Equity-method investments
Joint ventures	26	2	28	197	34	9	42	307
Associates [(1)]	55	50	105	688	39	73	113	658
EQUITY METHOD INVESTMENTS	**82**	**52**	**134**	**886**	**73**	**82**	**155**	**965**
Associates [(1)]	16	4	21	407	19	5	23	324
INVESTMENTS IN EQUITY METHOD INVESTMENT ENTITIES	**16**	**4**	**21**	**407**	**19**	**5**	**23**	**324**

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

Insurance investments consolidated under the equity method are presented in investments in insurance activities.

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

In millions of euros	Country of registration	Category of entity consolidated under the equity method	31 December 2017		31 December 2016	
			Interest (%)	Equity-method investments	Interest (%)	Equity-method investments
JOINT VENTURES						
BoB Cardif Life Insurance Company	China	Corporate	50	133	50	152
Cargeas Assicurazioni S.p.A	Italy	Corporate	100	-	50	103
ASSOCIATES						
SCI Scoo	France	Investment entity	46	189	46	190
Cardif Lux Vie	Luxembourg	Corporate	33	143	33	138
SBI Life Insurance Company Ltd	India	Corporate	22	184	26	215
BNP Paribas Cardif TCB Life Insurance Company Ltd	Taiwan	Corporate	49	140	49	136

5.16 TANGIBLE ASSETS

In millions of euros	31 December 2017			31 December 2016		
	Gross	Accumulated depreciation, amortisation and impairment	Carrying amount	Gross	Accumulated depreciation, amortisation and impairment	Carrying amount
Land and buildings	415	(55)	360	410	(47)	363
Equipment, furniture and fixtures	13	(8)	5	13	(8)	5
Other property, plant and equipment	54	(41)	14	49	(35)	14
TANGIBLE ASSETS	**482**	**(104)**	**378**	**473**	**(91)**	**382**

Net depreciation and amortisation expense for 2017 was EUR 11 million, compared with EUR 12 million in 2016.

5.17 DEFERRED ACQUISITION COSTS AND EQUIVALENT

In millions of euros	31 December 2017	31 December 2016
Deferred acquisition costs on Life activities	183	179
Deferred acquisition costs on Non-Life activities	1 321	1 260
TOTAL DEFERRED ACQUISITION COSTS AND EQUIVALENT	1 503	1 439

5.18 RECEIVABLES FROM DIRECT INSURANCE AND REINSURANCE OPERATIONS

IFRS 4 requires that assets received on reinsurance ceded should not be offset against the corresponding insurance liabilities. However, this restriction mainly concerns the offsetting of gross technical reserves and provisions transferred to reinsurers.

Receivables from accepted (inward) reinsurance and ceded (outward) reinsurance are presented on a single line in the balance sheet.

In millions of euros	31 December 2017							
	Overnight and on demand	from overnight to 1 month (excl. overnight)	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Premiums earned not yet written	5	8	2	2	4	-	-	22
Other receivables from insurance transactions	99	55	56	31	7	5	2	255
Receivables from accepted reinsurance transactions	7	53	9	1	-	-	-	70
Receivables from insurance intermediaries	188	185	103	32	4	5	2	520
Provisions for receivables from insurance and accepted reinsurance transactions	-	-	-	-	-	(1) -		(1)
Receivables from direct insurance and accepted reinsurance transactions	**299**	**301**	**171**	**67**	**16**	**9**	**4**	**866**
Receivables from reinsurers	26	15	20	6	4	1	-	72
Provisions for receivables from reinsurers	(1)	-	-	-	-	-	-	(1)
Receivables from reinsurance ceded	**25**	**15**	**20**	**6**	**4**	**1**	**-**	**71**
RECEIVABLES FROM DIRECT INSURANCE AND REINSURANCE OPERATIONS	323	316	191	73	20	10	4	937

In millions of euros	31 December 2016							
	Overnight and on demand	from overnight to 1 month (excl. overnight)	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Premiums earned not yet written	21	-	-	-	-	-	-	21
Other receivables from insurance transactions	65	172	23	15	-	-	-	276
Receivables from accepted reinsurance transactions	2	53	13 -		-	-	-	68
Receivables from insurance intermediaries	180	188	57	48	-	2	2	476
Provisions for receivables from insurance and accepted reinsurance transactions	(1)	-	-	(1)	-	(1)	-	(3)
Receivables from direct insurance and accepted reinsurance transactions	**267**	**413**	**93**	**62**	**-**	**1**	**2**	**839**
Receivables from reinsurers	33	17	43	4	-	-	-	98
Provisions for receivables from reinsurers	(1)	-	-	-	-	-	-	(1)
Receivables from reinsurance ceded	**32**	**17**	**43**	**4**	**-**	**-**	**-**	**96**
RECEIVABLES FROM DIRECT INSURANCE AND REINSURANCE OPERATIONS	299	430	137	66	-	1	2	935

5.19 OTHER RECEIVABLES AND DEBTS

In millions of euros	31 December 2017	31 December 2016
Tax and social security receivables	334	419
Receivables related to investments and securities settlement accounts	106	153
Deposits and guarantees paid	2	2
Other receivables and accruals	659	811
TOTAL OTHER RECEIVABLES	1 101	1 386
Social security and tax debts	173	205
Related debt and settlement accounts for securities transactions	76	73
Deposits and guarantees received	2	2
Other payables and accruals	1 643	1 073
TOTAL OTHER DEBTS	1 894	1 353

5.20 SHARE CAPITAL

5.20.1 Changes in share capital

	31 December 2017			31 December 2016		
	Number of shares	Unit value (euros)	Carrying amount (euros)	Number of shares (thousands)	Unit value (euros)	Carrying amount (euros)
Shares issued at start of period	62 483	2,40	149 959 051	62 483	2,40	149 959 051
SHARES ISSUED AT END OF PERIOD	62 483	2,40	149 959 051	62 483	2,40	149 959 051

5.20.2 Capital management objectives, policies and procedures

Since 1 January 2016, the BNP Paribas Cardif Group has been subject to the Solvency II regulation, a new standard for calculating the solvency coverage ratio (Directive 2009/138/EC as transposed into French law).

The objective of Solvency II is:

- to improve risk management systems matching them more closely with the actual risks to which insurance companies are exposed;
- to harmonise the insurance regulatory regimes across Europe;
- to give more power to supervisory authorities.

Solvency II is divided into three pillars:

- Pillar 1: to assess solvency using what is known as an economic capital-based approach;
- Pillar 2: to introduce qualitative requirements, i.e. governance and risk management rules that include a forward-looking approach to risk assessment. This assessment is called ORSA (Own Risk & Solvency Assessment);
- Pillar 3: to improve the transparency of the insurance business by making solvency the cornerstone of disclosures to the public and the supervisory authority.

The BNP Paribas Cardif Group complies with this new regulation in terms of its risk management, governance, calculation and reporting aspects. Solvency II data are available in the BNP Paribas Cardif Group solvency and financial position report[7].

Solvency II provides for two capital requirements:

- the Solvency Capital Requirement (SCR);
- the Minimum Capital Requirement (MCR) or, for groups, SCR Group Minimum.

The SCR is the level of own funds required to absorb a series of significant losses after accounting for the correlation between risks. It is calibrated to cover such an event with a probability of occurrence of once in every 200 years within a one-year horizon ("Value at Risk of 99.5%) The BNP Paribas Cardif Group SCR is evaluated using the standard formula.

The Capital Management Policy of the BNP Paribas Cardif Group aims in particular to ensure the prudential solvency requirements are met, to cover at least 100% of the SCR defined within the scope of the ORSA assessment and to structure own funds so that the best balance can be found between the share capital, subordinated debt and other own funds elements, complying with the limits and levels laid down by regulations.

5.21 FINANCING DEBT

5.21.1 Detail of subordinated debt at amortised cost and financing debt securities

The BNP Paribas Cardif Group's financing debts consist solely of subordinated debt valued on the balance sheet at their nominal amount.

Transactions carried out in 2016

On 28 June 2016, Cardif Assurances Risques Divers issued a Redeemable Subordinated Note with a par value of EUR 200 million and a maturity of 10 years. This security subscribed by BNP Paribas SA offers a Euribor 3-Month +3.15% variable-rate coupon. The coupon is paid quarterly. This note may be redeemed at the end of a 5-year period.

On 27 September 2016, Cardif Assurances Vie Divers issued a Redeemable Subordinated Note with a par value of EUR 650 million and a maturity of 10 years. This security subscribed by BNP Paribas SA offers a Euribor 3-Month +2.71% variable-rate coupon. The coupon is paid quarterly. This note may be redeemed at the end of a 5-year period.

[7] See corporate website https://www.bnpparibascardif.com

Transactions carried out in 2017

On 25 September 2017, BNP Paribas Cardif redeemed a redeemable subordinated note issued in December 2011 with a par value of EUR 753 million. This issue offered the subscriber, BNP Paribas SA, a Euribor 3-Month +5.20% variable-rate coupon.

On 26 September 2017, BNP Paribas Cardif issued a Redeemable Subordinated Note with a par value of EUR 760 million and a maturity of 30 years. This security subscribed by BNP Paribas SA offers a Euribor 3-Month +2.68% variable-rate coupon. The coupon is paid quarterly. This note may be redeemed at the end of a 10-year period.

On 29 September 2017, BNP Paribas Cardif redeemed a subordinated perpetual note issued in March 2012 with a par value of EUR 710 million. This issue offered the subscriber, BNP Paribas SA, a Euribor 3-Month +6.35% variable-rate coupon.

On 29 September 2017, BNP Paribas Cardif issued a Redeemable Subordinated Note with a par value of EUR 710 million and a maturity of 30 years. This security subscribed by BNP Paribas SA offers a Euribor 3-Month +2.73% variable-rate coupon. The coupon is paid quarterly. This note may be redeemed at the end of a 10-year period.

On 29 November 2017, BNP Paribas Cardif issued a Redeemable Subordinated Note with a par value of EUR 750 million and a maturity of 7 years. This note pays a fixed-rate coupon of 1%. The coupon is paid annually. This note may be redeemed at the end of a 5-year period.

On 14 December 2017, BNP Paribas Cardif issued a Redeemable Subordinated Note with a par value of EUR 170 million and a maturity of 30 years. This security subscribed by BNP Paribas SA offers a Euribor 3-Month +1.80% variable-rate coupon. The coupon is paid quarterly. This note may be redeemed at the end of a 10-year period.

On 18 December 2017, BNP Paribas Cardif redeemed a redeemable subordinated note issued in December 2012 with a par value of EUR 277 million. This issue offered the subscriber, BNP Paribas SA, a Euribor 3-Month +4.75% variable-rate coupon.

The payment of interest on the subordinated notes and the redemption of those notes may be deferred if the Solvency Capital Requirement (or Solvency II Minimum Solvency Requirement) is not met or if such payment or redemption would result in non-compliance with the regulatory requirements. This deferral is maintained until BNP Paribas Cardif meets the solvency capital requirement (or minimum capital requirement) and the payment or redemption is no longer likely to result in non-compliance.

Breakdown of subordinated debt as at 31 December 2017

In millions of euros	Issuer	Subscriber	Issue date	Maturity	Call date	Interest rate before call date	Rate after 1st call date	Nominal value
PSDI	Cardif Assurance Vie	BNP Paribas	23/12/2004	Undetermined	23/12/2019	4.40% until 22/12/2014 then 2.498%	2.498%	125
PSDI	Cardif Assurance Vie	BNP Paribas	23/12/2004	Undetermined	23/12/2019	4.40% until 22/12/2014 then 2.498%	2,498%	32
PSLN	BNP Paribas Cardif	Third party	25/11/2014	Undetermined	25/11/2025	0,04032	3-month Euribor + 3.93%	1 000
PSR	Cardif Assurance Vie	BNP Paribas	18/12/2015	18/12/2025	18/12/2020	3-month Euribor + 2.46%	3-month Euribor + 2.66%	182
RSLN	Cardif Assurance Risques Divers	BNP Paribas	28/06/2016	28/06/2026	28/06/2021	3-month Euribor + 3.15%	3-month Euribor + 3.15%	200
RSLN	Cardif Assurance Vie	BNP Paribas	27/09/2016	27/09/2026	27/09/2021	3-month Euribor + 2.71%	3-month Euribor + 2.71%	650
RSLN	BNP Paribas Cardif	BNP Paribas	26/09/2017	26/09/2047	26/09/2027	3-month Euribor + 2.68%	3-month Euribor + 2.68%	760
RSLN	BNP Paribas Cardif	BNP Paribas	29/09/2017	29/09/2047	29/09/2027	3-month Euribor + 2.73%	3-month Euribor + 2.73%	710
RSLN	BNP Paribas Cardif	Third party	29/11/2017	29/11/2024	29/11/2027	1.00%	1.00%	750
RSLN	BNP Paribas Cardif	BNP Paribas	14/12/2017	14/12/2047	14/12/2027	3-month Euribor + 1.80%	3-month Euribor + 1.80%	170
Total subordinated debt - Nominal amount								**4 579**
Related debt and amortised debt issuance costs								(5)
TOTAL SUBORDINATED DEBT								4 574

5.21.2 Schedule of subordinated debt at amortised cost

In millions of euros	31 December 2017					31 December 2016				
	< 5 years	5 to 10 years	> 10 years	Undetermined	Total	< 5 years	5 to 10 years	> 10 years	Undetermined	Total
Redeemable subordinated debt	1	3 243	170	-	3 415	1	2 062	-	-	2 063
Undated subordinated debt	8			1 152	1 160	4	-	-	1 862	1 866
TOTAL SUBORDINATED DEBT					4 574					3 929

5.21.3 Financing debt due to banking sector companies

This includes foreign currency borrowings to cover equity investments in subsidiaries outside the Euro zone.

5.22 TECHNICAL LIABILITIES FROM INSURANCE POLICIES AND INVESTMENT CONTRACTS EXCLUDING POLICYHOLDERS' SURPLUS RESERVE

In accordance with ANC Recommendation No 2013-05, liabilities arising from insurance and reinsurance contracts are broken down into technical liabilities related to insurance contracts under IFRS 4 and technical liabilities relating to investment contracts, which fall in principle under IAS 39, but are subdivided into discretionary profit-sharing contracts recognised in accordance with IFRS 4 and deposits relating to investment contracts recognised in accordance with IAS 39.

Under these two headings, the liabilities related to unit-linked contracts are kept separate.

The breakdown of insurance and investment contract liabilities under IFRS 4 and IAS 39 is as follows:

	31 December 2017			31 December 2016		
In millions of euros	Gross value	Reinsurance ceded	Net value	Gross value	Reinsurance ceded	Net value
Unearned premium reserve	2 700	390	2 310	2 414	320	2 094
Claims reserves	1 535	290	1 245	1 125	211	914
Deferred participation reserve	2	-	2	7	-	7
Other Technical reserves	158	4	153	154	5	149
Non-Life Insurance Contracts	**4 395**	**684**	**3 711**	**3 700**	**535**	**3 165**
Mathematical reserves arising from insurance contracts	80 087	1 841	78 246	79 398	1 892	77 506
Mathematical reserves arising from unit-linked insurance contracts	44 568	550	44 018	38 838	476	38 362
Mathematical reserves arising from investment contracts with discretionary participating feature	29 335		29 335	28 542		28 542
Technical liabilities arising from unit-linked investment contracts without discretionary participating feature	3 534		3 534	3 624		3 624
Benefits payable (claims, buybacks, terms)	1 408	90	1 317	1 696	113	1 583
Deferred participation reserve	4 170	-	4 170	3 353	-	3 353
Other Technical reserves	208	4	204	192	4	188
Life insurance contracts and investment contracts	**163 308**	**2 485**	**160 823**	**155 643**	**2 485**	**153 158**
TOTAL TECHNICAL LIABILITIES FROM INSURANCE AND INVESTMENT CONTRACTS	167 702	3 169	164 533	159 343	3 020	156 323
OF WHICH TECHNICAL LIABILITIES FROM INSURANCE CONTRACTS	*134 834*	*3 169*	*131 665*	*127 178*	*3 020*	*124 158*
OF WHICH TECHNICAL LIABILITIES FROM INVESTMENT CONTRACTS	*32 868*	*-*	*32 868*	*32 166*	*-*	*32 166*

Changes in non-life insurance contract claim reserves

The table below details the non-life insurance claims reserves and presents changes in them during the year by distinguishing between the gross reinsurance values and sold reinsurance values.

In millions of euros	31 December 2017			31 December 2016		
	Gross value	Reinsurance ceded	Net value	Gross value	Reinsurance ceded	Net value
Claims reserves at 1 January	**1 125**	**211**	**914**	**1 060**	**182**	**878**
Claims expense for the current year	990	188	802	1 022	193	829
Surpluses/deficits for previous years	141	27	114	(228)	(39)	(189)
Total claim expense	**1 130**	**214**	**916**	**794**	**154**	**640**
Claims payments for the current year	(312)	(59)	(253)	(226)	(39)	(187)
Claims payments for previous years	(410)	(77)	(332)	(508)	(87)	(420)
Total payments	**(721)**	**(136)**	**(585)**	**(734)**	**(126)**	**(608)**
Variation de périmètre et entrées/sorties de portefeuille	(0)	(0)	(0)	0	0	0
Currency effect	0	0	(0)	5	1	4
Claims reserves at 31 December	**1 535**	**290**	**1 245**	**1 125**	**211**	**914**

Occurrence of claims

The table below shows changes in claims reserves, from their initial valuation at claims' occurrence through to the year in which their cost uncertainty was removed. This period cannot exceed ten years.

However, given the nature of the guarantees granted to BNP Paribas Cardif, the uncertainty horizon chosen does not exceed five years.

In millions of euros	*2013*	*2014*	*2015*	*2016*	**2017**
Gross claims reserves occurring as originally presented	**939**	**1 073**	**1 161**	**1 125**	**1 535**
Gross claims reserves occurring adjusted with the exchange rate and scope occurring in N	**983**	**1 113**	**1 197**	**1 125**	
Cumulative payments made					
one year later	359	341	340	363	
two years later	393	470	463		
three years later	441	521			
four years later	315				
five years later					
Re-estimated final cost					
one year later	926	1 077	1 163	1 173	
two years later	948	1 215	1 116		
three years later	1 029	1 044			
four years later	945				
five years later					
Surplus (deficiency) of the initial reserves compared to the final re-estimated cost (gross)					
Amount	(38)	(70)	(81)	48	
Percentage	-4,0%	-6,5%	-7,0%	4,3%	

Changes in mathematical life insurance and investment contract provisions with discretionary investment

The table below details life insurance mathematical reserves and presents changes in them during the year by distinguishing between the gross and ceded reinsurance values.

In millions of euros	31 December 2017			31 December 2016		
	Gross value	Reinsurance ceded	Net value	Gross value	Reinsurance ceded	Net value
MATHEMATICAL RESERVES AT 1 JANUARY	146 778	2 368	144 410	140 985	2 415	138 570
Premiums	16 303	154	16 149	15 471	120	15 351
Reduction in liabilities related to benefits (payments, buybacks)	(13 102)	(177)	(12 926)	(12 493)	(151)	(12 342)
Revaluation of mathematical provisions	2 009	4	2 006	2 034	6	2 028
Change in values of unit-linked admissible investments	2 452	44	2 408	744	(23)	767
Currency effect	(351)	(3)	(348)	293	(3)	296
Changes in actuarial methods and technical rates	1	2	(1)	(1)	2	(3)
Other changes	(102)	(2)	(100)	(255)	2	(257)
MATHEMATICAL RESERVES AT 31 DECEMBER	153 989	2 391	151 598	146 778	2 368	144 410

5.23 POLICYHOLDERS' SURPLUS RESERVE

In millions of euros	31 December 2017			31 December 2016		
	policyholders' surplus reserve – asset	policyholders' surplus reserve – liability	Total	policyholders' surplus reserve – asset	policyholders' surplus reserve – liability	Total
Deferred profit-sharing recognised through profit and loss account	-	(4 962)	(4 962)	-	(3 730)	(3 730)
Deferred profit-sharing recognised through shareholders' equity		(11 567)	(11 567)		(12 943)	(12 943)
TOTAL	-	(16 528)	(16 528)	-	(16 673)	(16 673)

The policyholders' surplus reserve arises from the application of shadow accounting, which represents the interest of policyholders within French and Italian life insurance subsidiaries in unrealised gains and losses and impairment losses on assets where the benefit paid under the policy is linked to the return on those assets. It is valued through stochastic calculations modelling the unrealised gains and losses attributable to policyholders based on economic scenarios and assumptions as regards rates granted to customers and new business inflows.

5.24 PROVISIONS FOR CONTINGENCIES AND CHARGES

In millions of euros	31 December 2016	Net additions to provisions	Provisions used	Changes in value recognised directly in equity	Effect of movements in exchange rates and other movements	31 December 2017
Provisions for employee benefits benefits	52	7	(2)	(3)	(1)	53
Provisions for litigations	28	(5)	(1)	-	1	23
Other provisions for contingencies and charges	211	4	(2)	-	3	215
TOTAL PROVISIONS FOR CONTINGENCIES AND CHARGES	291	5	(4)	(3)	3	292

5.25 LIABILITIES DUE TO BANKING SECTOR COMPANIES

In millions of euros	31 December 2017	31 December 2016
Repurchase agreements	8 668	8 067
On demand accounts	1 010	301
Loans	788	768
TOTAL LIABILITIES DUE TO BANKING SECTOR COMPANIES	10 466	9 135

5.26 LIABILITIES FROM DIRECT INSURANCE AND REINSURANCE OPERATIONS

In millions of euros, at	31 December 2017							
	Overnight and on demand	from overnight to 1 month (excl. overnight)	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Liabilities from direct insurance transactions	172	44	98	1	0	2	-	318
Liabilities from accepted reinsurance transactions	1	4	1	7	-	-	-	12
Liabilities owed to insurance intermediaries	461	159	193	104	34	5	0	955
Liabilities from direct insurance and accepted reinsurance transactions	**634**	**207**	**291**	**112**	**34**	**7**	**0**	**1 285**
Liabilities owed to reinsurers	1 589	9	160	10	2	186	12	1 968
Liabilities from reinsurance ceded	**1 589**	**9**	**160**	**10**	**2**	**186**	**12**	**1 968**
LIABILITIES FROM DIRECT INSURANCE AND REINSURANCE OPERATIONS	2 224	216	452	121	36	193	12	3 253

In millions of euros	31 December 2016							
	Overnight and on demand	from overnight to 1 month (excl. overnight)	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
Liabilities from direct insurance transactions	194	29	110	23	0	0	0	357
Liabilities from accepted reinsurance transactions	2	3	2	1	-	-	-	8
Liabilities owed to insurance intermediaries	422	164	155	139	36	1	-	918
Liabilities from direct insurance and accepted reinsurance transactions	**618**	**197**	**267**	**163**	**36**	**1**	**0**	**1 282**
Liabilities owed to reinsurers	1 692	41	116	9	3	143	5	2 011
Liabilities from reinsurance ceded	**1 692**	**41**	**116**	**9**	**3**	**143**	**5**	**2 011**
LIABILITIES FROM DIRECT INSURANCE AND REINSURANCE OPERATIONS	2 310	238	383	173	39	145	5	3 293

5.27 MATURITIES OF FINANCIAL INSTRUMENTS

In millions of euros, at 31 December 2017	Undetermined maturity	Overnight and on demand	Overnight (exclusive) to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Loans and receivables	-	420	25	1 168	10	77	137	1 837
Available-for-sale financial assets	6 825	-	1 267	2 646	3 274	27 141	68 385	109 537
Financial investments at fair value through profit or loss	33 760	-	-	-	-	-	-	33 760
Held-to-maturity financial assets	-	-	440	106	44	2 644	995	4 228
Derivatives and separate embedded derivatives	379	-	-	-	-	-	-	379
FINANCIAL ASSETS	**40 964**	**420**	**1 731**	**3 920**	**3 327**	**29 861**	**69 517**	**149 740**
Financing and operating debt due to banking sector companies	-	1 229	17	1 307	798	4	-	3 354
Due to credit institutions - Repurchase agreements	-	4 120	2 307	832	1 410	-	-	8 668
Subordinated debt	1 152	-	-	9	-	-	3 413	4 574
Derivatives	405	-	-	-	-	-	-	405
FINANCIAL LIABILITIES	**1 557**	**5 348**	**2 325**	**2 147**	**2 207**	**4**	**3 413**	**17 002**

In millions of euros, at 31 December 2016	Undetermined maturity	Overnight and on demand	Overnight (exclusive) to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Loans and receivables	-	504	-	1 052	29	198	135	1 918
Available-for-sale financial assets	7 093	-	1 216	2 283	4 230	24 227	70 089	109 139
Financial investments at fair value through profit or loss	29 587	-	-	-	-	-	-	29 587
Held-to-maturity financial assets	-	-	-	133	1 282	3 125	1 004	5 543
Derivatives and separate embedded derivatives	339	-	-	-	-	-	-	339
FINANCIAL ASSETS	**37 020**	**504**	**1 216**	**3 468**	**5 541**	**27 549**	**71 228**	**146 526**
Financing and operating debt due to banking sector companies	-	303	30	253	2 640	145	-	3 372
Due to credit institutions - Repurchase agreements	-	8 067	-	-	-	-	-	8 067
Subordinated debt	1 862	-	-	5	-	-	2 062	3 929
Derivatives	390	-	-	-	-	-	-	390
FINANCIAL LIABILITIES	**2 252**	**8 370**	**30**	**259**	**2 640**	**145**	**2 062**	**15 758**

5.28 FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS

In millions of euros	31 December 2017	31 December 2016
Securities received as collateral from reinsurers	598	553
Other financing commitments received	3	132
COMMITMENTS RECEIVED	**602**	**685**
Endorsements, deposits and guarantees given	96	54
Other guarantee commitments given	904	725
Financial instruments given as collateral	8 496	8 066
of which securities sold under repurchase agreements	*8 496*	*8 066*
COMMITMENTS GIVEN	**9 496**	**8 845**

NOTE 6 NOTES TO THE INCOME STATEMENT

6.1 INVESTMENT INCOME EXCLUDING FINANCING EXPENSES

"Investment income excluding financing expenses" corresponds to the definition of investment income given by ANC Recommendation No 2013-05, which excludes financing expenses from current operating income.

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Investment income	3 377	3 533
Investment expenses	(157)	(290)
Change in impairments on investments	220	80
Capital gains and losses on disposal of investments net of reversals of impairments and amortisation	130	176
Total income from the available-for-sale financial assets portfolio	**3 570**	**3 499**
Investment income	262	337
Investment expenses	(21)	(25)
Change in impairments on investments	-	-
Total income from the held-to-maturity financial assets portfolio	**241**	**312**
Investment income	124	103
Investment expenses	(59)	(61)
Change in impairments on investments	-	0
Capital gains and losses on disposal of investments net of reversals of impairments and amortisation	0	(4)
Total income from asset portfolio – Loans and receivables	**65**	**38**
Investment income	709	567
Investment expenses	(0)	-
Changes in market value of investments recognised at fair value through profit or loss	3 792	1 240
Capital gains and losses on disposal of investments net of reversals of impairments and amortisation	-	-
Total income from the asset portfolio at market value by income	**4 501**	**1 807**
Income from currency instruments and derivatives	**(270)**	**(182)**
Rental income - real estate investments	87	68
Gains and losses on investments - real estate investments	-	(3)
Change in fair value - unit-linked real estate	95	50
Change in provisions on investments - real estate investments	(57)	(47)
Total income from real estate investments	**125**	**69**
Share in associates and joint ventures representing investments	**16**	**19**
Investment management fees	(33)	(36)
Other income and expenses related to investments	(163)	(94)
TOTAL FINANCIAL INCOME, EXCLUDING FINANCING EXPENSES	8 052	5 432

6.2 TECHNICAL CHARGES FROM INSURANCE AND INVESTMENT CONTRACTS COVERED BY IFRS 4

Technical charges related to contracts include benefit expenses related to insurance contracts and investment contracts with discretionary participating feature (including the remuneration of policyholders) under IFRS 4.

In the specific case of investment contracts, these expenses include the remuneration of policyholders and also changes in the value of contracts, particularly those relating to unit-linked contracts.

	Year to 31 Dec. 2017			Year to 31 Dec. 2016		
In millions of euros	Life	Non-life	Total	Life	Non-life	Total
Benefit expenses	(14 517)	(860)	(15 377)	(12 595)	(800)	(13 396)
Change in reserves on insurance contracts	(4 319)	(73)	(4 392)	(2 905)	(42)	(2 947)
Change in reserves on investment contracts with discretionary participating feature	(793)	-	(793)	(612)	-	(612)
Change in other technical reserves	(1 193)	(6)	(1 199)	(418)	(9)	(428)
Change in technical reserves	**(20 822)**	**(939)**	**(21 761)**	**(16 530)**	**(852)**	**(17 382)**
Other technical income and expenses	**83**	**(91)**	**(9)**	**(50)**	**(63)**	**(113)**
Technical interests	(819)	(7)	(826)	(1 018)	(8)	(1 026)
Profit-sharing	(2 182)	(12)	(2 194)	(1 849)	3	(1 846)
Participation benefit	**(3 001)**	**(19)**	**(3 019)**	**(2 867)**	**(6)**	**(2 873)**
TOTAL TECHNICAL CHARGES RELATED TO CONTRACTS	(23 740)	(1 049)	(24 789)	(19 447)	(921)	(20 368)

6.3 NET RESULT FROM REINSURANCE CEDED

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Ceded premiums (including change in premium reserve)	(632)	(669)
Benefits and costs sold (including change in claims reserves)	386	402
Other technical reserves ceded	28	(43)
Commissions received from/paid to reinsurers	192	213
TOTAL NET RESULT FROM REINSURANCE CEDED	(25)	(98)

6.4 RECONCILIATION OF EXPENSES BY FUNCTION AND BY TYPE

6.4.1 Breakdown of expenses by function

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Investment management fees	(135)	(129)
Acquisition costs	(2 796)	(2 645)
Administration costs	(1 223)	(1 149)
Other technical expenses	(151)	(195)
Claims settlement costs	(162)	(114)
Expenses from other activities	(188)	(182)
TOTAL EXPENSES BY FUNCTION	(4 656)	(4 415)

6.4.2 Breakdown of expenses by type

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Commissions	(3 563)	(3 314)
Staff costs (Note 7.1)	(537)	(510)
Taxes	(84)	(91)
Other current operating expenses	(422)	(417)
Depreciation, amortisation and impairment	(50)	(82)
TOTAL EXPENSES BY TYPE	(4 656)	(4 415)

6.5 OTHER NON-CURRENT OPERATING INCOME AND EXPENSES

This item mainly includes the gain realised on the sale of 4% of SBI Life shares while it was introduced on the stock exchange with the company's IPO (initial public offering).

6.6 FINANCING EXPENSES

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Interest expense on subordinated debt at amortised cost	(151)	(150)
Interest expense on borrowings	(9)	(18)
TOTAL FINANCING EXPENSES	(160)	(168)

6.7 CORPORATE INCOME TAX

Reconciliation of the effective tax expense to the theoretical tax expense at standard tax rate in France	31 December 2017		31 December 2016	
	In millions of euros	Tax rate	In millions of euros	Tax rate
Corporate income tax expense on pre-tax income at standard tax rate in France	**(457)**	**34,4%**	**(297)**	**34,4%**
Impact of diverging tax rates applied on foreign local results	31	-2,4%	21	-2,4%
Impact of dividends and securities disposals taxed at reduced rate	161	-12,1%	(24)	2,8%
of which disposals of securities	*173*		*(5)*	
of which dividends	*(12)*		*(19)*	
Tax impact of previously unrecognised deferred taxes (tax losses and temporary differences)	(9)	0,7%	(6)	0,7%
Other effects	(128)	9,6%	(136)	15,7%
of which impact of permanent differences	*(5)*		*(5)*	
of which previously unrecognised deferred taxes (tax losses and temporary differences)	*(45)*		*(77)*	
Liability method for tax rate in France	*(33)*		*(53)*	
Other taxes with no base	*(45)*		*7*	
Other	*(1)*		*(8)*	
Corporate income tax expense	**(402)**	**30,2%**	**(441)**	**51,2%**
of which current tax expense for the year	*(351)*		*(434)*	
of which deferred tax expense for the year	*(51)*		*(7)*	

Unrecognised deferred tax assets totalled EUR 2.6 million at 31 December 2017 compared with EUR 30 million at 31 December 2016.

The total of deferred tax assets recognised as tax loss carryforwards stood at EUR 9 million.

6.7.1 Change in deferred tax over the period

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
NET DEFERRED TAXES AT START OF PERIOD	**(78)**	**(101)**
Deferred tax expense	(51)	(7)
Change in deferred taxes linked to the revaluation and reversal through profit and loss of the revaluation items of available-for-sale financial assets	930	132
Change in deferred taxes linked to the revaluation and reversal through profit or loss of the revaluation of hedge derivatives	(6)	(2)
Changes in deferred taxes linked to the revaluation and reversal through profit or loss of the revaluation of accounting items	(818)	(109)
Changes in deferred taxes linked to items recognised directly in equity that will not be reclassified to profit and loss	(1)	1
Change in scope, translation differences and miscellaneous	(41)	8
NET DEFERRED TAXES AT END OF PERIOD	**(66)**	**(78)**

6.7.2 Breakdown of deferred tax assets and liabilities by type

In millions of euros	31 December 2017	31 December 2016
Available-for-sale financial assets	(3 465)	(4 360)
Profit-sharing for reserves of available-for-sale financial assets	3 051	3 842
Provisions for employee benefit obligations	16	16
Other items	325	408
Tax loss carryforwards	7	16
NET DEFERRED TAXES	**(66)**	**(78)**
Deferred tax assets	162	125
Deferred tax liabilities	(228)	(203)

NOTE 7 SALARIES AND EMPLOYEE BENEFITS

7.1 SALARY AND EMPLOYEE BENEFIT EXPENSE

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Fixed and variable remuneration, incentive bonuses and profit-sharing	(347)	(338)
Employee benefit expense	(158)	(141)
Payroll taxes	(32)	(32)
TOTAL SALARY AND EMPLOYEE BENEFIT EXPENSE	**(537)**	**(510)**

7.2 POST-EMPLOYMENT BENEFITS

IAS 19 distinguishes between two categories of plans, each handled differently depending on the risk incurred by the entity. When the entity is committed to paying a fixed amount, stated as a percentage of the beneficiary's annual salary, for example, to an external entity handling payment of the benefits based on the assets available for each plan member, it is described as a defined-contribution plan. Conversely, when the entity's obligation is to manage the financial assets funded through the collection of contributions from employees and to bear the cost of benefits itself or to guarantee the final amount subject to future events, it is described as a defined benefit plan. The same applies, if the entity entrusts management of the collection of premiums and payment of benefits to a separate entity, but retains the risk arising from management of the assets and/or from future changes in the benefits.

7.2.1 Defined-contribution pension plans for the BNP Paribas Cardif Group entities

The BNP Paribas Cardif Group has implemented over the past few years a wide campaign of converting defined-benefit plans into defined-contribution plans.

Thus, in France, the BNP Paribas Cardif Group pays contributions to various nationwide basic and top-up pension schemes. BNP Paribas Cardif and certain subsidiaries have set up a funded pension plan under a company-wide agreement. Under this plan, employees will receive an annuity on retirement in addition to the pension paid by nationwide schemes.

The amount paid into defined-contribution post-employment plans for the year to 31 December 2017 was EUR 17 million, compared with EUR 16 million for the year to 31 December 2016.

The breakdown by major contributors is determined as follows:

Contribution amount *In millions of euros*	Year to 31 Dec. 2017	Year to 31 Dec. 2016
France	(16)	(15)
Outside France	(1)	(1)
TOTAL	**(17)**	**(16)**

7.2.2 Main defined-benefit pension plans for the BNP Paribas Cardif Group entities

Defined-benefit plans

Defined-benefit pension plans were all closed to new entrants and transformed into additive-type plans. The amounts allocated to residual beneficiaries, subject to their presence within the BNP Paribas Cardif Group at retirement, were fixed when these schemes were closed. These pension plans were outsourced to insurance companies.

Other post-employment benefits

The BNP Paribas Cardif Group employees also receive various other contractual post-employment benefits, such as indemnities payable on retirement, determined according to minimal legal requirements (Labour Code, collective agreements) or according to specific company-level agreements. In France, the obligations for these benefits are funded through a contract held with a third-party insurer. At 31 December 2017, this obligation was 74% covered by financial assets, compared with 65% at 31 December 2016.

Outside France, the gross obligations related to these other benefits correspond to vested rights until 31 December 2006, as the plans have been translated, since that date, into a defined-contribution plan.

7.2.3 Obligations under defined-benefit plans and other post-employment benefits

Assets and liabilities recognised on the balance sheet

In millions of euros, at 31 December 2017	Defined-benefit obligation arising from wholly or partially funded plans	Defined-benefit obligation arising from unfunded plans	Present value of defined-benefit obligation	Fair value of plan assets	Net obligation	of which obligation recognised in the balance sheet for defined-benefit plans
France	33	-	33	(24)	9	9
Outside France	5	11	16	(5)	11	11
Total	38	11	49	-29	20	20

In millions of euros, at 31 December 2016	Defined-benefit obligation arising from wholly or partially funded plans	Defined-benefit obligation arising from unfunded plans	Present value of defined-benefit obligation	Fair value of plan assets	Net obligation	of which obligation recognised in the balance sheet for defined-benefit plans
France	34	-	34	(22)	12	12
Outside France	-	11	11	-	11	11
Total	34	11	45	(22)	23	23

Change in the present value of the defined-benefit obligation

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
PRESENT VALUE OF DEFINED-BENEFIT OBLIGATION AT START OF PERIOD	45	42
Current service cost	3	3
Interest cost	1	1
Actuarial (gains)/losses on change in demographic assumptions	(2)	-
Actuarial (gains)/losses on change in financial assumptions	(1)	4
Actuarial (gains)/losses on experience gaps	-	2
Benefits paid directly by the employer	-	(1)
Exchange rate gains/(losses) on obligation	(1)	-
Gains/(losses) on related to changes in the consolidation scope	5	-
Others	(1)	(6)
PRESENT VALUE OF DEFINED-BENEFIT OBLIGATION AT END OF PERIOD	49	45

Fair value of assets

Changes in the fair value of plan assets

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
FAIR VALUE OF PLAN ASSETS AT START OF PERIOD	22	20
Actuarial gains/(losses) on assets	1	-
Contributions paid by BNP Paribas Cardif	2	2
Gains/(losses) on assets related to changes in the consolidation scope	4	-
FAIR VALUE OF PLAN ASSETS AT END OF PERIOD	29	22

Components of the cost of defined-benefit plans

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Service costs	3	3
Current service cost	3	3
Net financial expense	1	1
Interest cost on obligation	1	1
TOTAL RECOGNISED IN SALARY AND EMPLOYEE BENEFIT EXPENSE	4	4

Other items recognised directly in equity

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Other items recognised directly in equity	**4**	**(6)**
Actuarial (losses)/gains on plan assets or reimbursement rights	1	-
Actuarial (losses)/gains of demographic assumptions on the present value of obligations	2	-
Actuarial (losses)/gains of financial assumptions on the present value of obligations	1	(4)
Experience (losses)/gains on obligations	-	(2)

Main actuarial assumptions used to calculate obligations

Ranges of interest rate

For the Euro zone, the BNP Paribas Cardif Group discounts its obligations using the yield of high-quality corporate bonds, with a term consistent with the duration of the obligations.

The ranges of rates used are as follows:

	31 December 2017		31 December 2016	
In %	Discount rate	Compensation increase rate [1]	Discount rate	Compensation increase rate [1]
France	1,30%	2,15% - 3,40%	1,30%	2,30% - 3,30%
Outside France	0,3% - 1,80%	1,80% - 2,90%	0,50% - 1,20%	2,40% - 3,00%

[1] *Including price increases (inflation rate).*

For the Euro zone, the observed weighted average rate was 1.36% at 31 December 2017 compared to 1.34% at 31 December 2016.

Impact of a change in discount rates on the present value of post-employment benefit obligations

The impact of a 100 bp change in discount rates on the present value of post-employment benefit obligations is as follows:

	31 December 2017		31 December 2016	
Change in the present value of obligations *In millions of euros*	Discount rate -100 bp	Discount rate +100 bp	Discount rate -100 bp	Discount rate +100 bp
France	6	(5)	6	(5)
Outside France	1	(1)	1	(1)

Actual rate of return on plan assets over the period

In %	Year to 31 Dec. 2017	Year to 31 Dec. 2016
France	3,65%	3,20%
Outside France	3,80%	

Asset and liability management strategies

The BNP Paribas Cardif Group has set up an asset management governance for assets backing defined-benefit pension plan obligations, the main objectives of which are the management and control of investment risks.

It sets out investment principles, in particular, by defining an investment strategy for plan assets, based on financial objectives and financial risk management, to specify the way in which plan assets have to be managed, via financial management servicing contracts.

The investment strategy is based on an assets and liabilities management analysis that should be realised at least on an annual basis for plans with assets in excess of EUR 100 million and every three years for plans with assets of between EUR 20 and EUR 100 million.

7.3 OTHER LONG-TERM BENEFITS

The BNP Paribas Cardif Group offers its employees various long-term benefits, which may include long-service awards, the ability to save up paid annual leave in time savings accounts, and certain guarantees protecting them in the event they become incapacitated.

The net corresponding provision amounted to EUR 24.9 million at 31 December 2017 (compared to EUR 21.4 million at 31 December 2016).

As part of the BNP Paribas Cardif Group's variable compensation policy, annual deferred compensation plans are set up for certain high-performing employees or pursuant to special regulatory frameworks. Under these plans, payment is deferred over time and is subject to the performance achieved by the business lines, divisions and the BNP Paribas Cardif Group.

Since 2013, BNP Paribas has introduced a Group loyalty scheme with a cash payment, at the end of a three-year vesting period, which fluctuates according to the Group's intrinsic performance. The aim of this loyalty scheme is to make different categories of managerial staff partners in the BNP Paribas Group's development and profitability objectives. These personnel are representative of the BNP Paribas Cardif Group's talent and its managerial framework i.e.: senior managers, managers in key positions, line managers or experts, high-potential managers, high-performing young executives with good career development prospects, and key contributors to the BNP Paribas Group results.

The amounts allocated under this plan are linked to changes in the BNP Paribas Group's operational performance over three years (for 80%) and to the achievement of the BNP Paribas Group's Corporate Social Responsibility (CSR) targets (for 20%). These nine targets are in line with the four pillars on which the BNP Paribas Group's CSR policy is based. In addition, the final payment is subject to continuous service within the BNP Paribas Cardif Group between the grant date and the payment date, provided that the BNP Paribas Cardif Group's operating income and pre-tax income for the year prior to payment are strictly positive.

The net obligation related to deferred compensation plans and loyalty schemes amounts to EUR 6.6 million as at 31 December 2017 (EUR 6.1 million at 31 December 2016).

In millions of euros	31 December 2017	31 December 2016
Net provisions for other long-term benefits	32	27
of which obligation recognised in the balance sheet under the other long-term bene	32	27

7.4 SHARE-BASED PAYMENTS

7.4.1 Share-based loyalty, compensation and incentive schemes:

Until 2012, BNP Paribas Cardif set up several share-based payment schemes for certain employees (performance shares plans and stock subscription or purchase plans).

After 2012, only some cash-settled long-term compensation plans are still share price-linked, especially for employees whose activities are likely to have an impact on the Group's risk exposure.

Deferred share price-linked, cash-settled compensation plans

As part of the BNP Paribas Group's variable remuneration policy, deferred annual compensation plans offered to certain high-performing employees whose contribution is significant or set up pursuant to special regulatory frameworks may entitle beneficiaries to variable compensation settled in cash but linked to the share price, payable over several years.

Global Share-Based Incentive Plan (until 2012):

BNP Paribas set up a Global Share-Based Incentive Plan for some BNP Paribas Group employees, including stock options and performance share awards.

The option exercise price under these plans is determined at the time of issuance and no discount is offered. The duration of the options granted is 8 years.

Performance shares awarded between 2009 and 2012 became vested in 2016.

Under stock option plans set up between 2003 and 2011, the performance condition was not fully met on seven out of thirty occasions and the adjustments described above were therefore implemented. Under performance share plans awarded between 2009 and 2012, the performance condition was not met on three out of ten occasions and the relevant contingent portion therefore lapsed.

All unexpired plans settle in a potential subscription of BNP Paribas shares.

Expense of share-based payment

In thousands of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Prior deferred compensation plans	(280)	(145)
Deferred compensation plans for the year	(786)	(786)
TOTAL	**(1 066)**	**(932)**

Valuation of stock option plans and performance share plans

As required under IFRS 2, BNP Paribas attributes a value to stock options and performance shares granted and recognises an expense, determined at the date of grant, calculated respectively on the basis of the fair value of the options and shares concerned. This initial fair value may not subsequently be adjusted for changes in the quoted market price of BNP Paribas shares. The only assumptions that may result in a revision of the fair value during the vesting period, and hence an adjustment in the expense, are those related to the population of beneficiaries (loss of rights) and internal performance conditions. The BNP Paribas Cardif Group's share-based payment plans are valued by an independent specialist firm.

History of plans granted under the Global Share-Based Incentive Plan

The tables below give details of the characteristics and terms of all unexpired plans at 31 December 2017.

Stock subscription option plan

Characteristics of the plan							Options outstanding at end of the period	
Originating company	Date of grant	Number of grantees	Number of options granted	Start date of exercise period	Option expiry date	Exercise price (in euros)	Number of options	Remaining period until expiry of options (years)
BNP Paribas SA(1)	06/04/2009	41	58 266	08/04/2013	05/04/2017	35,11	-	-
BNP Paribas SA(1)	05/03/2010	39	47 800	05/03/2014	02/03/2018	51,20	11 520	0,2
BNP Paribas SA(1)	04/03/2011	57	57 060	04/03/2015	04/03/2019	56,45	32 820	1,2
TOTAL OPTIONS AS AT 31 DECEMBER 2017							44 340	

(1) The plan is subject to vesting conditions under which a proportion of the options granted to employees is conditional upon the performance of the BNP Paribas share relative to the Dow Jones Euro Stoxx Bank index during the applicable holding period.
Based on this relative performance condition, the adjusted exercise price for these options has been set at EUR 67.74 for 2,802 options under the 4 March 2011 plan outstanding at the year-end.

Movements over the past two years

	Year to 31 Dec. 2017		Year to 31 Dec. 2016	
	Number of options	Weighted average exercise price (in euros)	Number of options	Weighted average exercise price (in euros)
Options outstanding at 1 January	77 228	53	143 930	56
Options exercised during the period	(32 888)	50	(12 345)	35
Options expired during the period	-	-	(54 357)	-
Options outstanding at 31 December	44 340	56	77 228	53
Options exercisable at 31 December	44 340	56	77 228	53

NOTE 8 Other information

8.1 BNP PARIBAS CARDIF GROUP INTERNAL CONTROL SYSTEM

The internal control principles and methods for insurance activities in France and internationally are at the centre of insurance and financial regulations, and are governed by a wide range of laws and regulations.

As a subsidiary of the BNP Paribas banking group, BNP Paribas Cardif applies the major part of the provisions laid down by the ministerial decree of 3 November 2014, which superseded regulation No. 97-02 amended by the Consultative Committee of the Legislation and Financial Regulations (CCLRF) regarding the internal control of credit institutions and investment firms.

This BNP Paribas Cardif Group internal control system complies with the requirements laid down by the Solvency II Directive and its application decrees and, depending on the case, by general regulations from the AMF (French Securities Regulator), regulations applicable to branches abroad and, of course, regulations specific to insurance together with relevant recognised professional uses.

8.1.1 Definition, objectives and standards of internal control

The Executive Management of the BNP Paribas Cardif Group has set up an internal control system, whose main aim is to ensure the overall control of risks and provide reasonable assurance that the Company's goals in this area are being achieved.

The BNP Paribas Cardif Internal Control and operational risk management policy, used on the basis of the BNP Paribas Group's internal control charter, specifies the scope of this system and is the reference base for internal control. The policy initially recalls the objectives of internal control which aims at ensuring:

- the development of a risk culture among employees;
- the effectiveness and quality of the company's internal operations;
- the reliability of internal and external information;
- the security of transactions;
- compliance with applicable laws, regulations and internal policies.

The policy then lays down the rules relating to the organisation, lines of responsibility and remit of the various players involved in internal control, and establishes the principle that the different control functions (primarily Compliance, Internal Audit, Legal and Risk Management) must operate independently.

8.1.2 Scope of internal control

One of the fundamental principles of internal control is that it must be exhaustive in scope: it applies to risks of all kinds, to all activities and to all entities fully or jointly controlled by BNP Paribas Cardif. It also extends to core services or essential operational activities that have been outsourced, in accordance with regulatory requirements.

8.1.3 Fundamental principles of internal control

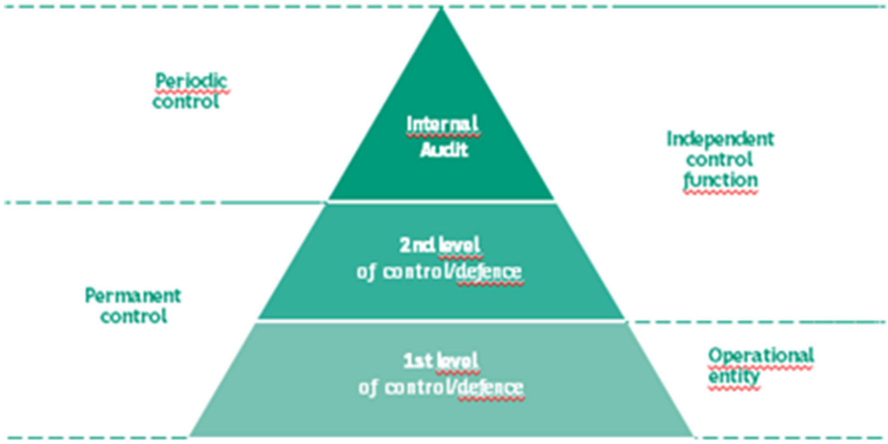
Internal control at BNP Paribas Cardif is based on the following key principles:

- responsibility of the operational staff: the permanent control set-up must be incorporated within the operational organisation of the entities. Every operational area is responsible for organising an effective risk control system for the activities under its responsibility and all employees have a duty to alert about any failure or deficiency of which they become aware;
- exhaustiveness of internal control (see above, under scope of internal control);
- the proportionality to risks: the scope the number of controls must be proportional to the level of risk involved. These checks, if any, include one or more controls exercised by the operational staff and, if necessary, one or more independent permanent control functions. Checks exercised by an independent function may take the form of a “second look”, consisting of a cross-check. Any disagreements are referred to a higher level in the organisation (escalation process);
- appropriate governance: the system is the subject of governance involving the various players and covering all aspects of internal control, be they organisation, control or oversight; the head office insurance Internal Control Committees, and those at all entities, are key instruments of such governance;
- internal control traceability: this relies on written procedures and audit trails. In this respect, controls, results and exploitation, and information reported by entities to higher levels, must be documented and traceable.

8.1.4 Organisation of internal control

Internal control at BNP Paribas Cardif consists of permanent and periodic controls. While they are complementary, they are distinct and independent of one another:

- permanent control is an overall process for the ongoing implementation of risk management and monitoring of corrective actions; Permanent control is firstly carried out by operational staff, as well as their line managers, and secondly by independent permanent control functions, the second line of defence;
- periodic control is an overall process for ex post verification of the operation of the Company, based on investigations that are conducted by the Internal Audit function, which performs these functions on an independent basis;
- exchanges between permanent control and periodic control occur regularly to optimise the flow of information, coordinate actions and improve the efficiency of the internal control system in strict compliance with the independence of periodic controls.



The organization of the internal control system is based on three levels of defence.

The **first line of defence** is made up of the operational staff and permanent auditors at the country level and in the Corporate functions.

The **second line of defence** is provided by four functions: the Compliance function, the Risk Management function, the Finance function and the Legal and Tax function.

The **third line of defence** is exercised by the independent and specialised Internal Audit function, which oversees "ex post" verification of the smooth functioning of BNP Paribas Cardif, in particular the efficiency and quality of the Permanent Control system. This periodic control system is carried out through investigative missions, or so-called third-level controls, which are carried out independently.

8.2 BNP PARIBAS CARDIF GROUP RISK MANAGEMENT SYSTEM

Risk management is a process that allows to identify, gauge, monitor, manage and report on the risks arising from both outside the BNP Paribas Cardif Group and intrinsically from within. The objective is to guarantee the solvency, the continuity of business and the development of the BNP Paribas Cardif Group under satisfactory conditions of risk and profitability.

Under the provisions of Article L354-2 of the French Insurance Code, the BNP Paribas Cardif Group conducts a prospective assessment of its solvency and risks under the Solvency II framework each year, including:

- the ascertaining and evaluation of capital requirement specific to the risk profile;
- the level of capital that the BNP Paribas Cardif Group wishes to hold to cover this specific regulatory capital requirement;
- prospective solvency ratios under the medium-term plan;
- the resilience of those ratios in the case of stress tests.

Depending on the solvency observed and the projections made in the Own Risk and Solvency Assessment (ORSA), corrective capital adjustment actions may be initiated.

The risk typology adopted by the BNP Paribas Cardif Group is changing in pace with methodological work and regulatory requirements. It is presented according to the following main categories:

Underwriting risk is the risk of a financial loss caused by a sudden, unexpected increase in insurance claims. Depending on the type of insurance business (life, non-life), this risk may be statistical, macroeconomic or behavioural, or may be related to public health issues or disasters.

Market risk is the risk of a financial loss arising from adverse movements of financial markets. These adverse movements are notably reflected in prices (foreign exchange rates, bond prices, equity and commodity prices, derivatives prices, real estate prices, etc.) and derived from fluctuations in interest rates, credit spreads, volatility and correlation.

Credit risk is the risk of loss or adverse financial position resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which the BNP Paribas Cardif Group is exposed. Among the debtors, risks related to financial instruments and risks related to receivables generated by the underwriting activities (premium collection, reinsurance recovering, etc.) are distinguished into two categories: asset credit risk and liabilities credit risk.

Liquidity risk is the risk of being unable to fulfil current or future foreseen or unforeseen cash requirements coming from insurance commitments to policyholders, because of an inability to sell assets in a timely manner.

Operational risk is the risk of loss resulting from the inadequacy or failure of internal processes, IT failures or deliberate external events, whether accidental or natural. The external events mentioned in this definition include those of human or natural origin.

The BNP Paribas Cardif Group is exposed mainly to credit, underwriting and market risks. The BNP Paribas Cardif Group closely monitors its exposures and profitability, taking into accounts its risks and the adequacy of its capital with regard to solvency rules. It endeavours to contain potential losses in adverse scenarios at acceptable levels.

The risk strategy is implemented and controlled through an organisation tailored to the broad risk classes and supported by ad hoc governance structures. The governance system and the risk management system are presented in Part B. Systems of Governance and C. Risk Profile of the BNP Paribas Cardif Group Solvency and Financial Condition Report (SFCR).[8]

8.3 TOTAL MARKET RISK

Market risk arises mainly in the Savings business, where technical reserves represent over 95% of the BNP Paribas Cardif Group insurance subsidiaries' liabilities. The BNP Paribas Cardif Group's investments are mainly managed through its subsidiary in France, Cardif Assurance Vie, and its Italian subsidiary, Cardif Vita, and their general funds.

Interest rate risk management for the general insurance fund and the asset diversification policy have driven investment in real estate assets, equities and fixed-income securities, including government bonds particularly in the euro zone countries.

[8] See corporate website https://www.bnpparibascardif.com

As at 31 December 2017, the investments of Cardif Assurance Vie's general funds are distributed as follows:

Exposure in market value (in millions of euros) [(1)]	31 December 2017	31 December 2016
Fixed Rate	80 120	77 628
of which government bonds	42 682	42 281
Variable rates and inflation indexed	6 982	6 573
of which government bonds	1 130	1 294
Equity-linked notes and convertible bonds	2 032	2 567
Equities and UCIT equities	11 573	11 478
Alternative funds	1 693	1 770
Real-estate	8 423	7 871
Hedges	288	227
TOTAL	**111 111**	**108 113**

(1) Accrued interest included, amount net of payables representative of securities sold under repurchase agreement

The investments of Cardif Vita's general funds are distributed as follows:

Exposure in market value (in millions of euros) [(1)]	31 December 2017	31 December 2016
Fixed Rate	15 694	15 413
of which government bonds	10 546	10 565
Variable rates and inflation indexed	1 313	1 251
of which government bonds	476	457
Equity-linked notes and convertible bonds	185	169
Equities and UCIT equities	1 546	1 382
Alternative funds	276	228
Real-estate	395	303
Total	**19 409**	**18 746**

[(1)] *Accrued interest included, amount net of payables representative of securities sold under repurchase agreement*

Market risk falls into four categories:

- interest rate risk;
- liquidity risk;
- spread risk;
- change in the value of assets.

8.3.1 Interest rate risk

Policyholder returns on life insurance policies are valued based on either a fixed rate specified in the policy or a variable rate, with or without a minimum guaranteed return. All of these policies give rise to an interest rate and asset value risk, corresponding to the risk that the return on admissible assets (i.e. assets acquired by investing premiums) is less than the contractual return payable to policyholders. In France, the average rate guaranteed by Cardif Assurance Vie in 2017 remains stable, at less than 0.1%.

In addition, 83% of the BNP Paribas Cardif Group's mathematical reserves have guaranteed minimum return commitments with a term of less than or equal to two years.

In France, to cover future potential financial losses estimated over the lifetime of the policies, a provision for future adverse deviation (*provision pour aléas financiers*) is booked when total amount of technical interest plus the guaranteed return payable to policyholders through technical reserves is not covered by 80% of the return on the admissible assets. No provision for future adverse deviation was booked at 31 December 2017, 2016, and 2015, as the returns guaranteed by the insurance subsidiaries are low and the guarantees are for short periods, resulting in only limited exposure.

8.3.2 Liquidity risk

Liquidity risk is managed centrally by the Asset and Liability Management unit. Asset-liability matching reviews are regularly performed to measure and manage the financial risks incurred. They are based on medium and/or long-term profit and loss account and balance sheet projections prepared using a range of economic scenarios. The results of these reviews are analysed in order to determine any adjustments to assets allocation restrictions (through strategic allocation, diversification, use of derivatives, etc.) that are required to reduce the risks arising from changes in interest rates and asset values.

Exposure to liquidity is appraised by way of studies carried out by the Actuarial Division on forecasted cash flows expected on the assets and liabilities of BNP Paribas Cardif general fund.

Amounts from the disposal of assets required to pay the cash outflows at one-year maturity are studied in a range of scenarios. Apart from the baseline scenario, stressed market scenarios are produced such as stress conforming to the C6 Bis national specific reporting. This is used to gauge the ability of insurers to honour their five-year commitments under jointly degraded conditions of excess claims and financial environment, stress on bond market liquidity combined with a substantial increase in redemptions. Cash outflows are normally paid with the yearly premiums, available cash and possibly regular financial income such as coupons, dividends etc. If these amounts are insufficient, priority disposals of assets with gains are made.

Studies carried out show that in a baseline scenario, BNP Paribas Cardif is not exposed to a risk of shortfall in asset liquidity. It should be noted that the work carried out is based on assumptions of massive redemptions of insurance contracts. In addition, in a normal redemption situation, the latest studies showed that even without any new origination, cash flows stemming from the portfolio of financial assets are sufficient to pay all cash outflows.

The stress tests carried out show that liquid assets are sufficient to meet outflows for one year with the majority of market scenarios. Only the complete illiquidity of the bond market associated with a severe spike in redemptions and a shock slump in major transactions would require the disposal of less liquid assets.

The table of financial obligations by maturity is available in note 5.26 – Liabilities from direct insurance and reinsurance transactions.

8.3.3 Spread risk

Limits by issuer and rating type (investment grade, non investment grade) are monitored regularly.

As at 31 December 2017, AA-rated securities represented 36% of the market value of the bond securities of the main Cardif Assurance Vie General Fund. BBB-rated securities represent 28%, A-rated securities 25%, AAA-rated securities 8%, and BBB-rated and unrated securities 3%.

Issuer credit quality is also reviewed frequently. There is little exposure to sovereign risk in the peripheral euro zone countries. French government bonds represent 52% of the total market value of the government bonds of the main Cardif Assurance Vie General Fund. Italy accounts for 13%, Belgium 8% and Spain 8%.

The main Cardif Vita General Fund consists mainly of BBB-rated securities, due to the dominance of Italian government securities. The portfolio contains no instruments with a rating lower than BB+.

8.3.4 Change in the value of assets

The exposure to the risk of change in the value of the assets of the general funds is mitigated by the policyholders' surplus reserve attached to insurance contracts that include a participating feature.

The sensitivity analyses performed on the main Cardif Assurance Vie and Cardif Vita general funds consisted of measuring the impact of a change in the equity market and a change in risk-free interest rates on the revaluation of financial assets recognised as reserves and in the profit and loss account. With regard to equity risk, these analyses show that an increase and decrease of 10% in the stock indexes respectively increases and decreases the revaluation of financial assets by 7%, which is recognised in the profit and loss account and in reserves. With respect to interest rate risk, a 50 basis point increase and decrease in 10-year risk-free interest rates results in a respective 15% decrease and increase in the revaluation of financial assets, which is recognised in the profit and loss account and in reserves.

8.4 UNDERWRITING RISK

The underwriting risk mainly concerns the surrender risk for savings activities and credit protection insurance for protection activities.

8.4.1 Risk of surrender

Savings contracts include a surrender clause allowing policyholders to request reimbursement of all or part of their accumulated savings. The insurer is exposed to the risk of surrender volumes being higher than the forecasts used for asset and liability management purposes, which may force it, as needed, to sell assets at a loss.

The surrender risk is limited, however, as:

- policyholder behaviour is monitored on an ongoing basis, in order to regularly align the duration of assets with that of the corresponding liabilities and reduce the risk of abrupt, large-scale asset sales. Changes in assets and liabilities are projected over periods of up to forty years, in order to identify mismatches giving rise to a liquidity risk. These analyses are then used to determine the choice of maturities for new investments and the assets to be sold. Short-term (one year) liquidity analyses are also carried out, which include various surrender rate increase assumptions to ensure that the Group can withstand stress situations;
- in addition to the guaranteed return, policyholders are paid dividends that raise the total return to a level in line with market benchmarks. These dividends, which are partly discretionary, reduce the risk of an increase in surrender rates in periods of rising market interest rates. The policyholders' surplus reserve is the mechanism in France that enables the surplus actually paid out to be pooled and spread between generations of policyholders;
- the return on financial assets is protected mainly through the use of hedging instruments.

Average surrender rates for BNP Paribas Cardif general funds

Average surrender rates observed	2017	2016
France	6.4%	5.9%
Italy	8.9%	8.9%

8.4.2 Minimum coverage of unit-linked contracts

The commitments of the insurer recognised as liabilities are covered by holding assets used as a valuation reference. The match between unit-linked liabilities and the related assets is controlled at monthly intervals.

Certain unit-linked contracts include whole life covers providing for the payment of a death benefit at least equal to the cumulative premiums invested in the contract, whatever the conditions on the financial markets at the time of the insured's death. The risk on these contracts is both statistical (probability of a claim) and financial (market value of the units).

The capital guarantee is generally subject to certain limits. In France, for example, most contracts limit the guarantee to one year (renewable annually) and a maximum of EUR 765,000 per insured. In addition, the guarantee is not normally available beyond the insured's 80th birthday.

The minimum guaranteed benefit reserve is (re)assessed every quarter and takes into account the probability of death, based on a deterministic scenario, and stochastic analyses of changing financial market prices. The reserve amounted to EUR 6.5 million as of 31 December 2017 (versus EUR 6.4 million as of 31 December 2016).

8.4.3 Protection

Risks related to protection mainly stem from the marketing of insurance policies of borrowers, but also from protection activities (individual provident insurance, extension of coverage, theft/damage to property, life annuity contracts in France).

Creditor insurance mainly covers death, disability, critical illness, loss of employment and financial loss risks for personal loans and mortgage loans. The insurance book comprises a very large number of policies representing low risks and low premiums. Margins depend on the size of the insurance book, effective pooling of risks and tight control of administrative costs. The term of these contracts is usually equal to the term of the underlying loan and the premium is either deducted once upon issuance of the policy (single premium) or deducted regularly throughout the term of the policy (regular or periodic premiums).

Other contracts (individual death and disability, extended warranty, theft, accidental damage, and annuity policies in France) are either for personal risk (death, accidental death, hospitalisation, critical illness, healthcare expenses) or property & casualty risk (accidental damage, breakdown or theft of consumer goods or vehicles). The individual sums insured under these contracts are generally low whether they are indemnities or lump-sum payment.

Lastly, principally through joint ventures in France and Italy, motor contracts (material damage, civil liability) and comprehensive household contracts are also underwritten. The Group is also developing this type of insurance coverage in Latin America.

8.4.4 Risk management and monitoring

The governance set up to prevent and control actuarial risks in France and internationally is based on the guidelines and tools that describe the principles, rules, methodologies and best practices to be followed by teams of actuaries throughout a policy's life cycle, together with the tasks to be performed and reports to be produced. It also states the practices that are proscribed or allowed only under certain conditions.

Risks underwritten must comply with delegation limits set at various local and central levels, estimated maximum acceptable losses, estimated Solvency II capital requirements and estimated margins on the policies concerned. The experience acquired in managing geographically diversified portfolios is used to regularly update risk pricing databases comprising a wide range of criteria such as loan type for creditor insurance, the type of guarantee and the insured population. Each contract is priced by reference to the profitability and return-on-equity targets set by the Executive Management of the BNP Paribas Cardif Group.

Reinsurance is a complementary element of the underwriting risk management system. Its objective is to protect the BNP Paribas Cardif Group against three main risks:

- the so-called “peak” risk linked to exposure to an individual risk exceeding a certain threshold, called “full retention”. In personal insurance, this threshold is currently set at EUR 2 million per life. The reinsurance of peak risk may take the form of surplus or excess of loss treaties;
- the disaster risk associated with exposure to a single low occurrence event, but with a very strong financial impact (concentration risk); This risk can be reinsured in the form of a catastrophe excess of loss treaty;
- the risk on new products, linked to insufficient mutualisation, wrong definition of the technical basis or to uncertainty over the insured portfolio data. This risk can be reinsured in the form of quota share, stop loss or excess of loss treaties, depending on the level of risk identified.

Risk exposures are monitored periodically by the BNP Paribas Cardif Group’s Executive Committee in Commitment Monitoring Committees and Risk Committees, based on a two-prong approach:

- quarterly monitoring of claims rate at each accounting quarter end;
- supplemented by monitoring of the insured portfolio characteristics according to a schedule based on the type of product (monthly, quarterly and annually).

Pricing of annuity contracts is based on mortality tables applicable under insurance regulations, adjusted in some cases by portfolio specific data which is certified by independent actuaries. Annuity risks are low.

Underwriting risks are covered by various technical reserves:

- the mathematical reserves in Life policy underwriting;
- the unearned premiums reserves for non-Life underwriting, generally calculated on an accruals basis, possibly supplemented by reserves for current risks;
- the reserves for increasing risk in certain cases (long-term policies with constant periodic premiums and increasing risk);
- the outstanding claims reserves, determined by reference to reported claims;
- the IBNR (claims incurred but not reported) reserves, determined on the basis of either observed settlements or the expected number of claims and the average cost per claim;
- the reserves for claims management, generally calculated pro rata to the claims reserves.

In addition, sensitivity analyses are regularly carried out, and the main scenarios tested cover significant variation in sales, loss experience and margin rates.

8.5 STRUCTURED ENTITIES

Consolidated structured entities

Consolidated structured entities correspond to all funds dedicated to the insurance business.

Fund shares are designed for the needs of the BNP Paribas Cardif Group, which is the sole investor.

Unconsolidated structured entities

As part of the asset allocation strategy corresponding to investments related to the premiums for unit-linked contracts or for the general fund, BNP Paribas Cardif subscribes to units of structured entities.

These short- or medium-term investments are held for their financial performance and meet the risk diversification criteria inherent to the business. For all of these investments, the BNP Paribas Cardif Group does not act as a manager and does not have the option to interfere in the investment decisions of the management companies.

As at 31 December 2017, outstanding assets amounted to EUR 54,140 million compared with EUR 52,161 million as at 31 December 2016.

8.6 OTHER RELATED PARTIES

Within the meaning of IAS 24 "Related Party Disclosures", parties are related if an entity has direct or indirect exclusive control or significant influence over another entity, or both entities are under the control or significant influence of a third-party entity or natural person.

According to this definition, the parties related to the BNP Paribas Cardif Group consist of the companies of BNP Paribas Group and the senior managers of the BNP Paribas Cardif Group. Entities managing the post-employment benefit plans offered to employees (except for multi-employer and multi-industry schemes) are also referred to as related parties.

8.6.1 Relationships with BNP Paribas Group companies

The BNP Paribas Cardif Group's relationships with BNP Paribas Group companies mainly concern the marketing and management of its insurance products, investment policy and refinancing policy.

Marketing and management of insurance products

In some countries, the BNP Paribas Cardif Group distributes a significant portion of its insurance products through the BNP Paribas Group's commercial networks.

For example, BNP Paribas' Retail Banking in France (FRB) and its international banking networks (including BNP Paribas Fortis and BNL BC) are important distribution channels for life insurance and provident policies, and BNP Paribas Personal Finance (Cetelem brand) mostly markets borrower insurance contracts.

These commercial networks are remunerated by fees from business introducers whose rate differs according to the product marketed and the missions entrusted (acquisition, contract management), and in some cases, by a variable commission according to the results of the business underwritten, with all terms of remuneration being negotiated so as to apply market conditions to policyholders.

The BNP Paribas Cardif Group's investment policy

The BNP Paribas Cardif Group may invest the funds paid by policyholders in mutual funds (or similar funds) managed by the asset management entities of BNP Paribas Group, in particular BNP Paribas Asset Management.

As representation of the General Fund's commitments, the BNP Paribas Cardif Group also underwrites negotiable debt securities issued by BNP Paribas Group.

As at 31 December 2017, these investments totalled EUR 5,464 million compared to EUR 4,469 million as at 31 December 2016.

As part of the management of its General Fund and in compliance with the French Insurance Code, which defines the maximum amount of repurchase transactions that a French insurance company may carry out with its parent company, the BNP Paribas Cardif Group, in particular Cardif Assurance Vie and Cardif Assurance Risques Divers, carries out repurchase agreements with BNP Paribas Group.

As at 31 December 2017, the amount of repurchase agreements with BNP Paribas Group amounted to EUR 4,588 million compared with EUR 5,349 million as at 31 December 2016.

Finally, as part of investment hedging strategies (whether designated or not as such under IFRS), the BNP Paribas Cardif Group transacts forward financial instruments, mainly swaps and options, for which BNP Paribas Group's banking entities, mainly BNP Paribas SA, act as intermediaries to enable the BNP Paribas Cardif Group companies to enter the market.

BNP Paribas Cardif Group's refinancing policy

To ensure its long-term financing, the BNP Paribas Cardif Group contracts subordinated loans or issues subordinated securities underwritten in full by the entities of BNP Paribas Group. As at 31 December 2017, this financing represents a total nominal value of EUR 2,830 million compared to EUR 2,931 million as at 31 December 2016.

Foreign exchange risk hedging

The foreign exchange risk generated by the BNP Paribas Cardif Group's foreign equity investments in its subsidiaries located outside the Euro-zone is hedged by borrowing transactions and forward financial instruments, which are carried out at market conditions partially with BNP Paribas Group companies. As at 31 December 2017, the amount of borrowings contracted for this purpose amounted to EUR 2,339 million compared with EUR 3,071 million as at 31 December 2016.

Profit and loss impact of relationships with BNP Paribas Group companies

All of these relationships with BNP Paribas Group companies generated a net expense of EUR 1,387 million in 2017, compared to EUR 1,146 million in 2016, mainly from marketing fees and financing expenses as well as structural expenses invoiced by BNP Paribas Group (IT services and back office costs), which were partially offset by net investment income.

8.6.2 Relationships between BNP Paribas Cardif Group consolidated companies

Note 3 "Scope of consolidation" presents the list of companies consolidated by the BNP Paribas Cardif Group.

Transactions and outstanding amounts at the end of the period between the fully consolidated companies of the BNP Paribas Cardif Group are fully eliminated in the preparation of the consolidated financial statements.

As at 31 December 2017, transactions with companies consolidated under the equity method in the BNP Paribas and the BNP Paribas Cardif Groups represent a net profit of EUR 15 million, compared with EUR 3 million in 2016.

8.7 REMUNERATION OF SENIOR EXECUTIVES

The total amount of remuneration awarded to the Chairman and all members of the Executive Committee amounts to EUR 6,319 thousand for 2017. A long-term compensation plan of EUR 945 thousand was awarded in 2017.

8.8 FEES PAID TO THE STATUTORY AUDITORS

In millions of euros	Year to 31 Dec. 2017	Year to 31 Dec. 2016
Statutory audits and contractual engagements	(3)	(3)
Services other than those required for their statutory audit engagement	(1)	(0)
TOTAL FEES PAID TO STATUTORY AUDITORS	(4)	(3)

Services other than the certification of financial statements this year mainly include tasks related to local regulatory requirements (e.g. Solvency 2) or regulatory compliance diagnosis, and, to a lesser extent, due diligence carried out as part of market operations.