



**Consolidated financial statements of BPCE SA  
group  
at June 30, 2018**

# 5 FINANCIAL REPORT

## 5.3 IFRS Consolidated Financial Statements of BPCE SA group as at June 30, 2018

### 5.3.1 Consolidated balance sheet

#### ASSETS

	Notes	6/30/2018	01/01/2018 <sup>(1)</sup>	12/31/2017 IAS 39 after IFRS 9 reclassifications <sup>(2)</sup>
Cash and amounts due from central banks		80,866	82,721	82,721
Financial assets at fair value through profit or loss	4.1.1	208,820	208,898	208,898
Hedging derivatives		7,930	8,610	8,610
Financial assets at fair value through other comprehensive income	4.2	15,007	15,929	15,941
Securities at amortized cost	4.4.1	15,776	15,923	15,720
Loans and receivables due from credit institutions and similar items at amortized cost	4.4.2	123,898	118,304	118,304
Loans and receivables due from customers at amortized cost	4.4.3	177,231	175,791	176,086
Revaluation differences on interest rate risk-hedged portfolios		4,951	5,096	5,096
Insurance business investments	6.1.1	100,552	96,051	96,051
Current tax assets		319	1,421	1,421
Deferred tax assets		1,271	1,501	1,592
Accrued income and other assets	4.5	19,985	18,476	18,476
Non-current assets held for sale	1.3	3,941	1,196	1,195
Investments in associates	7.1.1	3,517	3,623	3,625
Investment property		133	162	162
Property, plant and equipment		1,099	1,111	1,111
Intangible assets		900	884	884
Goodwill	4.6	3,774	3,728	3,728
<b>TOTAL ASSETS</b>		<b>769,970</b>	<b>759,425</b>	<b>759,620</b>

<sup>(1)</sup> The transition from the balance sheet at December 31, 2017 under IAS 39 to the balance sheet at January 1, 2018 under IFRS 9 is presented in section 5.3.6;

<sup>(2)</sup> The December 31, 2017 amounts correspond to the balance sheet published after reclassifications with no change in the method for valuing financial assets and liabilities presented in IFRS 9 format (see Note 5.3.6 § 1).

## LIABILITIES

<i>in millions of euros</i>	<b>Notes</b>	<b>30/06/2018</b>	<b>01/01/2018<sup>(1)</sup></b>	<b>12/31/2017 IAS 39 after IFRS 9 reclassifications<sup>(2)</sup></b>
Financial liabilities at fair value through profit or loss	4.1.2	210 816	213 570	213 570
Hedging derivatives		10 048	10 000	10 000
Debt securities	4.8	214 240	205 929	113 376
Amounts due to credit institutions and similar items	4.7.1	113 302	113 376	62 778
Amounts due to customers	4.7.2	59 925	62 778	205 929
Revaluation differences on interest rate risk-hedged portfolios		216	307	307
Current tax liabilities		325	712	712
Deferred tax liabilities		636	420	546
Accrued expenses and other liabilities	4.9	21 377	19 353	19 353
Liabilities associated with non-current assets held for sale	1.3	3 262	717	717
Liabilities related to insurance policies	6.1.8	90 271	86 552	86 552
Provisions	4.10	2 819	3 002	2 825
Subordinated debt	4.11	17 000	17 056	17 056
<b>Equity</b>		<b>25 733</b>	<b>25 653</b>	<b>25 899</b>
<b>Equity attributable to equity holders of the parent</b>		<b>19 131</b>	<b>18 694</b>	<b>18 882</b>
Share capital and reserves	4.12.1	12 783	12 582	12 582
Retained earnings		5 299	5 631	5 539
Gains and losses recognized directly in other comprehensive income		516	481	761
Net income for the period		533		
Non-controlling interests		6 602	6 959	7 018
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>769 970</b>	<b>759 425</b>	<b>759 620</b>

<sup>(1)</sup> The transition from the balance sheet at December 31, 2017 under IAS 39 to the balance sheet at January 1, 2018 under IFRS 9 is presented in section 5.3.6;

<sup>(2)</sup> The December 31, 2017 amounts correspond to the balance sheet published after reclassifications with no change in the method for valuing financial assets and liabilities presented in IFRS 9 format (see Note 5.3.6 § 1).

## 5.3.2 Consolidated income statement

<i>in millions of euros</i>	<b>Notes</b>	<b>H1 2018</b>
Interest and similar income	5.1	5,730
Interest and similar expenses	5.1	(4,850)
Commission income	5.2	3,093
Commission expenses	5.2	(1,236)
Net gains or losses on financial instruments at fair value through profit or loss	5.3	1,120
Net gains or losses on financial instruments at fair value through other comprehensive income	5.4	52
Net gains or losses resulting from the derecognition of financial assets at amortized cost	5.5	2
Net income from insurance businesses	6.2.1	1,446
Income from other activities	5.6	732
Expenses from other activities	5.6	(446)
<b>Net banking income</b>		<b>5,643</b>
Operating expenses	5.7	(4,125)
Depreciation, amortization and impairment for property, plant and equipment and intangible assets		(171)
<b>Gross operating income</b>		<b>1,347</b>
Cost of credit risk	5.8	(143)
<b>Operating income</b>		<b>1,204</b>
Share in net income of associates and joint ventures	7.2	115
Gains or losses on other assets		(9)
<b>Income before tax</b>		<b>1,310</b>
Income tax	5.9	(383)
<b>Net income</b>		<b>927</b>
Non-controlling interests		(394)
<b>NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>533</b>

### First-half 2017 data prepared in accordance with IAS 39

<i>in millions of euros</i>	<b>Notes</b>	<b>H1 2017</b>
Interest and similar income	5.1	6,792
Interest and similar expenses	5.1	(5,360)
Commission income	5.2	3,163
Commission expenses	5.2	(1,208)
Net gains or losses on financial instruments at fair value through profit or loss	5.3	1,834
Net gains or losses on available-for-sale financial assets	5.4	351
Income from other activities	5.6	6,456
Expenses from other activities	5.6	(6,641)
<b>Net banking income</b>		<b>5,387</b>
Operating expenses	5.7	(4,008)
Depreciation, amortization and impairment for property, plant and equipment, and intangible assets		(161)
<b>Gross operating income</b>		<b>1,218</b>
Cost of risk	5.8	(285)
<b>Operating income</b>		<b>933</b>
Share in net income of associates	7.2	123
Gains or losses on other assets		30
<b>Income before tax</b>		<b>1,086</b>
Income tax	5.9	(405)
<b>Net income</b>		<b>681</b>
Non-controlling interests		(266)
<b>NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		<b>415</b>

## 5.3.3 Comprehensive income

<i>in millions of euros</i>	<b>H1 2018</b>
<b>Net income</b>	<b>927</b>
<b>Items recyclable to income</b>	<b>(73)</b>
Foreign exchange rate adjustments	105
Revaluation of financial assets at fair value through other comprehensive income recyclable to income	65
Revaluation of available-for-sale assets in the insurance business	(210)
Revaluation of derivatives hedging items that can be recycled to income	25
Share of gains and losses recognized directly in the equity of associates	(131)
Related taxes	73
<b>Items not recyclable to income</b>	<b>165</b>
Revaluation (or actuarial gains and losses) in respect of defined-benefit plans	25
Revaluation of own credit risk on financial liabilities designated at fair value through profit or loss	241
Revaluation of equity financial assets recognized at fair value through other comprehensive income	1
Other items recognized through other comprehensive income not recyclable to income	(3)
Related taxes	(99)
<b>Total gains and losses recognized directly in equity</b>	<b>92</b>
<b>COMPREHENSIVE INCOME</b>	<b>1,019</b>
Attributable to equity holders of the parent	568
Non-controlling interests	450
<b>For informational purposes: Amount of items not recyclable to income that were transferred to retained earnings</b>	<b>1</b>

### First-half 2017 data prepared in accordance with IAS 39

<i>in millions of euros</i>	<b>H1 2017</b>
<b>Net income</b>	<b>681</b>
Revaluation differences on defined-benefit plans	27
Revaluation of own credit risk on financial liabilities designated at fair value through profit or loss	(57)
Income taxes	10
<b>Items not recyclable to income</b>	<b>(20)</b>
Foreign exchange rate adjustments	(399)
Change in the value of available-for-sale financial assets	36
Change in the value of hedging derivatives	135
Income taxes	(24)
Share of gains and losses recognized directly in other comprehensive income of associates recyclable to income	(20)
<b>Items recyclable to income</b>	<b>(272)</b>
<b>GAINS AND LOSSES RECOGNIZED DIRECTLY IN OTHER COMPREHENSIVE INCOME (AFTER INCOME TAX)</b>	<b>(292)</b>
<b>COMPREHENSIVE INCOME</b>	<b>389</b>
Attributable to equity holders of the parent	233
Non-controlling interests	156

## 5.3.4 Statement of changes in equity

*in millions of euros*

	Share capital and			Gains and losses recognized directly in other comprehensive income							Net income attributable to equity holders of the parent	Total equity attributable to equity holders of the parent	Non-controlling interests	Total consolidated equity	
	Share capital <sup>(1)</sup>	Additional paid-in capital <sup>(1)</sup>	Perpetual deeply subordinated notes	Recyclable				Non-recyclable							
				Retained earnings	Foreign exchange rate adjustments	Debt financial assets at fair value through other comprehensive income	Available-for-sale assets in the insurance business	Change in fair value of hedging derivatives	Equity financial assets recognized at fair value through other comprehensive income	Revaluation of own credit risk on financial liabilities designated at fair value through profit or loss					Revaluation differences on employee benefits
<b>Shareholders' equity at January 1, 2017</b>	<b>156</b>	<b>12,426</b>	<b>1,230</b>	<b>5,260</b>	<b>625</b>	<b>1,070</b>		<b>(381)</b>		<b>(58)</b>	<b>(119)</b>		<b>20,210</b>	<b>7,565</b>	<b>27,775</b>
Distribution				(207)									(207)	(399)	(606)
Interest on deeply subordinated notes				(50)									(50)		(50)
Impact of acquisitions and disposals on non-controlling interests <sup>(2)</sup>				(25)									(25)	(21)	(46)
<b>Total activity arising from relations with shareholders</b>				<b>(282)</b>									<b>(282)</b>	<b>(420)</b>	<b>(702)</b>
Gains and losses recognized directly in other comprehensive income															
Net income for the period												415	(182)	(110)	(292)
<b>Comprehensive income</b>												<b>415</b>	<b>415</b>	266	681
Other changes <sup>(3)</sup>				(24)								(24)	(24)	5	(19)
<b>Shareholders' equity at June 30, 2017</b>	<b>156</b>	<b>12,426</b>	<b>1,230</b>	<b>4,955</b>	<b>323</b>	<b>1,124</b>		<b>(302)</b>		<b>(86)</b>	<b>(104)</b>	<b>415</b>	<b>20,137</b>	<b>7,306</b>	<b>27,443</b>
<b>Shareholders' equity at December 31, 2017</b>	<b>156</b>	<b>12,426</b>	<b>683</b>	<b>4,011</b>	<b>106</b>	<b>1,291</b>		<b>(348)</b>		<b>(167)</b>	<b>(122)</b>	<b>845</b>	<b>18,882</b>	<b>7,018</b>	<b>25,900</b>
Allocation of net income for 2017				845								(845)			
New presentation of gains and losses recognized directly in other comprehensive income of the insurance business															
Impacts of changes related to first-time application of IFRS 9 <sup>®</sup>				92		(1,016)	1,016	60	(109)				(188)	(59)	(247)
<b>Shareholders' equity at January 1, 2018</b>	<b>156</b>	<b>12,426</b>	<b>683</b>	<b>4,948</b>	<b>106</b>	<b>45</b>	<b>1,016</b>	<b>(288)</b>	<b>(109)</b>	<b>(167)</b>	<b>(122)</b>		<b>18,694</b>	<b>6,959</b>	<b>25,653</b>
Distribution				(201)									(201)	(502)	(703)
Capital increase	2	199											201		201
Redemption of deeply subordinated notes <sup>(4)</sup>				(31)									(31)	(267)	(298)
Interest on deeply subordinated notes				(30)									(30)		(30)
Impact of acquisitions and disposals on non-controlling interests <sup>(5)</sup>				(57)									(57)	(33)	(90)
<b>Total activity arising from relations with shareholders</b>	<b>2</b>	<b>199</b>		<b>(319)</b>									<b>(118)</b>	<b>(802)</b>	<b>(920)</b>
Gains and losses recognized directly in other comprehensive income															
Net income for the period												533	35	57	92
<b>Comprehensive income</b>												<b>533</b>	<b>533</b>	394	927
Other changes <sup>(3)</sup>				(13)								(13)	(13)	(6)	(19)
<b>Shareholders' equity at June 30, 2018</b>	<b>158</b>	<b>12,625</b>	<b>683</b>	<b>4,616</b>	<b>152</b>	<b>26</b>	<b>900</b>	<b>(284)</b>	<b>(128)</b>	<b>(43)</b>	<b>(107)</b>	<b>533</b>	<b>19,131</b>	<b>6,602</b>	<b>25,733</b>

- <sup>(1)</sup> The dividend per share payout of €201 million at June 30, 2018 resulted in an increase of:
- €2 million in capital,
  - €199 million in additional paid-in capital;
- <sup>(2)</sup> Including, in first-half 2017, a reduction in retained earnings of -€46 million (-€25 million attributable to equity holders of the parent and -€21 million attributable to non-controlling interests) arising from the impact of acquisitions and other movements. This reduction was mainly due to the following:
- -€31 million for the revaluation and unwinding of the discount on call options granted to the minority shareholders of DNCA France and Ciloger,
  - -€4 million for call options granted to the minority shareholders of PayPlug;
- <sup>(3)</sup> Other changes include interest on perpetual deeply subordinated notes for the portion subscribed for by minority shareholders (non-controlling interests);
- <sup>(4)</sup> The redemption in first-half 2018 of two perpetual deeply subordinated notes issued by Natixis in 2008 amounted to -€253 million, fully subscribed for by non-controlling interests. These redemptions led to the reversal of the capital gain recorded in equity in the amount of -€43 million (-€31 million attributable to equity holders of the parent and -€12 million attributable to non-controlling interests);
- <sup>(5)</sup> Including, in first-half 2018, a reduction in retained earnings of -€90 million (-€57 million attributable to equity holders of the parent and -€33 million attributable to non-controlling interests) arising from the impact of acquisitions and other movements. This reduction was mainly due to the following:
- -€17 million for the unwinding of the discount on call options granted to minority shareholders (-€12 million attributable to equity holders of the parent and -€5 million attributable to non-controlling interests),
  - The transfer of the minority share in net equity of the entities representing these call options (-€18 million attributable to equity holders of the parent and +€18 million attributable to non-controlling interests),
  - -€49 million (-€35 million attributable to equity holders of the parent and -€14 million attributable to non-controlling interests) for call options granted to the minority shareholders of Vermilion for -€15 million, of Fenchurch for -€27 million and of Alter CE for -€8 million;
- <sup>(6)</sup> The impact of first-time application of IFRS 9 on the opening balance sheet at January 1, 2018 is detailed in Note 5.3.6.

## 5.3.5 Consolidated cash flow statement

<i>in millions of euros</i>	<b>H1 2018</b>	<b>H1 2017</b>
<b>Income before tax</b>	<b>1,310</b>	<b>1,086</b>
Net depreciation and amortization of property, plant and equipment, and intangible assets	213	197
Net charge to provisions and provisions for impairment (including insurance companies' technical reserves)	3,478	4,716
Share in net income of associates	(18)	(31)
Net cash flows generated by investing activities	(378)	(254)
Income/expense from financing activities	45	44
Other changes	1,992	285
<b>Total non-monetary items included in net income before tax</b>	<b>5,332</b>	<b>4,957</b>
Net increase or decrease arising from transactions with credit institutions	(2,891)	10,674
Net increase or decrease arising from transactions with customers	(3,310)	10,510
Net increase or decrease arising from transactions involving financial assets and liabilities	90	(9,434)
Net increase or decrease arising from transactions involving non-financial assets and liabilities	(120)	(6,310)
Income taxes paid	443	108
<b>Net increase (decrease) in assets and liabilities resulting from operating activities</b>	<b>(5,788)</b>	<b>5,548</b>
<b>Net cash flows generated by operating activities (A) - Continuing operations</b>	<b>757</b>	<b>11,591</b>
<b>Net cash flows generated by operating activities (A) - Discontinued operations</b>	<b>97</b>	
Net increase or decrease related to financial assets and equity investments	570	387
Net increase or decrease related to investment property	95	124
Net increase or decrease related to property, plant and equipment, and intangible assets	(220)	(204)
<b>Net cash flows generated by investing activities (B) - Continuing operations</b>	<b>864</b>	<b>307</b>
<b>Net cash flows generated by investing activities (B) - Discontinued operations</b>	<b>(419)</b>	
Net increase (decrease) arising from transactions with shareholders <sup>(1)</sup>	(830)	(678)
Other increases or decreases generated by financing activities <sup>(2)</sup>	(67)	(1,669)
<b>Net cash flows generated by financing activities (C) - Continuing operations</b>	<b>(897)</b>	<b>(2,347)</b>
<b>Impact of changes in exchange rates (D) - Continuing operations</b>	<b>405</b>	<b>(1,078)</b>
<b>TOTAL NET CASH FLOWS (A+B+C+D)</b>	<b>807</b>	<b>8,473</b>
<b>Cash and net balance of accounts with central banks</b>	<b>82,721</b>	<b>72,036</b>
<b>Net balance of demand transactions with credit institutions</b>	<b>(19,553)</b>	<b>(16,675)</b>
Current accounts with overdrafts <sup>(3)</sup>	6,535	8,022
Demand accounts and loans	372	737
Demand accounts in credit	(22,364)	(20,427)
Demand repurchase agreements	(4,096)	(5,007)
<b>Opening cash and cash equivalents</b>	<b>63,168</b>	<b>55,361</b>
<b>Cash and net balance of accounts with central banks</b>	<b>80,866</b>	<b>81,914</b>
<b>Net balance of demand transactions with credit institutions</b>	<b>(16,891)</b>	<b>(18,080)</b>
Current accounts with overdrafts <sup>(3)</sup>	8,744	6,381
Demand accounts and loans	168	456
Demand accounts in credit	(22,360)	(18,890)
Demand repurchase agreements	(3,443)	(6,027)
<b>Closing cash and cash equivalents</b>	<b>63,975</b>	<b>63,834</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>807</b>	<b>8,473</b>

<sup>(1)</sup> Cash flows from or to the shareholders mainly include:

- the redemption of deeply subordinated notes recorded in equity for -€298 million (there were no redemptions in H1 2017);
- interest paid on deeply subordinated notes recorded in equity for -€30 million (-€72 million in H1 2017);
- the impact of dividend payouts for -€502 million (-€606 million in H1 2017).

<sup>(2)</sup> Other increases or decreases generated by financing activities mainly include:

- the absence of issuances of subordinated notes or loans (+€14 million in H1 2017);
- the impact of redemptions of subordinated notes and loans for -€67 million (-€1,657 million in H1 2017).

<sup>(3)</sup> Current accounts with overdrafts do not include Livret A, LDD and LEP savings accounts centralized with the Caisse des Dépôts et Consignations.



## 5.3.6 First-time application of IFRS 9

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### 1. Impact of the adoption of IFRS 9 at January 1, 2018

Groupe BPCE has applied IFRS 9 on financial instruments, which replaces IAS 39, since January 1, 2018. The options selected are described in Note 2.2 and the accounting principles in Note 3. The main impacts of first-time application of IFRS 9 on the balance sheet at January 1, 2018 are as follows:

#### **Classification and measurement**

Most financial assets that were measured at amortized cost under IAS 39 continue to meet the conditions for measurement at amortized cost under IFRS 9. Similarly, most financial assets measured at fair value under IAS 39 (available-for-sale financial assets and financial assets at fair value through profit or loss) continue to be measured at fair value under IFRS 9.

The main reclassifications are as follows:

- for the retail banking loan book, the impact is limited and primarily concerns:
  - certain instruments that were measured at amortized cost and classified as loans and receivables under IAS 39, but which are recognized at fair value through profit or loss under IFRS 9 because their contractual cash flows do not represent solely payments of principal and interest,
  - the structured loans granted to local authorities that were designated at fair value through profit or loss under IAS 39 and are now classified as non-SPPI financial assets under IFRS 9 in “Assets at fair value through profit or loss.” As these assets were previously measured at fair value through profit or loss under IAS 39, this reclassification has no impact on the group’s capital.
- for other loan books:
  - repurchase agreements classified as financial assets at fair value through profit or loss under IAS 39 (fair value option) and considered part of a trading business model under IFRS 9 are recognized in assets at fair value through profit or loss,
  - repurchase agreements classified as loans and receivables or as liabilities and measured at amortized cost under IAS 39, and considered part of a trading business model under IFRS 9, are now recognized in assets and liabilities at fair value through profit or loss.
- for securities portfolios:
  - under IAS 39, liquidity reserve securities were either carried at amortized cost because they were classified as loans and receivables or held-to-maturity financial assets, or they were measured at fair value because they were classified as available-for-sale securities, depending on their characteristics, how they were managed and whether or not they were hedged against interest rate risk. The breakdown of these debt securities has changed under IFRS 9, with a choice, for each group entity, between measurement at amortized cost or at fair value through other comprehensive income, depending on whether they are managed with the objective of collecting cash flows or with the objective of collecting cash flows and selling the assets,
  - units of UCITS and private equity investment funds, except for those in the insurance business, qualified as equity instruments and classified as “Available-for-sale financial assets” under IAS 39 are measured at fair value through profit or loss under IFRS 9, as they are considered debt instruments under the IFRS 9 definition, and as their contractual cash flows do not represent solely payments of principal and interest,
    - investments in associates classified as “Available-for-sale financial assets” under IAS 39 are classified at fair value through profit or loss under IFRS 9. Once Groupe BPCE companies have individually made a final decision, the securities are classified at fair value through other comprehensive income not recyclable to income, and securitization fund units measured at amortized cost and classified as loans and receivables under IAS 39 (i) are measured at fair value through profit or loss under IFRS 9 if their contractual cash flows are not solely payments of principal and interest, (ii) are measured at fair value through other comprehensive income if they are managed under a business model with the objective of collecting cash flows and selling the assets and are solely payments of principal and interest, and (iii) continue to be recognized at amortized cost if they are managed under a business model with the objective of collecting cash flows and are solely payments of principal and interest.

Reclassifications between categories of financial assets measured at amortized cost and fair value through profit or loss or through other comprehensive income have a net impact on Groupe BPCE’s consolidated equity owing to the different calculation methods applicable to these assets and to the retrospective application of the standard. Nevertheless, as these reclassifications are limited or affect assets whose fair value does not vary significantly from

their value at amortized cost due notably to the residual maturity of the transactions in question, these reclassifications do not have a material impact on Groupe BPCE's opening equity at January 1, 2018.

Groupe BPCE has moreover decided to apply the option available under recommendation no. 2017-02 of the Autorité des Normes Comptables (ANC – French accounting standards setter) of June 2, 2017 on the format of the consolidated financial statements of banking institutions in accordance with international accounting standards, namely to present the insurance businesses separately on the balance sheet and income statement.

In accordance with this same recommendation, the margin calls and deposits paid that had been recorded under accrual accounts at December 31, 2017 (€18.9 billion) were reclassified at January 1, 2018 to loans and receivables due from credit institutions or to assets at fair value through profit or loss, depending on their business model. Similarly, the margin calls and deposits received that had been recorded in accrual accounts at December 31, 2017 (€13.4 billion) were reclassified at January 1, 2018 to amounts due to credit institutions or to liabilities at fair value through profit or loss, depending on their business model.

### **Impairment**

The new IFRS 9 provisioning model points to an increase in the amount of impairment on loans and securities measured at amortized cost or at fair value through OCI recyclable to income, and on off-balance sheet commitments as well as on lease receivables, trade receivables and contract assets.

Under IAS 39, there was a separate provisioning model for: (i) instruments measured at amortized cost, (ii) debt instruments measured as "Available-for-sale assets," (iii) equity instruments measured as "Available-for-sale assets," and (iv) instruments recognized at cost. In contrast, under IFRS 9, there is just one provisioning model. This model applies equally to instruments measured at amortized cost and to debt instruments measured at fair value through other comprehensive income recyclable to income. Additionally, under IFRS 9, equity instruments are no longer impaired since they are either measured at fair value through profit or loss or at fair value through other comprehensive income and not recyclable to income.

Under IAS 39, impairments on initial recognition were expressly prohibited. An asset or group of assets could be impaired only if:

- there was objective evidence of impairment resulting from one or more events having occurred since the initial recognition of the asset (i.e. loss events); and
- these loss events had an impact on the estimated cash flows of the financial asset.

IFRS 9 now requires that entities recognize impairments at an earlier stage than under IAS 39, i.e., from the date of initial recognition of the financial instrument. Accordingly, application of the new IFRS 9 provisioning model leads to an increase in the amount of impairment recorded on loans and securities carried at amortized cost or at fair value through OCI recyclable to income and on loan or guarantee commitments given (excluding those recognized at fair value through profit or loss) as well as on lease receivables.

The impact of first-time application of IFRS 9 on opening equity related to the implementation of the new impairment model is -€504 million before tax (-€341 million after tax).

Impairment for credit risk is now €4,223 million under IFRS 9 versus €3,738 million at December 31, 2017 under IAS 39 and IAS 37.

It includes €249 million for financial assets and loan and guarantee commitments classified as Stage 1 (corresponding to a calculation based on 12-month expected losses), €643 million classified as Stage 2 (corresponding to a calculation based on lifetime expected losses) and €3,331 million classified as Stage 3, corresponding to non-performing assets and commitments. Impairment on a portfolio basis recorded under IAS 39 was €515 million at December 31, 2017.

It related primarily to loans and receivables at amortized cost (€3,828 million) and, to a lesser extent, loan and guarantee commitments (€245 million), securities at amortized cost (€137 million) and debt instruments at fair value through OCI recyclable to income (€12 million).

Reclassifications between categories of financial assets did not have a significant impact on the Group's equity at January 1, 2018. Most financial assets measured at amortized cost under IAS 39 continue to meet the conditions for measurement at amortized cost under IFRS 9. Similarly, most assets measured at fair value under IAS 39 (available-for-sale financial assets and financial assets at fair value through profit or loss) continue to be measured at fair value under IFRS 9.

The following table provides a breakdown of the impacts of the change related to the reclassifications and to application of the new provisioning method between IAS 39 and IFRS 9 by class of financial asset and liability. The principles for classifying financial instruments under IFRS 9 are presented in Note 3.1.

ASSETS (in millions of euros) IAS 39	Balance sheet under IAS 39 at December 31, 2017	Insurance businesses	Reclassifications	Total after reclassifications	Impacts of the change		Balance sheet under IFRS 9 at January 1, 2018	ASSETS (in millions of euros) IFRS 9
					Valuation <sup>(1)</sup>	Value adjustment for credit losses <sup>(2)</sup>		
Cash and amounts due from central banks	82,721			82,721			82,721	Cash and amounts due from central banks
Financial assets at fair value through profit or loss	167,016	(22,379)	64,260	208,898			208,898	Financial assets at fair value through profit or loss
Hedging derivatives	8,606	1	3	8,610			8,610	Hedging derivatives - positive fair value
Available-for-sale financial assets	65,161	(46,468)	(18,693)	15,941			15,929	Financial assets at fair value through other comprehensive income
Loans and receivables due from credit institutions	121,585	(500)	(2,780)	118,304		(11)	118,304	Loans and receivables due from credit institutions
Loans and receivables due from customers	241,331	(10,312)	(54,933)	176,086		(294)	175,791	Loans and receivables due from customers
Revaluation differences on interest rate risk-hedged portfolios	5,096		15,720	15,720	224	(21)	15,923	Debt securities at amortized cost
Held-to-maturity financial assets	2,126	(1,885)	(241)	5,096			5,096	Revaluation differences on interest rate risk-hedged portfolios
Current tax assets	1,421	96,051		96,051			96,051	Insurance business investments
Deferred tax assets	1,698		(106)	1,421			1,421	Current tax assets
Accrued income and other assets	51,206	(13,558)	(19,172)	1,592		(91)	1,501	Deferred tax assets
Non-current assets held for sale	1,195			18,476			18,476	Accrued income and other assets
Investments in associates	3,625			1,195			1,195	Non-current assets held for sale
Investment property	1,111	(949)		3,625		(2)	3,623	Investments in associates
Property, plant and equipment	1,111			162			162	Investment property
Intangible assets	884			1,111			1,111	Property, plant and equipment
Goodwill	3,728			884			884	Intangible assets
<b>TOTAL ASSETS</b>	<b>759,620</b>			<b>759,620</b>	<b>224</b>	<b>(419)</b>	<b>759,425</b>	<b>TOTAL ASSETS</b>
LIABILITIES (in millions of euros) IAS 39	Balance sheet under IAS 39 at December 31, 2017	Insurance businesses	Reclassifications	Total after reclassifications	Impacts of the change		Balance sheet under IFRS 9 at January 1, 2018	LIABILITIES (in millions of euros) IFRS 9
Financial liabilities at fair value through profit or loss	138,498	(183)	75,254	213,570			213,570	Financial liabilities at fair value through profit or loss
Hedging derivatives	10,000		1	10,000			10,000	Hedging derivatives
Amounts due to credit institutions	122,098	(3)	(8,719)	113,376			113,376	Amounts due to credit institutions and similar items
Amounts due to customers	115,974		(53,196)	62,778			62,778	Amounts due to customers
Debt securities	205,884		45	205,929			205,929	Debt securities
Revaluation differences on interest rate risk-hedged portfolios	307			307			307	Revaluation differences on interest rate risk-hedged portfolios
Current tax liabilities	712			712			712	Current tax liabilities
Deferred tax liabilities	663		(118)	546	71	(197)	420	Deferred tax liabilities
Accrued expenses and other liabilities	42,373	(9,723)	(13,297)	19,353			19,353	Accrued expenses and other liabilities
Liabilities on assets held for sale	717			717			717	Liabilities associated with non-current assets held for sale and discontinued operations
Technical reserves of insurance companies	76,644	9,908		86,552			86,552	Liabilities related to insurance policies
Provisions	2,825			2,825		178	3,002	Provisions
Subordinated debt	17,025		31	17,056			17,056	Subordinated debt
Equity	25,900			25,900	152	(399)	25,653	Equity
Equity attributable to equity holders of the parent	18,882			18,882	153	(341)	18,694	Equity attributable to equity holders of the parent
Share capital and reserves	12,582			12,582			12,582	Share capital and reserves
Retained earnings	5,539			5,539	433	(341)	5,631	Retained earnings
Unrealized gains and losses	761			761	(280)		481	Gains and losses recognized directly in OCI
Net income for the period	7,018			7,018	(1)	(58)	6,959	Net income for the period
Non-controlling interests								Non-controlling interests
<b>TOTAL LIABILITIES</b>	<b>759,620</b>			<b>759,620</b>	<b>223</b>	<b>(418)</b>	<b>759,425</b>	<b>TOTAL LIABILITIES</b>

<sup>(1)</sup> This relates to the change in the way the asset is measured. For example, an asset at amortized cost under IAS 39 can be measured at fair value under IFRS 9;

<sup>(2)</sup> The impact of first-time application of the new impairment model is provided in Note 5.3.6 §3.

## 2. Summary of reclassifications between IAS 39 and IFRS 9 by category

### Financial assets

Financial assets under IAS 39	Classification under IFRS 9	Note	1/1/2018	
			Carrying amount under IAS 39	Carrying amount under IFRS 9
<b>Financial assets at fair value through profit or loss</b>	<b>Financial assets at fair value through profit or loss</b>		<b>167,016</b>	
<b>Of which fair value through profit or loss on assets held for trading</b>			104,479	
Derivatives	Financial assets at fair value through profit or loss		51,194	50,980
	Insurance business investments			214
Fixed-income securities	Financial assets at fair value through profit or loss		12,931	8,627
	Insurance business investments			4,304
Variable-income securities	Financial assets at fair value through profit or loss		37,348	34,637
	Insurance business investments			
Loans and receivables	Financial assets at fair value through profit or loss	(c)	3,006	3,023
<b>Of which designated at fair value through profit or loss</b>			<b>62,537</b>	
Fixed-income securities	Financial assets at fair value through profit or loss	(a)	2,626	342
	Insurance business investments	(l)		2,184
Variable-income securities	Financial assets at fair value through profit or loss	(b)	16,848	653
	Insurance business investments	(l)		13,667
Loans or receivables due from credit institutions	Financial assets at fair value through profit or loss	(c)	172	2
Loans or receivables due from customers	Financial assets at fair value through profit or loss	(c)	6,805	5,059
	Insurance business investments	(l)		2,012
Securities received under repurchase agreements	Financial assets at fair value through profit or loss	(d)	36,086	36,086
<b>Hedging derivatives</b>			<b>8,606</b>	
	Hedging derivatives		8,606	8,606
	Insurance business investments			
<b>Available-for-sale financial assets</b>			<b>65,161</b>	
Fixed-income securities	Financial assets at fair value through profit or loss	(e)		15
	Financial assets at fair value through other comprehensive income	(f)	55,462	14,025
	Insurance business investments	(l)		39,213
	Debt instruments at amortized cost	(f)		2,546
Variable-income securities	Financial assets at fair value through profit or loss	(g)		6,449
	Insurance business investments	(l)		7,255
	Financial assets at fair value through other comprehensive income	(h)	9,667	1,201
Loans or receivables	Financial assets at fair value through other comprehensive income		32	25
	Loans or receivables at amortized cost due from customers			2
<b>Loans and receivables (*)</b>			<b>362,915</b>	
Accounts and loans	Loans or receivables at amortized cost due from credit institutions		106,927	106,495
	Loans or receivables at amortized cost due from customers		162,977	152,126
	Financial assets at fair value through profit or loss	(i)		59
	Insurance business investments	(l)		10,812
Current accounts with overdrafts	Loans or receivables at amortized cost due from credit institutions		6,536	6,536
	Loans or receivables at amortized cost due from customers		4,770	4,770
Fixed-income securities	Debt instruments at amortized cost		13,799	13,137
	Financial assets at fair value through profit or loss	(j)		47
	Insurance business investments	(l)		
	Financial assets at fair value through other comprehensive income	(j)		679
Securities received under term repurchase agreements	Loans or receivables at amortized cost due from credit institutions		7,801	1,725
	Loans or receivables at amortized cost due from customers		48,712	7,461
	Financial assets at fair value through profit or loss	(k)		47,327
Finance leases	Loans or receivables at amortized cost due from customers		11,393	11,393
<b>Held-to-maturity financial assets</b>			<b>2,126</b>	
Fixed-income securities	Insurance business investments	(l)		1,885
	Debt instruments at amortized cost		2,126	241
<b>Accrued income and other assets</b>			<b>51,206</b>	
	Accrued income and other assets		51,206	18,477
	Financial assets at fair value through profit or loss			15,593
	Loans or receivables at amortized cost due from credit institutions			3,548
	Loans or receivables at amortized cost due from customers			44
	Insurance business investments	(l)		13,558
<b>Investment property</b>			<b>1,111</b>	
	Insurance business investments	(l)		949
	Investment property		1,111	162
<b>Cash and amounts due from central banks</b>			<b>82,721</b>	<b>82,721</b>
<b>Revaluation differences on interest rate risk</b>			<b>5,096</b>	<b>5,096</b>
<b>Current tax assets</b>			<b>1,421</b>	<b>1,421</b>
<b>Deferred tax assets</b>			<b>1,698</b>	<b>1,501</b>
<b>Non-current assets held for sale</b>			<b>1,195</b>	<b>1,195</b>
<b>Investments in associates</b>			<b>3,625</b>	<b>3,623</b>
<b>Property, plant and equipment</b>			<b>1,111</b>	<b>1,111</b>
<b>Intangible assets</b>			<b>884</b>	<b>884</b>
<b>Goodwill</b>			<b>3,728</b>	<b>3,728</b>
<b>Total</b>			<b>759,620</b>	<b>759,425</b>

(\*) Impairment on a portfolio basis is recognized as a deduction from assets, like individual impairment, and is therefore included in the carrying amount of the instruments.

Application of IFRS 9 criteria (Note 3.1) relating to the business models and contractual characteristics of financial instruments led the Group to make the following modifications to the classification of financial assets compared with IAS 39:

- (a) Fixed-income securities classified as "Financial assets designated at fair value" according to IAS 39 were classified as "Financial assets at fair value through profit or loss" under IFRS 9 for €201 million, as they are managed under a trading business model.

Fixed-income securities reclassified as "Financial assets at fair value through profit or loss" under IFRS 9 because they failed the SPPI test stood €62 million.

- (b) Variable-income securities classified as "Financial assets designated at fair value" under IAS 39 and managed under a trading business model were classified as "Financial assets at fair value through profit or loss" under IFRS 9 for €242 million.

- (c) Loans and receivables classified as "Financial assets designated at fair value" under IAS 39 managed according to a trading business model were classified as "Financial assets at fair value through profit or loss" under IFRS 9 for €2,421 million.

Loans and receivables reclassified as "Financial assets at fair value through profit or loss" under IFRS 9 because they failed the SPPI test stood at €2,397 million.

- (d) Securities received under repurchase agreements classified as "Financial assets designated at fair value" under IAS 39, managed under a trading business model, were classified as "Financial assets at fair value through profit or loss" under IFRS 9 for €36,086 million.

- (e) Debt instruments classified as "Available-for-sale financial assets" under IAS 39 were classified as "Financial assets at fair value through profit or loss" under IFRS 9 in the amount of €15 million because they failed the SPPI test.

- (f) Debt instruments corresponding mainly to the liquidity reserve securities portfolio, managed under a hold to collect and sell business model, were reclassified in the amount of €14,025 million as "Financial assets at fair value through OCI" under IFRS 9. This reclassification had no impact on opening equity.

Debt instruments classified as "Available-for-sale financial assets" under IAS 39 and reclassified as assets at amortized cost under IFRS 9 stood at €2,546 million.

This reclassification did not have a material impact on opening equity.

- (g) Unconsolidated UCITS units in the amount of €4,493 million are considered non-SPPI debt instruments under IFRS 9 and are therefore classified as "Financial assets at fair value through profit or loss."

Other variable-income securities (excluding investments in associates) managed under a trading business model are reclassified as "Financial assets at fair value through profit or loss" under IFRS 9.

Investments in associates reclassified as "Financial assets at fair value through profit or loss" under IFRS 9 stood at €421 million.

- (h) Investments in associates reclassified as "Financial assets at fair value through OCI" (non-recyclable) under IFRS 9 represented €1,136 million.

- (i) These are loans or receivables classified as "Loans and receivables" under IAS 39 and reclassified as "Financial assets at fair value through profit or loss" under IFRS 9 because they failed the SPPI test for €59 million.

This reclassification did not have a material impact on equity.

- (j) These are debt instruments classified as "Loans and receivables" under IAS 39 and reclassified as "Financial assets at fair value through profit or loss" under IFRS 9 because they failed the SPPI test for €47 million.

Debt instruments managed under a hold to collect and sell business model were reclassified in the amount of €679 million as "Financial assets at fair value through OCI" under IFRS 9. This reclassification did not have a material impact on opening equity.

- (k) Securities received under repurchase agreements classified as "Loans and receivables" under IAS 39 and managed under a trading business model are recognized as "Financial assets at fair value through profit or loss" under IFRS 9 for €47,327 million.

- (l) Reclassification of financial assets of the insurance businesses to "Insurance business investments" in accordance with the ANC recommendation.

The impacts of the change related to changes in classification and to implementation of the new provisioning method are provided in Note 5.3.6 §1.

## Financial liabilities

			1 / 1 / 2018	
Financial liabilities under IAS 39	Classification under IFRS 9	Note	Carrying amount under IAS 39	Carrying amount under IFRS 9
<b>Financial liabilities at fair value through profit or loss</b>			<b>138,498</b>	
<b>Of which fair value through profit or loss on assets held for trading</b>			<b>77,200</b>	
Derivatives	Financial liabilities at fair value through profit or loss		51,050	50,867
	Liabilities related to insurance policies			183
Securities	Financial liabilities at fair value through profit or loss		26,093	26,093
Other liabilities	Financial liabilities at fair value through profit or loss		57	57
<b>Of which designated at fair value through profit or loss</b>			<b>61,298</b>	
Securities	Financial liabilities at fair value through profit or loss		22,793	22,793
Securities sold under repurchase agreements	Financial liabilities at fair value through profit or loss	(a)	34,966	34,966
Other liabilities	Financial liabilities at fair value through profit or loss		3,539	3,539
<b>Hedging derivatives</b>			<b>10,000</b>	
	Hedging derivatives		10,000	10,000
<b>Amounts due to credit institutions and customers</b>			<b>238,072</b>	
Deposits and loans	Amounts due to credit institutions		80,426	80,426
	Amounts due to customers		32,697	32,697
Current accounts in credit	Amounts due to credit institutions		22,365	22,365
	Amounts due to customers		23,516	23,516
Securities sold under repurchase agreements	Amounts due to credit institutions		19,307	9,463
	Amounts due to customers		59,761	5,978
	Financial liabilities at fair value through profit or loss	(b)		63,627
<b>Accrued expenses and other liabilities</b>			<b>42,374</b>	
	Accrued income and other assets		42,374	19,356
	Financial assets at fair value through profit or loss			11,628
	Amounts due to credit institutions			1,122
	Amounts due to customers			586
	Liabilities related to insurance policies			9,723
<b>Technical reserves of insurance companies</b>	<b>Liabilities related to insurance policies</b>		<b>76,644</b>	<b>76,644</b>
<b>Debt securities</b>			<b>205,884</b>	<b>205,929</b>
<b>Revaluation differences on interest rate risk-hedged portfolios</b>			<b>307</b>	<b>307</b>
<b>Current tax liabilities</b>			<b>712</b>	<b>712</b>
<b>Deferred tax liabilities</b>			<b>663</b>	<b>420</b>
<b>Liabilities on assets held for sale</b>			<b>717</b>	<b>717</b>
<b>Provisions</b>			<b>2,825</b>	<b>3,002</b>
<b>Subordinated debt</b>			<b>17,025</b>	<b>17,056</b>
<b>Total equity</b>			<b>25,900</b>	<b>25,653</b>
<b>Total</b>			<b>759,620</b>	<b>759,425</b>

(a) Securities sold under repurchase agreements classified as "Financial liabilities designated at fair value through profit or loss" under IAS 39 and managed under a trading business model are classified as "Financial assets at fair value through profit or loss" under IFRS 9 for €34,966 million;

(b) Securities sold under repurchase agreements classified as "Loans and receivables" under IAS 39 and managed under a trading business model are classified as "Financial assets at fair value through profit or loss" under IFRS 9 for €63,627 million.

### 3. Impacts of the change in impairments or provisions for expected credit losses

This table provides a breakdown of the impacts of the change related to application of the new rules on the impairment or provisioning of credit risk between IAS 39 and IFRS 9.

Reconciliation of impairments and provisions (in millions of euros)	Impairment or provision under IAS 39	Reclassifications	IFRS 9 impacts	Impairment or provision under IFRS 9
Loans and receivables at amortized cost	3,519	15	294	3,828
Debt securities at amortized cost	93	24	21	137
Debt instruments available for sale/at fair value through other comprehensive income recyclable to income	59	(58)	11	12
<b>Total balance sheet</b>	<b>3,670</b>	<b>(19)</b>	<b>326</b>	<b>3,978</b>
Provisions for off-balance sheet commitments	67		178	245
<b>Total impairments and provisions</b>	<b>3,738</b>	<b>(19)</b>	<b>504</b>	<b>4,223</b>

## 5.3.7 Notes to the financial statements of BPCE SA group

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## **Note 1      General background**

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### **1.1 GROUPE BPCE**

Groupe BPCE comprises the Banque Populaire network, the Caisse d'Épargne network, the BPCE central institution and its subsidiaries.

#### **Two banking networks: the Banque Populaire banks and the Caisses d'Épargne**

Groupe BPCE is a cooperative group whose shareholders own the two local retail banking networks: the 14 Banque Populaire banks and the 15 Caisses d'Épargne. Each of the two networks owns an equal share in BPCE, the Group's central institution.

The Banque Populaire network consists of the Banque Populaire banks and the Mutual Guarantee Companies granting them the exclusive benefit of their guarantees.

The Caisse d'Épargne network consists of the Caisses d'Épargne and the local savings companies (LSCs).

The Banque Populaire banks are wholly-owned by their cooperative shareholders.

The capital of the Caisses d'Épargne is wholly-owned by the LSCs. Local savings companies are cooperative structures with open-ended share capital owned by cooperative shareholders. The LSCs are tasked with coordinating the cooperative shareholder base, in line with the general objectives defined by the individual Caisse d'Épargne with which they are affiliated, and cannot perform banking transactions.

#### **BPCE**

BPCE, a central institution as defined by the French Banking Law and a credit institution licensed to operate as a bank, was created pursuant to law No. 2009-715 of June 18, 2009. BPCE was incorporated as a French limited liability company governed by a Management Board and a Supervisory Board, whose share capital is owned jointly and equally by the 14 Banque Populaire banks and the 15 Caisses d'Épargne.

BPCE's corporate mission embodies the continuity of the cooperative principles underlying the Banque Populaire banks and the Caisses d'Épargne.

Specifically, BPCE represents the interests of its various affiliates in dealings with the supervisory authorities, defines the range of products and services offered by them, organizes depositor protection, approves key appointments of company directors and oversees the smooth functioning of the Group's institutions.

As a holding company, BPCE is the head entity of the Group and holds the joint ventures between the two networks in retail banking and insurance, corporate banking and financial services, and their production units. It defines the Group's corporate strategy and growth and expansion policies.

The network and BPCE's main subsidiaries, including Natixis, a 71.03%-owned listed company, are organized around three core business lines:

- Retail Banking and Insurance includes the Banque Populaire and Caisse d'Épargne networks, the Natixis Specialized Financial Services and Insurance business line and Other networks (Crédit Foncier, Banque Palatine and BPCE International);
- Asset & Wealth Management;
- Corporate and Investment Banking.

In respect of the Group's financial functions, BPCE is responsible, in particular, for the centralized management of surplus funds, for the execution of any financial transactions required to develop and fund the Group, and for choosing the most appropriate counterparty for these transactions in the broader interests of the Group. BPCE also provides banking services to the other Group entities.

### **1.2 GUARANTEE MECHANISM**

Pursuant to Articles L. 511-31 and L. 512-107-6 of the French Monetary and Financial Code, the guarantee and solidarity mechanism was set up to ensure the liquidity and capital adequacy of the Group and its associates, and to organize financial support within the Banque Populaire and Caisse d'Épargne networks.

BPCE is tasked with taking all measures necessary to guarantee the capital adequacy of the Group and each of the networks, including implementing the appropriate internal financing mechanisms within the Group and establishing a Mutual Guarantee Fund common to both networks, for which it determines the operating rules, the conditions for the provision of financial support to the existing funds of the two networks, as well as the contributions of associates to the fund's initial capital endowment and reconstitution.

BPCE manages the Banque Populaire Network Fund and the Caisse d'Épargne Network Fund and has put in place the Mutual Guarantee Fund.

The **Banque Populaire Network Fund** was formed by a deposit made by the Banque Populaire banks of €450 million that was booked by BPCE in the form of a 10-year term account which is indefinitely renewable.

The deposit made to the **Caisse d'Épargne Network Fund** by the Caisses d'Épargne of €450 million was booked by BPCE in the form of a 10-year term account which is indefinitely renewable.

The **Mutual Guarantee Fund** was formed by deposits made by the Banque Populaire banks and the Caisses d'Épargne. These deposits were booked by BPCE in the form of 10-year term accounts which are indefinitely renewable. The amount of the deposits by network was €181 million as of June 30, 2018.

The total amount of deposits made to BPCE in respect of the Banque Populaire Network Fund, the Caisse d'Épargne Network Fund and the Mutual Guarantee Fund may not be less than 0.15% and may not exceed 0.3% of the total risk-weighted assets of the Group.

The booking of deposits in the institutions' individual accounts under the guarantee and solidarity system results in the recording of an item of an equivalent amount under a dedicated capital heading.

The mutual guarantee companies (*sociétés de caution mutuelle*), whose sole corporate purpose is to guarantee loans issued by Banque Populaire banks, are covered by the liquidity and capital adequacy guarantee of the Banque Populaire banks with which they are jointly licensed in accordance with Article R. 515-1 of the French Monetary and Financial Code.

The liquidity and capital adequacy of the Caisses de Crédit Maritime Mutuel are guaranteed in respect of each individual Caisse, by the Banque Populaire bank which is both the core shareholder and provider of technical and operational support for the Caisse in relation to the partner Banque Populaire bank.

The liquidity and capital adequacy of the local savings companies are secured, firstly, at the level of each individual local savings company by the Caisse d'Épargne of which the local savings company in question is a shareholder.

BPCE's Management Board holds all the requisite powers to mobilize the resources of the various contributors without delay and in accordance with the agreed order, on the basis of prior authorizations given to BPCE by the contributors.

### 1.3 SIGNIFICANT EVENTS

#### Application of IFRS 5 to BPCE International's African subsidiaries

On February 20, 2018, Groupe BPCE announced the signature of an agreement to sell all of the capital of Banque des Mascareignes, a bank located in Mauritius, and its subsidiary in Madagascar (Banque des Mascareignes Madagascar) to the Moroccan cooperative group Banque Centrale Populaire.

The completion of the sale is subject to the usual conditions precedent for this type of transaction, including in particular the approval of the regulatory authorities in Mauritius, Madagascar and Morocco. It should be finalized by the end of 2018.

Groupe BPCE is also in discussions with potential financial and industrial partners about its banks' activity in Africa. This mainly concerns Banque Tuniso Koweïtienne and its subsidiaries, Banque Commerciale Internationale (BCI) in the Congo, BICEC in Cameroon and Banque Malgache de l'Océan Indien in Madagascar.

These various transactions are part of the Group's strategy of refocusing on priority development sectors and regions.

At June 30, 2018, these entities' assets and liabilities were therefore presented in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) and aggregated on a single line, i.e., €2,705 million on the assets side (of which €1,749 million from loans and receivables due from customers) and €2,478 million on the liabilities side (of which €1,969 million from amounts due to customers).

### 1.4 POST-BALANCE SHEET EVENTS

#### Project to integrate Crédit Foncier's operations into Groupe BPCE

##### *Scope and status of the project*

On June 25 and 26, 2018, respectively, the BPCE Supervisory Board and the Crédit Foncier Board of Directors gave their approval, in principle, to start a project to integrate Crédit Foncier's operations and teams to meet the new requirements of the sector and its customers. This project would focus on integrating the knowledge and expertise of Crédit Foncier into the various companies of Groupe BPCE.

Accordingly:

- new loans would be redeployed in the Group's entities: Individual Customer financing within the Banque Populaire banks and Caisses d'Épargne, Corporate financing within the Caisses d'Épargne and Banque Populaire banks for social housing, and Natixis for project and infrastructure financing;

- Socfim, which would become a subsidiary of BPCE SA, would position itself as a global player in corporate real estate financing by integrating long-term financing for real estate professionals with financing for developers;
- Crédit Foncier Immobilier would become a subsidiary of BPCE SA;
- the special expertise and the projects initiated by Crédit Foncier would continue on a national level;
- Crédit Foncier would be refocused on the funding, through Compagnie de Financement Foncier, of public sector assets originated by the Group and on the management of currently outstanding loans.

Also, as part of this project, any delisting offer involving Locindus shares would be filed with the Autorité des Marchés Financiers (French Financial Markets Authority — AMF).

In keeping with the project's objective — to develop Crédit Foncier's activities by integrating them into the various Groupe BPCE companies — and as part of an employment preservation plan, employees whose activity would be redeployed as outlined above (approximately 1,400 people) would be offered a similar position, with an equivalent classification and in the same employment area, at another Groupe BPCE company. Alternatively, for employees with a project who are not interested in pursuing the reclassification proposal mentioned above, Crédit Foncier would allow the option to volunteer for external mobility, with financial and other support.

#### *Accounting impacts at June 30, 2018*

At June 30, 2018, as detailed information is not available, the criteria for recording a provision have not been met; the institution is furthermore unable to reliably quantify the final cost of the project, based primarily on redeploying the affected operations and teams.

The information and consultation process, which began on July 20, 2018, defined the scope of staff members affected at this stage and the support measures that would be proposed for their reclassification (continued payment of compensation, training, support for mobility, etc.) or, if applicable, their voluntary departure plan (compensation based on employees' length of service, capped at 24 months of wages). At this information and consultation stage, the cost of these measures (and their resulting effects on the group's business relationships) cannot reliably be determined.

#### **Agreement to acquire MV Crédit, a European credit specialist focused on private debt**

On July 11, 2018, Natixis Investment Managers announced the signature of an agreement to acquire a minority stake in US management company WCM Investment Management (WCM). Natixis Investment Managers will thus become WCM's exclusive third-party distributor. This acquisition is expected to close by the end of 2018, subject to customary regulatory approvals.

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## **Note 2      Applicable accounting standards and comparability**

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### **2.1    REGULATORY FRAMEWORK**

The consolidated financial statements of Groupe BPCE were prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable at that date, excluding certain provisions of IAS 39 relating to hedge accounting.

These condensed interim consolidated financial statements at June 30, 2018 were prepared according to IAS 34 "Interim Financial Reporting." The notes therefore apply to the most significant aspects of the half-year and should be read in conjunction with the Group's consolidated financial statements at December 31, 2017.

### **2.2    STANDARDS**

The standards and interpretations used and detailed in the annual financial statements as at December 31, 2017 were complemented by standards, amendments and interpretations whose application is mandatory for reporting periods starting from January 1, 2018.

New IFRS 9 "Financial Instruments" was adopted by the European Commission on November 22, 2016 and is applicable retrospectively as of January 1, 2018.

IFRS 9 replaces IAS 39 and defines the new rules for classifying and measuring financial assets and liabilities, the new impairment methodology for the credit risk of financial assets, and hedge accounting, except for macro-hedging, which the IASB is currently studying in a separate draft standard.

Groupe BPCE used the option available in IFRS 9 not to apply the provisions of the standard relative to hedge accounting, and to continue to apply IAS 39 for the recognition of these transactions, as adopted by the European Union, i.e., excluding certain provisions relating to macro-hedging. In view of the limited volume of asset reclassifications, most transactions recognized using hedge accounting under IAS 39 continue to be disclosed in the same way from January 1, 2018. However, the information provided in the Notes observes the provisions of IFRS 7 as amended by IFRS 9.

Furthermore, on November 3, 2017, the European Commission adopted the amendment to IFRS 4 applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" with specific provisions for financial conglomerates, applicable as of January 1, 2018. The European regulation will allow insurance sectors within European financial conglomerates to defer application of IFRS 9 until January 1, 2021 (effective date of the new IFRS 17 standard "Insurance Contracts") as long as they:

- do not transfer financial instruments between the insurance sector and other sectors of the conglomerate (with the exception of financial instruments designated at fair value through profit or loss for the two sectors affected by the transfer);
- indicate the insurance entities that apply IAS 39;
- disclose specific additional information in the notes to the financial statements.

As Groupe BPCE is a financial conglomerate, it elected to apply this provision to its insurance businesses, which continue to be covered by IAS 39. The main entities affected by this measure are CEGC, the insurance subsidiaries of COFACE, Natixis Assurances, BPCE Vie and its consolidated funds, Natixis Life, ADIR, BPCE Prévoyance, BPCE Assurances, BPCE IARD, Muracef, Surassur, Prépar Vie and Prépar Iard.

In accordance with the adoption regulation of November 3, 2017, the group took the necessary steps to prohibit any transfer of financial instruments between its insurance sector and the rest of the group that would lead to a derecognition for the transferring entity; this restriction is not, however, required for transfers of financial instruments measured at fair value through profit or loss by the two sectors involved.

Under the option available in IFRS 9, the Group elected not to restate previous fiscal years published as comparative information for its financial statements.

Groupe BPCE holds some fixed-rate loans with symmetrical prepayment clauses in its loan book. In an amendment to IFRS 9 published in October 2017, the IASB stated that negative prepayment compensation is not in itself incompatible with the notion of SPPI. The application of this amendment is mandatory as of January 1, 2019 and early application is possible. The "Prepayment Features with Negative Compensation" amendment was adopted by the European Commission on March 22, 2018. Groupe BPCE applied this amendment early, as of January 1, 2018.

Regulation (EU) 2017/2395 dated December 12, 2017 relating to transitional arrangements for mitigating the impact of the introduction of IFRS 9 on capital and for the large exposures treatment of certain public-sector exposures was

published in the OJ on December 27, 2017. Groupe BPCE has decided not to opt to neutralize IFRS 9 transitional impacts at the prudential level due to the limited impact when applying the standard.

IFRS 15 "Revenue from contracts with customers" replaces the current standards and interpretations related to the recognition of income. IFRS 15 was adopted by the European Union and published in the OJ on October 29, 2016. It has been applicable retrospectively since January 1, 2018. The amendment entitled "Clarifications to IFRS 15," published by the IASB on April 12, 2016, was adopted by the European Commission on October 31, 2017 and is also applicable retrospectively as of January 1, 2018.

Under this standard, recognition of revenue from ordinary activities now reflects the transfer of control of goods and services promised to customers in an amount corresponding to the consideration that the entity expects to receive in exchange for these goods and services. IFRS 15 thus introduces a new five-stage general approach for the recognition of income:

- identification of contracts with customers;
- identification of specific performance obligations (or items) to be recognized separately from one another;
- determination of overall transaction price;
- allocation of transaction price to the various specific performance obligations;
- recognition of revenue when performance obligations are met.

IFRS 15 applies to contracts entered into by an entity with its customers, with the exception of leases (covered by IAS 17), insurance contracts (covered by IFRS 4) and financial instruments (covered by IFRS 9). If specific stipulations relating to revenue or contract costs are given under a different standard, these will first be applied.

The work related to the first-time application of IFRS 15 notably drew on self-assessments carried out by certain pilot institutions and subsidiaries, which were then transposed by all the Group's significant institutions and subsidiaries. This work helped identify the main items concerned, in particular:

- fee and commission income, notably that relating to banking services when this income is not included in the effective interest rate, or that relating to asset management or financial engineering services;
- income from other activities, in particular for services included in leases.

This work also confirmed that the Group is either only slightly or not affected by certain first-time application of IFRS 15 issues such as real estate development, loyalty programs and telephony.

Based on the work performed, the Group did not recognize any material impact related to application of IFRS 15, on either opening equity at January 1, 2018 or on income and expense items in fiscal year 2018.

Under the option available in IFRS 15, the Group elected not to restate previous fiscal years published as comparative information for its financial statements.

The other standards, amendments and interpretations adopted by the European Union did not have a material impact on the Group's financial statements.

### **New standards published and not yet applicable**

#### **IFRS 16**

IFRS 16 "Leases" will replace IAS 17 "Leases" and the interpretations related to the accounting of such contracts. The standard was adopted by the European Commission on October 31, 2017. It will be applicable as of January 1, 2019.

As defined under IFRS 16, leases shall identify an asset and convey the right to use this asset for a period of time. From the lessor's perspective, the impact is expected to be limited, as the provisions will not change substantially in relation to the current IAS 17.

Under the current IAS 17, operating leases are not recognized on the balance sheet, only the corresponding rental income is recorded in income.

In contrast, for lessees, IFRS 16 requires that leases be recorded in the balance sheet such that they convey the right to use the leased asset presented, as the case may be, among property, plant & equipment or investment property, and a lease liability. The lease liability corresponds to the discounted value of lease payments that have not yet been paid. The Group has decided to opt for the exception included in the standard of not modifying the accounting method for short-term leases (less than 12 months) or leases related to low value underlying assets. The right to use the asset will be amortized on a straight-line basis and the lease liability will be calculated on an actuarial basis over the term of the lease.

The expense on the lease debt will thus be included in interest income under net banking income and the amortization expense on the right to use the asset will be recognized in operating expenses.

The Group began to analyze the impact of the application of this new standard following its publication by the IASB at the start of 2016. This work continued during first-half 2018 and entered the stage where structural choices were made in terms of organization and information systems.

Regarding Groupe BPCE's activities, the implementation of IFRS 16 will mainly affect real estate assets leased for operational purposes as offices and sales branches. A material impact is therefore expected on "Property, plant & equipment" without modifying in itself the relatively weak weighting of property, plant & equipment in total assets.

For the first-time application of this standard, the Group has chosen the modified retrospective method, which recognizes the cumulative impact at January 1, 2019, with no comparison with 2018, and listing in the Notes to the financial statements any of the standard's impacts on the various items in said financial statements.

## **IFRS 17**

IFRS 17 "Insurance Contracts" was published by the IASB on May 18, 2017 and will replace IFRS 4 "Insurance Contracts." Subject to adoption by the European Commission, this standard will be applicable as of January 1, 2021, with a comparison to January 1, 2020.

IFRS 17 establishes the principles of recognition, measurement, presentation and disclosure for the insurance contracts that fall within its scope.

Liabilities under these contracts, which are currently valued at historical cost, will have to be recognized at present value under IFRS 17. As such, insurance contracts will be valued based on their future cash flows, including a risk margin in order to factor in the uncertainty relating to these cash flows. IFRS 17 also introduces the concept of contractual service margin. This represents the insurer's unearned profit and will be released over time as the services are rendered to the insured.

These accounting changes could modify the profile of insurance income (in particular for life insurance) and also introduce greater volatility in income.

Given the extent of the changes made under IFRS 17, Groupe BPCE's insurance entities began their impact analyses and, in first-half 2018, established specific structures to help them to understand all aspects of the standard as it applies to the different projects: modeling, adjustments to systems and organizations, production of the financial statements, investor relations and change management.

## **2.3 USE OF ESTIMATES AND JUDGMENTS**

Preparation of the financial statements requires Management to make estimates and assumptions in certain areas with regard to uncertain future events.

These estimates are based on the judgment of the individuals preparing these financial statements and the information available at the balance sheet date.

Actual future results may differ from these estimates.

With respect to the financial statements for the period ended June 30, 2018 in particular, accounting estimates requiring assumptions were mainly used for the following measurements:

- the fair value of financial instruments determined on the basis of valuation models (Note 3.1.9);
- the amount of expected credit losses on financial instruments as well as on loan and guarantee commitments (Note 3.1.10);
- provisions recorded under liabilities in the balance sheet and more specifically the provision for regulated home savings products and provisions for insurance policies (Note 4.10);
- calculations related to the cost of pensions and future employee benefits;
  
- deferred taxes;
- goodwill impairment testing (Note 4.6).

Judgment must also be exercised to assess the business model and whether the financial instrument can be categorized as SPPI. The procedures are described in the relevant paragraphs (Note 3.1.1).



## **2.4 PRESENTATION OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND INTERIM BALANCE SHEET DATE**

As no specific format is required under IFRS, the presentation used by the Group for summarized statements follows Recommendation No. 2017-02 issued by the Autorité des Normes Comptables (ANC – French national accounting standards authority) on June 2, 2017.

The consolidated financial statements are based on the financial statements at June 30, 2018. The Group's consolidated financial statements for the period ended June 30, 2018 were approved by the Management Board on July 30, 2018.

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## Note 3 Accounting principles and valuation methods

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### 3.1 FINANCIAL ASSETS AND LIABILITIES

IFRS 9 is applicable to Groupe BPCE excluding the insurance subsidiaries which continue to apply IAS 39.

#### 3.1.1 Principles for the classification of financial assets

##### *Classification and measurement*

On initial recognition, financial assets are classified at amortized cost, at fair value through other comprehensive income, or at fair value through profit or loss, according to the type of instrument (debt or equity), the characteristics of their contractual cash flows and how the entity manages its financial instruments (its business model).

##### *Business model*

The entity's business model represents the way in which it manages its financial assets to produce cash flow. Judgment must be exercised to assess the business model.

The choice of business model must take into account all information regarding the manner in which cash flows were generated in the past, along with all other relevant information.

For example:

- the way in which the performance of financial assets is assessed and presented to the main company directors;
- risks which have an impact on the business model's performance, in particular the way in which these risks are managed;
- the way in which directors are paid (for example, if pay is based on the fair value of assets under management or on the contractual cash flows received);
- the frequency of, volume of and reason for sales.

Moreover, the choice of business model must be made at a level which reflects the way in which groups of financial assets are managed collectively with a view to achieve a given economic objective. The business model is therefore not decided on an instrument by instrument basis, but rather at a higher level of aggregation, by portfolio.

The standard uses three business models:

- a business model whose objective is to hold financial assets in order to receive contractual cash flows ("hold to collect model"). This model, under which the concept of "holding" is relatively similar to holding to maturity, remains valid if disposals occur under the following conditions:
  - the disposals are due to an increase in credit risk;
  - the disposals occur just before maturity and at a price that reflects the contractual cash flows that are still owed;
  - other disposals may also be compatible with the "hold to collect" model's objectives if they are infrequent (even if their value is significant) or if their value is insignificant when considered both individually and overall (even if they are frequent).

For Groupe BPCE, the "hold to collect" model applies to financing activities (excluding the loan syndication activity) carried out by Retail Banking, Corporate & Investment Banking and Specialized Financial Services;

- a mixed-business model under which assets are managed with the objective of both receiving contractual cash flows and disposing of financial assets ("hold to collect and sell model"). Groupe BPCE applies the hold to collect and sell model primarily to the portion of portfolio management activities for securities in the liquidity reserve that is not managed solely under a hold to collect model;
- a model intended for other financial assets, especially those held for trading, for which the collection of contractual cash flows is incidental. This business model applies to the loan syndication activity (for the portion of outstandings to be sold that was identified at the outset) and to the capital market activities carried out primarily by Corporate & Investment Banking.

##### *Types of contractual cash flows: the SPPI (Solely Payments of Principal and Interest) test*

A financial asset is classified as generating solely payments of principal and interest if, on specific dates, it gives rise to cash flows that are solely payments of principal and interest on the outstanding amount due. The SPPI test should be performed for each financial asset on initial recognition.

The principal amount is defined as the financial asset's fair value at its acquisition date. Interest is the consideration for the time value of money and the credit risk incurred on the principal amount, as well as other risks such as liquidity risk, administrative costs and the profit margin.

The instrument's contractual terms must be taken into account to assess whether contractual cash flows are solely payments of principal and interest. All elements that may cast doubts as to whether only the time value of money and credit risk are represented must therefore be analyzed. For example:

- events that would change the amount and date of the cash flows;

Any contractual option that creates risk exposure or cash-flow volatility that is not consistent with a basic lending arrangement, such as exposure to fluctuations in the price of stocks or of a market index, or the introduction of leverage, would make it impossible to categorize contractual cash flows as SPPI.

- the applicable interest rate features (for example, consistency between the rate refixing period and the interest calculation period);

If a clear determination cannot be made through qualitative analysis, a quantitative analysis (a benchmark test) is carried out. This test involves comparing the contractual cash flows for the asset in question with the contractual cash flows of a benchmark asset.

- early redemption and extension conditions.

For the borrower or lender, a contractual option permitting prepayment of financial instruments does not violate the SPPI test for contractual cash flows if the prepayment amount mainly represents the unpaid amounts of principal and interest and, if applicable, a reasonable additional compensation for the early termination of the contract.

If a clear determination cannot be made through qualitative analysis, a quantitative analysis (a benchmark test) is carried out. This test involves comparing the contractual cash flows for the asset in question with the contractual cash flows of a benchmark asset.

Furthermore, although they do not strictly meet the criteria for compensation of the time value of money, certain assets with a regulated rate are considered SPPI if this regulated interest rate provides consideration that corresponds substantially to the passage of time and presents no exposure to a risk that would be inconsistent with a basic lending arrangement. That is the case in particular for financial assets representing the portion of Livret A passbook savings account inflows that is centralized with the CDC's savings fund.

Basic financial assets (those that generate SPPI) are debt instruments such as fixed-rate loans, variable-rate loans without an interest rate tenor mismatch or that are not linked to a security or to a market index, and fixed-rate or variable-rate debt securities.

Non-SPPI financial assets include UCITS units and convertible bonds or mandatory convertible bonds with a fixed conversion ratio.

To qualify as SPPI assets, the securities held in a securitization vehicle must meet specific conditions. The contractual terms of the tranche must meet the SPPI criteria. The pool of underlying assets must meet the SPPI conditions. The risk inherent in the tranche must be lower than or equal to the exposure to the underlying assets of the tranche.

A non-recourse loan (e.g., infrastructure financing-type project financing) is a loan secured only by physical collateral. If there is no possible recourse to the borrower, the structure of other possible recourses or protection mechanisms for the lender in the event of default must be examined in order to categorize these loans as SPPI assets: acquisition of the underlying asset, collateral provided (security deposits, margin call, etc.), enhancements provided.

#### *Accounting categories*

Debt instruments (loans, receivables or debt securities) may be valued at amortized cost, at fair value through other comprehensive income recyclable to income or at fair value through profit and loss.

A debt instrument is valued at amortized cost if it meets the following two conditions:

- the asset is held under a business model where the objective is to collect contractual cash flows; and
- the contractual terms of the financial asset define it as basic (SPPI) within the meaning of the standard.

A debt instrument is valued at fair value through other comprehensive income if it meets the following two conditions:

- the asset is held under a business model where the objective is both to collect contractual cash flows and to sell financial assets; and
- the contractual terms of the financial asset define it as basic (SPPI) within the meaning of the standard.

Equity instruments are, by default, recorded at fair value through profit or loss unless they qualify for an irrevocable option for valuation at fair value through other comprehensive income not recyclable to income (provided they are not held for trading purposes and accordingly classified as financial assets at fair value through profit or loss), without subsequently being reclassified through profit or loss. If opting for the latter category, dividends continue to be recognized in income.

All other financial assets are recorded at fair value through profit or loss. These financial assets include financial assets held for trading purposes, financial assets at fair value through profit or loss and non-basic (non-SPPI) assets. Recognition at fair value through profit or loss as an option for financial assets only applies in the case of the elimination or significant reduction of an accounting mismatch. This option enables the elimination of accounting

mismatches stemming from the application of different valuation rules to instruments managed in accordance with a single strategy.

Embedded derivatives are no longer recognized separately to their host contract when these are financial assets, such that the entire hybrid instrument must now be recognized at fair value through profit or loss.

For financial liabilities, the classification and measurement rules set out in IAS 39 are carried forward to IFRS 9 unchanged, with the exception of those applicable to financial liabilities that the entity chooses to record at fair value through profit or loss (fair value option), for which revaluation adjustments related to changes in own credit risk are recorded under gains and losses recognized directly in equity, without being subsequently reclassified through profit or loss.

The provisions of IAS 39 on the derecognition of financial assets and liabilities remain unchanged in IFRS 9. The amendment to IFRS 9 of October 12, 2017 clarified the treatment under IFRS 9 of modifications of liabilities recognized at amortized cost, if the modification does not result in derecognition: the profit or loss resulting from the difference between the original cash flows and the modified cash flows discounted at the original effective interest rate must be recognized in profit or loss.

### **3.1.2 Financial assets at amortized cost**

Financial assets at amortized cost include loans and receivables due from credit institutions and customers as well as securities at amortized cost such as treasury bills and bonds.

Loans and receivables are initially recorded at fair value plus any costs directly related to their issuance, less any proceeds directly attributable to issuance. On subsequent balance sheet dates, they are measured at amortized cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash flows (payments or receipts) to the carrying amount of the loan at inception. This rate includes any discounts recorded in respect of loans granted at below-market rates, as well as any external transaction income or costs directly related to the issue of the loans, which are treated as an adjustment to the effective yield on the loan. No internal cost is included in the calculation of amortized cost.

When loans are extended under conditions that are less favorable than market conditions, a discount corresponding to the difference between the nominal value of the loan and the sum of future cash flows discounted at the market interest rate is deducted from the nominal value of the loan. The market interest rate is the rate applied by the vast majority of local financial institutions at a given time for instruments and counterparties with similar characteristics.

IFRS 9 requires that modified contracts for financial assets that are renegotiated, restructured or adjusted (whether due to financial hardships or not), but not subsequently derecognized, be identified. Any profit or loss must be recognized as income in the event of modification. The gross carrying amount of the financial asset must be recalculated so that it is equal to the renegotiated or amended present value of contractual cash flows at the original effective interest rate. The materiality of the modifications is, however, analyzed on a case by case basis.

The treatment of loans restructured due to financial hardship is identical to IAS 39: a discount is applied to loans restructured (impaired, Stage 3) following a credit loss event as defined by IFRS 9, to reflect the difference between the present value of the contractual cash flows at inception and the present value of expected principal and interest repayments after restructuring. The discount rate used is the original effective interest rate. This discount is expensed to "Cost of credit risk" in the income statement and offset against the corresponding outstanding on the balance sheet. It is written back to net interest income in the income statement over the life of the loan using an actuarial method. The restructured loan is reclassified as performing (not impaired, Stage 1 or Stage 2) based on expert opinion when no uncertainty remains as to the borrower's capacity to honor the commitment.

External costs consist primarily of commissions paid to business partners.

Income directly attributable to the issuance of new loans principally comprises set-up fees charged to customers, rebilled costs and commitment fees (if it is more probable than improbable that the loan will be drawn down). Commitment fees received that will not result in any drawdowns are apportioned on a straight-line basis over the life of the commitment.

Expenses and income arising on loans with a term of less than one year at inception are deferred on a pro rata basis with no recalculation of the effective interest rate. For floating or adjustable rate loans, the effective interest rate is adjusted at each rate refixing date.

### 3.1.3 Financial assets at fair value through profit or loss

This asset category includes:

- financial assets held for trading, i.e. securities acquired or issued principally for the purpose of selling them in the near term;
- financial assets that the Group has chosen to recognize at fair value through profit or loss at inception using the fair value option available under IFRS 9. The qualifying criteria used when applying this option are described in Note 3.1.7 "Financial assets and liabilities at fair value through profit or loss";
- non-SPPI debt instruments;
- equity instruments measured by default at fair value through profit or loss (which are not held for trading purposes).

These assets are measured at fair value at the date of initial recognition and at each balance sheet date. Changes in fair value over the period, interest, dividends, and gains or losses on disposals on these instruments are recognized in "Net gains or losses on financial instruments at fair value through profit or loss," with the exception of non-SPPI debt financial assets whose interest is recorded in "Interest income."

### 3.1.4 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are initially recognized at fair value, plus any transaction costs.

- Debt instruments measured at fair value through other comprehensive income recyclable to income

On the balance sheet date, they are carried at their fair value and changes in fair value (excluding accrued interest) are recorded under "Gains and losses recognized directly in other comprehensive income recyclable to income" (as the foreign currency assets are money-market assets, changes in the fair value of the foreign currency component affect income). The principles used to determine fair value are described in Note 3.1.9.

These instruments are subject to IFRS 9 impairment requirements. If they are sold, these changes in fair value are taken to income.

Interest income accrued or received on debt instruments is recorded under "Interest and similar income" based on the effective interest rate method.

- Equity instruments measured at fair value through other comprehensive income not recyclable to income

On the balance sheet date, they are carried at their fair value and changes in fair value are recorded under "Gains and losses recognized directly in other comprehensive income not recyclable to income" (as the foreign currency assets are not monetary assets, changes in the fair value of the foreign currency component do not affect income). The principles used to determine fair value are described in Note 3.1.9.

The designation at fair value through other comprehensive income not recyclable to income is an irrevocable option that is applied on an instrument-by-instrument basis only to equity instruments not held for trading purposes. Realized and unrealized impairment losses continue to be recorded in equity with no impact on income. These financial assets are not impaired.

In the event of disposal, these changes in fair value are not transferred to income but directly to retained earnings under equity.

Only dividends affect income when they correspond to a return on investment. They are recorded in "Net gains or losses on financial instruments at fair value through other comprehensive income."

### 3.1.5 Date of recognition

Securities are recorded in the balance sheet on the settlement/delivery date.

Temporary transfers of securities are also recorded on the settlement/delivery date. For repurchase or reverse repurchase transactions, a loan commitment given or received, respectively, is recorded between the transaction date and the settlement/delivery date when such transactions are recorded as "Loans and receivables" or "Liabilities," respectively. When such transactions are recorded under "Assets and liabilities at fair value through profit or loss," the commitment is recorded as an interest rate derivative.

#### **Rules applicable to partial disposals**

The first-in, first-out (FIFO) method is applied to any partial disposals of securities, except in special cases.

### **3.1.6 Debt and equity instruments**

Financial instruments issued by the Group qualify as debt or equity instruments depending on whether or not the issuer has a contractual obligation to deliver cash or another financial asset to the holder of the instrument, or to exchange the instrument under conditions that are potentially unfavorable to the Group. This obligation must arise from specific contractual terms and conditions, not merely economic constraints.

In addition, when an instrument qualifies as equity:

- its remuneration is treated as a dividend, and therefore impacts equity, along with the tax relating to this remuneration;
- it cannot be an underlying eligible for hedge accounting;
- if the issue is in a foreign currency, the instrument is fixed at its historical value resulting from its conversion to euros at its initial date of transfer to equity.

Finally, when these instruments are issued by a subsidiary, they are included in "Non-controlling interests." When their remuneration is of a cumulative nature, it is charged to "Income attributable to equity holders of the parent" and increases the income of "Non-controlling interests." However, when their remuneration is not of a cumulative nature, it is drawn from retained earnings attributable to equity holders of the parent.

#### ***Financial liabilities at fair value through profit or loss***

These are financial liabilities held for trading or classified in this category on a voluntary basis at initial recognition using the fair value option available under IFRS 9. The qualifying criteria used when applying this option are described in Note 3.1.7 "Financial assets and liabilities at fair value through profit or loss."

These liabilities are measured at fair value at the date of initial recognition and at each balance sheet date. Fair-value fluctuations over the period, interest, and gains or losses related to these instruments are booked as "Net gains or losses on financial instruments at fair value through profit or loss," except for fair-value fluctuations attributable to the change in own credit risk for financial liabilities at fair value through profit or loss, which have been booked, since January 1, 2016, in "Revaluation of own credit risk of financial liabilities designated at fair value through profit or loss" within "Gains and losses recognized directly in equity." If the liability is derecognized before its maturity (early redemption, for example), fair value gains or losses attributable to own credit risk are directly transferred to retained earnings under equity.

#### ***Debt securities***

Issues of debt securities (which are not classified as financial liabilities at fair value through profit or loss or as equity) are initially recognized at fair value less any transaction costs. They are subsequently measured at amortized cost at each balance sheet date using the effective interest method.

These instruments are recognized on the balance sheet under "Amounts due to credit institutions", "Amounts due to customers" or "Debt securities".

#### ***Subordinated debt***

Subordinated debt differs from other debt and bonds in that it will be repaid only after all the senior and unsecured creditors, but before the repayment of participating loans and securities and deeply subordinated notes.

Subordinated debt which the issuer is obliged to repay is classified as debt and initially recognized at fair value less any transaction costs. It is subsequently measured at amortized cost at each balance sheet date using the effective interest method.

#### ***Cooperative shares***

IFRIC 2 "Cooperative shares in cooperative entities and similar instruments" clarifies the provisions of IAS 32. In particular, the contractual right of the holder of a financial instrument (including cooperative shares in cooperative entities) to request redemption does not, in itself, automatically give rise to an obligation for the issuer. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a debt or equity.

Based on this interpretation, cooperative shares are classified as equity if the entity has an unconditional right to refuse redemption of the cooperative shares or if local laws, regulations or the entity's bylaws unconditionally prohibit or curtail the redemption of cooperative shares.

Based on the existing provisions of the Group's bylaws relating to minimum capital requirements, cooperative shares issued by the Group are classified as equity.

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

IFRS 9 allows entities to designate financial assets and liabilities on initial recognition at fair value through profit or loss. However, an entity's decision to do so may not be reversed.

Compliance with the criteria stipulated by the standard must be verified prior to any recognition of an instrument using the fair value option.

In practice, this option may be applied only under the specific circumstances described below:

***Elimination of or significant reduction in an accounting mismatch (Financial assets and liabilities)***

Applying the option enables the elimination of accounting mismatches stemming from the application of different valuation rules to instruments managed in accordance with a single strategy.

***Harmonization of accounting treatment for performance management and measurement (Financial liabilities only)***

The option applies for liabilities managed and measured at fair value, provided that such management is based on a formally documented risk management policy or investment strategy, and that internal monitoring also relies on a fair value measurement.

This circumstance mainly arises in connection with Natixis' capital market activities.

***Hybrid financial instruments containing one or more embedded derivatives (Financial liabilities only)***

An embedded derivative is a component of a financial or non-financial hybrid (combined) instrument that qualifies as a derivative. It must be separated from the host contract and accounted for as a derivative if the hybrid instrument is not measured at fair value through profit or loss, and if the economic characteristics and risks associated with the derivative are not closely related to those of the host contract.

The fair value option may be applied to a financial liability when the embedded derivative(s) substantially modify the cash flows of the host contract and when the separate recognition of the embedded derivative(s) is not specifically prohibited by IFRS 9 (e.g. an early redemption option at cost embedded in a debt instrument). The option allows the entire instrument to be measured at fair value, and therefore avoids the need to extract, recognize or separately measure the embedded derivative.

This accounting treatment applies in particular to some structured debt issues containing material embedded derivatives.

### **3.1.8 Derivative financial instruments and hedge accounting**

A derivative is a financial instrument or other contract with all three of the following characteristics:

- its value changes in response to the change in a specific interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, this variable may not be specific to one of the parties to the contract;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

All derivative financial instruments are recognized on the balance sheet at the trade date and measured at fair value at inception. They are remeasured at their fair value at each balance sheet date regardless of whether they were acquired for trading or hedging purposes.

Changes in the fair value of derivatives are recognized in income for the period, except for derivatives qualifying as cash flow hedges for accounting purposes or as net investment hedges in a foreign currency.

Derivative financial instruments are classified into the following two categories:

***Trading derivatives***

Trading derivatives are recognized on the balance sheet under "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss." Realized and unrealized gains and losses are taken to income on the "Net gains or losses on financial instruments at fair value through profit or loss" line.

***Hedging derivatives***

The hedging relationship qualifies for hedge accounting if, at the inception of the hedge, there is formal documentation of the hedging relationship identifying the hedging strategy, the type of risk hedged, the designation and characteristics of the hedged item and the hedging instrument. In addition, the effectiveness of the hedge must be demonstrated at inception and subsequently verified.

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

As indicated above, Groupe BPCE used the option available in IFRS 9 not to apply the provisions of the standard relative to hedge accounting, and to continue to apply IAS 39 for the recognition of these transactions, as adopted by the European Union, i.e., excluding certain provisions relating to macro-hedging.

## **FAIR VALUE HEDGES**

Fair value hedges are intended to reduce exposure to changes in the fair value of an asset or liability carried on the balance sheet, or a firm commitment, in particular the interest rate risk on fixed-rate assets and liabilities.

The gain or loss on the revaluation of hedging instruments is recognized in income in the same manner as the gain or loss on the hedged item attributable to the risk being hedged. The ineffective portion of the hedge, if any, is recorded in the income statement under "Net gains or losses on financial instruments at fair value through profit or loss."

Accrued interest on the hedging instrument is taken to income in the same manner as the accrued interest on the hedged item.

Where identified assets or liabilities are hedged, the revaluation of the hedged component is recognized on the same line of the balance sheet as the hedged item.

The ineffective portion relating to the dual-curve valuation of collateralized derivatives is taken into account when calculating the effectiveness of a hedge.

If a hedging relationship ceases (investment decision, failure to fulfill effectiveness criteria, or because the hedged item is sold before maturity), the hedging instrument is transferred to the trading book. The revaluation difference recorded in the balance sheet in respect of the hedged item is amortized over the residual life of the initial hedge. If the hedged item is sold before maturity or redeemed early, the cumulative amount of the revaluation gain or loss is recognized in income for the period.

## **CASH FLOW HEDGES**

The purpose of cash flow hedges is to hedge the exposure to the variability of cash flow that is attributable to a particular risk associated with a recognized asset or liability or with a future transaction (hedge of interest rate risk on floating-rate assets or liabilities, hedge of conditions relating to future transactions such as future fixed interest rates, future prices, exchange rates, etc.).

The portion of the gain or loss on the hedging instrument that is deemed to be an effective hedge is recognized on a separate line of "Gains and losses recognized directly in equity." The ineffective portion of the gain or loss on the hedging instrument is recorded in the income statement under "Net gains or losses on financial instruments at fair value through profit or loss."

Accrued interest on the hedging instrument is taken to income under interest income in the same manner as the accrued interest on the hedged item.

The hedged items are accounted for using the treatment applicable to their specific asset category.

If a hedging relationship ceases (because the hedge no longer meets the effectiveness criteria, the derivative is sold or the hedged item ceases to exist), the cumulative amounts recognized in equity are transferred to the income statement as and when the hedged item impacts profit or loss, or immediately if the hedged item ceases to exist.

## **SPECIFIC CASES OF PORTFOLIO HEDGING (MACRO-HEDGING)**

### ***Documentation as cash flow hedges***

Some Group institutions document their macro-hedges on cash flows (hedging of portfolios of loans or borrowings).

In this case, portfolios of assets or liabilities that may be hedged are, for each maturity band:

- floating-rate assets and liabilities; the entity incurs a risk of variability in future cash flows from floating-rate assets or liabilities insofar as future interest rate levels are not known in advance;
- future transactions deemed to be highly probable (forecasts): assuming total outstandings remain constant, the entity is exposed to the risk of variability in future cash flows on future fixed-rate loans insofar as the interest rate at which the loan will be granted is not yet known. Similarly, the Group may be exposed to the risk of variability in future cash flows on the funding that it will need to raise in the market.

Under IAS 39, hedges of an overall net position of fixed rate assets and fixed rate liabilities with similar maturities do not qualify for hedge accounting. The hedged item is therefore deemed to be equivalent to a share of one or more portfolios of identified variable-rate instruments (portion of deposit outstandings or variable-rate loans); the effectiveness of the hedges is measured by creating a mortgage instrument for each maturity band and comparing its changes in fair value from inception to those for the documented hedging derivatives.

The characteristics of this instrument model those of the hedged item. Effectiveness is then assessed by comparing the changes in value of the hypothetical instrument with the actual hedging instrument. This method requires the preparation of a maturity schedule.

The effectiveness of the hedge must be shown prospectively and retrospectively.

The hedge is effective prospectively if, for each target maturity band, the nominal amount of items to be hedged is higher than the notional amount of the hedging instruments.

The retrospective test calculates the retrospective effectiveness of a hedge initiated at various balance sheet dates.



At each balance sheet date, changes in the fair value of hedging instruments, excluding accrued interest, are compared with those of hypothetical instruments. The ratio of their respective changes should be between 80% and 125%.

If the hedged item is sold or the future transaction is no longer highly probable, the cumulative unrealized gain or loss recognized in equity is transferred immediately to income.

When the hedging relationship ceases, if the hedged item is still shown on the balance sheet, or if it is still highly probable, unrealized cumulative gains and losses are recognized in equity on a straight-line basis. If the derivative has not been canceled, it is reclassified as a trading derivative, and changes in its fair value are recognized in income.

#### **Documentation as fair value hedges**

Some of the Group's institutions document their macro-hedging of interest rate risk as fair value hedges by applying the so-called carve-out arrangements under IAS 39 as adopted by the European Union.

The version of IAS 39 adopted for use by the European Union does not include certain hedge accounting provisions that appear incompatible with the strategies implemented by European banks to reduce their overall exposure to interest rate risk. In particular, this "carve-out" allows the Group to make use of hedge accounting for interbank interest rate risk on customer transactions at fixed rates (loans, savings accounts and demand deposits). The Group mainly uses plain vanilla interest rate swaps designated at inception as fair value hedges of fixed-rate deposits or loans.

Macro-hedging derivatives are accounted for in the same manner as derivatives used to hedge the fair value of specific transactions (micro-hedging).

In a macro-hedging relationship, gains and losses on the revaluation of the hedged item are recorded in "Revaluation differences on interest rate risk-hedged portfolios," under balance sheet assets for hedges of a portfolio of financial assets and under balance sheet liabilities for hedges of a portfolio of financial liabilities.

The hedges are deemed effective if the derivatives offset the interest rate risk on the underlying fixed-rate portfolio. The ineffective portion relating to the dual-curve valuation of collateralized derivatives is taken into account.

Effectiveness is tested in two ways:

- asset-based testing: for plain vanilla swaps designated as hedging instruments at inception, the Group verifies prospectively at the date the hedging relationship is designated and retrospectively at each balance sheet date that no over-hedging exists;
- quantitative testing: for other swaps, the change in the fair value of the actual swap must offset the changes in the fair value of a hypothetical instrument that exactly reflects the underlying hedged item. These tests are conducted prospectively at the date the instrument is designated as a hedge and retrospectively at each balance sheet date.

If a hedging relationship ceases, the revaluation adjustment is amortized on a straight-line basis over the remaining term of the initial hedge, if the hedged item has not been derecognized. It is taken directly to income if the hedged item is no longer recorded in the balance sheet. In particular, derivatives used for macro-hedging may be disqualified for hedge accounting purposes when the notional amount of the hedged items falls below the nominal amount of the hedging instruments, for example in the case of the prepayment of loans or the withdrawal of deposits.

#### **NET INVESTMENT HEDGE IN A FOREIGN CURRENCY**

The net investment in a foreign operation is the amount of the investment held by the consolidating entity in the net assets of the operation.

The purpose of a net investment hedge in a foreign currency is to minimize the foreign exchange effect for a consolidating entity of an investment in an entity whose functional currency is different from the presentation currency of the consolidating entity's financial statements. Net investment hedges are accounted for in the same manner as cash flow hedges.

Unrealized gains and losses initially recognized in equity are taken to income when the net investment is sold in full or in part (or when partially sold with loss of control).

### **3.1.9 Determination of fair value**

#### **General principles**

The fair value of an instrument is the price that would be received to sell an asset or paid to transfer a liability in a standard arm's length transaction between market participants at the measurement date.

Fair value is therefore determined using the exit price.

On first recognition, fair value is usually the transaction price and is thus the price paid to purchase the asset or the price received to assume the liability.

In subsequent measurements, the estimated fair value of assets and liabilities must be based primarily on observable market data, while ensuring that all inputs used in the fair value calculation are consistent with the price that market participants would use in a transaction.

In this case, fair value consists of a mid-market price and additional valuation adjustments determined according to the instruments in question and the associated risks.

The mid-market price is obtained based on:

- the instrument's quoted price, if the instrument is quoted on an active market. A financial instrument is regarded as quoted on an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and these prices represent actual and regularly occurring transactions on the principal market or, failing that, on the most favorable market, on an arm's length basis;
- if the market for a financial instrument is not active, fair value is established using valuation techniques. The techniques used must maximize the use of relevant observable entry data and minimize the use of non-observable entry data. They may refer to observable data from recent transactions, the fair value of similar instruments, discounted cash flow analysis and option pricing models, proprietary models in the case of hybrid instruments or non-observable data when no pricing or market data are available.

Additional valuation adjustments include factors related to valuation uncertainties, such as market, credit and liquidity risks, in order to recognize the costs incurred by a divestment transaction on the primary market. Likewise, an adjustment (Funding Valuation Adjustment – FVA) for using assumptions to recognize costs related to the financing of future cash flows of uncollateralized or partially collateralized derivatives is also recorded.

The main additional adjustments are as follows:

#### **BID/ASK ADJUSTMENT – LIQUIDITY RISK**

This adjustment is the difference between the bid price and the ask price corresponding with the selling costs. It reflects the cost requested by a market player in respect of the risk of acquiring a position or of selling at a price proposed by another market player.

#### **MODEL UNCERTAINTY ADJUSTMENT**

This adjustment takes into account imperfections in the valuation techniques used, and in particular risk factors not considered even though observable market inputs are available. This is the case when the risks inherent in the instruments differ from those incurred by the observable market data used to determine their valuation.

#### **INPUT UNCERTAINTY ADJUSTMENT**

Observing certain prices or inputs used in valuation techniques may be difficult or the price or input may be too regularly unavailable to determine the selling price. Under these circumstances, an adjustment may be necessary to reflect the probability that market participants might adopt different values for the same inputs when evaluating the financial instrument's fair value.

#### **CREDIT VALUATION ADJUSTMENT (CVA)**

This adjustment applies to valuations that do not account for the counterparty's credit quality. It corresponds to the risk of loss linked to the risk of default by a counterparty and aims to take into account the fact that the Group may not recover the full market value of the transactions.

The method for determining the CVA is primarily based on the use of market inputs in connection with professional market practices, for all segments of counterparties subject to this calculation. In the absence of liquid market inputs, proxies by type of counterparty, rating and geographic area are used.

#### **DEBIT VALUATION ADJUSTMENT (DVA) AND FUNDING VALUATION ADJUSTMENT (FVA)**

The DVA is symmetrical to the CVA and represents the risk of loss, from the counterparty's perspective, on liability valuations of financial instruments. It reflects the impact of the Group's credit quality on the valuation of these instruments. The DVA is assessed by observing the Group's "credit" market input. At Natixis, the main contributor for

the Group, this involves the observation of the credit spreads of a sample of comparable banking institutions, taking into account the liquidity of the spread on Natixis' CDS during the period. The DVA adjustment is established after taking into account the funding valuation adjustment (FVA).

The following criteria are used to determine whether or not a market is active:

- the level of activity and trend of the market (including the level of activity on the primary market);
- the length of historical data on prices observed in similar market transactions;
- scarcity of prices recovered by a service provider;
- sharp bid-ask price spread;
- steep price volatility over time or between different market participants.

#### **NATIXIS' CONTROL SYSTEM (NATIXIS IS THE MAIN CONTRIBUTOR TO THE GROUP'S BALANCE SHEET ITEMS MEASURED AT FAIR VALUE)**

The calculation of fair value is subject to control procedures aimed at verifying that fair values are determined or validated by an independent function.

Fair values determined by reference to external quoted prices or market inputs are validated by an independent unit (the Market Data Control department). Second-level controls are carried out by the Risk department.

On less liquid markets, other market information, primarily observable data, is used to validate the fair value of instruments.

The factors taken into account include the following:

- the origin of the external source (stock market pages, content contribution services, etc.);
- the consistency of the various sources;
- the frequency of data feeds;
- the representative nature of inputs based on recent market transactions.

For fair values determined using valuation models, the control system consists of the independent validation of model construction and of the inputs included in these models.

This is carried out under the responsibility of the Risk department.

It involves verifying that the model is consistent with and relevant to its intended function (price setting, valuation, coverage, measurement and control of risk) and the product to which it applies, based on:

- a theoretical approach: the financial and mathematical foundations of the model;
- the application of the model: the pricing models used to generate risk and earnings data;
- the stability of the model under parametric stress;
- an assessment of the stability and consistency of the numerical methods used;
- the independent re-implementation of the model as part of algorithm validation;
- the comparative analysis of the calibration of model inputs;
- an assessment of the modeling risk, particularly the comparative analysis of the model with other valuation models, in order to ensure the adequacy of the model and the payoff (the formula of positive or negative flows attached to the product at maturity);
- the implementation of an adjustment in respect of modeling risk to account for potential deficiencies in the model or its calibration;
- the incorporation of the model into information systems.

The methods for determining fair value are monitored by a number of bodies including the Inputs and Observability Committee, the Valuation Committee, the Impairment Committee and the Model Validation Committee, which comprise representatives of the Risk Department, the Finance Department and the Market Data Monitoring and Valuation Department.

#### ***Fair value hierarchy***

For financial reporting purposes, IFRS 13 requires fair value measurements applied to financial and non-financial instruments to be allocated to one of three fair value levels:

##### **LEVEL 1: VALUATION USING PRICES QUOTED ON A LIQUID MARKET**

Level 1 comprises instruments whose fair value is determined based on directly usable prices quoted on active markets.

This mainly includes securities listed on a stock exchange or traded continuously on other active markets, derivatives traded on organized markets (futures, options, etc.) whose liquidity can be demonstrated, and units of UCITS for which NAV is determined and reported on a daily basis.

## **LEVEL 2: VALUATION USING OBSERVABLE MARKET INPUTS**

Level 2 fair value comprises instruments other than those mentioned in Level 1 fair value and instruments measured using a valuation technique incorporating inputs that are either directly observable (prices) or indirectly observable (derived from prices) through to maturity. This mainly includes:

### **Simple instruments:**

Most over-the-counter derivatives, swaps, credit derivatives, forward rate agreements, caps, floors and plain vanilla options are traded in active markets, i.e. liquid markets in which trades occur regularly.

These instruments are valued using generally accepted models (discounted cash flow method, Black & Scholes model, interpolation techniques), and on the basis of directly observable inputs.

For these instruments, the extent to which models are used and the observability of inputs has been documented.

Instruments measured using Level 2 inputs also include:

- securities that are less liquid than those classified as Level 1, whose fair value is determined based on external prices put forward by a reasonable number of active market makers and which are regularly observable without necessarily being directly executable (prices mainly taken from contribution and consensus databases); where these criteria are not met, the securities are classified as Level 3 fair value;
- securities not quoted on an active market whose fair value is determined based on observable market data (for example, using market data for listed peers or the earnings multiple method based on techniques widely used in the market);
- Greek sovereign securities, whose fair value is recorded under Level 2 given the wide bid-ask price spread on market prices;
- shares of UCITS whose NAV is not determined and published on a daily basis but is subject to regular reporting or which offer observable data from recent transactions;
- debt securities designated at fair value, mainly by Natixis, and to a lesser extent Crédit Foncier. The methodology used by Natixis to value the "issuer credit risk" component of issues designated at fair value is based on the discounting of future cash flows using inputs such as yield curves and revaluation spread. For each issue, this valuation represents the product of the notional amount outstanding and its sensitivity, taking into account the existence of calls and the difference between the revaluation spread (based on the BPCE cash reoffer curve at June 30, 2018 as for previous closing dates) and the average issue spread. Changes in own credit risk are generally not material for issues with an initial maturity of less than one year.

### **Complex instruments:**

Certain hybrid and/or long-maturity financial instruments are measured using a recognized model on the basis of market inputs derived from observable data such as yield curves, implied volatility layers of options, market consensus data or active over-the-counter markets.

The main models for determining the fair value of these instruments are described below by type of product:

- **Equity products:** complex products are valued using:
  - market data;
  - a payoff, i.e. the formula of positive or negative flows attached to the product at maturity;
  - a model of changes in the underlying asset.

These products can have single or multiple underlyings or be hybrids (fixed income/equity for example).

The main models used for equity products are local volatility models, local volatility combined with Hull & White 1 factor (H&W1F), Tskew and Pskew.

The local volatility model treats volatility as a function of time and the price of the underlying. Its main property is that it considers the implied volatility of the option (derived from market data) relative to its exercise price.

The local volatility hybrid model, paired with the H&W1F, consists of pairing the local volatility model described above with a Hull & White 1 factor type fixed-income model, described below (see fixed-income products).

The Tskew model is a valuation model for mono and multi-underlying options. Its principle is to calibrate the distribution of the underlying asset or assets at maturity to standard option prices.

The Pskew model is similar to the Tskew model. It is used in particular for simple ratchet equity products such as capped or floored ratchet products.

- **Fixed income products:** fixed income products generally have specific characteristics which justify the choice of model. Underlying risk factors associated with the payoff are taken into account.

The main models used to value and manage fixed-income products are Hull & White models (one-factor and two-factor models or one-factor Hull & White stochastic volatility model), the Hunt Kennedy model and the "smiled" BGM model.

The Hull & White models are simple pricing models for plain vanilla fixed-income products and can be calibrated easily. Products valued using these models generally contain a Bermudan-type cancellation option (i.e. one that may be exercised at certain dates set at the beginning of the contract).

SBGM and Hunt Kennedy models are used to value fixed-income products that are sensitive to volatility smiles (i.e. implied change in volatility relative to the exercise price) and to autocorrelation (or correlation between interest rates).

- **Foreign exchange products:** foreign exchange products generally have specific characteristics which justify the choice of model.

The main models used to value and manage foreign-exchange products are local and stochastic volatility models, as well as hybrid models, which combine modeling of the underlying foreign exchange with two Hull & White 1 factor models to ascertain the fixed-income factors.

Inputs relating to all such Level 2 instruments were demonstrated to be observable and documented. From a methodology perspective, observability is based on four inseparable criteria:

- inputs are derived from external sources (primarily a recognized contributor, for example);
- they are updated periodically;
- they are representative of recent transactions;
- their characteristics are identical to the characteristics of the transaction. If necessary, a proxy may be used, provided that the relevance of such an arrangement is demonstrated and documented.

The fair value of instruments obtained using valuation models is adjusted to take account of liquidity risk (bid-ask), counterparty risk, the risk relating to the cost of financing uncollateralized or partially collateralized derivatives, own credit risk (measurement of liability derivative positions), and modeling and input risk.

The margin generated when these instruments begin trading is immediately recognized in income.

### **LEVEL 3: VALUATION USING UNOBSERVABLE MARKET INPUTS**

Level 3 comprises instruments measured using unrecognized models and/or models based on unobservable market data, where they are liable to materially impact the valuation. This mainly includes:

- unlisted shares whose fair value could not be determined using observable inputs;
- private equity securities not listed on an active market, measured at fair value with models commonly used by market participants, in accordance with International Private Equity Valuation (IPEV) standards, but which are sensitive to market fluctuations and whose fair value determination necessarily involves a judgment call;
- structured securities or securities representative of private placements, held by the Insurance business line;
- hybrid interest rate and currency derivatives and credit derivatives that are not classified in Level 2;
- loans in the syndication process for which there is no secondary market price;
- loans in the securitization process for which fair value is determined based on an expert appraisal;
- instruments with a deferred day-one margin;
- units of UCITS for which the fund has not published a recent NAV at the valuation date, or for which there is a lock-up period or any other constraint calling for a significant adjustment to available market prices (NAV, etc.) in respect of the low liquidity observed for such shares;
- instruments carried at fair value on the balance sheet and for which data are no longer available due to a freeze in trading in the wake of the financial crisis. When there is a significant drop in trading in a given market, a valuation model is used based on the only available relevant data.

Plain vanilla derivatives are also classified as Level 3 fair value when exposure is beyond the liquidity horizon determined by underlying currencies or by volatility surface (e.g., certain foreign currency options and volatility caps/floors).

In accordance with the Ministerial Order of February 20, 2007, as amended by the Order of November 23, 2011 on capital requirements for credit institutions and investment companies and pursuant to the European regulation of June 26, 2013 (CRR) on the Basel III requirements, for each of the models used, a description of crisis simulations applied is provided in Chapter 3 "Risk Management."

Under IFRS 9, day-one profit should be recognized only if it is generated by a change in the factors that market participants would consider in setting a price, i.e. only if the model and parameters input into the valuation are observable.

If the selected valuation model is not recognized by current market practices, or if one of the inputs significantly affecting the instrument's valuation is not observable, the trading profit on the trade date cannot be recognized immediately in the income statement. It is taken to income on a straight-line basis over the life of the transaction or until the date the inputs become observable. Any losses incurred at the trade date are immediately recognized in income.

At June 30, 2018, instruments for which the recognition of day-one profit/loss has been deferred mainly included:

- multi-underlying structured equity and index products;
- synthetic loans;
- options on funds (multi-assets and mutual funds);
- structured fixed income products;
- securitization swaps.

These instruments are almost all located at Natixis.

The table below provides the main unobservable inputs and the value ranges for these instruments:

Class of instrument	Main types of products comprising Level 3 within the instrument class	Valuation techniques used	Main unobservable data	Unobservable data ranges among relevant Level 3 products
Credit derivatives	CDOs, Index tranche	Technique for estimating defaults given the correlation effect and recovery modeling	Correlation curve specific to the portfolio underlying the CDO	[5%-95%] (a)
	Private Finance Initiative CDS (other than CDS on securitization assets)	Extrapolation from prices based on recovery assumptions	Recovery rate	[60%-100%]
Interest rate derivatives	Securitization swaps	Discounted expected cash flows based on early redemption assumptions on the underlying portfolio	Early redemption rate	[2%-17%]
	Sticky CMS/Volatility Bond	Interest rate options valuation models	Mean reversion inputs	[1%-5%]
	Callable Spread Options and Corridor Callable Spread Options	Model representing several yield curve factors	Mean reversion spread	[0%-30%]
	Spread Lock Swap and Spread Lock Option	Bivariate standard model to measure the time value of Spread Lock options and replication for CMS and TEC Forwards	Spread Lock curve, TEC Forward volatility and TEC-CMS correlation	Spread Lock: [-25.72 bp, +31.28 bp] TEC Volatility: [12 bp/74 bp] TEC-CMS correlation: [50%, 90%]
	Volatility cap/floor	Black & Scholes model	Interest rate vol. for currencies absent from Totem or long maturities	Interest rate vol.: [4.82% to 101.36%]
Currency derivatives	European barrier call option, Asian call option, Vanilla digital call option, Vanilla European call option	Skew Model, Local volatility model, Black & Scholes	Interest rate vol. for current pairs absent from Totem or long maturities	ATM vol.: [0.61% to 24%]
Repos and general collateral TRS	TRS and repos indexed to a basket of general equities	Synthetic modeling of underlying general basket (with repo to estimate) and actuarial valuation for TRS or using a standard equity/interest rate hybrid model for the TRS auto call	Repo curve of general baskets	General collateral repo: [-0.78% to 1.5%]
Helvetix derivatives	Strips of long-term options, Strips of quanto options, Strips of digital options	Black & Scholes model	Currency/currency correlation	EUR/CHF correlation: [29%; 41%] Long-term volatility: [4.7%; 9.5%] USD/CHF correlation: [-76%; -68%]
	Options spread and Digital options spread	Gaussian copula	USD/CHF & EUR/CHF long-term volatility	Long-term volatility: [3.8%-11.8%]
Fund-based derivatives	Payoffs as Target Volatility strategy and CPPI on Mutual Funds	The approach used is a hybrid model that combines the local volatility-type multi-underlying equity model with a one-factor Heath-Jarrow-Morton (HJM1F) interest rate model	Fund data	Fund correlation - Interest rates: [0% to 25%]
Hybrid interest rate/currency derivatives	Long-term PRDC/PRDK/TARN structures	Hybrid currency/interest rate options valuation model	Correlation between currency and interest rates and long-term volatility levels	AUD/JPY and USD/JPY correlation: [15%-50%] Long-term volatility: [7%-16%]
Hybrid equity/interest rate/forex derivatives	Long-dated callable range accrual notes (15Y) on several asset classes	Hybrid models coupled with equity, forex and interest rate diffusion	Correlation inputs (equity-forex, equity-interest rates, interest rates-forex)	EQ/FX= [-21.51%; 51%] EQ/IR= [27%; 41%] FX/IR= [19%; 35%]
Hybrid interest rate/credit derivatives	Long-dated interest rate and credit callable range accrual notes (15Y) (default event)	Hybrid models coupled with interest rate diffusion and credit diffusion	Correlation inputs (interest rate-credit and volatility-credit)	Interest rate/Credit correlation: [-15%; 3%] Credit vol: Structured by maturity ([2Y, 77.5%], [5Y, 44%], [10Y, 36%])
Equity derivatives	Long maturity multi-underlying payoffs	Volatility options valuation model incorporating correlation between assets	Correlation inputs	Stock/stock correlation: [14.18 to 92.39]

### Policy concerning fair value hierarchy transfers

Transfers between fair value levels are reviewed and validated by ad hoc committees at Natixis comprising representatives of various functions, particularly Finance, Risk and Business Lines. The committee considers various indicators of market activity and liquidity as described in the General Principles.

A review is undertaken for any instrument that ceases to meet these criteria or once again complies with the criteria. Transfers to and from Level 3 are subject to prior validation.

At December 31, 2017, in accordance with this procedure, certain foreign currency options, along with volatility caps/floors, were transferred to Level 3 of the fair value hierarchy depending in their liquidity horizons, determined by underlying currencies (see Note 4.3.3).

### ***Instruments affected by the financial crisis***

Instruments affected by the financial crisis and carried at fair value on the balance sheet are essentially held by Natixis, which calculates their fair value using the models described below:

#### **CDS CONTRACTED WITH CREDIT ENHANCERS (MONOLINE INSURERS AND CDPCS)**

Since December 31, 2015 the valuation model used to measure write-downs on CDS contracted with monoline insurers has been similar to the Credit Valuation Adjustment (CVA) used for counterparty risk. It also takes into account the expected amortization of exposures and the counterparty spread implicit in market data.

#### **OTHER INSTRUMENTS NOT EXPOSED TO US HOUSING RISK MEASURED BY NATIXIS USING A VALUATION MODEL**

The section below describes the underlying principles used to value assets resulting from securitization transactions for which no market prices could be identified and which were therefore measured using valuation models:

##### ***Trust Preferred Securities (TruPS) CDOs***

The valuation model is based on projected future cash flows and default rates determined according to a statistical approach that deduces the default probability of banks according to their financial ratios. For other sectors, default rates are estimated considering the current ratings of assets.

##### ***Private Finance Initiative CDS (PFI CDS)***

The valuation model used for Private Finance Initiative (PFI) CDS is based on an approach calibrated to the market prices of underlying PFI bonds and the use of a uniform collection rate.

### **3.1.10 Impairment or provision for expected credit losses on financial instruments**

#### ***Impairment of assets at amortized cost and at fair value through other comprehensive income, and provisioning of loan and guarantee commitments***

Debt instruments classified as financial assets at amortized cost or at fair value through other comprehensive income, loan commitments and financial guarantee contracts that are not recognized at fair value through profit or loss, as well as lease receivables, are impaired or covered by a provision for expected credit losses (ECL) as of the date of initial recognition.

For financial instruments which have not been individually subject to objective evidence of loss, impairments or provisions for expected credit losses are recorded based on observed past losses but also on reasonable and justifiable discounted future cash flow forecasts. These financial instruments are divided into three categories depending on the increase in credit risk observed since their initial recognition. An impairment or a provision is recognized on outstanding amounts in each category, as follows:

##### Stage 1 (S1)

- these are performing loans for which credit risk has not increased materially since the initial recognition of the financial instrument;
- the impairment or the provision for credit risk corresponds to 12-month expected credit losses;
- interest income is recognized through profit or loss based on the effective interest rate method applied to the gross carrying amount of the instrument before impairment.

##### Stage 2 (S2)

- performing loans for which credit risk has increased materially since the initial recognition of the financial instrument are transferred to this category;
- the impairment or the provision for credit risk is determined on the basis of the financial instrument's lifetime expected credit losses;
- interest income is recognized through profit or loss based on the effective interest rate method applied to the gross carrying amount of the instrument before impairment.

##### Stage 3 (S3)

- non-performing loans within the meaning of IFRS 9 are transferred to this category. These are loans for which there is objective evidence of impairment loss due to an event which represents a credit risk occurring after the initial recognition of the instrument in question. This category covers, as was the case under IAS 39, receivables for which an event of default has been identified as defined in Article 178 of the EU regulation of June 26, 2013 on prudential requirements for credit institutions;
- the impairment or the provision for credit risk is calculated based on the financial instrument's lifetime expected credit losses on the basis of the recoverable amount of the receivable, i.e., the present value of estimated recoverable future cash flows taking into account the impact of any collateral;



- interest income is recognized through profit or loss based on the effective interest rate method applied to the net carrying amount of the instrument after impairment.

The standard also makes a distinction between purchased or originated credit-impaired (POCI) financial instruments, which correspond to financial assets purchased or created and already impaired for credit risk at their initial recognition and for which the entity does not expect to recover all of the contractual cash flows at the date of initial recognition. On initial recognition, the effective interest rate must be adjusted based on credit quality: estimated recoverable cash flows take expected credit losses into account. These recoverable cash flows will be re-estimated by the entity at each reporting date. Any change relative to the level of recoverable cash flows estimated on the initial recognition date will result in the recognition of an impairment charge or reversal in income and will not affect the effective interest rate. These assets will be categorized as Stage 3 on initial recognition, with the option of being transferred to Stage 2 if their credit risk improves.

For operating lease or lease financing receivables – which fall within the scope of IAS 17 – that are not impaired, the group has decided not to make use of the option of applying the simplified approach proposed by IFRS 9 §5.5.15 which involves measuring lifetime expected credit losses so as to not have to identify the significant increase in credit risk since initial recognition.

The principles for measuring the increase in credit risk and expected credit losses applicable to most of the Group's exposures are described below. Only BPCE International and a few Group institution portfolios – representing a limited volume of exposures – cannot be treated according to the methods described below and are subject to appropriate valuation techniques.

Other than these few exceptions, the significant increase in credit risk is valued on an individual basis by taking into account all reasonable and justifiable information and by comparing the default risk on the financial instrument at the end of the fiscal year with the default risk on the financial instrument at the date of its initial recognition. A counterparty-based approach (applying the contagion principle to all loans to the counterparty in question) will also be possible if it gives similar results. The measurement of the increase in the risk should, in most cases, lead to the recognition of an increase in Stage 2 before the transaction is individually impaired (Stage 3).

More specifically, the change in credit risk is measured on the basis of the following criteria:

- Individual Customer, Professional Customer, SME, Public Sector and Social Housing loan books: the measurement of the increase in credit risk relies on a combination of quantitative and qualitative criteria. The quantitative criterion is based on the measurement of the change in the probability of default within one year since initial recognition (probability of default measured as a cycle average). Complementary qualitative criteria are used to classify as Stage 2 all contracts with payments more than 30 days past due, rated at-risk, included on a watch list or undergoing adjustments due to financial hardship (forbearance);
- For the Large Corporates, Banks and Sovereigns loan books, the quantitative criterion is based on the level of variation in the rating since initial recognition. The same qualitative criteria as for Individual Customers, Professional Customers and SMEs apply, as do complementary criteria based on the change in sector rating and the level of country risk;
- For Specialized Financing, the criteria applied vary according to the characteristics of the exposures and the related ratings system: exposures rated by the tool dedicated to large exposures will be treated in the same way as Large Corporates; other exposures will be treated in the same way as SMEs.

For all these loan books, the ratings on which the measurement of the increase in risk relies correspond to the ratings produced by internal systems when they are available, as well as on external ratings, particularly when an internal rating is not available.

The standard provides that the credit risk of a financial instrument has not increased materially since its initial recognition if this risk is considered to be low at the end of the fiscal year. This provision is applied to certain investment-grade debt securities held by Corporate & Investment Banking.

Financial assets where there is objective evidence of impairment loss due to an event which represents a known counterparty risk and which occurs after their initial recognition are considered as impaired and are classified as Stage 3. Identification criteria for impaired assets are similar to those under IAS 39 and are aligned with the default criterion in prudential terms.

Accordingly, loans and receivables are considered as impaired and are classified as Stage 3 if the following two conditions are met:

- there is objective evidence of impairment on an individual or portfolio basis: there are “triggering events” or “loss events” identifying counterparty risk occurring after the initial recognition of the loans in question. On an individual basis, probable credit risk arises from default events defined in Article 178 of European regulation 575-2013 dated June 26, 2013 on prudential requirements for credit institutions. Objective evidence of impairment includes any payments that are past due by at least three months, or regardless of whether any payment has been missed, the observation of financial hardship experienced by the counterparty leading to the expectation that some or all of the amounts owed may not be recovered or to the initiation of legal proceedings;
- these events are liable to lead to the recognition of incurred credit losses, that is, expected credit losses for which the probability of occurrence has become certain.

Debt instruments such as bonds or securitized transactions (ABS, CMBS, RMBS, cash CDOs) are considered impaired and are classified as Stage 3 when there is a known counterparty risk.

The Group uses the same impairment indicators for Stage 3 debt securities as those used for individually assessing the impairment risk on loans and receivables, irrespective of the portfolio to which the debt securities are ultimately designated. For perpetual deeply subordinated notes that meet the definition of financial liabilities within the meaning of IAS 32, particular attention is also paid if, under certain conditions, the issuer may be unable to pay the coupon or extend the issue beyond the scheduled redemption date.

Impairments for expected credit losses on Stage 3 financial assets are determined as the difference between the amortized cost and the recoverable amount of the receivable, i.e., the present value of estimated recoverable future cash flows, whether these cash flows come from the counterparty's activity or from the potential activation of guarantees. For short-term assets (maturity of less than one year), there is no discounting of future cash flows. Impairment is determined globally, without distinguishing between interest and principal. Expected credit losses arising from Stage 3 off-balance sheet commitments are taken into account through provisions recognized on the liability side of the balance sheet. Specific impairment is calculated for each receivable on the basis of the maturity schedules determined based on historic recoveries for each category of receivable.

For the purposes of measuring expected credit losses, pledged assets and other credit enhancements that form an integral part of the contractual conditions of the instrument and that the entity does not recognize separately are taken into account in the estimate of expected cash flow shortfalls.

Expected credit losses on financial instruments classified as Stage 1 or Stage 2 are measured as the product of several inputs:

- Flows expected over the lifetime of the financial instrument, discounted on the valuation date - these flows are determined according to the characteristics of the contract, its effective interest rate and the level of early repayment expected on the contract;
- Loss given default (LGD);
- Probabilities of default (PDs), for the coming year in the case of Stage 1 financial instruments and until the contract's maturity in the case of Stage 2 financial instruments.

The Group draws on existing concepts and mechanisms to define these inputs, and in particular on internal models developed to calculate regulatory capital requirements and on projection models used in the stress test system. Certain adjustments are made to comply with the specifics of IFRS 9:

- IFRS 9 parameters therefore aim to provide an accurate estimate of expected credit losses for accounting provision purposes, whereas prudential parameters are more cautious for regulatory framework purposes. Several of the safety buffers applied to the prudential parameters are therefore restated;
- IFRS 9 parameters must allow expected credit losses to be estimated until the contract's maturity, whereas prudential parameters are defined to estimate 12-month expected losses. Twelve-month parameters are thus projected over long periods;
- IFRS 9 parameters must be forward-looking and take into account the expected economic environment over the projection period, whereas prudential parameters correspond to the cycle's average estimates (for PD) or bottom-of-the-cycle estimates (for LGD and the flows expected over the lifetime of the financial instrument). The PD and LGD prudential parameters are therefore also adjusted based on this expected economic environment.

Parameters are adjusted to economic conditions by defining three economic scenarios over a three-year period. The variables defined in each of these scenarios allow for the distortion of the PD and LGD parameters and the calculation of an expected credit loss for each economic scenario. Parameters for periods longer than three years are projected on the principle of a gradual return to their long-term average. The models used to distort the PD and LGD parameters rely on those developed as part of the stress test system for the purpose of ensuring consistency. These economic scenarios are associated with probabilities of occurrence, ultimately making it possible to calculate an average probable loss used as the IFRS 9 impairment amount.

These scenarios are defined using the same organization and governance as that defined for the budget process, requiring an annual review based on proposals from the economic research department and approval by the Executive Management Committee. To ensure consistency with the budget scenario, the central scenario corresponds to the budget scenario. Two variants – an optimistic view and a pessimistic view – are also developed around this scenario. The likelihood that the scenarios will occur is reviewed on a quarterly basis by the Group's Watch List and Provisions Committee. The parameters thus defined allow expected credit losses for all rated exposures to be valued, regardless of whether they belong to a scope approved using an internal method or they are processed using the standard method for the calculation of risk-weighted assets. Conservative default rules are applied to unrated exposures (the stakes are not material for the Group). These rules involve assigning the highest rating on the internal scale in the absence of a rating on approval and the lowest rating on the scale before the at-risk stage in the absence of a rating to date.

The mechanism for validating IFRS 9 parameters is fully integrated in the validation mechanism for existing models within the Group. The validation of parameters follows a review process by the independent internal validation of models unit, the review of this work by the Group model committee and monitoring of recommendations issued by the validation unit.

Collective provisions may be defined by the different Group institutions, corresponding to "sector" provisions. Group entities are therefore responsible for assessing the consistency of provisions determined for the Group with the local and sector characteristics of their portfolio and for defining additional sector provisions if necessary. The few portfolios not covered by the methodologies described below (not material at the Group level) may also result in collective measurements.

For debt instruments recognized on the balance sheet in the financial assets at amortized cost category, impairments are recorded against the line on which the asset was initially shown for its net amount (regardless of whether the asset is S1, S2 or S3). Impairment charges and reversals are recognized in the income statement under "Cost of credit risk."

For debt instruments recognized on the balance sheet in the financial assets at fair value through other comprehensive income category, impairments are carried on the liabilities side of the balance sheet at the other comprehensive income recyclable to income level, with a corresponding entry on the income statement under "Cost of credit risk" (regardless of whether the asset is S1, S2 or S3).

For loan and financial guarantee commitments given, provisions are recorded on the liabilities side of the balance sheet under "Provisions" (irrespective of whether the commitment given is S1, S2 or S3). Additions to/reversals from provisions are recognized in the income statement under "Cost of credit risk."

### **3.1.11 Reclassification of financial assets**

Fewer financial assets are reclassified under IFRS 9 than under IAS 39. It is therefore no longer possible to reclassify a security at amortized cost just because of market illiquidity. A reclassification is possible only if management has made a strategic decision to change the business model. Such cases are therefore very limited (e.g., sale of a business division resulting in the transfer of the relevant assets to the workout portfolio, business restructuring, etc.).

In that case, the reclassification is forward-looking and does not entail any reclassification that would affect prior periods.

### **3.1.12 Derecognition of financial assets and liabilities**

A financial asset (or group of similar financial assets) is derecognized when the contractual rights to the asset's future cash flows have expired or when such rights are transferred to a third party, together with virtually all of the risks and rewards associated with ownership of the asset. In such case, rights and obligations created or retained as a result of the transfer are recorded in a separate line under financial assets and liabilities.

When a financial asset is derecognized, a gain or loss on disposal is recorded in the income statement reflecting the difference between the carrying amount of the asset and the consideration received.

In the event that the Group has neither transferred nor retained virtually all of the risks and rewards, but has retained control of the asset, the asset continues to be recognized on the balance sheet to the extent of the Group's continuing involvement.

In the event that the Group has neither transferred nor retained virtually all of the risks and rewards and has not retained control of the asset, the asset is derecognized and all of the rights and obligations created or retained as a result of the transfer are recorded in a separate line under financial assets and liabilities.

If all the conditions for derecognizing a financial asset are not met, the Group keeps the asset in the balance sheet and records a liability representing the obligations arising when the asset is transferred.

The Group derecognizes a financial liability (or a part of a financial liability) only when it is extinguished, i.e. when the obligation specified in the contract is discharged, terminated or expires.

### ***Repurchase agreements***

Securities sold under repurchase agreements are not derecognized in the vendor's accounts. A liability representing the commitment to return the funds received is identified and recognized under "Securities sold under repurchase agreements". This debt is a financial liability recorded at amortized cost or at fair value through profit or loss when this liability is considered part of a trading business model.

The assets received are not recognized in the purchaser's books, but a receivable is recorded with respect to the vendor representing the funds loaned. The amount disbursed in respect of the asset is recognized under "Securities bought under repurchase agreements". On subsequent balance sheet dates, the securities continue to be accounted for by the vendor in accordance with the rules applicable to the category in which they were initially classified. The receivable is valued according to methods specific to its category: at amortized cost when classified in "Loans and receivables," or at fair value through profit or loss when it is considered part of a trading business model.

### ***Outright securities lending***

Securities loaned under outright securities lending transactions are not derecognized in the vendor's accounts. They continue to be recognized in their original accounting category and are valued accordingly. For the borrower, the securities borrowed are not recognized.

### ***Transactions leading to substantial changes in financial assets***

When an asset is subject to substantial changes (in particular following a renegotiation or a remodeling due to financial difficulties) there is derecognition, as rights to initial cash flows have essentially expired. The Group considers that this is the case for:

- changes leading to a change of counterparty, especially if the new counterparty has a very different credit quality than the previous counterparty;
- changes intended to move from a very structured to simple indexing, as the two assets are not exposed to the same risks.

#### ***Transactions leading to substantial changes in financial liabilities***

A substantial change to the terms of a lending instrument must be recorded as the extinguishment of former debt and its replacement with a new debt. The amendment to IFRS 9 of October 12, 2017 clarified the treatment under IFRS 9 of modifications of liabilities recognized at amortized cost, if the modification does not result in derecognition: the profit or loss resulting from the difference between the original cash flows and the modified cash flows discounted at the original effective interest rate must be recognized in profit or loss. To assess the substantial nature of the change, IFRS 9 includes a threshold of 10% based on discounted cash flows, integrating potential costs and fees: when the difference is greater than or equal to 10%, all of the costs or fees incurred are recognized as profit or loss on debt extinguishment.

The Group may consider other changes to be substantial, such as a change of issuer (even within the same group) or a change in currency.

#### **3.1.13 Offsetting financial assets and financial liabilities**

In accordance with IAS 32, the Group offsets financial assets and liabilities, and a net balance is presented on the balance sheet, on the twofold condition that it has the legally enforceable right to offset the recorded amounts, and the intention either to settle the net amount or to simultaneously realize the asset and settle the liability.

Transactions on derivatives and repurchase agreements carried out with clearing houses, whose operating principles meet the two criteria mentioned above, are offset in the balance sheet (see Note 4.13).

### **3.2 ASSETS HELD FOR SALE AND ASSOCIATED LIABILITIES**

Where a decision is made to sell non-current assets and it is highly probable that the sale will occur within 12 months, these assets are shown separately on the balance sheet on the "Non-current assets held for sale" line. Any liabilities associated with these assets are also shown separately on the balance sheet on the "Liabilities associated with non-current assets held for sale" line.

Once classified in this category, non-current assets are no longer depreciated/amortized and are measured at their lowest carrying amount or at fair value less sales costs. Financial instruments continue to be measured in accordance with IFRS 9.

### **3.3 INTEREST INCOME AND EXPENSES**

Interest income and expenses are recognized in the income statement on all financial instruments measured at amortized cost using the effective interest method. The same is true for interest income and expenses relating to financial assets at fair value through other comprehensive income and to loan commitments, and accrued interest on hedging derivatives.

Interest income also consists of interest on non-SPPI debt instruments not held under a trading model as well as interest on the related economic hedges (classified by default as instruments at fair value through profit or loss).

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability.

The effective interest rate calculation takes account of all transaction fees paid or received as well as premiums and discounts. Transaction fees paid or received that are an integral part of the effective interest rate of the contract, such as loan set-up fees and commissions paid to financial partners, are treated as additional interest.

The Group has chosen the following option to account for negative interest:

- when income from a financial asset debt instrument is negative, it is deducted from interest income in the income statement;
- when income on a financial liability debt instrument is positive, it is deducted from interest expenses in the income statement.

### **3.4 COMMISSIONS ON SERVICES**

Commissions are analyzed to separately identify their different items (or performance obligations) and to assign the appropriate share of revenues to each item. Each item is then recorded in the income statement by type of service provided, and according to the method used to recognize the associated financial instrument:

- commissions payable on recurring services are deferred over the period in which the service is provided (payment processing, securities deposit fees, etc.);
- commissions payable on occasional services are recognized in full in income when the service is provided (fund transfers, payment penalties, etc.);
- commissions payable on execution of a significant transaction are recognized in full in income on completion of the transaction.

When there is some uncertainty about the amount of a commission (incentive fee in asset management, variable financial engineering commission, etc.), only the amount that the Group is already certain to receive, given the information available at the end of the fiscal year, is recognized.

Fees and commissions that form an integral part of the effective yield on an instrument, such as fees on loan commitments given or loan set-up fees, are recognized and amortized as an adjustment to the effective interest rate over the estimated term of the applicable loan. These fees and commissions are recognized as "Interest income" rather than "Fee and commission income."

Fiduciary and similar fees and commissions are those that result in assets being held or invested on behalf of individual customers, pension schemes or other institutions. Trust-management services mainly cover asset management business and custody services on behalf of third parties.

### **3.5 FOREIGN CURRENCY TRANSACTIONS**

The method used to account for assets and liabilities relating to foreign currency transactions entered into by the Group depends upon whether the asset or liability in question is classified as a monetary or a non-monetary item.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the Group entity on whose balance sheet they are recognized, at the exchange rate prevailing at the balance sheet date. All resulting foreign exchange gains and losses are recognized in income, except in two cases:

- only the portion of the foreign exchange gains and losses calculated based on the amortized cost of financial assets at fair value through other comprehensive income is recognized in income, with any additional gains and losses being recognized in "Gains and losses recognized directly in equity";
- foreign exchange gains and losses arising on monetary items designated as cash flow hedges or as part of a net investment in a foreign operation are recognized in "Gains and losses recognized directly in equity."

Non-monetary assets carried at historical cost are translated using the exchange rate prevailing at the transaction date. Non-monetary assets carried at fair value are translated using the exchange rate in effect at the date on which the fair value was determined. Foreign exchange gains and losses on non-monetary items are recognized in income if gains and losses relating to the items are recorded in income, and in "Gains and losses recognized directly in equity" if gains and losses relating to the items are recorded in "Gains and losses recognized directly in equity."

### **3.6 FINANCE LEASES AND SIMILAR TRANSACTIONS**

Leases are analyzed to determine whether in substance and economic reality they are finance leases or operating leases.

### 3.6.1 Finance leases

A finance lease is a lease that transfers to the lessee substantially most of the risks and rewards incidental to ownership of an asset. It is treated as a loan granted by the lessor to the lessee in order to finance the purchase of an asset.

IAS 17 gives five examples of situations that lead to a lease being classified as a finance lease:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lease provides the lessee with the option to purchase the asset at a price that is expected to be sufficiently below the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if there is no transfer of ownership;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

IAS 17 also describes three indicators that may also individually or collectively lead to a lease being classified as a finance lease:

- if the lessee can cancel the lease, and if the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the change in the fair value of the residual value accrue to the lessee; and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than the market rent.

At the inception of the contract, the finance lease receivable is recorded on the lessor's balance sheet in an amount equal to the net investment in the lease, which corresponds to the minimum payments receivable from the lessee discounted at the interest rate implicit in the lease plus any unguaranteed residual value accruing to the lessor.

IAS 17 requires unguaranteed residual values to be reviewed on a regular basis. If there is a reduction in the estimated guaranteed residual value, the income allocation over the lease term is revised (calculation of a new payment schedule) and a charge is recorded in order to correct the financial income already recorded.

Impairments on finance leases are determined in accordance with IFRS 9 using the same method as that described for financial assets at amortized cost (Note 3.1.10) and are recognized under "Cost of credit risk."

Finance lease income corresponding to interest is recognized in the income statement under "Interest and similar income." It is recognized based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease, using the interest rate implicit in the lease. The rate of return implicit in the lease is the discount rate that makes the following two items equal:

- the present value of the minimum lease payments receivable by the lessor plus the non-guaranteed residual value;
- and the initial value of the asset (i.e. fair value at the inception of the lease, plus any direct initial costs comprising expenses incurred specifically by the lessor to set up the lease).

In the lessee's financial statements, lease financing agreements with purchase options are treated as the purchase of an asset financed by a loan.

### 3.6.2 Operating leases

A lease which is not considered to be a finance lease is automatically classified as an operating lease.

Assets provided under operating leases are shown in the balance sheet under property, plant and equipment or intangible assets in the case of equipment leases, and investment property in the case of property leases. Lease income from operating leases is recognized on a straight-line basis over the lease term, under "Income and expenses from other activities."

## 3.7 INSURANCE BUSINESSES

As indicated above, on November 3, 2017, the European Commission adopted the amendment to IFRS 4 applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" with specific provisions for financial conglomerates, applicable as of January 1, 2018.

As Groupe BPCE is a financial conglomerate, it elected to apply this provision to its insurance businesses, which continue to be covered by IAS 39.

Financial assets and liabilities of insurance businesses are therefore recognized in accordance with the provisions of IAS 39. They are classified into categories defined by this standard, which calls for specific approaches to measurement and accounting treatment.

Pending amendments to IFRS 4, insurance liabilities continue to be measured broadly in line with French GAAP.

In accordance with Phase I of IFRS 4, insurance contracts are classified into three categories:

- policies that expose the insurer to a significant insurance risk within the meaning of IFRS 4: this category comprises policies covering provident insurance, pensions, property and casualty and unit-linked savings carrying a minimum guarantee. These policies will continue to be measured under the rules provided under local GAAP for measuring technical reserves;
- financial contracts such as savings contracts that do not expose the insurer to a significant insurance risk are recognized in accordance with IFRS 4 if they contain a discretionary profit-sharing feature, and will continue to be measured in accordance with the rules for measuring technical reserves provided under local GAAP;
- financial contracts without a discretionary profit-sharing feature, such as unit-linked policies without a non-unit-linked component and without a minimum guarantee, are accounted for in accordance with IAS 39.

Most financial contracts issued by Group entities contain discretionary profit-sharing features.

The discretionary profit-sharing feature grants life insurance policyholders the right to receive a share of the financial income generated, in addition to guaranteed benefits. For these contracts, in accordance with shadow accounting principles defined by IFRS 4, the provision for deferred profit sharing is adjusted to include the policyholders' share in the unrealized capital gains or losses on financial instruments measured at fair value in application of IAS 39. The share of the gains or losses attributable to policyholders is determined on the basis of the characteristics of contracts likely to generate such gains or losses.

Any change in deferred profit sharing is taken to equity where it results from changes in the value of available-for-sale financial assets and to income where it arises from changes in the value of financial assets at fair value through profit or loss.

At each balance sheet date, the Group assesses whether its recognized insurance liabilities are adequate, based on the estimated present value of future cash flows from its insurance policies and investment contracts containing a discretionary profit sharing feature. The liability adequacy test shows the economic value of the liabilities corresponding to the average derived from stochastic analyses. If the sum of the surrender value and deferred profit sharing is lower than the fair value of the technical reserves, the shortfall is recognized in income.

Groupe BPCE has decided to apply the option available under ANC recommendation no. 2017-02 of presenting the insurance businesses separately on the balance sheet and income statement.

The "Insurance business investments" line on the assets side of the balance sheet includes insurance business assets representative of:

- financial investments (i.e., in financial instruments) including advances to policyholders;
- financial investments in unit-linked products;
- derivatives;
- revaluation differences on interest rate risk-hedged portfolios.

The other balances related to the insurance business are aggregated with the balances related to the other balance sheet items by type.

On the liabilities side of the balance sheet, the "Liabilities related to insurance policies" line consists of:

- the technical reserves of insurance companies (as defined in Appendix A to IFRS 4);
- insurance and reinsurance liabilities, including amounts due to policyholders;
- insurance-related derivatives;
- shares of the revaluation on interest rate risk-hedged portfolios;
- the deferred profit-sharing liability.

On the income statement, the "Net income from insurance businesses" line includes:

- revenues from the insurance businesses, which consist of premiums written and the change in unearned premium reserves for insurance policies and investment contracts containing a discretionary profit-sharing feature within the meaning of IFRS 4;
- investment income net of expenses:
  - . investment income including income from investment properties;
  - . investment expenses, and other financial expenses excluding financing expenses;
  - . capital gains and losses on the sale of investments including on investment properties;
  - . depreciation, amortization and impairment reversals on investments (including investment properties) and other assets (including assets provided under operating leases), recognized at amortized cost;
  - . the change in fair value of investments (including investment properties) recognized at fair value through profit or loss.
- amortization of acquisition costs;
- the external costs of benefits and claims paid on policies which include paid benefits and claims on insurance policies and on investment contracts containing a discretionary profit-sharing feature (paid benefits and claims, changes in technical reserves), including policyholder compensation (deferred profit-sharing), as well as changes in the value of investment contracts, particularly for unit-linked policies;

- income from reinsurance cessions, defined as the sum of ceded premiums, net of ceded claims and benefits paid and commissions;
- where applicable:
  - . net gains or losses resulting from the derecognition of financial assets at amortized cost;
  - . net gains or losses resulting from the reclassification of financial assets at fair value through other comprehensive income to financial assets at fair value through profit or loss.

### **3.7.1 Loans and receivables**

Loans and receivables due from credit institutions and customers and certain securities not listed in an active market are recorded in "Insurance business investments."

Loans and receivables are initially recorded at fair value plus any costs directly related to their issuance, less any proceeds directly attributable to issuance. On subsequent balance sheet dates, they are measured at amortized cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash flows (payments or receipts) to the value of the loan at inception. This rate includes any discounts recorded in respect of loans granted at below-market rates, as well as any external transaction income or costs directly related to the issue of the loans, which are treated as an adjustment to the effective yield on the loan. No internal cost is included in the calculation of amortized cost.

When loans are extended under conditions that are less favorable than market conditions, a discount corresponding to the difference between the nominal value of the loan and the sum of future cash flows discounted at the market interest rate is deducted from the nominal value of the loan. The market interest rate is the rate applied by the vast majority of local financial institutions at a given time for instruments and counterparties with similar characteristics.

A discount is applied to loans restructured following a loss event as defined by IAS 39, to reflect the difference between the present value of the contractual cash flows at inception and the present value of expected principal and interest repayments after restructuring. The discount rate used is the original effective interest rate. This discount is expensed to "Cost of credit risk" (for the insurer's net share) in the income statement and offset against the corresponding outstanding on the balance sheet. It is written back to net interest income in the income statement over the life of the loan using an actuarial method. The restructured loan is reclassified as performing based on expert opinion when no uncertainty remains as to the borrower's capacity to honor the commitment.

External costs consist primarily of commissions paid to third parties in connection with the arrangement of loans. They essentially comprise commissions paid to business partners.

Income directly attributable to the issuance of new loans principally comprises set-up fees charged to customers, rebilled costs and commitment fees (if it is more probable than improbable that the loan will be drawn down). Commitment fees received that will not result in any drawdowns are apportioned on a straight-line basis over the life of the commitment.

Expenses and income arising on loans with a term of less than one year at inception are deferred on a pro rata basis with no recalculation of the effective interest rate. For floating or adjustable rate loans, the effective interest rate is adjusted at each rate refixing date.

### **3.7.2 Securities**

Securities recorded as assets are classified into four categories as defined by IAS 39:

- financial assets at fair value through profit or loss;
- available-for-sale financial assets;
- loans and receivables;
- held-to-maturity financial assets.

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

This asset category includes:

- financial assets held for trading, i.e. securities acquired or issued principally for the purpose of selling them in the near term; and
- financial assets that the Group has chosen to recognize at fair value through profit or loss at inception using the fair value option available under IAS 39.

The qualifying criteria used when applying this option are described in Note 3.7.3 "Financial assets and liabilities at fair value through profit or loss."

These assets are measured at fair value at the date of initial recognition and at each balance sheet date. Changes in fair value over the period, interest, dividends, gains or losses on disposals on these instruments are recognized in "Net income from insurance businesses."

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



Available-for-sale financial assets are all securities not classified in the other categories.

Available-for-sale financial assets are initially recognized at fair value, plus any transaction costs.

On the balance sheet date, they are carried at their fair value and changes in fair value are recorded under "Gains and losses recognized directly in equity" (except for foreign currency money-market assets, for which changes in the fair value of the foreign currency component affect income).

If they are sold, these changes in fair value are taken to income.

Interest income accrued or received on fixed-income securities is recorded under "Net income from insurance businesses." Income from variable-income securities is recorded under "Net income from insurance businesses."

#### **Loans and receivables**

The portfolio of loans and receivables included in "Insurance business investments" comprises non-derivative financial assets with fixed or determinable payments and which are not quoted in an active market. In addition, these assets must not be exposed to a risk of material losses unrelated to a deterioration in their credit quality.

Some securities not quoted in an active market may be classified in this portfolio. These are initially recognized at fair value, plus any transaction costs and less any transaction income. Securities classified in this category comply with the rules for recognition, measurement and impairment applicable to loans and receivables.

When a financial asset recorded under loans and receivables is sold before its maturity, the income from the disposal is recorded under "Net income from insurance businesses."

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

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

IAS 39 does not permit the sale or transfer of these securities before maturity except in certain specific circumstances. In the event that the securities are sold before maturity, all held-to-maturity assets must be reclassified and the held-to-maturity category cannot be used during the current year or the following two years. Exceptions to the rule apply in the following cases:

- a material deterioration in the issuer's credit quality;
- a change in tax regulations canceling or significantly reducing the tax exemption on interest earned on investments held-to-maturity;
- a major business combination or significant withdrawal of activity (sale of a sector, for example) requiring the sale or transfer of held-to-maturity investments in order to maintain the entity's existing situation in terms of interest rate risk or its credit risk policy;
- a change in legal or regulatory provisions significantly modifying either the definition of an eligible investment or the maximum amount of certain types of investment, requiring that the entity dispose of a held-to-maturity asset;
- a significant increase in capital requirements forcing the entity to restructure by selling held-to-maturity assets;
- a significant increase in the risk weighting of held-to-maturity assets in terms of prudential capital regulations.

In the exceptional cases described above, the income from the disposal is recorded under "Net income from insurance businesses."

The hedging of these securities against interest rate risk is not permitted. However, hedges against exchange rate risk or the inflation component of certain held-to-maturity financial assets are allowed.

Held-to-maturity financial assets are recognized at fair value at inception, plus any transaction costs directly attributable to their acquisition. They are subsequently measured at amortized cost using the effective interest method, including any premiums, discounts and acquisition fees, where material.

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

The amendment to IAS 39 adopted by the European Union on November 15, 2005 allows entities to designate financial assets and liabilities on initial recognition at fair value through profit or loss. However, an entity's decision to designate a financial asset or liability at fair value through profit or loss may not be reversed.

Compliance with the criteria stipulated by the standard must be verified prior to any recognition of an instrument using the fair value option.

In practice, this option may be applied only under the specific circumstances described below:

#### **Elimination of or significant reduction in an accounting mismatch**

Applying the option enables the elimination of accounting mismatches stemming from the application of different valuation rules to instruments managed in accordance with a single strategy. This treatment applies in particular to unit-linked policy assets and liabilities.

## ***Harmonization of accounting treatment for performance management and measurement***

The option applies for a group of assets and/or liabilities managed and measured at fair value, provided that it is based on a formally documented risk management or investment strategy, and information about the Group is also reported internally on a fair value basis.

### ***Hybrid financial instruments containing one or more embedded derivatives***

An embedded derivative is a component of a financial or non-financial hybrid (combined) instrument that qualifies as a derivative. It must be separated from the host contract and accounted for as a derivative if the hybrid instrument is not measured at fair value through profit or loss, and if the economic characteristics and risks associated with the derivative are not closely related to those of the host contract.

The fair value option may be applied when the embedded derivative(s) substantially modify the cash flows of the host contract and when the separate recognition of the embedded derivative(s) is not specifically prohibited by IAS 39 (e.g. an early redemption option at cost embedded in a debt instrument). The option allows the entire instrument to be measured at fair value, and therefore avoids the need to extract, recognize or separately measure the embedded derivative.

This treatment applies in particular to certain financial instruments containing material embedded derivatives (convertible bonds, indexed bonds and structured securities).

### **3.7.4 Impairment of financial assets**

#### ***Impairment of securities***

An impairment loss is recognized on an individual basis against securities, with the exception of securities classified as financial assets at fair value through profit or loss, when there is objective evidence of impairment resulting from one or more loss events having occurred since the initial recognition of the asset.

Different rules are used for the impairment of equity instruments and debt instruments.

For equity instruments, a lasting decline or a significant decrease in value are objective indicators of depreciation.

A decline of over 50% or lasting for over 36 months in the value of a security by comparison with its historical cost is an objective indicator of permanent impairment, leading to the recognition of an impairment loss in income.

In addition, these impairment criteria are also supplemented by a line-by-line review of the assets that have recorded a decline of over 30% or for more than six months in their value by comparison with their historical cost or if events occur that are liable to represent a material or prolonged decline. An impairment charge is recorded in the income statement if the Group determines that the value of the asset will not be recovered in its entirety.

For unlisted equity instruments, a qualitative analysis of their situation is carried out.

Impairment losses recognized on equity instruments may not be reversed and nor may they be written back to income. Losses are recorded under "Net income from insurance businesses." A subsequent increase in value is taken to "Gains and losses recognized directly in equity" until disposal of the securities.

Impairment losses are recognized on debt instruments such as bonds or securitized transactions (ABS, CMBS, RMBS, cash CDOs) when there is a known counterparty risk.

The Group uses the same impairment indicators for debt securities as those used for individually assessing the impairment risk on loans and receivables, irrespective of the portfolio to which the debt securities are ultimately designated. For perpetual deeply subordinated notes, particular attention is also paid if, under certain conditions, the issuer may be unable to pay the coupon or extend the issue beyond the scheduled redemption date.

In the event of an improvement in the issuer's financial position, impairment losses taken on debt instruments must be written back to the income statement. Impairment losses and write-backs are recorded in "Cost of credit risk" (for the insurer's net share).

#### ***Impairment of loans and receivables***

IAS 39 defines the methods for calculating and recognizing the impairment of loans.

A loan or receivable is deemed to be impaired if the following two conditions are met:

- there is objective evidence of impairment on an individual basis: there are "triggering events" or "loss events" identifying counterparty risk occurring after the initial recognition of the loans in question. On an individual level, the criteria for deciding whether or not a credit risk has been incurred include, in particular, the existence of past due payments;
- these events are liable to lead to the recognition of incurred losses.

Impairment is determined as the difference between the amortized cost and the recoverable amount of the receivable, i.e. the present value of estimated recoverable future cash flows taking into account the impact of any collateral.

### **3.8 CONTRIBUTIONS TO BANKING RESOLUTION MECHANISMS**

The procedure for financing the deposit and resolution guarantee fund had been changed by a Ministerial Order dated October 27, 2015. For the Deposit Guarantee Fund, the cumulative amount of contributions made to the fund by the Group for deposit, collateral and securities guarantee mechanisms is €18 million. Contributions (which are non-refundable in the event of a voluntary withdrawal of approval to operate) represent €3 million. Contributions paid in the form of partner or association certificates and cash security deposits recognized as assets on the balance sheet total €15 million.

Directive 2014/59/EU (BRRD – Bank Recovery and Resolution Directive), which establishes the framework for the recovery and resolution of banks and investment firms, and European regulation 806/2014 (SRM regulation) established the introduction of a resolution fund as of 2015. In 2016, this fund became a Single Resolution Fund (SRF) between the member States participating in the Single Supervisory Mechanism (SSM). The SRF is a resolution financing mechanism available to the resolution authority (Single Resolution Board). The latter may use this fund when implementing resolution procedures.

In accordance with delegated regulation 2015/63 and implementing regulation 2015/81 supplementing the BRRD directive on ex-ante contributions to financing mechanisms for the resolution, the Single Resolution Board set the level of contributions to the Single Resolution Fund for 2018. The amount of contributions paid by the Group for the fiscal year totaled €278 million, of which €236 million recognized as an expense and €42 million in cash security deposits recognized as assets on the balance sheet (15% of funds in cash security deposits). The cumulative amount of contributions recognized as assets on the balance sheet totaled €134 million at June 30, 2018.

## Note 4 Notes to the balance sheet

### 4.1 FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets and liabilities at fair value through profit or loss comprise instruments held for trading, including derivatives; certain assets and liabilities that the Group has chosen to recognize at fair value, at their date of acquisition or issue, using the fair value option available under IFRS 9; and non-SPPI assets.

#### 4.1.1 Financial assets at fair value through profit or loss

Financial assets in the trading book mainly include proprietary securities transactions, repurchase agreements and derivative instruments contracted by the Group to manage its risk exposure.

	6/30/2018			1/1/2018		
	Financial assets mandatorily at fair value through profit or loss		Financial assets designated at fair value	Financial assets mandatorily at fair value through profit or loss		Financial assets designated at fair value through profit or loss – fair value option
	Financial assets held for trading	Other financial assets mandatorily at fair value through profit or loss <sup>(1)</sup>		Financial assets held for trading	Other financial assets mandatorily at fair value through profit or loss	
<i>in millions of euros</i>			Total			Total
Treasury bills and equivalent	9,696		9,696	10,096		10,097
Bonds and other debt securities	9,708	3,869	13,576	8,115	3,727	11,842
<b>Debt securities</b>	<b>19,404</b>	<b>3,869</b>	<b>23,272</b>	<b>18,211</b>	<b>3,727</b>	<b>21,938</b>
Loans to credit institutions excluding repurchase agreements	54	1,270	1,324	104	1,320	1,424
Loans to customers excluding repurchase agreements	4,249	2,143	6,392	4,317	2,528	6,845
Repurchase agreements <sup>(2)</sup>	77,787		77,787	83,415		83,415
<b>Loans</b>	<b>82,090</b>	<b>3,413</b>	<b>85,503</b>	<b>87,836</b>	<b>3,848</b>	<b>91,683</b>
<b>Equity instruments</b>	<b>32,450</b>	<b>838</b>	<b>33,289</b>	<b>28,033</b>	<b>908</b>	<b>28,942</b>
<b>Trading derivatives <sup>(2)</sup></b>	<b>51,131</b>	<b>///</b>	<b>51,131</b>	<b>50,985</b>	<b>///</b>	<b>50,985</b>
<b>Security deposits paid</b>	<b>15,625</b>	<b>///</b>	<b>15,625</b>	<b>15,350</b>	<b>///</b>	<b>15,350</b>
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>200,700</b>	<b>8,120</b>	<b>208,820</b>	<b>200,415</b>	<b>8,483</b>	<b>208,898</b>

<sup>(1)</sup> Consisting of non-SPPI assets that fall outside the scope of a trading activity including UCITS units presented in bonds and other debt securities (€2,944 million at June 30, 2018). Loans to customers include, among others, certain contracts for structured loans to local authorities and fund units;

<sup>(2)</sup> Furthermore, this information is presented in consideration of netting effects, in accordance with IAS 32 (see Note 4.13).

#### 4.1.2 Financial liabilities at fair value through profit or loss

Financial liabilities in the trading book include liabilities arising from short-selling transactions, repurchase agreements and derivative instruments.

	6/30/2018			1/1/2018		
	Financial liabilities issued for trading	Financial liabilities designated at fair value through profit or loss	Total	Financial liabilities issued for trading	Financial liabilities designated at fair value through profit or loss	Total
<i>in millions of euros</i>						
Short sales	23,799	///	23,799	25,790	///	25,790
Trading derivatives <sup>(1)</sup>	50,906	///	50,906	50,869	///	50,869
Interbank term accounts and loans		138	138	55	178	232
Customer term accounts and loans		120	120	2	9	11
Unsubordinated debt securities	302	23,983	24,285	303	22,690	22,993
Subordinated debt	///	100	100	///	103	103
Repurchase agreements <sup>(1)</sup>	95,209	///	95,209	98,586	///	98,586
Security deposits received	12,079	///	12,079	11,633	///	11,633
Other	///	4,180	4,180	///	3,352	3,352
<b>TOTAL FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>182,295</b>	<b>28,521</b>	<b>210,816</b>	<b>187,238</b>	<b>26,332</b>	<b>213,570</b>

<sup>(1)</sup> This information is presented in consideration of netting effects, in accordance with IAS 32 (see Note 4.13).

These liabilities are measured at fair value on the reporting date with changes in value, including coupon, recorded in the "Net gains or losses on financial instruments at fair value through profit or loss" line on the income statement, with the exception of changes in fair value attributable to own credit risk associated with financial liabilities designated at fair value through profit or loss, which are recognized in "Revaluation of own credit risk on financial liabilities recognized at fair value through profit or loss" due to application of IFRS 9.

Revaluations in respect of own credit risk totaled €73 million at June 30, 2018 versus €314 million at January 1, 2018. Under IFRS 9, the change, i.e., €240 million in first-half 2018, is presented in gains and losses not recyclable to income recognized directly in other comprehensive income.

Liabilities designated at fair value through profit or loss consist primarily of issues originated and structured by Natixis for customers whose risks and hedges are managed collectively. These issues include embedded derivatives for which

changes in value are offset, except for those allocated to own credit risk, by those of the derivative instruments hedging them economically.

Financial liabilities accounted for under the fair value option also consist of structured debt issues and structured deposits containing embedded derivatives.

## 4.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	6/30/2018			1/1/2018		
	Standard debt instruments held under a hold to collect and sell model	Equity instruments designated at fair value through other comprehensive income	Total	Standard debt instruments held under a hold to collect and sell model	Equity instruments designated at fair value through other comprehensive income	Total
<i>in millions of euros</i>						
Loans or receivables due from customers	25	///	25	25	///	25
Debt securities	13,848	///	13,848	14,727	///	14,727
Equities and other equity securities <sup>(1)</sup>	///	1,134	1,134	///	1,177	1,177
<b>Fair value of financial assets at fair value through other comprehensive income</b>	<b>13,873</b>	<b>1,134</b>	<b>15,007</b>	<b>14,752</b>	<b>1,177</b>	<b>15,929</b>
Impairments for expected credit losses	(1)	///	(1)	(12)	///	(12)
Gains and losses recognized directly in equity on financial assets at fair value through other comprehensive income (before tax) <sup>(2)</sup>	(93)	(112)	(205)	(73)	(113)	(186)

<sup>(1)</sup> Equities and other equity securities include strategic equity interests and certain long-term private equity securities. As these securities are not held for sale, their classification as equity instruments designated at fair value through other comprehensive income is appropriate for this type of security.

The cumulative amount of changes in fair value reclassified under "Retained earnings" in first-half 2018 was €1 million.

Groupe BPCE also recognized €49 million in dividends on these securities in income in first-half 2018.

<sup>(2)</sup> Including the portion attributable to non-controlling interests (€4 million at June 30, 2018, compared with €11 million at December 31, 2017).

Debt instruments recorded under financial assets at fair value through other comprehensive income can be broken down into:

- Stage 1: €13,826 million, net of impairment (a non-material amount),
- Stage 2: €43 million, net of impairment (- €1 million),
- Stage 3: €4 million, net of impairment (a non-material amount).

At January 1, 2018, they broke down as follows:

- Stage 1: €14,033 million, net of impairment (- €2 million),
- Stage 2: €713 million, net of impairment (- €10 million),
- Stage 3: €6 million, net of impairment (a non-material amount).

**Change in impairments for expected credit losses on debt instruments at fair value through other comprehensive income**

<i>in millions of euros</i>	Stage 1	Stage 2	Stage 3	TOTAL
<b>Impairments at January 1, 2018</b>	<b>(2)</b>	<b>(10)</b>		<b>(12)</b>
Production and acquisition				0
Derecognition and redemption		10		10
Transfers between stages				0
Other changes	2	(1)		1
<b>Impairments at June 30, 2018</b>	<b>0</b>	<b>(1)</b>		<b>(1)</b>

### 4.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

#### 4.3.1 Fair value hierarchy of financial assets and liabilities

The following statement provides a breakdown of financial instruments by type of price and valuation model:

<i>in millions of euros</i>	6/30/2018			TOTAL
	Price quoted in an active market (Level 1)	Measurement techniques using observable data (Level 2)	Measurement techniques using unobservable data (Level 3)	
<b>FINANCIAL ASSETS</b>				
<b>Debt instruments</b>	<b>15,134</b>	<b>98,878</b>	<b>3,107</b>	<b>117,119</b>
Loans due from credit institutions and customers		94,747	2,969	97,715
Debt securities	15,134	4,132	138	19,404
<b>Equity instruments</b>	<b>32,347</b>	<b>104</b>		<b>32,450</b>
Equities and other equity securities	32,347	104		32,450
<b>Derivatives</b>	<b>792</b>	<b>48,298</b>	<b>1,586</b>	<b>50,676</b>
Interest rate derivatives	3	30,695	213	30,911
Equity derivatives	470	3,584	272	4,326
Currency derivatives		13,389	940	14,329
Credit derivatives		384	160	544
Other derivatives	320	246	1	565
<b>Financial assets at fair value through profit or loss – Held for trading <sup>(1)</sup></b>	<b>48,273</b>	<b>147,280</b>	<b>4,692</b>	<b>200,245</b>
<b>Derivatives</b>		<b>348</b>	<b>107</b>	<b>455</b>
Interest rate derivatives		289	97	386
Equity derivatives			8	8
Currency derivatives		59	3	62
<b>Financial assets at fair value through profit or loss – Economic hedging</b>		<b>348</b>	<b>107</b>	<b>455</b>
<b>Debt instruments</b>	<b>2,236</b>	<b>2,308</b>	<b>2,738</b>	<b>7,282</b>
Loans due from credit institutions and customers		1,947	1,465	3,413
Debt securities	2,236	361	1,272	3,869
<b>Financial assets at fair value through profit or loss – Non-standard</b>	<b>2,236</b>	<b>2,308</b>	<b>2,738</b>	<b>7,282</b>
<b>Equity instruments</b>	<b>295</b>	<b>6</b>	<b>537</b>	<b>838</b>
Equities and other equity securities	295	6	537	838
<b>Financial assets at fair value through profit or loss – Non-trading</b>	<b>295</b>	<b>6</b>	<b>537</b>	<b>838</b>
<b>Debt instruments</b>	<b>13,576</b>	<b>255</b>	<b>41</b>	<b>13,873</b>
Loans due from credit institutions and customers			25	25
Debt securities	13,576	255	17	13,848
<b>Equity instruments</b>	<b>5</b>	<b>179</b>	<b>950</b>	<b>1,134</b>
Equities and other equity securities	5	179	950	1,134
<b>Financial assets at fair value through other comprehensive income</b>	<b>13,581</b>	<b>434</b>	<b>992</b>	<b>15,007</b>
Interest rate derivatives		6,710		6,710
Currency derivatives		1,220		1,220
<b>Hedging derivatives</b>		<b>7,930</b>		<b>7,930</b>

<sup>(1)</sup> Excluding economic hedging

The breakdown of insurance business investments by fair value level at June 30, 2018 is presented in Note 6.1.2.

<i>in millions of euros</i>	Price quoted in an active market (Level 1)	Measurement techniques using observable data (Level 2)	Measurement techniques using unobservable data (Level 3)	TOTAL
<b>FINANCIAL LIABILITIES</b>				
<b>Debt securities</b>	<b>23,528</b>	<b>94,521</b>	<b>1,261</b>	<b>119,310</b>
<b>Derivatives</b>	<b>499</b>	<b>47,843</b>	<b>1,969</b>	<b>50,311</b>
- Interest rate derivatives		30,177	240	30,417
- Equity derivatives	205	4,910	432	5,546
- Currency derivatives		11,999	1,065	13,064
- Credit derivatives		431	232	662
- Other derivatives	294	327		621
<b>Other financial liabilities</b>	<b>9</b>	<b>12,069</b>		<b>12,078</b>
<b>Financial liabilities at fair value through profit or loss – Held for trading <sup>(1)</sup></b>	<b>24,036</b>	<b>154,433</b>	<b>3,230</b>	<b>181,699</b>
<b>Derivatives</b>		<b>130</b>	<b>465</b>	<b>595</b>
Interest rate derivatives		96	465	561
Currency derivatives		34		34
<b>Financial liabilities at fair value through profit or loss – Economic hedging</b>		<b>130</b>	<b>465</b>	<b>595</b>
Debt securities		23,971	371	24,341
Other financial liabilities	3,545	636		4,180
<b>Financial liabilities at fair value through profit or loss – Fair value option</b>	<b>3,545</b>	<b>24,606</b>	<b>371</b>	<b>28,522</b>
Interest rate derivatives		7,443		7,443
Currency derivatives		2,605		2,605
<b>Hedging derivatives</b>		<b>10,048</b>		<b>10,048</b>

### 4.3.2 Analysis of financial assets and liabilities classified in Level 3 of the fair value hierarchy

in millions of euros	Gains and losses recognized during the period			Transactions carried out during the period		Transfers during the period			6/30/2018
	1/1/2018	In the income statement		in equity		To another reporting category	From and to another level	Other changes	
		On transactions in progress at the reporting date	On transactions removed from the balance sheet at the reporting date	Purchases/ Issues	Sales/ Redemptions				
<b>FINANCIAL ASSETS</b>									
<b>Debt instruments</b>	2,723	53	665	4,565	(4,931)	(3)		36	3,108
Loans due from credit institutions and customers	2,582	63	665	4,493	(4,868)			35	2,970
Debt securities	141	(10)		73	(63)	(3)		1	139
<b>Derivatives</b>	2,219	(469)	(126)	373	(208)	(88)	(116)		1,585
Interest rate derivatives	307	17	3	1	(32)	(88)	5		213
Equity derivatives	561	(411)	(33)	305	(149)				273
Currency derivatives	1,140	(99)	(20)	66	(26)		(121)		940
Credit derivatives	212	24	(76)	1	(1)				160
<b>Financial assets at fair value through profit or loss – Held for trading<sup>(1)</sup></b>	4,942	(416)	539	4,938	(5,139)	(91)	(116)	36	4,693
<b>Derivatives</b>	70	(18)				56			108
Interest rate derivatives	64	(30)				64			98
Equity derivatives	6	11				(3)			8
Currency derivatives	1	1				(4)			3
<b>Financial assets at fair value through profit or loss – Economic hedging</b>	70	(18)				56			108
<b>Debt instruments</b>	4							(8)	
Loans due from credit institutions and customers	4							(8)	
<b>Financial assets at fair value through profit or loss – Fair value option</b>	4							(8)	
<b>Debt instruments</b>	2,147	(34)	4	172	(138)	62	160	365	2,738
Loans due from credit institutions and customers	1,504	(96)	(1)	70	(61)	49		365	1,830
Debt securities	643	61	5	102	(77)	13	160		907
<b>Financial assets at fair value through profit or loss – Non-standard</b>	2,147	(34)	4	172	(138)	62	160	365	2,738
<b>Equity instruments</b>	1,068	(4)	10	21	(184)	(4)		(370)	537
Equities and other equity securities	1,068	(4)	10	21	(184)	(4)		(370)	537
<b>Financial assets at fair value through profit or loss – Non-trading</b>	1,068	(4)	10	21	(184)	(4)		(370)	537
<b>Debt instruments</b>	425	(2)		(3)	(321)			(58)	41
Loans due from credit institutions and customers	25	(2)			1				24
Debt securities	399			(3)	(322)			(58)	16
<b>Equity instruments</b>	1,121	(5)	5	(148)	12	(82)	62	(14)	951
Equities and other equity securities	1,121	(5)	5	(148)	12	(82)	62	(14)	951
<b>Financial assets at fair value through other comprehensive income</b>	1,546	(7)	5	(151)	12	(403)	62	(72)	992
<b>Derivatives</b>	5		(5)						
Currency derivatives	5		(5)						
<b>Hedging derivatives</b>	5		(5)						

in millions of euros	Gains and losses recognized during the period			Transactions carried out during the period		Transfers during the period			6/30/2018
	1/1/2018	In the income statement		in equity		To another reporting category	From and to another level	Other changes	
		On transactions in progress at the reporting date	On transactions removed from the balance sheet at the reporting date	Purchases/ Issues	Sales/ Redemptions				
<b>FINANCIAL LIABILITIES</b>									
<b>Debt securities</b>	1,097	61	(79)	1,200	(1,019)				1,260
<b>Derivatives</b>	2,088	368	(289)	203	(211)	(100)	(90)		1,969
Interest rate derivatives	344	(1)	2	14	(18)	(100)			241
Equity derivatives	250	341	(144)	115	(129)		(1)		432
Currency derivatives	1,168	(29)	(8)	27	(4)		(89)		1,065
Credit derivatives	326	57	(139)	47	(60)				231
<b>Financial liabilities at fair value through profit or loss – Held for trading<sup>(1)</sup></b>	3,185	429	(368)	1,403	(1,230)	(100)	(90)		3,230
<b>Derivatives</b>	459	(69)				75			465
Interest rate derivatives	456	(69)				75			466
Equity derivatives	3					(3)			
<b>Financial liabilities at fair value through profit or loss – Economic hedging</b>	459	(69)				75			465
Debt securities	468	2		3	(102)				371
<b>Financial liabilities at fair value through profit or loss – Fair value option</b>	468	2		3	(102)				371

(1) The main impacts recognized in the income statement are mentioned in Note 5.3;

(2) Including €75 million in reclassifications of financial assets at fair value through other comprehensive income to the "Financial assets held for sale" aggregate under IFRS 5. Other changes include, in particular, the impact of changes in the consolidation scope and foreign exchange differences;

(3) Excluding economic hedging.

### 4.3.3 Analysis of fair value hierarchy transfers

<i>in millions of euros</i>	Period ending 6/30/2018				
	From	Level 1	Level 2	Level 2	Level 3
	To	Level 2	Level 1	Level 3	Level 2
<b>FINANCIAL ASSETS</b>					
<b>Debt instruments</b>		<b>162</b>	<b>263</b>		
Debt securities		162	263		
<b>Equity instruments</b>		<b>2</b>	<b>126</b>		
Equities and other equity securities		2	126		
<b>Derivatives</b>		<b>8</b>	<b>43</b>	<b>5</b>	<b>121</b>
Interest rate derivatives				5	
Equity derivatives		4	43		
Currency derivatives					121
Other derivatives		4			
<b>Financial assets at fair value through profit or loss – Held for trading*</b>		<b>172</b>	<b>432</b>	<b>5</b>	<b>121</b>
<b>Debt instruments</b>				<b>160</b>	
Debt securities				160	
<b>Financial assets at fair value through profit or loss – Non-standard</b>				<b>160</b>	
<b>Debt instruments</b>		<b>42</b>	<b>521</b>		
Debt securities		42	521		
<b>Financial assets at fair value through other comprehensive income</b>		<b>42</b>	<b>521</b>		

<i>in millions of euros</i>	Period ending 6/30/2018				
	From	Level 1	Level 2	Level 2	Level 3
	To	Level 2	Level 1	Level 3	Level 2
<b>FINANCIAL LIABILITIES</b>					
<b>Debt securities</b>					
<b>Derivatives</b>		<b>15</b>	<b>23</b>	<b>1</b>	<b>90</b>
Equity derivatives		12	22	1	1
Currency derivatives					89
Other derivatives		3	1		
<b>Financial liabilities at fair value through profit or loss – Held for trading*</b>		<b>15</b>	<b>23</b>	<b>1</b>	<b>90</b>
<b>Derivatives</b>				<b>1</b>	
Interest rate derivatives				1	
<b>Financial liabilities at fair value through profit or loss – Economic hedging</b>				<b>1</b>	

(\*) Excluding economic hedging

### 4.3.4 Sensitivity of Level 3 assets and liabilities to changes in the principal assumptions

At June 30, 2018, Natixis calculated the sensitivity of the fair value of financial instruments measured using unobservable inputs. With the aid of probable assumptions, this sensitivity was used to estimate the impacts of market fluctuations in uncertain economic environments. This estimate was performed using:

- a “standardized <sup>(1)</sup>” variation in unobservable inputs related to assumptions of additional valuation adjustments for fixed income, currency and equity instruments. The resulting sensitivity was €24 million;
- a flat rate of +/-50 basis points applied to the margin used to discount the expected flows of TruPS CDOs;

i.e. the sensitivity impact would result in an improvement in value of €8 million, should the inputs mentioned above improve, or a decrease in value of €8 million if the same inputs deteriorate.

<sup>(1)</sup> I.e. the standard deviation of consensus prices used to measure the inputs.



#### 4.4 ASSETS AT AMORTIZED COST

These are SPPI financial assets held under a hold to collect model. Most loans originated by the Group are classified in this category. Information about credit risk is provided in Note 6.1.

##### 4.4.1 Securities at amortized cost

<i>in millions of euros</i>	<b>6/30/2018</b>	<b>1/1/2018</b>
Treasury bills and equivalent	4,316	8,993
Bonds and other debt securities	11,601	7,067
Impairments for expected credit losses	(141)	(137)
<b>TOTAL SECURITIES AT AMORTIZED COST</b>	<b>15,776</b>	<b>15,923</b>

The fair value of securities at amortized cost was €14,828 million at June 30, 2018.

Debt securities at amortized cost can be broken down into:

- Stage 1: €15,126 million, net of impairment (-€6 million),
- Stage 2: €492 million, net of impairment (-€8 million),
- Stage 3: €158 million, net of impairment (-€127 million).

At January 1, 2018, debt securities at amortized cost broke down as follows:

- Stage 1: €15,265 million, net of impairment (-€5 million),
- Stage 2: €483 million, net of impairment (-€13 million),
- Stage 3: €175 million, net of impairment (-€119 million).

At June 30, 2018, the portfolio of securities at amortized cost included €140 million in purchased or originated credit-impaired assets (net amount, after a -€31 million impairment).

##### **Change in impairments for expected credit losses on debt securities at amortized cost**

<i>in millions of euros</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>TOTAL</b>
<b>Impairments at January 1, 2018</b>	<b>(5)</b>	<b>(13)</b>	<b>(119)</b>	<b>(137)</b>
Production and acquisition				0
Derecognition and redemption				0
Transfers between stages		7	(14)	(7)
Other changes	(1)	(2)	6	3
<b>Impairments at June 30, 2018</b>	<b>(6)</b>	<b>(8)</b>	<b>(127)</b>	<b>(141)</b>

##### 4.4.2 Loans and receivables due from credit institutions at amortized cost

<i>in millions of euros</i>	<b>6/30/2018</b>	<b>1/1/2018</b>
Current accounts with overdrafts	8,750	6,540
Repurchase agreements	2,133	1,725
Accounts and loans <sup>(1)</sup>	108,629	105,181
Other loans or receivables due from credit institutions	1,094	1,378
Security deposits paid	3,345	3,548
Impairments for expected credit losses	(53)	(68)
<b>TOTAL</b>	<b>123,898</b>	<b>118,304</b>

<sup>(1)</sup> Livret A, LDD and LEP savings accounts centralized with Caisse des Dépôts et Consignations and recorded under "Accounts and loans" amounted to €289 million at June 30, 2018 versus €297 million at January 1, 2018.

The fair value of loans and receivables due from credit institutions at amortized cost was €125,427 million at June 30, 2018.

Receivables arising from transactions with the networks amounted to €109,644 million at June 30, 2018.

Loans and receivables due from credit institutions at amortized cost can be broken down into:

- Stage 1: €122,614 million, net of impairment (a non-material amount),
- Stage 2: €1,284 million, net of impairment (-€4 million),
- Stage 3: €0 million, net of impairment (-€49 million).

At January 1, 2018, loans and receivables due from credit institutions at amortized cost broke down as follows:

- Stage 1: €117,072 million, net of impairment (-€3 million),
- Stage 2: €1,232 million, net of impairment (-€4 million),
- Stage 3: €0 million, net of impairment (-€61 million).

#### **Change in impairments for expected credit losses on loans and receivables due from credit institutions at amortized cost**

<i>in millions of euros</i>	Stage 1	Stage 2	Stage 3	TOTAL
<b>Impairments at January 1, 2018</b>	<b>(3)</b>	<b>(4)</b>	<b>(61)</b>	<b>(68)</b>
Production and acquisition		(1)		(1)
Derecognition and redemption		1	13	14
Transfers between stages	1	1		2
Other changes	2	(1)	(1)	0
<b>Impairments at June 30, 2018</b>	<b>0</b>	<b>(4)</b>	<b>(49)</b>	<b>(53)</b>

#### **4.4.3 Loans and receivables due from customers at amortized cost**

<i>in millions of euros</i>	6/30/2018	1/1/2018
<b>Current accounts with overdrafts</b>	<b>5,170</b>	<b>4,888</b>
<b>Other facilities granted to customers</b>	<b>166,620</b>	<b>166,792</b>
- Loans to financial sector customers	6,726	5,913
- Short-term credit facilities	31,809	29,884
- Equipment loans	26,413	27,180
- Home loans	58,910	58,706
- Export loans	3,471	3,198
- Repurchase agreements	6,992	7,471
- Finance leases	12,031	11,998
- Subordinated loans	184	184
- Other loans	20,084	22,258
<b>Other loans or receivables due from customers</b>	<b>8,705</b>	<b>7,859</b>
<b>Security deposits paid</b>	<b>67</b>	<b>43</b>
<b>Gross loans and receivables due from customers</b>	<b>180,563</b>	<b>179,582</b>
Impairments for expected credit losses	(3,332)	(3,791)
<b>TOTAL</b>	<b>177,231</b>	<b>175,791</b>

The fair value of loans and receivables due from customers was €178,774 million at June 30, 2018.

Loans and receivables due from customers at amortized cost can be broken down into:

- Stage 1: €134,691 million, net of impairment (-€152 million),
- Stage 2: €36,529 million, net of impairment (-€397 million),
- Stage 3: €6,011 million, net of impairment (-€2,783 million).

At January 1, 2018, loans and receivables due from customers at amortized cost broke down as follows:

- Stage 1: €115,510 million, net of impairment (-€183 million),
- Stage 2: €54,040 million, net of impairment (-€497 million),

- Stage 3: €6,241 million, net of impairment (-€3,111 million).

At June 30, 2018, loans and receivables due from customers included €605 million in purchased or originated credit-impaired assets (net amount, after a -€174 million impairment).

#### **Change in impairments for expected credit losses on loans and receivables due from customers at amortized cost**

<i>in millions of euros</i>	Stage 1	Stage 2	Stage 3	TOTAL
<b>Impairments at January 1, 2018</b>	<b>(183)</b>	<b>(497)</b>	<b>(3,111)</b>	<b>(3,791)</b>
Production and acquisition	(40)	(19)	(31)	(90)
Derecognition and redemption	23	45	216	284
Transfers between stages		51	(41)	10
Other changes	48	23	184	255
<b>Impairments at June 30, 2018</b>	<b>(152)</b>	<b>(397)</b>	<b>(2,783)</b>	<b>(3,332)</b>

<sup>(1)</sup> Changes in first-half 2018 related to implementation of IFRS 5 stood at +€46 million for Stage 1, +€28 million for Stage 2 and +€318 million for Stage 3.

#### **4.5 ACCRUED INCOME AND OTHER ASSETS**

<i>in millions of euros</i>	6/30/2018	1/1/2018
Collection accounts	323	229
Prepaid expenses	314	210
Accrued income	818	465
Other accruals	1,960	2,026
<b>Accrued income and prepaid expenses</b>	<b>3,415</b>	<b>2,929</b>
Settlement accounts in debit on securities transactions	388	308
Other debtors	16,182	15,239
<b>Other assets</b>	<b>16,570</b>	<b>15,547</b>
<b>TOTAL ACCRUED INCOME AND OTHER ASSETS</b>	<b>19,985</b>	<b>18,476</b>

#### **4.6 GOODWILL**

Goodwill related to operations for first-half 2018 is analyzed in respect of the note regarding the scope of consolidation.

<i>in millions of euros</i>	H1 2018	Fiscal year 2017
<b>Opening net value</b>	<b>3,728</b>	<b>3,803</b>
Acquisitions <sup>(1)</sup>	65	193
Impairment		(66)
Reclassifications and other movements <sup>(2)</sup>	(57)	
Foreign exchange rate adjustments	38	(202)
<b>Closing net value</b>	<b>3,774</b>	<b>3,728</b>

<sup>(1)</sup> Including €10 million in goodwill recorded on the acquisition of Vermillon, €37 million for the acquisition of Fenchurch and €18 million in goodwill recorded on the acquisition of Alter CE (Comitéo);

<sup>(2)</sup> Including -€51 million related to the reclassifications to the "Financial assets held for sale" aggregate under IFRS 5 (-€21 million for Axeltix, -€9 million for Selection 1818 and -€21 million for Banque Malgache de l'Océan Indien (BMOI)); In addition, a -€9 million adjustment was made within the one-year allocation period including -€10 million for Investors Mutual Limited.

At June 30, 2018, gross goodwill stood at €4,157 million and total impairment stood at €383 million.

As there was no indication of impairment, no impairment tests were performed at June 30, 2018 with the exception of the "Equity interests (Coface)" CGU.

Since the spot price of the share declined and the valuation of the "Equity interests (Coface)" CGU is sensitive to this input, an impairment test was performed. At June 30, 2018, no additional impairment was recorded as a result of this test.

Certain goodwill items recognized in the United States gave rise to tax amortization over 15 years leading to a difference between the carrying amount of the goodwill and its tax base. This difference in treatment generated a deferred tax liability of €321 million at June 30, 2018 compared with €311 million at December 31, 2017.

## Breakdown of goodwill

<i>in millions of euros</i>	Carrying amount	
	6/30/2018	1/1/2018
BPCE International	7	28
Fidor Bank AG	82	82
Crédit Foncier	13	13
Other	5	4
<b>Other networks</b>	<b>107</b>	<b>127</b>
<b>Specialized Financial Services</b>	<b>181</b>	<b>163</b>
<b>Insurance</b>	<b>93</b>	<b>93</b>
<b>Equity interests (Coface)</b>	<b>281</b>	<b>281</b>
<b>Retail Banking and Insurance</b>	<b>662</b>	<b>664</b>
<b>Asset &amp; Wealth Management</b>	<b>2,984</b>	<b>2,987</b>
<b>Corporate &amp; Investment Banking</b>	<b>128</b>	<b>77</b>
<b>TOTAL GOODWILL</b>	<b>3,774</b>	<b>3,728</b>

## 4.7 AMOUNTS DUE TO CREDIT INSTITUTIONS AND CUSTOMERS

These liabilities, which are not classified as financial liabilities at fair value through profit or loss, are carried at amortized cost under "Amounts due to credit institutions" or "Amounts due to customers."

### 4.7.1 Amounts due to credit institutions and similar items

<i>in millions of euros</i>	6/30/2018	1/1/2018
Demand deposits	22,360	22,365
Repurchase agreements	3,443	4,097
Accrued interest	4	4
<b>Amounts due to credit institutions – repayable on demand</b>	<b>25,807</b>	<b>26,465</b>
Term deposits and loans	79,975	80,270
Repurchase agreements	6,164	5,385
Accrued interest	1	108
<b>Amounts due to credit institutions – repayable at agreed maturity date:</b>	<b>86,139</b>	<b>85,763</b>
Security deposits received <sup>(1)</sup>	<b>1,356</b>	<b>1,148</b>
<b>TOTAL AMOUNTS DUE TO CREDIT INSTITUTIONS</b>	<b>113,302</b>	<b>113,376</b>

<sup>(1)</sup> Guarantees received that were recorded under accrual accounts at December 31, 2017 were reclassified at January 1, 2018 to loans and receivables due from credit institutions or to assets at fair value through profit or loss depending on the associated business model (see Note 4.1.2).

The fair value of amounts due to credit institutions was €113,730 million at June 30, 2018.

Amounts payable arising from transactions with the networks amounted to €43,439 million at June 30, 2018.

#### 4.7.2 Amounts due to customers

<i>in millions of euros</i>	<b>6/30/2018</b>	<b>1/1/2018</b>
<b>Current accounts in credit</b>	<b>23,429</b>	<b>23,516</b>
Livret A savings accounts	258	257
Regulated home savings products	256	269
Other regulated savings accounts	1,373	1,745
Accrued interest	6	2
<b>Regulated savings accounts</b>	<b>1,893</b>	<b>2,273</b>
Demand deposits and loans	6,770	8,455
Term accounts and loans	17,846	19,535
Accrued interest	87	87
<b>Other customer accounts</b>	<b>24,702</b>	<b>28,077</b>
Term	6,673	5,977
Accrued interest	(4)	
<b>Repurchase agreements</b>	<b>6,669</b>	<b>5,977</b>
<b>Other amounts due to customers</b>	<b>3,030</b>	<b>2,347</b>
Security deposits received	201	587
<b>TOTAL AMOUNTS DUE TO CUSTOMERS</b>	<b>59,925</b>	<b>62,778</b>

The fair value of amounts due to customers was €59,613 million at June 30, 2018.

#### 4.8 DEBT SECURITIES

Debt securities are classified based on the nature of the underlying, with the exception of subordinated notes presented under "Subordinated debt."

<i>in millions of euros</i>	<b>6/30/2018</b>	<b>1/1/2018</b>
Bonds	121,914	130,674
Interbank market instruments and negotiable debt securities	79,474	66,617
Other debt securities that are neither non-preferred nor subordinated	1,808	1,720
Non-preferred debt	9,437	4,856
<b>Total</b>	<b>212,633</b>	<b>203,867</b>
Accrued interest	1,607	2,062
<b>TOTAL DEBT SECURITIES</b>	<b>214,240</b>	<b>205,929</b>

The fair value of debt securities was €216,159 million at June 30, 2018.

A new category of liabilities eligible for the numerator in the TLAC (Total Loss Absorbing Capacity) calculation has been introduced by French law and is commonly referred to as "senior non-preferred debt". These liabilities have a ranking between the ranking of own funds and other "senior preferred" debt.

## 4.9 ACCRUED EXPENSES AND OTHER LIABILITIES

<i>in millions of euros</i>	6/30/2018	1/1/2018
Collection accounts	964	1,501
Prepaid income	359	304
Accounts payable	1,429	1,177
Other accruals	4,988	3,575
<b>Accrued expenses and other liabilities</b>	<b>7,740</b>	<b>6,556</b>
Settlement accounts in credit on securities transactions	313	310
Other payables	13,324	12,487
<b>Other liabilities</b>	<b>13,637</b>	<b>12,797</b>
<b>TOTAL ACCRUED EXPENSES AND OTHER LIABILITIES</b>	<b>21,377</b>	<b>19,353</b>

## 4.10 PROVISIONS

Provisions are detailed in the table below, with the exception of provisions for expected credit losses on loan and guarantee commitments, which are detailed in Note 9.

<i>in millions of euros</i>	1/1/2018	Increase	Use	Reversals unused	Other changes <sup>(1)</sup>	6/30/2018
Provisions for employee benefit commitments <sup>(2)</sup>	904	48	10	(93)	(48)	821
Provisions for restructuring costs	45	1	(8)	(10)		28
Legal and tax risks	1,128	32	(24)	(45)	41	1,131
Loan and guarantee commitments <sup>(3)</sup>	245	145	(154)	(21)	(14)	201
Provisions for regulated home savings products	3					3
Other operating provisions	676	84	(60)	(34)	(32)	634
<b>TOTAL PROVISIONS</b>	<b>3,002</b>	<b>310</b>	<b>(236)</b>	<b>(204)</b>	<b>(53)</b>	<b>2,819</b>

<sup>(1)</sup> Other changes include the variation in revaluation differences on employee benefits (-€26 million before tax) as well as the impacts of the reclassification of the provisions of BPCE International's African subsidiaries to liabilities held for sale (IFRS 5: -€30 million) and foreign exchange rate adjustments for +€25 million;

<sup>(2)</sup> Including €751 million for post-employment defined-benefit plans and other long-term employee benefits;

<sup>(3)</sup> Provisions for loan and guarantee commitments are detailed in Note 9.

## 4.11 SUBORDINATED DEBT

Subordinated debt differs from other debt and bonds in that it will be repaid only after all the senior and unsecured creditors, but before the repayment of participating loans and securities and deeply subordinated notes.

The table below shows subordinated debt at amortized cost presented in the "Subordinated debt" line under liabilities as well as subordinated debt at fair value through profit or loss included in the "Financial liabilities at fair value through profit or loss" line.

<i>in millions of euros</i>	6/30/2018	1/1/2018
Subordinated debt designated at fair value through profit and loss	100	100
<b>SUBORDINATED DEBT AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>100</b>	<b>100</b>
Term subordinated debt	16,073	15,933
Perpetual subordinated debt	312	312
<b>Subordinated debt and similar</b>	<b>16,385</b>	<b>16,245</b>
Accrued interest	353	322
Revaluation of hedged items	262	489
<b>SUBORDINATED DEBT AT AMORTIZED COST</b>	<b>17,000</b>	<b>17,056</b>
<b>TOTAL SUBORDINATED DEBT</b>	<b>17,100</b>	<b>17,156</b>

<sup>(1)</sup> Including €638 million for the insurance entities at June 30, 2018, versus €639 million at December 31, 2017.

Dated subordinated debt consists mainly of term subordinated debt. Perpetual subordinated and deeply subordinated debt consists mainly of perpetual subordinated loans. Within this subordinated debt, the perpetual subordinated loans are fully subscribed for by Natixis and the term subordinated notes by BPCE SA.

The fair value of subordinated debt was €17,626 million at June 30, 2018.

## Changes in subordinated debt and similar during the year

<i>in millions of euros</i>	1/1/2018	Issuance <sup>(1)</sup>	Redemption <sup>(2)</sup>	Other changes	6/30/2018
Subordinated debt designated at fair value through profit and loss	100				100
<b>SUBORDINATED DEBT AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>100</b>				<b>100</b>
Term subordinated debt	15,933		(67)	206	16,073
Perpetual subordinated debt	312				312
<b>SUBORDINATED DEBT AT AMORTIZED COST</b>	<b>16,245</b>		<b>(67)</b>	<b>206</b>	<b>16,385</b>
<b>SUBORDINATED DEBT AND SIMILAR</b>	<b>16,345</b>		<b>(67)</b>	<b>206</b>	<b>16,485</b>

<sup>(1)</sup> No redeemable subordinated notes were issued in first-half 2018;

<sup>(2)</sup> Redemptions of subordinated loans and notes mainly concerned the maturity in 2018 of subordinated notes issued by the Banque Populaire banks for €221 million and by BPCE SA for €54 million.

Deeply subordinated notes qualifying as equity instruments are presented in Note 4.14.2.

## 4.12 ORDINARY SHARES AND EQUITY INSTRUMENTS ISSUED

Issuing entity	Issue date	Currency	Amount (in original currency)	Redemption option date	Interest step-up date	Rate	Nominal amount (in millions of euros) <sup>(1)</sup>	
							6/30/2018	1/1/2018
BPCE	8/6/2009	EUR	374 million	9/30/2019	9/30/2019	12.5%	374	374
BPCE	8/6/2009	USD	444 million	9/30/2019	9/30/2019	12.5%	309	309
<b>TOTAL</b>							<b>683</b>	<b>683</b>

<sup>(1)</sup> Nominal amount translated into euros at the exchange rate in force at the date of classification as equity.

Issues of perpetual deeply subordinated notes are recognized in equity due to the discretionary nature of their remuneration.

## 4.13 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities were offset on the balance sheet in accordance with IAS 32. Under this standard, a financial asset and financial liability are offset and a net balance is recorded in the balance sheet if and only if:

- the Group has the legally enforceable right to offset the recorded amounts; and
- it has the intention either to settle the net amount or to simultaneously realize the asset and settle the liability.

Within Groupe BPCE, most offset amounts are the result of repurchase agreements and derivatives transactions largely carried out by Natixis with clearing houses, which fulfilled the requirements of IAS 32:

- for OTC derivatives, this involves the effects of the currency offset between asset valuations and liability valuations of the derivatives;
- for asset switch transactions that have similar nominal amounts and identical maturities and currencies, the Group presents them as a single financial asset or liability;
- for listed derivatives, the positions recorded under the respective asset and liability items for:
  - index options and futures options are offset by maturity and by currency,
  - equity options are offset by ISIN code and maturity date;
- for repurchase agreements, the amount recorded in the balance sheet corresponds to the net value of repurchase and reverse repurchase agreements that:
  - are entered into with the same clearing house,
  - have the same maturity date,
  - involve the same custodian,
  - are denominated in the same currency.

Financial assets and liabilities "Under netting agreements not offset in the balance sheet" comprise transactions under netting agreements or similar agreements, but that do not meet the restrictive netting criteria set by IAS 32. This is particularly the case for derivatives or OTC repurchase agreements subject to master agreements under which the net

settlement criteria or realization of a simultaneous settlement of the asset and liability cannot be demonstrated or for which the offsetting right can only be exercised in the event of default, insolvency or bankruptcy by one of the parties to the agreement.

For these instruments, the "Related financial assets and financial instruments received as collateral" and "Related financial liabilities and financial instruments pledged as collateral" columns include in particular:

- for repurchase agreements:
  - loans or borrowings resulting from reverse repurchase agreements with the same counterparty, and securities pledged or received as collateral (for the fair value of said securities),
  - margin calls in the form of securities (for the fair value of said securities);
- for derivatives, the fair values of the reverse transactions with the same counterparty, as well as the margin calls in the form of securities.

Margin calls received or paid in cash are shown in the "Margin calls received (cash collateral)" and "Margin calls paid (cash collateral)" columns.



#### 4.13.1 Financial assets

##### Financial assets under netting agreements offset in the balance sheet

	6/30/2018			1/1/2018		
	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets shown in the balance sheet	Gross amount of financial assets	Gross amount of financial liabilities offset in the balance sheet	Net amount of financial assets shown in the balance sheet
<i>in millions of euros</i>						
Derivatives (trading and hedging)	77,933	18,872	59,061	77,224	17,426	59,798
Repurchase agreements	98,647	20,860	77,788	44,551	8,465	36,098
<b>Financial assets at fair value</b>	<b>176,580</b>	<b>39,731</b>	<b>136,849</b>	<b>121,775</b>	<b>25,891</b>	<b>95,884</b>
Repurchase agreements (loans and receivables portfolio)	9,825	700	9,125	62,972	6,459	56,513
<b>TOTAL</b>	<b>186,405</b>	<b>40,431</b>	<b>145,973</b>	<b>184,747</b>	<b>32,350</b>	<b>152,397</b>

##### Financial assets under netting agreements not offset in the balance sheet

	6/30/2018				1/1/2018			
	Net amount of financial assets shown in the balance sheet	Related financial liabilities and financial instruments received as collateral	Margin calls received (cash collateral)	Net exposure	Net amount of financial assets shown in the balance sheet	Related financial liabilities and financial instruments received as collateral	Margin calls received (cash collateral)	Net exposure
<i>in millions of euros</i>								
Derivatives	59,061	29,539	9,377	20,145	59,798	31,468	9,878	18,452
Repurchase agreements	86,912	84,596		2,316	92,599	86,504	12	6,083
<b>TOTAL</b>	<b>145,973</b>	<b>114,134</b>	<b>9,377</b>	<b>22,461</b>	<b>152,397</b>	<b>117,972</b>	<b>9,890</b>	<b>24,535</b>

#### 4.13.2 Financial liabilities

##### Financial liabilities under netting agreements offset in the balance sheet

	6/30/2018			1/1/2018		
	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities shown in the balance sheet	Gross amount of financial liabilities	Gross amount of financial assets offset in the balance sheet	Net amount of financial liabilities shown in the balance sheet
<i>in millions of euros</i>						
Derivatives (trading and hedging)	79,826	18,872	60,954	78,473	17,426	61,047
Repurchase agreements	116,069	20,860	95,209	43,431	8,465	34,966
<b>Financial liabilities at fair value</b>	<b>195,894</b>	<b>39,731</b>	<b>156,163</b>	<b>121,904</b>	<b>25,891</b>	<b>96,013</b>
Repurchase agreements (liabilities portfolio)	16,977	700	16,277	85,527	6,459	79,068
<b>TOTAL</b>	<b>212,871</b>	<b>40,431</b>	<b>172,440</b>	<b>207,431</b>	<b>32,350</b>	<b>175,081</b>

##### Financial liabilities under netting agreements not offset in the balance sheet

	6/30/2018				1/1/2018			
	Net amount of financial liabilities shown in the balance sheet	Related financial assets and financial instruments posted as collateral	Margin calls paid (cash collateral)	Net exposure	Net amount of financial liabilities shown in the balance sheet	Related financial assets and financial instruments posted as collateral	Margin calls paid (cash collateral)	Net exposure
<i>in millions of euros</i>								
Derivatives	60,954	29,439	10,774	20,741	61,047	31,880	10,767	18,400
Repurchase agreements	111,486	108,793	17	2,676	114,034	104,021	2	10,011
<b>TOTAL</b>	<b>172,440</b>	<b>138,232</b>	<b>10,791</b>	<b>23,417</b>	<b>175,081</b>	<b>135,901</b>	<b>10,769</b>	<b>28,411</b>

## Note 5 Notes to the income statement

### 5.1 INTEREST AND SIMILAR INCOME AND EXPENSES

This line item comprises interest income and expenses, calculated using the effective interest method, on financial assets and liabilities measured at amortized cost, which include interbank and customer items, the portfolio of securities at amortized cost, debt securities and subordinated debt.

Interest income also consists of interest on non-SPPI debt instruments not held under a trading model as well as interest on the related economic hedges (classified by default as instruments at fair value through profit or loss).

It also includes interest receivable on fixed-income securities classified as financial assets at fair value through other comprehensive income and hedging derivatives, it being specified that accrued interest on cash flow hedging derivatives is taken to income in the same manner and period as the accrued interest on the hedged item.

<i>in millions of euros</i>	H1 2018		
	Interest income	Interest expenses	Net
Loans or receivables due from credit institutions <sup>(1)</sup>	598	///	598
Loans or receivables due from customers	2,383	///	2,383
Debt securities	313	///	313
<b>Total financial assets at amortized cost (excluding finance leases)</b>	<b>3,294</b>	<b>///</b>	<b>3,294</b>
<b>Finance leases</b>	<b>181</b>	<b>(2)</b>	<b>179</b>
Debt securities	90	///	90
<b>Total financial assets at fair value through other comprehensive income</b>	<b>90</b>	<b>///</b>	<b>90</b>
<b>Non-standard financial assets not held for trading</b>	<b>141</b>	<b>///</b>	<b>141</b>
Amounts due to credit institutions	///	(407)	(407)
Amounts due to customers	///	(381)	(381)
Debt securities and subordinated debt	///	(2,187)	(2,187)
<b>Total financial liabilities at amortized cost</b>	<b>///</b>	<b>(2,975)</b>	<b>(2,975)</b>
<b>Hedging derivatives</b>	<b>1,912</b>	<b>(1,751)</b>	<b>161</b>
<b>Economic hedging derivatives</b>	<b>112</b>	<b>(58)</b>	<b>54</b>
<b>Other interest income and expenses</b>	<b>0</b>	<b>(64)</b>	<b>(64)</b>
<b>Total interest income and expenses</b>	<b>5,730</b>	<b>(4,850)</b>	<b>880</b>

Interest income in first-half 2018 included €154 million in interest income related to Stage 3 financial assets.

### First-half 2017 data prepared in accordance with IAS 39

<i>in millions of euros</i>	H1 2017		
	Income	Expense	Net
Loans and receivables due from customers	3,123	(828)	2,295
Loans and receivables due from credit institutions	741	(524)	217
Finance leases	212	///	212
Debt securities and subordinated debt	///	(2,233)	(2,233)
Hedging derivatives	2,112	(1,727)	385
Available-for-sale financial assets	536	///	536
Held-to-maturity financial assets	63	///	63
Impaired financial assets	///	///	///
Other interest income and expenses	5	(48)	(43)
<b>TOTAL INTEREST INCOME AND EXPENSES</b>	<b>6,792</b>	<b>(5,360)</b>	<b>1,432</b>

### 5.2 FEE AND COMMISSION INCOME AND EXPENSES

Fees and commissions are recorded based on the type of service rendered and on the method of accounting for the financial instrument to which the service relates.

This line includes mainly fees and commissions receivable or payable on recurring services (payment processing, custody fees, etc.) and occasional services (fund transfers, payment penalties, etc.), fees and commissions receivable or payable on execution of significant transactions, and fees and commissions receivable or payable on trust assets managed on behalf of the Group's customers.

However, fees and commissions that form an integral part of the effective yield on a contract are recorded under "Net interest income."

<i>in millions of euros</i>	H1 2018			H1 2017		
	Income	Expense	Net	Income	Expense	Net
Cash and interbank transactions	3	(25)	(22)	2	(22)	(20)
Customer transactions	472	(10)	462	524	(4)	520
Financial services	253	(382)	(129)	230	(388)	(158)
Sales of life insurance products	87	///	87	92	///	92
Payment services	215	(35)	180	280	(121)	159
Securities transactions	106	(93)	13	137	(107)	30
Trust management services	1,793		1,793	1,646		1,646
Financial instruments and off-balance sheet transactions	92	(92)		108	(77)	31
Other fee and commission income/(expense)	72	(600)	(528)	144	(489)	(345)
<b>TOTAL FEE AND COMMISSION INCOME AND EXPENSES</b>	<b>3,093</b>	<b>(1,236)</b>	<b>1,857</b>	<b>3,163</b>	<b>(1,208)</b>	<b>1,955</b>

### 5.3 NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

This item includes gains and losses (including the related interest) on financial assets and liabilities classified as held for trading or designated at fair value through profit or loss.

“Gains and losses on hedging transactions” include gains and losses arising from the revaluation of derivatives used as fair value hedges, as well as gains and losses from the revaluation of the hedged item in the same manner, the revaluation at fair value of the macro-hedged portfolio and the ineffective portion of cash flow hedges.

<i>in millions of euros</i>	H1 2018
Gains and losses on financial instruments mandatorily at fair value through profit or loss <sup>(1)</sup>	811
Gains and losses on financial instruments designated at fair value through profit or loss	241
Gains and losses on hedging transactions	(14)
- Ineffective portion of cash flow hedges (CFH)	(17)
- Ineffective portion of fair value hedges (FVH)	3
Changes in fair value of fair value hedges	(245)
Changes in fair value of hedged items	248
Gains and losses on foreign exchange transactions	82
<b>Total net gains and losses on financial instruments at fair value through profit or loss</b>	<b>1,120</b>

<sup>(1)</sup> including foreign exchange economic hedging.

“Gains and losses on financial instruments mandatorily measured at fair value through profit or loss” in first-half 2018 mainly included:

- Impairments taken against the fair value of CDS entered into with monoline insurers: a decrease of €40 million in cumulative impairments in H1 2018, versus a decrease of €10 million (income) in cumulative impairments in H1 2017 (excluding the foreign exchange effect), bringing cumulative impairments to €23 million at June 30, 2018 versus €61 million at June 30 2017;
- The -€14 million change in the fair value of derivatives due to the difference in impairments for counterparty risk (Credit Valuation Adjustment – CVA), in the amount of +€29 million due to the consideration of non-performance risk in the valuation of derivative financial liabilities (Debit Valuation Adjustment – DVA), and in the amount of -€15 million due to the inclusion of an adjustment for funding costs (Funding Valuation Adjustment – FVA).

“Gains and losses on hedging transactions” consist mainly of gains and losses recorded in the event of over-hedging in interest rate macro-hedging transactions, i.e., -€50 million in first-half 2018 in light of the partial dedesignation of hedging relationships or due to the measured ineffectiveness. This over-hedging is caused mainly by the significant renegotiations or prepayments of loans observed in the current low interest rate environment.

#### First-half 2017 data prepared in accordance with IAS 39

<i>in millions of euros</i>	<b>H1 2017</b>
Gains and losses on financial instruments held for trading	1,338
Gains and losses on financial instruments designated at fair value through profit or loss	496
Gains and losses on hedging transactions	6
- Ineffective portion of fair value hedges	8
- Ineffective portion of cash flow hedges	(2)
Gains and losses on foreign exchange transactions	(6)
<b>TOTAL NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>1,834</b>

#### 5.4 NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

<i>in millions of euros</i>	<b>H1 2018</b>
Net gains or losses on debt instruments	3
Net gains or losses on equity instruments (dividends)	49
<b>Total gains and losses on financial assets at fair value through other comprehensive income</b>	<b>52</b>

#### First-half 2017 data prepared in accordance with IAS 39

<i>in millions of euros</i>	<b>H1 2017</b>
Gains or losses on disposal	244
Dividends received	122
Permanent impairment of variable-income securities	(15)
<b>TOTAL NET GAINS OR LOSSES ON AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>	<b>351</b>

#### 5.5 NET GAINS OR LOSSES ON FINANCIAL INSTRUMENTS AT AMORTIZED COST

Net gains or losses in first-half 2018 resulting from the derecognition of instruments at amortized cost included €2 million in losses recorded following the sale of financial assets at amortized cost and €4 million in gains related to the derecognition of financial liabilities at amortized cost.

#### 5.6 INCOME AND EXPENSES FROM OTHER ACTIVITIES

This item mainly comprises:

- income and expenses on investment property (rental income and expense, gains and losses on disposals, depreciation, amortization and impairment);
- income and expenses on operating leases;
- income and expenses on real estate development activities (revenues, purchases used).

<i>in millions of euros</i>	<b>H1 2018</b>		
	<b>Income</b>	<b>Expense</b>	<b>Net</b>
<b>Income and expenses from real estate activities</b>	2	(1)	(1)
<b>Income and expenses from leasing transactions</b>	66	(48)	18
<b>Income and expenses from investment property</b>	6	(10)	(4)
<b>Other banking income and expenses</b>	658	(387)	271
<b>TOTAL INCOME AND EXPENSES FROM OTHER ACTIVITIES</b>	<b>732</b>	<b>(446)</b>	<b>286</b>

Income and expenses from insurance businesses are presented in Note 6.2.

### First-half 2017 data prepared in accordance with IAS 39

<i>in millions of euros</i>	H1 2017		
	Income	Expense	Net
<b>Income and expenses from insurance activities</b>	5,875	(6,198)	(323)
<b>Income and expenses from real estate activities</b>	168	(205)	(37)
<b>Income and expenses from leasing transactions</b>	68	(28)	40
<b>Other banking income and expenses</b>	345	(210)	135
<b>TOTAL INCOME AND EXPENSES FROM OTHER ACTIVITIES</b>	<b>6,456</b>	<b>(6,641)</b>	<b>(185)</b>

## 5.7 OPERATING EXPENSES

Operating expenses include mainly payroll costs (wages and salaries net of rebilled amounts), social security charges, and employee benefit expenses such as pension costs. Operating expenses also include the full amount of administrative expenses and external services costs.

<i>in millions of euros</i>	H1 2018	H1 2017
<b>Payroll costs</b>	<b>(2,487)</b>	<b>(2,432)</b>
Taxes other than on income <sup>(1)</sup>	(392)	(389)
External services and other operating expenses	(1,246)	(1,187)
<b>Other administrative costs</b>	<b>(1,638)</b>	<b>(1,576)</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>(4,125)</b>	<b>(4,008)</b>

<sup>(1)</sup> Taxes other than on income included, in particular, the contribution to the SRF (Single Resolution Fund) for an annual amount of €236 million (versus €200 million in 2017) and the systemic risk tax for an annual amount of €25 million (versus €39 million in 2017).

## 5.8 COST OF CREDIT RISK

This item includes net impairment and provision charges for credit risk.

It covers both loans and receivables and fixed-income securities classified at amortized cost or at fair value through other comprehensive income, as well as the loan commitments and financial guarantee contracts that are not recognized at fair value through profit or loss. Credit losses related to other types of instruments (derivatives or securities designated at fair value through profit or loss) recorded as a result of default by credit institutions are also included under this item.

Irrecoverable loans not covered by provisions for impairment are loans that were not covered by impairment provisions in Stage 3 and that are permanently lost before being provisioned in Stage 3.

### Cost of risk for the period

<i>in millions of euros</i>	H1 2018
Net charge to provisions and provisions for impairment	(101)
Recoveries of bad debts written off	6
Irrecoverable loans not covered by provisions for impairment	(48)
<b>TOTAL COST OF CREDIT RISK</b>	<b>(143)</b>

**First-half 2017 data prepared in accordance with IAS 39**

<i>in millions of euros</i>	<b>H1 2017</b>
Net charge to provisions and provisions for impairment	(253)
Recoveries of bad debts written off	10
Irrecoverable loans not covered by provisions for impairment	(42)
<b>TOTAL COST OF RISK</b>	<b>(285)</b>

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

<i>in millions of euros</i>	<b>H1 2018</b>
Interbank transactions	27
Customer transactions	(172)
Other financial assets	2
<b>TOTAL COST OF CREDIT RISK</b>	<b>(143)</b>

**First-half 2017 data prepared in accordance with IAS 39**

<i>in millions of euros</i>	<b>H1 2017</b>
Interbank transactions	(1)
Customer transactions	(280)
Other financial assets	(4)
<b>TOTAL COST OF RISK</b>	<b>(285)</b>

**5.9 INCOME TAX**

<i>in millions of euros</i>	<b>H1 2018</b>	<b>H1 2017</b>
Current income tax expense	(7)	(201)
Deferred taxes	(376)	(204)
<b>INCOME TAX</b>	<b>(383)</b>	<b>(405)</b>

## Reconciliation between the tax charge in the financial statements and the theoretical tax charge

	H1 2018		H1 2017	
	in millions of euros	tax rate	in millions of euros	tax rate
Net income (attributable to equity holders of the parent)	533		415	
Change in the value of goodwill				
Non-controlling interests	394		266	
Share in net income of associates	(115)		(123)	
Income taxes	383		405	
<b>INCOME BEFORE TAX AND CHANGES IN THE VALUE OF GOODWILL (A)</b>	<b>1,195</b>		<b>963</b>	
<b>Standard income tax rate in France (B)</b>		<b>34.43%</b>		<b>34.43%</b>
<b>Theoretical income tax expense (income) at the tax rate applicable in France (AxB)</b>	<b>(411)</b>		<b>(332)</b>	
Impact of the change in unrecognized deferred tax assets and liabilities	(38)	3.2%	(41)	4.3%
Effects of permanent differences <sup>(1)</sup>	(125)	10.5%	(95)	9.9%
Reduced rate of tax and tax-exempt activities			(6)	0.6%
Difference in tax rates on income taxed outside France	92	(7.7%)	41	(4.3%)
Tax on prior periods, tax credits and other tax	58	(4.9%)	18	(1.9%)
Other items	41	(3.4%)	10	(1%)
<b>INCOME TAX EXPENSE (INCOME) RECOGNIZED</b>	<b>(383)</b>		<b>(405)</b>	
<b>EFFECTIVE TAX RATE (INCOME TAX EXPENSE DIVIDED BY TAXABLE INCOME)</b>		<b>32.1%</b>		<b>42.1%</b>

<sup>(1)</sup> Permanent differences include mainly the impacts of the SRT (systemic risk tax) and the contribution to the SRF (Single Resolution Fund), consisting of non-deductible expenses (see Note 5.7).

## Note 6 Insurance businesses

Groupe BPCE decided to maintain the provisions of IAS 39 for the recognition of its insurance business investments.

### NOTE 6.1 NOTES TO THE BALANCE SHEET

#### 6.1.1 Insurance business investments

<i>in millions of euros</i>	6/30/2018	1/1/2018
Real estate investment	1,293	1,312
Financial assets at fair value through profit or loss	24,417	22,048
Available-for-sale financial assets	47,604	46,430
Loans and receivables due from credit institutions	751	518
Loans and receivables due from customers	10,135	10,312
Held-to-maturity financial assets	1,562	1,885
Share of reinsurers and retrocessionaires in liabilities related to insurance policies and financial contracts	12,474	11,394
Receivables arising from insurance or accepted reinsurance transactions	1,544	1,425
Receivables arising from ceded reinsurance transactions	63	30
Deferred acquisition costs	709	697
<b>TOTAL INSURANCE BUSINESS INVESTMENTS</b>	<b>100,552</b>	<b>96,051</b>

#### 6.1.1.1 Financial assets at fair value through profit or loss

<i>in millions of euros</i>	6/30/2018	1/1/2018
Bonds		30
UCITS	5,283	4,310
<b>Financial assets held for trading</b>	<b>5,283</b>	<b>4,340</b>
<b>Trading derivatives</b>	<b>21</b>	<b>214</b>
<b>Hedging derivatives</b>	<b>1</b>	<b>1</b>
Bonds	1,341	204
Equities	295	243
UCITS	201	
Loans and receivables due from customers	2,104	2,011
Investments backed by unit-linked policies	15,171	15,035
<b>Financial assets designated at fair value</b>	<b>19,112</b>	<b>17,493</b>
<b>TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>24,417</b>	<b>22,048</b>

#### 6.1.1.2 Available-for-sale financial assets

<i>in millions of euros</i>	6/30/2018	1/1/2018
Bonds	40,323	39,178
Equities	2,270	2,168
UCITS	5,224	5,283
<b>Available-for-sale financial assets, gross</b>	<b>47,817</b>	<b>46,629</b>
Impairments of debt instruments	(24)	(15)
Impairments of equity instruments <sup>(1)</sup>	(189)	(184)
<b>TOTAL AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>	<b>47,604</b>	<b>46,430</b>

<sup>(1)</sup> In first-half 2018, permanent impairment of variable-income securities stood at €15 million. This expense was 89% offset by the profit-sharing mechanism. The first-half 2018 expense can be broken down into an additional impairment loss on previously impaired securities for €12 million and an allowance for newly impaired securities for €3 million.



### 6.1.1.3 Loans and receivables

<i>in millions of euros</i>	6/30/2018	1/1/2018
Loans and receivables due from credit institutions	751	518
Loans and receivables due from customers <sup>(1)</sup>	10,135	10,312
<b>TOTAL LOANS AND RECEIVABLES</b>	<b>10,886</b>	<b>10,830</b>

<sup>(1)</sup> Including €10,019 million for guarantee deposits made for the acceptance of reinsurance treaties (€10,258 million at January 1, 2018).

The fair value of loans and receivables stood at €11,120 million at June 30, 2018.

### 6.1.1.4 Held-to-maturity financial assets

<i>in millions of euros</i>	6/30/2018	1/1/2018
Treasury bills and equivalent	1,037	1,083
Bonds and other fixed-income securities	527	804
<b>Gross amount of held-to-maturity financial assets</b>	<b>1,564</b>	<b>1,887</b>
Impairment	(1)	(2)
<b>TOTAL HELD-TO-MATURITY FINANCIAL ASSETS</b>	<b>1,562</b>	<b>1,885</b>

The fair value of held-to-maturity financial assets amounted to €1,813 million at June 30, 2018.

### 6.1.2 Fair value hierarchy of insurance business investments

<i>in millions of euros</i>	6/30/2018			Total
	Price quoted in an active market (Level 1)	Measurement techniques using observable data (Level 2)	Measurement techniques using unobservable data (Level 3)	
<b>ASSETS</b>				
Securities held for trading	5,187	96		5,283
<i>Equities and UCITS</i>	5,187	96		5,283
<b>Financial assets held for trading</b>	<b>5,187</b>	<b>96</b>		<b>5,283</b>
Interest rate derivatives		4		5
Currency derivatives	8	3		10
Equity derivatives	3		1	4
Other derivatives		1		1
<b>Derivatives not eligible for hedge accounting (positive fair value)</b>	<b>11</b>	<b>8</b>	<b>1</b>	<b>21</b>
Securities designated at fair value through profit or loss	178	599	1,060	1,837
<i>Bonds</i>	89	192	1,060	1,341
<i>Equities and UCITS</i>	89	407		496
Investments backed by unit-linked policies	11,524	3,648		15,172
Loans and receivables		2,104		2,104
<b>Financial assets designated at fair value through profit or loss</b>	<b>11,702</b>	<b>6,351</b>	<b>1,060</b>	<b>19,113</b>
Interest rate derivatives		1		1
<b>Hedging derivatives</b>		<b>1</b>		<b>1</b>
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>16,900</b>	<b>6,456</b>	<b>1,061</b>	<b>24,417</b>
Investments in associates			239	239
Other available-for-sale securities	39,534	5,193	2,638	47,365
<i>Bonds</i>	33,999	4,032	2,268	42,199
<i>Equities and UCITS</i>	5,535	1,161	370	7,066
<b>AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>	<b>39,534</b>	<b>705</b>	<b>2,877</b>	<b>47,604</b>

## Analysis of insurance business investments classified in Level 3 of the fair value hierarchy

in millions of euros	Gains and losses recognized during the period			Transactions carried out during the period			Transfers during the period			6/30/2018
	1/1/2018	In the income statement	On transactions removed from the balance sheet at the reporting date	in equity	Purchases/Issues	Sales/Redemptions	To another reporting category	From and to another level	Other changes	
<b>ASSETS</b>										
Credit derivatives	1									1
<b>Derivatives not eligible for hedge accounting (positive fair value)</b>	<b>1</b>									<b>1</b>
Securities designated at fair value through profit or loss	1,461	(13)	(2)			(363)		(23)		1,060
Bonds	1,461	(13)	(2)			(363)		(23)		1,060
<b>Financial assets designated at fair value through profit or loss</b>	<b>1,461</b>	<b>(13)</b>	<b>(2)</b>			<b>(363)</b>		<b>(23)</b>		<b>1,060</b>
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>	<b>1,462</b>	<b>(13)</b>	<b>(2)</b>			<b>(363)</b>		<b>(23)</b>		<b>1,061</b>
Investments in associates	209	1		3	27		(1)			239
Other available-for-sale securities	3,345	4	(2)	(13)	373	(105)		(954)	(10)	2,638
Bonds	2,954	4	(2)	(10)	360	(91)		(948)		2,268
Equities and UCITS	391			(3)	13	(14)		(6)	(10)	370
<b>AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>	<b>3,554</b>	<b>5</b>	<b>(2)</b>	<b>(10)</b>	<b>400</b>	<b>(105)</b>	<b>(1)</b>	<b>(954)</b>	<b>(10)</b>	<b>2,877</b>

## Analysis of fair value hierarchy transfers

in millions of euros	From	6/30/2018			
		Level 1	Level 2	Level 3	Level 3
	To	Level 2	Level 1	Level 3	Level 2
<b>ASSETS</b>					
Securities designated at fair value through profit or loss					23
Bonds					23
<b>Financial assets designated at fair value through profit or loss</b>					<b>23</b>
<b>FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>					<b>23</b>
Other available-for-sale securities		725		620	1,573
Bonds		706	19	606	1,553
Equities and UCITS		19	19	14	20
<b>AVAILABLE-FOR-SALE FINANCIAL ASSETS</b>		<b>725</b>	<b>19</b>	<b>620</b>	<b>1,573</b>

### 6.1.3 Liabilities related to insurance policies

in millions of euros	6/30/2018	1/1/2018
Technical liabilities related to insurance policies	41,423	38,908
Technical liabilities related to unit-linked insurance policies	11,695	10,256
<b>Technical liabilities related to insurance policies</b>	<b>53,118</b>	<b>49,164</b>
Technical liabilities related to financial contracts with a discretionary profit-sharing feature	20,151	20,227
Technical liabilities related to unit-linked financial contracts	4,168	3,974
<b>Technical liabilities related to financial contracts</b>	<b>24,319</b>	<b>24,201</b>
Deferred profit-sharing liability	2,863	3,275
Liabilities arising from insurance or accepted reinsurance transactions	9,680	9,530
Liabilities arising from ceded reinsurance transactions	240	181
Trading derivatives	19	183
Other liabilities	32	18
<b>TOTAL LIABILITIES RELATED TO INSURANCE POLICIES</b>	<b>90,271</b>	<b>86,552</b>

### 6.1.4 Financial liabilities at fair value through profit or loss

Information required under IFRS 7 on financial liabilities at fair value through profit or loss is presented in Note 4.1.2.

### 6.1.5 Amounts due to credit institutions and customers

Information required under IFRS 7 on amounts due to credit institutions and customers is presented in Note 4.7.

### 6.1.6 Debt securities

Information required under IFRS 7 on debt securities is presented in Note 4.10.

### 6.1.7 Subordinated debt

Information required under IFRS 7 on subordinated debt is presented in Note 4.13.

### 6.1.8 Deferred profit-sharing

<i>in millions of euros</i>	<b>6/30/2018</b>	<b>1/1/2018</b>
Deferred profit-sharing liability	2,863	3,275
<b>TOTAL DEFERRED PROFIT-SHARING <sup>(1)</sup></b>	<b>2,863</b>	<b>3,275</b>
<i>of which deferred profit-sharing fully consolidated in equity</i>	<i>2,033</i>	<i>2,308</i>

<sup>(1)</sup> By convention, net deferred profit-sharing is presented as a negative figure when it is an asset.

## 6.2 NOTES TO THE INCOME STATEMENT

### 6.2.1 Net income from insurance businesses

<i>in millions of euros</i>	<b>H1 2018</b>
Premiums written	7,569
Change in unearned premium income	(173)
<b>Earned premiums</b>	<b>7,396</b>
<b>Revenues and other income from insurance activities</b>	<b>87</b>
Investment income	897
Investment expenses	(49)
Capital gains and losses on disposal of investments (net of reversals, write-downs and amortization)	95
Change in fair value of investments carried at fair value through profit or loss	(162)
Change in write-downs on investments	(24)
<b>Investment income (net of expenses)</b>	<b>758</b>
<b>Amortization of acquisition costs</b>	<b>21</b>
<b>Claims and benefits expenses</b>	<b>(6,789)</b>
Income from reinsurance cessions	1,709
Expenses from reinsurance cessions	(1,736)
<b>Income and expenses net of reinsurance cessions</b>	<b>(27)</b>
<b>NET INCOME FROM INSURANCE BUSINESSES</b>	<b>1,446</b>

### 6.2.2 Transition between the presentation applicable to insurance companies and to banks

The statement shown below provides a transition between the financial statements of insurance companies included in the scope of consolidation and their translation into the financial statements of BPCE SA group in accordance with the presentation applicable to banks.

<i>in millions of euros</i>	Banking format June 2018					Insurance format H1 2018
	Net banking income	Net insurance income	Other net banking income items (excl. net insurance income)	Operating expenses	Gross operating income	
Earned premiums		7,396	(49)		7,347	7,347
Revenues or income from other activities		87	31		118	118
Other operating income			16	8	24	24
Net financial income before finance costs		758	5	(7)	756	756
<b>TOTAL REVENUE FROM ORDINARY ACTIVITIES</b>		<b>8,241</b>	<b>3</b>	<b>1</b>	<b>8,245</b>	<b>8,245</b>
Claims and benefits expenses		(6,789)	54	(60)	(6,795)	(6,795)
Expenses from other activities			9	(6)	(6)	(6)
Net income from reinsurance cessions		(27)			(18)	(18)
Policy acquisition costs		21	(396)	(108)	(483)	(483)
Administrative expenses			(222)	(181)	(403)	(403)
Other operating income and expenses/recurring			(36)	(137)	(173)	(175)
<b>TOTAL OTHER RECURRING INCOME AND EXPENSES</b>		<b>(6,795)</b>	<b>(591)</b>	<b>(492)</b>	<b>(7,878)</b>	<b>(7,880)</b>
<b>OPERATING INCOME</b>		<b>1,446</b>	<b>(588)</b>	<b>(491)</b>	<b>367</b>	<b>365</b>

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## Note 7 Partnerships and associates

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### 7.1 INVESTMENTS IN ASSOCIATES

The Group's main investments in joint ventures and associates are as follows:

<i>in millions of euros</i>	<b>6/30/2018</b>	<b>1/1/2018</b>
CNP Assurances (group)	2,571	2,657
Socram Banque	75	76
Natixis group equity interests	719	732
Other	18	20
<b>Financial sector companies</b>	<b>3,383</b>	<b>3,485</b>
Other	134	138
<b>Non-financial companies</b>	<b>134</b>	<b>138</b>
<b>TOTAL INVESTMENTS IN ASSOCIATES</b>	<b>3,517</b>	<b>3,623</b>

### 7.2 SHARE IN NET INCOME OF ASSOCIATES

<i>in millions of euros</i>	<b>H1 2018</b>	<b>H1 2017</b>
CNP Assurances (group)	108	106
Natixis group equity interests	10	13
Socram Banque	1	1
Other	(8)	1
<b>Financial sector companies</b>	<b>111</b>	<b>121</b>
Other	4	2
<b>Non-financial companies</b>	<b>4</b>	<b>2</b>
<b>SHARE IN NET INCOME OF ASSOCIATES</b>	<b>115</b>	<b>123</b>

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## Note 8 Segment reporting

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BPCE SA group redefined its business lines in the TEC 2020 strategic plan presented on November 29, 2017, notably making the decision to split up the Investment Solutions, Corporate & Investment Banking and Specialized Financial Services division. The Investment Solutions sub-division's Insurance business line and the Specialized Financial Services sub-division were transferred to the Retail Banking and Insurance division.

The Group now has three core business divisions:

Retail Banking and Insurance, which includes:

- Specialized Financial Services (SFS), a Natixis business line encompassing specialized financing activities (factoring, leasing, consumer credit, sureties and financial guarantees), payments and financial services;
- Insurance, a Natixis business line serving the Groupe BPCE networks and their customers;
- Other networks, which comprise Crédit Foncier group, BPCE International (BPCE I) and Banque Palatine.

Asset & Wealth Management, a Natixis business line consisting of:

- Asset Management, which operates on several international markets, combining expertise in investment management and distribution;
- Wealth Management, with Natixis Wealth Management, which offers wealth management and financing solutions for large private-sector investors.

Corporate & Investment Banking, a division of Natixis:

- Corporate & Investment Banking advises and supports corporates, institutional investors, insurance companies, banks and public sector entities.

The Corporate Center, which primarily includes:

- the Group's central institution and holding companies;
- Natixis' equity interests in Coface, Corporate Data Solutions, Natixis Algérie and Natixis Private Equity;
- unlisted investments and cross-business activities;
- items related to goodwill impairment and the amortization of valuation differences, as these items form part of the Group's acquisition and investment strategy;
- the contribution to the Single Resolution Fund and the Deposit Guarantee Fund.

As of the publication of the 2017 half-year results, the presentation of the business divisions reflects these segment reporting amendments, in addition to changes in the capital allocation standards applied by Natixis (Basel III average RWA increased to 10.5% versus 10% previously) and in the rate of return on capital (lowered to 2% from 3% previously).

Segment reporting for BPCE SA group in previous periods has been restated accordingly.

## Results by division

in millions of euros	Retail Banking and Insurance *		Asset & Wealth Management		Corporate & Investment Banking		Corporate Center		BPCE SA group	
	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17
Net banking income	1,770	1,740	1,596	1,448	1,904	1,990	374	209	5,643	5,387
Operating expenses	(1,190)	(1,175)	(1,078)	(1,039)	(1,112)	(1,121)	(915)	(834)	(4,296)	(4,169)
Gross operating income	579	565	517	408	791	869	(541)	(624)	1,347	1,218
Cost/income ratio	67.3%	67.5%	67.6%	71.8%	58.4%	56.3%	ns	ns	76.1%	77.4%
Cost of risk	(69)	(172)	(1)		(68)	(78)	(5)	(36)	(143)	(285)
Share in income of equity-accounted associates	4	8			6	5	105	110	115	123
Gains or losses on other assets	(18)	2		9	3		6	18	(9)	30
Income before tax	497	403	516	418	733	796	(435)	(531)	1,310	1,086
Income tax	(174)	(174)	(145)	(145)	(198)	(245)	134	159	(383)	(405)
Non-controlling interests	(86)	(56)	(163)	(110)	(157)	(161)	11	62	(394)	(266)
Net income attributable to equity holders of the parent	237	173	209	163	378	390	(290)	(311)	533	415

\*Excluding the Banque Populaire banks, Caisses d'Epargne and their consolidated subsidiaries

## Results of the Retail Banking and Insurance sub-divisions

in millions of euros	Banque Populaire banks		Caisses d'Epargne		Specialized Financial Services		Insurance		Other networks		Retail Banking and Insurance	
	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17	H1-18	H1-17
Net banking income	0	0	0	0	733	691	397	368	640	681	1,770	1,740
Operating expenses	0	0	0	0	(495)	(461)	(226)	(231)	(469)	(483)	(1,190)	(1,175)
Gross operating income	0	0	0	0	238	230	170	137	171	198	579	565
Cost/income ratio					67.6%	66.7%	57.1%	62.7%	73.3%	70.9%	67.3%	67.5%
Cost of risk	0	0	0	0	(7)	(35)	0	0	(62)	(137)	(69)	(172)
Share in income of equity-accounted associates	0	0	0	0			3	7	1	1	4	8
Gains or losses on other assets	0	0	0	0	1				(18)	2	(18)	2
Income before tax	0	0	0	0	232	195	173	144	92	64	497	403

## Note 9 Commitments

The amounts shown correspond to the nominal value of commitments given.

### 9.1 LOAN COMMITMENTS

<i>in millions of euros</i>	<b>6/30/2018</b>	<b>1/1/2018</b>
<b>Loan commitments given to:</b>		
credit institutions	950	544
customers	68,106	63,806
- Credit facilities granted	65,494	58,555
- Other commitments	2,612	5,251
<b>TOTAL LOAN COMMITMENTS GIVEN</b>	<b>69,056</b>	<b>64,350</b>
<b>Loan commitments received from:</b>		
credit institutions	46,350	41,477
customers	46	6
<b>TOTAL LOAN COMMITMENTS RECEIVED</b>	<b>46,396</b>	<b>41,483</b>

Loan commitments given can be broken down into:

- Stage 1: €59,980 million (exposure, gross of provisions, of €36 million),
- Stage 2: €8,936 million (exposure, gross of provisions, of €64 million),
- Stage 3: €140 million (exposure, gross of provisions, of €11 million).

At January 1, 2018, loan commitments given broke down as follows:

- Stage 1: €46,314 million (exposure, gross of provisions, of €38 million),
- Stage 2: €17,796 million (exposure, gross of provisions, of €89 million),
- Stage 3: €240 million (exposure, gross of provisions, of €16 million).

At June 30, 2018, loan commitments given included €105 million in commitments provisioned on their origination or acquisition (exposure, gross of provisions, of €1 million).

#### **Change in provisions for expected credit losses on loan commitments given**

<i>in millions of euros</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>TOTAL</b>
<b>Provisions at January 1, 2018</b>	<b>38</b>	<b>89</b>	<b>16</b>	<b>143</b>
Production and acquisition	8			8
Derecognition and redemption	(3)	(5)		(8)
Transfers between stages	12	(12)		0
Other changes	(19)	(8)	(5)	(32)
<b>Provisions at June 30, 2018</b>	<b>36</b>	<b>64</b>	<b>11</b>	<b>111</b>

## 9.2 GUARANTEE COMMITMENTS

Guarantee commitments are off-balance sheet commitments.

<i>in millions of euros</i>	<b>6/30/2018</b>	<b>1/1/2018</b>
<b>Guarantee commitments given to:</b>		
credit institutions	6,466	6,162
customers <sup>(1)</sup>	26,676	25,676
<b>TOTAL GUARANTEE COMMITMENTS GIVEN</b>	<b>33,142</b>	<b>31,838</b>
<b>Guarantee commitments received from:</b>		
credit institutions	19,016	17,372
customers	89,778	87,476
<b>TOTAL GUARANTEE COMMITMENTS RECEIVED</b>	<b>108,794</b>	<b>104,848</b>

<sup>(1)</sup> The guarantees given by CEGC (a subsidiary of Natixis) in connection with its activity are treated as insurance policies for accounting purposes, in accordance with IFRS 4 "Insurance contracts." They are recorded on the liabilities side of the balance sheet and are not included in guarantees given to customers shown in the table above.

Guarantee commitments given can be broken down into:

- Stage 1: €27,040 million (exposure, gross of provisions, of €10 million),
- Stage 2: €5,957 million (exposure, gross of provisions, of €24 million),
- Stage 3: €145 million (exposure, gross of provisions, of €56 million).

At January 1, 2018, guarantee commitments given broke down as follows:

- Stage 1: €18,447 million (exposure, gross of provisions, of €18 million),
- Stage 2: €13,215 million (exposure, gross of provisions, of €30 million),
- Stage 3: €176 million (exposure, gross of provisions, of €54 million).

At June 30, 2018, guarantee commitments given included €5 million in commitments provisioned on their origination or acquisition (exposure, gross of provisions, of €1 million).

### **Change in provisions for expected credit losses on guarantee commitments given**

<i>in millions of euros</i>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>TOTAL</b>
<b>Provisions at January 1, 2018</b>	<b>18</b>	<b>30</b>	<b>54</b>	<b>102</b>
Production and acquisition	4	1		5
Derecognition and redemption	(1)	(5)	17	11
Transfers between stages	1	(2)		(1)
Other changes	(12)		(15)	(27)
<b>Provisions at June 30, 2018</b>	<b>10</b>	<b>24</b>	<b>56</b>	<b>90</b>



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## **Note 10    Scope of consolidation**

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### **10.1 CHANGE IN SCOPE OF CONSOLIDATION IN FIRST-HALF 2018**

The main changes in the scope of consolidation during the first half of 2018 are presented below:

#### **Change in the Group's ownership interest in Natixis**

Following a number of transactions in its own shares, the Group's stake in Natixis stood at 71.03% at June 30, 2018 (versus 71.02% at December 31, 2017). The impact on equity attributable to equity holders of the parent was not material.

#### **Acquisition of a controlling interest in subsidiaries**

On June 30, 2018, Natixis finalized the acquisition of Fenchurch Advisory Partners ("Fenchurch"), a specialist corporate finance advisory firm exclusively focused on the financial services sector. With the transaction now complete, the Group holds 51% of the capital, exercises control under IFRS 10 and fully consolidates this entity. The Group also holds options to buy out the non-controlling interests valued at €28 million at June 30, 2018.

This acquisition generated partial goodwill of €37 million.

In first-half 2018, Natixis also finalized the acquisition of the Vermilion Partners group, a specialist in cross-border transactions involving China and in advising on both inbound and outbound M&A transactions. With the transaction now complete, the Group holds 51% of the capital of Vermilion Partners, exercises control under IFRS 10 and fully consolidates this entity. The Group also holds options to buy out the non-controlling interests valued at €15 million at June 30, 2018.

This acquisition generated partial goodwill of €11 million.

Lastly, Natixis also finalized the acquisition of Alter CE (Comitéo), a specialist in online services for works councils. With the transaction now complete, the Group holds 70% of the capital of Alter CE, exercises control under IFRS 10 and fully consolidates this entity. The Group also holds options to buy out the non-controlling interests valued at €9 million at June 30, 2018.

This acquisition generated partial goodwill of €18 million.

### **10.2 SECURITIZATION TRANSACTIONS**

Securitization is a financial engineering technique that aims to enhance balance sheet liquidity. From a technical perspective, assets to be securitized are grouped according to the quality of the associated collateral or guarantees, and sold to special purpose entities that finance their acquisition by issuing securities underwritten by investors.

Entities created specifically for this purpose are consolidated if the Group exercises control over them. Control is assessed according to the criteria provided in IFRS 10.

#### **Deconsolidating securitization transactions carried out with full or partial derecognition**

As a reminder, Crédit Foncier entered into two public securitizations backed by home loans (Crédit Foncier Home Loans No. 1 in May 2014 and Crédit Foncier Home Loans No. 2 in August 2015).

As a receivables manager, Crédit Foncier does not have the ability to use its power to influence the variability of returns. Therefore, it does not control the securitization funds within the meaning of IFRS 10, and the funds are not consolidated.

However, given its ongoing ties with CFHL-2, the criteria needed to establish full derecognition of assets under IFRS 9 are not entirely met. As a result, the transaction is deconsolidating in accordance with IFRS 10, and partially derecognized in accordance with IFRS 9.

The transferred assets are recognized in proportion to Crédit Foncier's continued involvement. As a result, the Group continues to recognize the maximum loss associated with each of the residual ties to the fund (swaps, clean-up calls, management fees) in balance sheet assets.

These adjustments led to the recognition of total assets of €80 million and total liabilities of €38 million at June 30, 2018.

The fair value of these residual ties is remeasured at each reporting date.

For first-half 2018, the net impact of the CFHL-2 transactions was +€2 million.