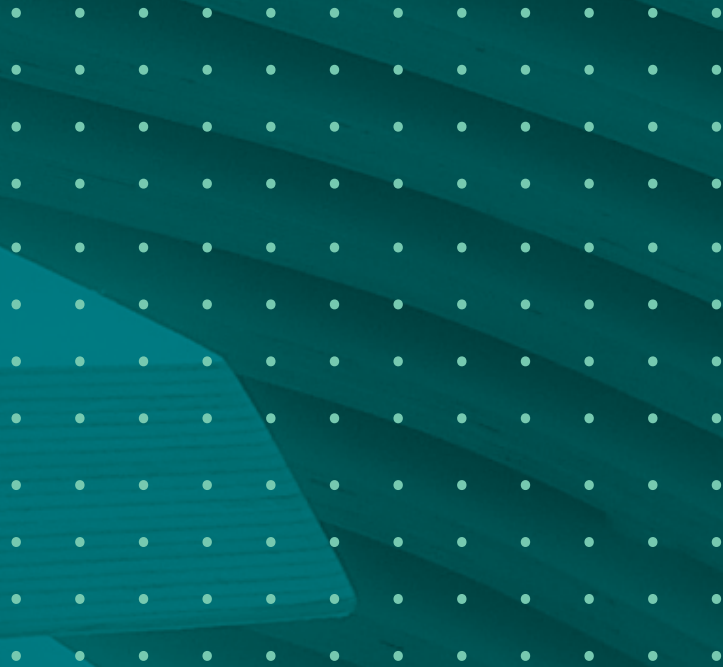
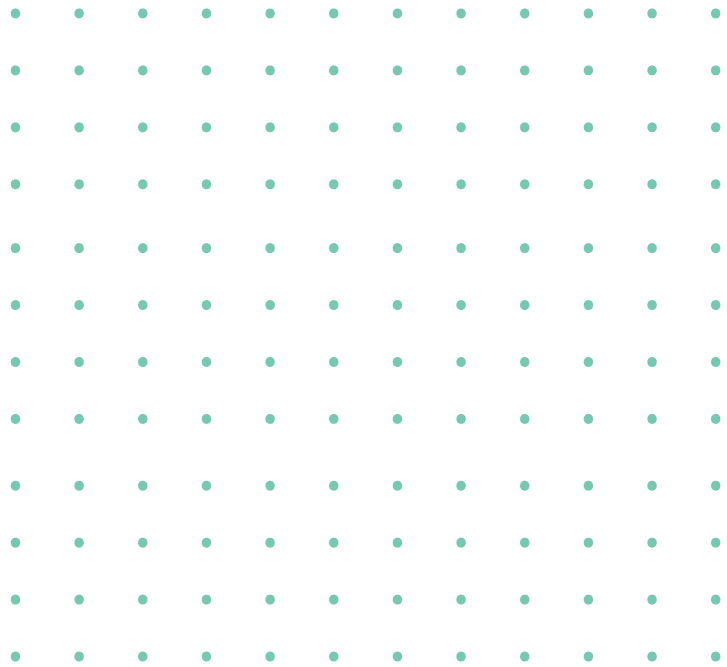


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ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED BALANCE SHEET

Financial year ended 31 December 2018

Assets (in thousands of euros)	Note	31/12/18	31/12/17 as per IFRS 9	31/12/17
Cash and amounts due from central banks and post office banks		11	25,716	25,716
Financial assets at fair value through profit or loss	5.1	3,681,520	4,278,148	4,260,111
Available-for-sale financial assets	5.2	0	0	18,037
Loans and receivables due from credit institutions (at amortised cost)	5.3	1,202,582	967,064	967,064
Current and deferred tax assets	5.4	51,906	40,195	40,195
Accrued income and other assets	5.5	1,006,095	985,649	985,649
Property, plant and equipment	5.6	11,514	13,952	13,952
Intangible assets	5.6	9,589	9,405	9,405
Total assets		5,963,217	6,320,129	6,320,129

Liabilities and equity (in thousands of euros)	Note	31/12/18	31/12/17 as per IFRS 9	31/12/17
Financial liabilities at fair value through profit or loss	5.1	3,918,659	4,041,633	4,041,633
Due to credit institutions (at amortised cost)	5.3	790,554	1,025,609	1,025,609
Debt securities (at amortised cost)	5.8	0	100,110	100,110
Current and deferred tax liabilities	5.4	27,907	22,901	22,901
Accrued expenses and other liabilities	5.5	815,844	722,490	722,490
Provisions	5.7	34,761	32,662	32,662
Total liabilities		5,587,725	5,945,405	5,945,405

Share capital and additional paid-in capital		40,690	40,690	40,690
Retained earnings		291,005	291,163	287,077
Change in assets and liabilities recognised directly in equity		(2,046)	(2,025)	2,061
Net income for the period		30,130	26,649	26,649
Total shareholders' equity	5.9	359,779	356,477	356,477
Minority interests		15,713	18,247	18,247
Total equity		375,492	374,724	374,724
Total liabilities and equity		5,963,217	6,320,129	6,320,129

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Financial year ended 31 December 2018

(in thousands of euros)	Note	31/12/18	31/12/17
Interest income	6.1	62,109	71,459
Interest expenses	6.1	(45,743)	(65,924)
Commission income	6.2	304,848	327,093
Commission expenses	6.2	(76,982)	(84,801)
Net gain/loss on financial instruments at fair value through profit or loss	6.3	59,996	83,069
Income from other activities	6.4	52,404	47,350
Expenses on other activities	6.4	(887)	(962)
Net banking income		355,745	377,284
Operating expenses	6.5	(300,108)	(310,881)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	6.6	(8,678)	(12,593)
Gross operating income		46,960	53,810
Net gain/loss on other assets	6.7	1	(2,097)
Pre-tax income		46,960	51,713
Corporate income tax	6.8	(11,808)	(17,514)
Consolidated net income		35,152	34,199
Minority interests		(5,023)	(7,551)
Net income attributable to equity holders		30,130	26,649
Basic earnings per share (euros)		166.89	147.61

STATEMENT OF NET INCOME AND CHANGES IN ASSETS AND LIABILITIES RECOGNISED DIRECTLY IN EQUITY

Financial year ended 31 December 2018

(in thousands of euros)	31/12/18	31/12/17
Net income attributable to equity holders (1)	30,130	26,649
Changes in fair value of available-for-sale financial assets	0	123
Changes in value of employee benefits obligations	(27)	(6)
Profit and loss generated by sale of consolidated shares without loss of control	7	(14)
Total gain/loss directly in equity and attributable to equity holders (2)	(20)	102
Net income and gain/loss directly in equity, attributable to equity holders	35,132	34,301
Net income and gain/loss directly in equity, attributable to minority interests	(5,023)	(7,551)
Total net income and gain/loss recognised directly in equity (1+2)	30,109	26,750
For information : amount transfered in retained earnings	4,086	0

Amounts are disclosed net of tax.

CASH-FLOW STATEMENT

Financial year ended 31 December 2018

(in thousands of euros)	31/12/18	31/12/17
Operating activities		
Pre-tax net income	46,960	51,713
Non-monetary items included in pre-tax net income and other adjustments	10,564	19,302
Net depreciation/amortisation expenses on property, plant and equipment and intangible assets	8,678	12,593
Net addition to provisions	2,099	6,567
Net income or loss from financing activities	(212)	142
Net increase/decrease in cash related to assets and liabilities generated by operating activities	525,516	(238,071)
Net increase/decrease in cash related to transactions with credit institutions	(4,649)	(14,649)
Net increase/decrease in cash related to transactions with customers	(19,504)	(24,869)
Net increase/decrease in cash related to transactions involving other financial assets and liabilities	473,654	66,114
Net increase/decrease in cash related to transactions involving non-financial assets and liabilities	87,823	(247,152)
Taxes paid	(11,808)	(17,514)
Net increase/decrease in cash and equivalents generated by operating activities	(a) 583,041	(167,056)
Investing activities		
Net increase/decrease related to property, plant and equipment and intangible assets	(6,423)	(4,320)
Net increase/decrease in cash and equivalents generated by investing activities	(b) (6,423)	(4,320)
Financing activities		
Net increase/decrease in cash and equivalents related to transactions with shareholders	(31,851)	(69,040)
Net increase/decrease in cash and equivalents generated by other financing activities	(100,000)	0
Net increase/decrease in cash and equivalents generated by financing activities	(c) (131,851)	(69,040)
Net increase/decrease in cash and equivalents	(a+b+c) 444,766	(240,416)
Balance of cash and equivalent accounts at the beginning of the period		
Cash and amounts due from central banks and post office banks	(d) 25,716	13,820
Demand deposits/loans with/from credit institutions	(e) (57,964)	194,348
Balance of cash and equivalent accounts at the end of the period		
Cash and amounts due from central banks and post office banks	(f) 11	25,716
Demand deposits/loans with/from credit institutions	(g) 412,507	(57,964)
Net increase/decrease in cash and equivalents	(f+g)-(d+e) 444,766	(240,416)

CHANGES IN SHAREHOLDERS' EQUITY

From 1 January 2017 to 31 December 2018

	Capital and retained earnings		Share premiums and retained earnings	Retained earnings - Group share	Total gain/loss recognised directly in equity	Net income - Group share	Reclassification for undated subordinated debt	Total equity - Group share	Total equity - Minority interests	Total shareholders' equity
	Capital	Share premiums and retained earnings								
Capital and retained earnings at 1 January 2017	30,693	9,997	262,385	1,959	36,284	50,000	391,318	17,256	408,575	
Appropriation of net income for 2016			36,284		(36,284)		0		0	
Dividends paid			(11,608)				(11,608)	(6,885)	(18,493)	
Movements related to shareholders' items			24,676		(36,284)		(11,608)	(6,885)	(18,493)	
Change in gains or losses recognised directly in equity				123			123		123	
Appropriation of net income for 2017					26,649		26,649	7,551	34,200	
Impact of acquisitions/disposals on minority interests						(50,000)	(50,000)		(50,000)	
Actuarial gains and losses related to defined pension plans				(6)			-6		(6)	
Other movements			16	(15)			1	325	326	
Capital and retained earnings at 31 December 2017	30,693	9,997	287,077	2,061	26,649	0	356,477	18,247	374,724	
Appropriation of net income for 2017			26,649		(26,649)		0		0	
Dividends paid ⁽¹⁾			(26,747)				(26,747)	(7,290)	(34,037)	
Movements related to shareholders' items			(98)		(26,649)		(26,747)	(7,290)	(34,037)	
Net income 2018					30,130		30,130	5,023	35,153	
IFRS 9 first application			4,086	(4,086)					0	
Actuarial gains and losses related to defined pension plans				(28)			(28)		(28)	
Other movements			(60)	7			(53)	(267)	(320)	
Capital and retained earnings at 31 December 2018	30,693	9,997	291,005	(2,046)	30,130	0	359,779	15,713	375,492	

(1) Dividend paid incorporate 2017 dividends paid in 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Financial year ended 31 December 2018

The consolidated financial statements are those of the entities described in note 2.4.4, and hereafter referred to as “the Exane Group”.

1. PROFILE

Founded in 1990, the Exane Group specialises in three businesses:

• Cash Equities

Under the brand name Exane BNP Paribas, Exane’s Cash Equities Department offers all services of research, sales, execution and ECM on European equities for institutional and corporate clients.

• Derivatives

Exane Derivatives, a subsidiary of Exane, specialises in:

- the sale and market making of listed derivatives, convertible bonds and credit products,
- the issuance, trading and management of structured products,
- the brokerage of listed derivative products.

• Asset Management

Exane Asset Management (Exane AM), a subsidiary of Exane and authorised in France by the AMF, offers the Group’s third-party fund management on equity underlying.

Ellipsis Asset Management (Ellipsis AM), a subsidiary of Exane Derivatives and authorised in France by the AMF, offers third-party asset management on convertible, credit and diversified funds.

Exane is a “société anonyme” (stock corporation) with a capital of 30,691,800 euros. Its Trade and Company Registry is Paris 342 040 268. It is represented by Nicolas Chanut, CEO of the Board of Directors. The Company’s registered office is located at 6, rue Ménars, 75002 Paris.

The consolidated financial statements of the firms of the Group, hereafter referred to as the Consolidated Financial Statements, were approved by the Board of Directors on February, 14th 2019.

Evolution of the Group

A number of constraints lead to rethinking the legal organisation of Exane limited. A merger project between Exane SA and Exane Limited is planned for early 2019. This transformation would be achieved through an Exane SA merger of Exane Limited and the creation of an Exane SA branch in London. This operation would be subject to the regime of EU Directive 2017/1132 of 14 June 2017, providing a simplified framework for merger and tax neutrality. In order to benefit from this simplified framework, it is necessary to carry out all the merger operations (and to obtain the agreement of all the relevant regulatory authorities) by March 30th 2019.

Parallel to this merger project, with Exane operating in the UK and Continental Europe, the Group is working to ensure the resilience of its operations to a hard Brexit. The current system makes it possible to address a large part of the subjects and its adaptation is in progress. The impacts for the Group are not non material.

2. ACCOUNTING PRINCIPLES AND METHODS

The main accounting methods applied when preparing the consolidated financial statements are described thereafter. Unless otherwise indicated, they have been applied in a consistent manner, in respect of all the financial statements presented in this document.

2.1. APPLICABLE ACCOUNTING STANDARDS (INTERNATIONAL FINANCIAL REPORTING STANDARDS – IFRS)

The consolidated financial statements have been prepared in accordance with International Accounting Standards/ International Financial Reporting Standards (IAS/IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted for the use in the European Union (EU) and applicable at 31 December 2018.

The Group has not anticipated the application of new standards, amendments adopted by the European Union (EU) when the application in 2018 is only an option.

Applicable accounting standards

The Exane Group has chosen not to apply the following new and revised IFRS standards earlier than 1 January 2018:

- IFRS 9 Financial instruments
- IFRS 15 Revenue from contracts with customers

Implementation of IFRS 9 and IFRS 15 has no significant impact on the Group's financial statements.

→ IFRS 9 Financial Instruments

The impact of IFRS 9 on the consolidated financial statements as at 31 December 2018 is as follow:

• Classification and measurement

Financial assets at fair value through profit or loss under IAS 39 remain in this category under IFRS 9.

Loans and receivables, amounts due to credit institutions and securities lending / borrowing transactions remain reported at amortized cost under IFRS 9.

Under IFRS 9, there is no change for financial liabilities at fair value through profit or loss by option without any own credit value adjustment.

The fair value of financial assets reported in other comprehensive income under IAS 39 is now recorded in fair value through profit or loss under IFRS 9. This accounting treatment is related to non-compliance with SPPI criteria of the financial assets concerned.

• Impairment

In accordance with IFRS 9, simplified method has been applied to measure expected credit losses without impact for the Group. Indeed, under IFRS 9 provision and depreciation on eligible financial assets have no material impact for the Group.

- **Hedge accounting**

The hedge accounting requirements in IFRS 9 have no impact for the Group. There is no hedge relationship in the Group.

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

IFRS 15 defines a single model for recognizing revenue based on five-step principles. These five steps make it possible to identify distinct performance obligations included in the contracts and to allocate them a transaction price. The related revenue is recognized when the performance obligations are satisfied, which means when the control of the good or service has been transferred.

The price of a service may contain a variable component.

Variable amounts can only be recognized in profit and loss if it is likely that the amounts recorded will not give rise to a significant downward adjustment.

New major accounting standard published but not yet applicable

- **IFRS 16 Leases**

IFRS 16 “Leases”, issued in January 2016, will supersede IAS 17 “Leases” and the interpretations related to the accounting of leases starting on January 1st 2019.

The new definition of leases relies on both the identification of an asset and the right of use the underlying asset by the lessee.

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

For the lessee, IFRS 16 will require the recognition in the balance sheet of all leases, based on a right-of-use on the underlying asset recorded under fixed assets, along with the recognition of a financial liability for the lease payments and the other payments made over the lease period. The right-of-use asset will be amortised on a straight-line basis and the financial liabilities will be amortised on an actuarial basis over the lease period.

The implementation of IFRS 16 will increase the assets and liabilities related to the leases currently recorded as operating leases. For the Group, This impact will mainly come from property leases.

2.2. PRESENTATION OF FINANCIAL STATEMENTS

Exane uses the templates for financial statements recommended by ANC (n°2017-24, 2 June 2017, balance sheet, income statement, statement of changes in shareholders’ equity, cash-flow statement).

The consolidated financial statements have been prepared on a historical cost basis, except in the case of “Financial instruments at fair value through profit or loss”.

The financial statements are presented in euros and the amounts disclosed are rounded to the nearest thousand, unless otherwise indicated.

2.3. ACCOUNTING PRINCIPLES AND METHODS

Financial assets and liabilities comply with IFRS 9 as adopted by the European Commission (EC) on 22 November 2016.

The Group classifies its financial assets into the following categories: “assets at fair value through profit or loss”, “assets measured at amortised cost (loans and receivables)” and “assets at fair value through other comprehensive income (OCI)”. As at 31 December 2018, no financial assets were measured through OCI.

Classification and measurement of financial assets will depend on two criteria:

- The business model used to manage financial instruments

The business model refers to how financial instruments are managed as a portfolio to generate cash flows. Business models are assessed on how a group of financial instruments is managed together to achieve a particular business objective. Under IFRS 9, three different business models shall be distinguished:

- “collecting contractual cash flows model” whose objective is to collect contractual cash flows,
- “collecting contractual cash flows and sales model” whose objective is achieved after both collecting contractual cash flows and selling financial assets,
- “other business models” for other financial assets which cannot be classified under the other models. They include trading activities in which the cash flows of financial assets will be realized by selling them. The perception of contractual flows of assets has only an accessory role in achieving the objective of the economic model.

- The contractual characteristics of the financial instruments

Cash flow characteristic is consistent with amortized cost classification if contractual cash flows of financial asset are solely payment of principal and interest on the principal amount outstanding of basic debt or non-complex debt financial assets.

The Group classifies its financial liabilities into the following categories: “Liabilities at fair value through profit or loss” and “liabilities measured at amortized cost (other liabilities)”.

→ Financial assets at fair value through profit or loss

According to IFRS 9, financial assets at fair value through profit or loss are those held for trading and those held for investment in internal or external UCITS.

Financial assets under this classification must comply with these characteristics:

- Contractual cash flows that cannot be considered as a basic debt financial assets (non-compliance with sole payment of principal and interest (SPPI criterion)),
- Contractual cash flows that comply with SPPI criterion, but financial assets are held within an “other business model”, including trading activities in which cash flows will result from selling financial assets.

Derivative financial instruments are also deemed to be held for trading unless they are to be used for hedging purposes.

Financial assets at fair value through profit or loss are recognised at fair value at inception, except for transaction costs which are directly taken to the profit and loss account. At financial year closing, they are measured at fair value and changes in fair value are recognised in profit and loss.

→ Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss may be:

- financial liabilities issued for trading purposes, or
- financial liabilities measured at the fair value option.

Financial liabilities are recognised at their fair value when they are recorded in the balance sheet for the first time. Transaction costs are recorded directly in the profit and loss account. At financial year closing, they are recognised at their fair value and changes are recognised in the profit and loss account.

→ Financial assets and liabilities at amortized cost

Financial assets and liabilities under this classification must comply with two characteristics:

- Compliance with SPPI criterion,
- Compliance with the collecting contractual cash flows business model.

This classification mainly includes deposit paid on security borrowing and deposit received on security lending recorded under loans and receivables due from credit institutions and debt due to credit institutions.

2.3.1. SECURITIES AND LOANS AND RECEIVABLES

→ Securities lending / borrowing transactions

Borrowed securities when collateralised by other securities are recorded specifically on the balance sheet as “Financial assets at fair value through profit or loss”. The related debt is recorded as a liability under “Financial liabilities at fair value through profit or loss”. These two sub-accounts of the trading portfolio are revalued at fair value at the end of the period.

There is no derecognition of the lent securities secured by cash collateral and no recognition of the borrowed securities secured by cash.

Securities borrowed and secured by cash collateral are booked as “Deposits paid or received on debt securities/ securities borrowings” allocated to “Loans and receivables”. They are not valued at fair value at period end.

→ Loans and receivables

Loans and receivables are non-derivatives financial assets with determined or determinable payments not quoted on an active market, except those acquired with the intention of selling them in the short term which have to be classified in the assets held for trading.

“Loans and receivables due from credit institutions” and “Loans and receivables due from customers” are recorded at acquisition cost equal to their fair value, including transaction fees, and thereafter recorded at amortised cost adjusted for any impairment.

→ Valuation

Variable-income and fixed-income securities (equities, UCITS shares and other variable-income and fixed-income securities) in the trading portfolio and assets designated at fair value are valued:

- at the last known quoted price for securities traded on an active and liquid market at the balance sheet date,
- or, when no quotation is available, at a price determined with the use of a valuation model (based on observable or non-observable parameters).

→ Recording date

Accounting category	Recording date
Financial assets at fair value through profit or loss	Trade date
Repurchase agreements	Settlement/delivery date
Lent securities sales	Settlement/delivery date

→ Due to credit institutions and due to customers

Amounts due to credit institutions and to customers are recorded at their original fair value, including transaction fees. They are subsequently carried at amortised cost.

→ Distinction between liabilities and shareholders' equity

A debt instrument, or a financial liability, is a contractual obligation to:

- deliver cash or another financial asset,
- trade instruments under potentially unfavourable conditions.

An equity instrument is a contract that underlines a residual interest in a company after deducting all its liabilities (net assets).

Financial instruments issued by the Group are considered as equity instruments when the Group has no obligation to pay cash or exchange a fixed number of its own shares for a fixed amount of cash.

The Group has not issued any hybrid financial instruments including both shareholders' equity and liability components.

2.3.2. DERIVATIVES

Derivatives instruments are financial instruments or other contracts with the following three characteristics:

- Their value changes according to the variation of an interest rate, the price of a financial instrument, the price of a commodity, a rate of exchange, a price or rate index, a credit rating or index, or other specified variable called the "underlying";
- They do not require any initial net investment or an initial net investment that is lower than would be required for other types of contracts that would be expected to behave similarly to changing market factors;
- Their settlement is at a future date.

Derivatives are recorded in the balance sheet at fair value at inception of the transaction. They are either held for trading purposes or used for hedging purposes.

At financial year closing, derivatives are measured at fair value and changes are recorded in the profit and loss account.

→ Valuation

Options

- Organised markets

Call or put premiums on options bought or sold on organised markets are booked separately in assets and liabilities on the balance sheet. At each balance sheet date, these instruments are measured at the last quoted price published by compensation firms or brokers. Valuation changes are recorded under income or expenses in the profit and loss account.

In order to cancel out the profit and loss impact of unexplained price discrepancies that may occur at market close, the difference between the last quoted price and the theoretical price of the instrument, which is calculated with the use of an internal model and uniform market parameters for all transactions, is recorded as an unrealised gain or loss. The price is submitted to the formal approval of the Group's Risk Management Department.

- Over-the-counter markets

Premiums on OTC options are recognised separately in assets and liabilities on the balance sheet. Changes in the value of the options are recorded directly in the profit and loss account.

Financial instruments are priced based on internal models in the absence of organised markets. The price is submitted to the formal approval of the Group's Risk Management Department.

Futures and forwards

- Organised markets

Positive and negative margins arising from settled or unsettled transactions carried out on futures markets are recognised in the profit and loss account.

In order to cancel out the profit and loss impact of unexplained price discrepancies that may occur at market close, the difference between the last quoted price and the theoretical price of the instrument, which is calculated with the use of an internal model and uniform market parameters for all transactions, is recorded as an unrealised gain or loss. The price is submitted to the formal approval of the Group's Risk Management Department.

- Over-the-counter markets

Financial instruments are priced based on internal models in the absence of organised markets. The price is submitted to the formal approval of the Group's Risk Management Department.

→ Recognition of margins on structured financial instruments at inception

Under IFRS 9, margins on structured products and complex financial instruments may be recognised at inception only if these financial instruments can be reliably valued at inception. This condition is met if these instruments are valued using prices in an active market or based on "standard" internal valuation models which resort to observable market data.

Some long-maturity or illiquid complex financial instruments, generally bespoke products, are valued with the use of internal models whose parameters are partly non-observable on reference markets.

When the valuation is based on non-observable data and/or non-standard models, the initial margin generated by the placement of these complex financial instruments is not considered acquired for good; it is then deferred and amortised to the profit and loss account generally over the period during which the market data is deemed to be non-observable.

2.3.3. ACCRUED INCOME / EXPENSES AND OTHER ASSETS / LIABILITIES

Settlement accounts related to market transactions are primarily composed of trading and settlement accounts that record, in euros and at the acquisition price, securities traded for financial counterparties, i.e. brokers, financial institutions and credit institutions, and whose settlement operations are still outstanding.

Purchase and sale accounts used to record euro-denominated transactions with the same counterparty, as well as current accounts, are offset. Purchase and sale accounts used to record foreign currency-denominated transactions with the same counterparty are offset separately.

These accounts are also used to record outstanding coupon/dividend payments with those counterparties.

2.3.4. PROVISIONS

A provision is recorded:

- if the Group has an implicit or legal obligation stemming from a past event;
- when the Group may be forced to use economic resources to settle this obligation;
- and when the amount of the provision can reliably be estimated.

The provisions recorded in liabilities on the balance sheet, except for those related to market activities, cover employee benefit obligations and litigations.

The amount set aside represents the best estimate of the expense needed to settle the obligation. In the absence of such an expense, the estimates are revalued when the effect is material.

2.3.5. RECOGNITION OF INCOME AND EXPENSES

→ Net interest margin

The Group includes in “Interest income” and “Interest expenses” all income and expenses from demand account, financial loans and borrowings, OTC collaterals, as well as deposits related to securities lending/borrowing.

→ Net gain / loss on financial instruments at fair value through profit or loss

“Net gain/loss on financial instruments at fair value through profit or loss” includes profit and loss items related to financial instruments held for trading and financial instruments considered by the Group to be valuable at fair value through profit or loss.

At each balance sheet date, they are valued at fair value and the changes in fair value are displayed in the profit and loss account as well as fixed-income securities dividends and unrealised disposal gains and losses under “Net gain/loss on financial instruments at fair value through profit or loss” in the profit and loss account.

2.3.6. USE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

→ Tangible assets

Property, plant and equipment are initially recognised at purchase price plus directly attributable costs, together with borrowing costs where a long period of construction or adaptation is required before the asset can be brought into service. After the initial recognition, property, plant and equipment are carried at acquisition cost minus depreciation expenses and contingent impairments.

Maintenance fees are booked in the profit and loss account of the period, which they are incurred. Expenses increasing the future economic advantages related to tangible assets are immobilised and amortised.

Operating property, plant and equipment are used with a view to producing services or for administrative purposes.

The table below shows the different amortisation methods applied by the Group as well as the useful life of the assets at 31 December 2018.

Type of assets	Provisions for impairment - Type and period
Software	Straight line 3 to 8 years
IT & electronics	Straight line 3 years
Telephony systems	Straight line 5 years
Office furniture	Straight line 5 years / rent lease
Fixtures	Straight line 5 years / rent lease

→ Software

Costs arising from the acquisition of software licences are recognised as an asset on the basis of costs incurred to acquire and bring into service. These costs are amortised on the basis of the estimated useful life of software.

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

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

2.3.7. CURRENT AND DEFERRED TAXES

In accordance with IAS 12, income tax includes all taxes based on income, whether current or deferred.

IAS 12 defines current tax as “the amount of income taxes payable/recoverable in respect of the taxable profit/loss tax for a period”.

The current income tax charge is determined on the basis of the tax laws and tax rates in force in each country in which the Group operates.

Deferred taxes are recognised when temporary differences arise between the carrying amount of an asset or a liability in the consolidated balance sheet and its tax base. However, no deferred taxes are recorded when arising from the initial recognition of an asset or a liability relating to transactions, except for a business combination which, at the transaction date, affects neither the book value nor the taxable income.

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

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

Deferred taxes are recognised as tax income or expenses in the profit and loss account except for deferred taxes relating to unrealised gains or losses on available-for-sale assets, which are taken to shareholders' equity.

2.3.8. EMPLOYEE BENEFITS

The Exane Group recognises the amount of its retirement benefits and other employee benefits in compliance with the rules defined by IAS 19 revised standard.

→ Defined-contribution plans

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

→ Defined-benefit schemes: retirement benefits, pre-retirement benefits and retirement indemnities

Defined-benefit schemes give rise to an obligation for the Group. This obligation must be measured and recognised as a liability by means of a provision.

For each period, the commitments related to these schemes are measured on the basis of actuarial, financial and demographic assumptions and by using the projected unit credit method. This method consists in allocating, for each year of work, an expense by employee corresponding to the vested rights.

The actuarial gains and losses resulting from change in assumptions and adjustments linked to the experience regarding post-employment benefits are recognised in other comprehensive income for the net of tax amount. They are never reclassified to profit and loss account.

The actuarial gains or losses related to other long-term employee benefits (long-service awards) are recognised in profit and loss account.

→ Deferred compensation

Deferred compensation is recorded as an expense in the financial year of attribution.

2.4. CONSOLIDATION PRINCIPLES AND METHODS

2.4.1. CONSOLIDATION SCOPE AND METHODS

The consolidated financial statements include the accounts of Exane and of its French and foreign subsidiaries over which Exane is in a position to govern the financial and operating policies, a control which is presumed to exist when the Exane Group owns more than half of the voting rights of an entity.

The consolidation methods are defined by IFRS 10 and IAS 28 and 31, based on the type of control Exane has over the entities that can be consolidated.

→ Full consolidation

Entities under the exclusive control of the Group are fully consolidated. The Group has exclusive control over a subsidiary where it is in a position to govern the financial and operating policies of the subsidiary so as to obtain benefits from its.

Exclusive control is presumed to exist when the Exane Group owns directly or indirectly, more than half of the voting rights of a company. Minority interests in the net income and in retained earnings are presented separately in the balance sheet.

Subsidiaries are consolidated from the date on which the Group obtains effective control. They are deconsolidated from the date on which the Group no longer has control over them.

Full consolidation consists in replacing the book value of the shares held in the Group's consolidated financial statements with all assets and liabilities carried by the consolidated companies. The amount of minority interests held in their assets and earnings is presented separately in the consolidated financial statements.

→ UCITS

UCITS are consolidated when they are controlled by the Group.

The Group has considered ownership equal to or above 50% as the control threshold.

Participating interests of less than 50% in the Group's UCITS are recorded at fair value through profit or loss. For participating interests between 20% and 50%, an analysis of the application of IFRS 10 is done.

2.4.2. CLOSING DATE

The companies included in the consolidation scope were consolidated based on the financial statements closed off at 31 December 2018.

2.4.3. CONSOLIDATION ADJUSTMENTS AND ELIMINATIONS**→ Elimination of intragroup balances and transactions**

Intragroup balances arising from transactions between consolidated enterprises, and the transactions themselves (including income, expenses and dividends) are eliminated.

The accounting methods of subsidiaries are in line with those of the Group.

→ Translation of financial statements expressed in foreign currencies

The consolidated financial statements of the Group are prepared in euros, Exane's functional currency. However, each company within the Group chooses its own functional currency and records its transactions in this currency.

The consolidated financial statements of foreign subsidiaries expressed in foreign currencies (i.e. Exane Incorporated) are translated in euros using the Paris closing exchange rate for assets and liabilities, and the average exchange rate for the profit and loss account.

Differences arising from the translation of balance sheet items and profit and loss items are recorded in shareholders' equity. They include unrealised exchange gain or loss resulting from the opening balance sheet and the difference between the conversion of the profit and loss account at the average rate and balance sheet conversion at the closing exchange rate.

The shareholders' equity of Exane Incorporated is fully hedged against foreign exchange risk (efficient hedging). Net forex gains or losses on the hedge are also recorded in shareholders' equity and offset all or part of any translation differences resulting from the consolidation of Exane Incorporated.

A deferred tax on the treatment is recognised since it generates a discrepancy between net income and fiscal year earnings.

2.4.4. CHANGES IN THE SCOPE OF CONSOLIDATION

The scope of consolidation of the Exane Group at 31 December 2018 is as follows:

Companies	Country	Method	31/12/18		31/12/17	
			% of interest	% of capital	% of interest	% of capital
Exane SA	France	IG	100	100	100	100
Exane Derivatives	France	IG	100	100	100	100
Exane Asset Management	France	IG	76,5	76,5	76,5	76,5
Exane Asset Management Luxembourg	Luxembourg	IG	76,5	100	76,5	100
Exane Derivatives Gérance	France	IG	100	100	100	100
Exane Finance	France	IG	100	100	100	100
Ellipsis Asset Management	France	IG	100	100	100	100
Ellipsis Asset Management Suisse	Suisse	IG	100	100	-	-
Exane Participations	France	IG	100	100	100	100
Exane Limited	United Kingdom	IG	100	100	100	100
Exane Incorporated	USA	IG	100	100	100	100

UCITS	Country	Method	31/12/18		31/12/17	
			% of interest	% of capital	% of interest	% of capital
Mutual Funds						
Longchamp Exane Strategy	France	IG	-	-	100	100

3. USES OF ESTIMATES IN THE PREPARATION OF THE FINANCIAL STATEMENTS

Preparation of the financial statements requires managers of core businesses and corporate functions to make assumptions and estimates that are reflected in the measurement of income and expenses in the profit and loss account and of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. This requires the managers in question to exercise their judgement and to make use of information available at the date of the preparation of the financial statements when making their estimates. The actual future results from operations where managers have made use of estimates may in reality differ significantly from those estimates. This may have a material effect on the financial statements.

Estimates and judgments, which are permanently updated, are grounded on historical data and on other factors, in particular anticipating future events that are considered reasonable in the light of circumstances.

Accounting estimates requiring specific assumptions are mainly applied to:

- calculations of the fair value of financial instruments that are not quoted in organised markets and uses of internal valuation models which include observable and non-observable data;

- calculations of the fair value of unlisted financial instruments with the use of valuation techniques which include non-observable data. They are classified in “Available-for-sale financial assets”, “Financial assets at fair value through profit or loss”, or “Financial liabilities at fair value through profit or loss”;
- the measurement of amounts recognised to cover employee benefit obligations, impairment of receivables, and provisions for contingencies and charges.

3.1. CLASSIFICATION OF PARAMETERS INTO THE “OBSERVABLE” AND “NON-OBSERVABLE” CATEGORIES

The classification of parameters as “observable” or “non-observable” must be approved by the Group’s Risk Management Department. The parameters are deemed observable if data is provided regularly by sources which do not include the Front Office. The accuracy of the data is submitted to the approval of the Group’s Risk Management Department.

Some complex products, which can only be valued with parameters of correlation or volatility not directly comparable to market data, may be classified in the “non-observable” category.

The maturity of some of these instruments also helps classifying them as “non-observable”.

The instruments under scrutiny are mostly multi-underlying equity derivatives, currency products and commodities.

As stated in the note on accounting principles, the margin at inception is only recognised in profit and loss when the valuation models used are based on market data that are considered “observable”.

3.2. EMPLOYEE BENEFITS

The measurement of employee benefits takes into account various parameters, such as a discount rate, demographic assumptions, the probability that employees will leave before retirement age, salary inflation, and social security taxes.

3.3. IMPAIRMENT OF RECEIVABLES

When there is an objective risk of non-recovery, an impairment loss is recognised in the item “Loans and receivables”.

3.4. PROVISIONS

The measurement of provisions may also be based on management estimates.

4. RISK EXPOSURE

The Exane Group's activities are divided in four business lines:

- Cash Equities (Research, Sales and Execution),
- Derivatives (Research, Sales, Execution, Trading and Structuration),
- Asset Management with its subsidiaries Exane AM and Ellipsis AM,
- and the holding department which invests in internal (Seed Money) and external funds, and manages the liquidity of the Group.

These business lines expose the Group to different types of financial risks, as depicted in the following table:

Business lines	Market	Credit / counterparty	Settlement	Liquidity	Operational
Equity Research					X
Sales & Execution - Equity	X		X	X	X
Derivatives Research					X
Sales & Execution - Derivatives			X		X
Derivatives Trading	X	X		X	X
Fund Investment	X			X	X
Asset Management	X			X	X

The Equity Sales and Execution business carries market, liquidity and settlement risks linked to its facilitation activity and Equity Capital Market activity.

The Derivatives Trading business carries significant market risks and a significant credit/counterparty risk and liquidity risk. It mainly corresponds to a market activity and a customer-oriented business.

4.1. FINANCIAL RISKS CONTROL FRAMEWORK

The Risk Management Department reports directly to the Chief Executive Officer of the Group. Its main tasks comprise:

Market risk:

- defining and measuring risk indicators,
- setting limits, monitoring overruns, managing overrun approval,
- validating pricing models,
- validating products and their description in the management system,
- validating valuation parameters,
- calculating and monitoring own funds requirements regarding market risk (based on the standard approach).

Counterparty risk:

- validating any entry into business relations with any new third party (principal, introducing broker, distributor, OTC counterparty, etc.),
- assigning an internal rating,
- monitoring commitments and limits on a daily basis,
- calculating and monitoring own funds requirements regarding counterparty risk (based on the standard approach).

Liquidity risk:

- daily monitoring cash consumption by activities,
- defining and monitoring risk indicators,
- controlling internal liquidity buffer and liquidity assets.

The Risk Management Department performs for all the financial risks, the reporting of its activity and results of its controls to Management Risk Committee Group, Executive Committee and Board of Directors.

4.1.1. MARKET RISK

Five market risk measurement processes are carried out daily:

- a calculation of capital requirements according to the standard method defined in the banking regulations,
- a calculation based on an proprietary stress scenario model called Internal Capital Allowance (ICA),
- a normal Value-at-Risk (VaR) and a stressed Value-at-Risk each calculated on a panel of 300 scenarios of daily changes of market parameters in according to the internal model,
- historic and hypothetical stress scenarios meeting the requirements of an internal model,
- a wide range of (Greek) sensitivity measures evaluated against the various market parameters.

The ICA uses the worst-case scenario for each area studied, based on sudden changes, whether simultaneous or not, in interest/exchange rates, the price of underlying assets, volatility, credit, correlations and dividends. Asset decorrelation risk is also included in these calculations.

→ Derivatives Trading

Derivatives activities are mainly done under Exane Derivatives entity.

They are organized in product lines to articulate around the following five poles:

- Options activity: market making on European equity and index options (options, swaps, dispersion trading, instrument based on a repurchase (repo) with option, or any other combination);
- Delta One activity: market making of Delta One derivatives including: security lending/borrowing, total return swap, repo activity, forward/futures on index (including based on sector) and on dividends, Exchange of Futures for Physicals. It provides:
 - prices to clients on demand for all those instruments,
 - indicative buy and sell prices (on a continuous basis and firm on request) for contribution systems,
 - firm quotation on a continuous basis on electronic platforms,
 - market-making on Inter Dealer Broker (IDB) on demand for brokers.
- Security lending/borrowing: management of security and cash stock for the Group thanks to settlement risk hedging, regulatory requirements on short sales thanks to security lending/borrowing and monitoring and coverage of refinancing needs of the Group thanks to financing operations.

- Convertible & credit activity: market making of some convertible bonds and credit products, including basic bonds, convertibles bonds, mandatory bonds, inflation-linked bonds and hybrid products.
- Structured products activity: quotation on primary and secondary market for Exane Derivatives's clients of structured products on equity, equity indices, funds, interest rates, foreign exchange, credit, commodities and any hybrid product among those assets. This business line also quotes structured products on proprietary indices.

These activities are intended to generate a placement and trading margin by minimising the exposure of the positions taken to market factors by using very dynamic and proactive management of the risks.

→ Sales and Execution Cash Equity

The Cash Equity activity provides a complete range of execution services on European equities and listed ETFs markets.

The main activities are:

- “High touch” trading collects electronically or by voice the orders from the customers. Traders deal with execution using mostly internal execution algorithms.
- Electronic trading collects electronically the orders from the customers. These orders will be automatically executed on the market or via execution algorithms, based on instructions predefined by the client.
- Program trading collects the orders on equity baskets and handled execution mainly using internal execution algorithms.

In some cases, execution may be risk-taking by Exane under the facilitation activity (equity and ETF) and Central Risk. They include providing internal and external customers with firm prices matching customer orders and selling them in the live market (DMA) or by using execution algorithms or trading algorithms (CRB).

The objective of these activities is to generate executions fees by minimizing losses on positions taken in the context of liquidity offerings to clients.

Equity Capital Market activity provides services on primary market transactions originated by the BNP Paribas teams, for which Exane provides research expertise, distribution capacity and, in some case, a partial investment guarantee.

→ Seed Money

Investment is done:

- mainly in Seed Money in alternative management funds managed by Exane AM or in funds managed by Ellipsis AM. Seed Money is risk-monitored by the Risk Management Department with all risk indicators directly calculated based on the assets making up the fund, and,
- in some external funds (1 as at 31 December 2018).

The Group complies with the rules in the law No.2013-672 of 26 July 2013 of Separation and Regulation of Banking Activities.

4.1.2. CREDIT / COUNTERPARTY RISK

Credit risk exists in all of the Group's positions in equity instruments and debt securities through issuer risk. These positions are subject to market risk limits.

Counterparty risk is generated:

- by OTC hedging transactions with banks,
- by OTC transactions with clients with special internal agreements,
- by swaps to hedge structured products which are issued by external institutions; these transactions are entered into with highly rated financial organisations,
- by securities lending/borrowing related to trading and brokerage activities,
- by security transaction with settlement franco under the facilitation activity.

Each position has an internal limit on the total exposure to issuer risk and counterparty risk. The Group has changed its calculation method of exposure to counterparty risk and now resorts to ICA principles.

Within the application of IFRS 13, a valuation adjustment is made on over-the-counter financial instruments in order to consider the credit risk level of the counterparts when the hope of instruments' fair value is positive (CVA), and the Exane level of credit when the hope of instruments' fair value is negative (DVA).

→ Derivatives transactions

The total amount of notional derivatives transactions represents 64,510 million euros as at 31 December 2018 versus 72,678 million euros as at 31 December 2017.

The notional amount of derivatives reflects only the Group's volume of activity on the financial instruments market, not the market risks related to these instruments.

Positions on forward financial instruments are entered into for the purpose of hedging assets and liabilities and to manage the Group's investment portfolio.

The breakdown by residual maturity is as follows:

(in thousands of euros)	31/12/18				31/12/17			
	Total	0 to 1 yr	1 to 5 yrs	> 5 yrs	Total	0 to 1 yr	1 to 5 yrs	> 5 yrs
Futures and forwards	18,096,847	10,895,539	6,862,369	338,940	19,967,246	11,933,593	7,664,784	368,869
Organised markets	13,206,156	8,659,303	4,538,309	8,544	13,389,273	8,871,229	4,518,044	
Interest rate instruments	10,602,042	6,112,853	4,482,189	7,000	10,232,502	5,795,263	4,437,238	
Equity index instruments	1,542,277	1,507,188	33,545	1,544	1,553,228	1,490,525	62,703	
Single stock based instruments	1,050,159	1,028,047	22,112		1,320,491	1,302,469	18,022	
Commodities based instruments	11,678	11,214	464		283,052	282,972	81	
Over-the-counter markets	4,890,692	2,236,237	2,324,059	330,396	6,577,974	3,062,364	3,146,740	368,869
Equity index swaps	1,037,819	538,448	470,390	28,981	3,425,224	1,906,340	1,407,760	111,124
Single stock equity swaps	751,772	310,865	419,907	21,000	225,289	161,885	63,064	340
Interest rate swaps	2,121,597	631,816	1,231,834	257,947	2,096,663	281,449	1,579,487	235,728
Currency swaps	674,618	457,056	200,094	17,467	802,107	689,001	96,430	16,676
Commodities swaps	30,473	23,639	1,834	5,000	5,000			5,000
Forward currency instruments	274,413	274,413			23,690	23,690		
Options	46,413,207	35,745,493	10,585,394	82,320	52,711,105	40,868,155	11,674,598	168,352
Organised markets	44,198,298	34,987,977	9,142,501	67,820	50,942,096	39,766,751	11,034,653	140,692
Interest rate options					250,146	250,146		
Index options	19,931,706	15,669,056	4,194,829	67,820	25,936,506	19,358,108	6,437,706	140,692
Single stock options	24,248,427	19,300,755	4,947,672		24,711,390	20,114,443	4,596,947	
Commodities options	18,166	18,166			23,801	23,801		
Currency options					20,253	20,253		
Over-the-counter markets	2,214,909	757,516	1,442,893	14,500	1,769,009	1,101,404	639,945	27,660
Credit default swaps	250,914	98,734	148,180	4,000	332,687	8,386	310,301	14,000
Index options	191,259	115,845	75,414		1,332,509	1,040,942	277,907	13,660
Interest rate options	5,000		5,000					
Single stock options	1,696,091	488,257	1,197,335	10,500	35,850	35,850		
Commodities options	7,485	7,485						
Currency options	64,159	47,196	16,963		67,964	16,227	51,737	
Total	64,510,054	46,641,032	17,447,762	421,260	72,678,352	52,801,749	19,339,382	537,221

4.1.3. SETTLEMENT RISK

Settlement risks stem from the Group's Cash Equities and Equity Derivatives businesses. The Risk Management Department carries out a calculation of the following risks every day:

- a specific risk over 1, 2 or 3 days for a given counterparty and a given security to be settled/delivered,
- a general risk over 1, 2 or 3 days calculated on all of the transactions to be settled for a given third party.

A limit is assigned with respect to the specific risk and general risk based on the internal credit rating of the third party.

4.1.4. LIQUIDITY RISK

Liquidity and refinancing risk is based on the liquidity policy approved by the Management. The target is to maintain sufficient available resources, in particular by the available part of BNP Paribas financing line, in order to address activities requirements and to face liquidity crisis.

In 2018, the Group has modified its approvals to carry out all its activities as investment companies. Henceforth, the constitution of a regulatory buffer of liquid assets in accordance with the CRR (compliance with a LCR ratio greater than 100%) is no longer applicable to the Group.

However, the Group has a control framework governed by a liquidity risk tolerance policy in accordance with the CRD IV:

- Internal liquidity buffer; liquid asset buffer equal to three months of fixed overheads and available part of financing line,
- Limits on cash flow indicators and cash consumption by business lines,
- Financial management committee overseeing liquidity management.

4.1.5. VALUATION CONTROL

The valuation policy, whether derivatives instruments are listed on an organised market or OTC traded, is validated by the Risk Management Department.

Instruments valued on the basis of quoted priced are:

- equity shares and similar (CFD, ADR, CI, etc.),
- trackers, funds,
- and commodities futures.

Instruments valued on the basis of a model are:

- index futures,
- listed options,
- vanilla and exotic OTC options,
- convertible bonds,
- structured issues (warrants, EMTN, etc.),
- interest rate swaps,
- performance swaps.

For these instruments, the Risk Management Department particularly validates:

- valuation models,
- parameters used by these models.

For some exotic instruments, models and parameters cannot be validated by market observations. In this case, in accordance with IFRS standards, the margin at inception is reserved and linearly amortised in the profit and loss account. If market data and parameters subsequently become “observable”, the remaining deferred margin is recognised immediately in the profit and loss account.

4.2. OPERATIONAL RISKS CONTROL FRAMEWORK

The Permanent Control and Operational Risk Department is managed by the Coordinator of Group Permanent Control, reporting to the Deputy Chief Executive Officer of Exane SA, in charge of central functions of the Group. This process relies on Operational Risk Correspondents within each of the Group’s business line and function, and has the following missions:

- ensuring that consistency, completeness and efficiency of permanent control process regarding non-financial risks, in particular in connection with Compliance and IT Security Departments;
- monitoring operational risk process at a Group level.

These missions are illustrated by:

- maintaining the processes/risks/controls mapping with the respect of the defined methodology;
- checking adequacy, supporting documentation and correct running of control process, and analysis and monitoring founded anomalies;
- analysing operational incidents report;
- coordinating the follow-up of essential services providers;
- validating, monitoring and closing the related control plans;
- reporting its activity and results of its controls to Management Risk Committee Group, Executive Committee and Board of Directors and its Risks Committee.

The Exane Group applies the standard approach for the calculation of own funds requirements regarding operational risk and is compliant with the qualitative requirements linked to this option thanks to the process described above.

5. NOTES TO THE CONSOLIDATED BALANCE SHEET

5.1. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Details of financial assets at fair value through profit or loss

According to IFRS 9, the management funds managed by Exane AM or Ellipsis AM classified at fair value by option or for external funds classified as Available-For-Sale are now booked at fair value through profit or loss.

(in thousands of euros)	31/12/18			31/12/17 as per IFRS 9		
	Trading book	Assets designated at fair value	Total	Trading book	Assets designated at fair value	Total
Bonds and other debt instruments⁽¹⁾	503,612		503,612	678,964		678,964
Equities and other variable-income securities⁽²⁾	1,614,056	195,719	1,809,775	2,437,236	201,896	2,639,132
Trading book derivatives	1,368,133		1,368,133	960,052		960,052
• Equities and variable-income securities	1,335,642		1,335,642	920,701		920,701
• Interest rate derivatives	18,846		18,846	33,635		33,635
• Currency derivatives	10,716		10,716	4,912		4,912
• Other derivatives	2,929		2,929	804		804
Total financial assets at fair value through profit or loss^(*)	3,485,801	195,719	3,681,520	4,076,252	201,896	4,278,148

(*) i.e note 5.1.2 Offsetting of financial assets & liabilities.

(1) of which collateralised securities at 31 December 2018: 153,195 thousand euros and at 31 December 2017: 179,473 thousand euros.

(2) of which collateralised securities at 31 December 2018: 325,137 thousand euros and at 31 December 2017: 512,173 thousand euros.

Details of financial liabilities at fair value through profit or loss

IFRS 9 has no impact on the classification of financial liabilities at fair value through profit or loss.

(in thousands of euros)	31/12/18			31/12/17 as per IFRS 9		
	Trading book	Assets designated at fair value	Total	Trading book	Assets designated at fair value	Total
Debts on borrowed securities and short sale	536,082		536,082	579,908		579,908
Debt securities⁽¹⁾		1,978,485	1,978,485		2,390,547	2,390,547
Trading book derivatives	1,404,092		1,404,092	1,071,178		1,071,178
• Equities and variable-income securities	1,370,175		1,370,175	1,020,350		1,020,350
• Interest rate derivatives	18,399		18,399	25,825		25,825
• Currency derivatives	12,558		12,558	24,661		24,661
• Other derivatives	2,960		2,960	342		342
Total financial liabilities at fair value through profit or loss^(*)	1,940,174	1,978,485	3,918,659	1,651,086	2,390,547	4,041,633

(*) i.e note 5.1.2 Offsetting of financial assets & liabilities.

(1) of which collateralised securities at 31 December 2018: 414,082 thousand euros and at 31 December 2017: 676,755 thousand euros.

The breakdown of the Group's financial assets and liabilities by residual maturity at 31 December 2018 is as follows:

(in thousands of euros)	Overnight and demand deposits	Overnight (excluded) to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Financial assets at fair value through profit or loss	1,821,061	32,198	249,327	717,766	617,784	243,384	3,681,520
Bonds and other debt securities	11,288	37	31,447	28,040	195,263	237,538	503,613
Equities and other variable-income securities	1,809,773	0	0	0	0	0	1,809,773
Trading book derivatives	0	32,161	217,880	689,726	422,521	5,846	1,368,134
Financial liabilities at fair value through profit or loss	506,126	256,123	166,503	1,159,051	1,681,585	149,271	3,918,659
Debts on securities	442,506	0	54	2,418	91,096	8	536,082
Debt securities	63,620	224,905	44,657	375,891	1,127,577	141,835	1,978,485
Trading book derivatives	0	31,218	121,792	780,742	462,912	7,428	1,404,092

5.1.1. MEASUREMENT OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

IFRS 13 standard defines the fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments are classified into three levels in descending order of the observability of their value and of the inputs used for their valuation:

- **Level 1** – Financial instruments with quoted market prices

Level 1 comprises financial instruments with quoted prices in an active market that can be used directly.

- **Level 2** – Financial instruments measured using valuation techniques based on observable inputs

This level consists of financial instruments measured by reference to the price of similar instruments quoted in an active market or to identical or similar instruments quoted in a non-active market but for which transaction prices are readily and regularly available on the market or, lastly, instruments measured using valuation techniques based on observable inputs.

- **Level 3** – Financial instruments measured using valuation techniques based on non-observable inputs

This level comprises financial instruments measured using valuation techniques based wholly or partially on non-observable inputs. A non-observable input is defined as a parameter, the value of which is derived from assumptions or correlations not based either on observable transaction prices in the identical instrument at the measurement date or observable market data available at the same date.

An instrument is classified in Level 3 if a significant portion of its valuation is based on non-observable inputs.

This level notably comprises complex derivatives with multiple underlying and derivatives used for issuance of structured products.

In application of IFRS 7, all financial instruments whose valuation is significantly influenced by non-observable inputs at the closing date are included in Level 3.

At 31 December 2018, the breakdown by measurement method applied to financial instruments recognised at fair value presented in line with the latest recommendations of IFRS 7 is as follows:

(in thousands of euros)	31/12/18				31/12/17 as per IFRS 9			
	Quoted market price (level 1)	Fair value based on observable data (level 2)	Fair value based on non-observable data (level 3)	Total	Quoted market price (level 1)	Fair value based on observable data (level 2)	Fair value based on non-observable data (level 3)	Total
Financial assets at fair value through profit or loss	3,474,507	149,133	57,880	3,681,520	3,968,290	276,741	33,117	4,278,148
Bonds and other debt instruments	454,374	48,639	598	503,611	531,505	144,776	2,683	678,964
Equities and other variable-income securities	1,806,588	3,130	57	1,809,775	2,609,308	26,578	3,246	2,639,132
Trading book derivatives	1,213,545	97,364	57,225	1,368,134	827,477	105,387	27,188	960,052
Total	3,474,507	149,133	57,880	3,681,520	3,968,290	276,741	33,117	4,278,148
Financial liabilities at fair value through profit or loss	1,805,139	1,171,091	942,430	3,918,660	1,434,300	1,699,835	907,498	4,041,633
Debt on borrowed securities and short sale	536,082			536,082	579,908			579,908
Debt securities		1,082,761	895,725	1,978,486		1,546,256	844,291	2,390,547
Trading book derivatives	1,269,057	88,330	46,705	1,404,092	854,392	153,579	63,207	1,071,178
Total	1,805,139	1,171,091	942,430	3 918 660	1,434,300	1,699,835	907,498	4,041,633

Table of change in level 3 financial instruments

For level 3 financial instruments, the following changes occurred between 1 January 2018 and 31 December 2018:

(in thousands of euros)	Financial instruments at fair value through profit or loss held for trading	
	Financial assets	Financial liabilities
Beginning of the period	33,117	907,498
Valuation impact	6,771	(46,306)
New deals/issues	40,718	466,759
Transfers to other levels ⁽¹⁾	224	(14,996)
Settlements	(22,950)	(370,526)
End of the period	57,880	942,430

(1) The transfer to the “observable” level depends on the “observability” date by underlying category and product type, and by risk and maturity category. The review of the status and the data of the product can justify a move in the level “non-observable”.

Sensitivity of model values to reasonably likely changes in level 3 assumptions

To measure the sensitivity of the fair value of the level 3 portfolio to a change in assumptions, the following scenario was considered:

Parameter	Spot	Volatility	Rate	Correlation	Dividend	Spread
Change	1.5%	-1 pt	-10 bps	-2.5%	2.5%	-10%

For level 3 financial instruments, the most unfavourable direction is considered in terms of parameters movements.

The potential impact of this scenario on the level 3 portfolio is -21.8 million euros at 31 December 2018 versus -15.2 million euros at 31 December 2017. It does not include the impact of the change in fair value of level 1 and/or 2 financial instruments carried as hedges for level 3 instruments.

Deferred margin on financial instruments measured using techniques based on non-observable inputs (Day One)

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

(in thousands of euros)

Beginning of the period - 31 december 2017	11,127
New deals	5,089
Models variance and parameters non-observable	(469)
Purchase	(6,175)
Amortisation	(1,568)
End of the period - 31 december 2018	8,005

5.1.2. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table presents the amounts of financial assets and liabilities before and after offsetting. This information, required by the amendment to IFRS 7 (disclosures on offsetting of financial assets and financial liabilities) and IAS 32 (financial instruments: presentation) clarifies the principles of offsetting financial assets and liabilities.

The potential impact of this netting has been determined, for OTC derivatives by third party and, for listed derivatives by market.

A financial asset and a financial liability are offset and the net balance is recorded in the balance sheet if and only if:

- The Group has a legally enforceable right to offset “in all circumstances” the recognized amounts. Thus, the right to offset must not be contingent upon the occurrence of an event, and must be applicable not only in case of default and/or bankruptcy but also in the normal course of business,
- The Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Most of the offset derivatives transactions are dealt with clearing houses.

On these bases, the Group has determined the impact of an offsetting:

- No offsetting possible on derivatives with physical settlement without a net settlement between a cash flow and a delivery of an underlying security,
- Offsetting by market on listed derivatives due to systematic settlement in cash. On the other hand, mark-to-market (“MTM”) and margin calls cannot be offset because they are not symmetrical,
- Offsetting by counterparty, currency and maturity bucket on OTC derivatives.

The impact on the balance sheet at 31 December 2018 is a decrease of 338 million euros versus 399 million euros at 31 December 2017.

	Per Exane Group accounting rules applied			Per IFRS 7 standard		
	Gross amounts	Gross amounts set off on the balance sheet	Net amounts presented on the balance sheet	Impact of master netting agreements and similar agreements	Financial instruments received as collaterals	Net amounts
(in thousands of euros)						
31/12/18						
Financial assets at fair value through profit or loss	4,019,569	(338,049)	3,681,520			3,681,520
• Financial instruments derivatives	1,298,101	(338,049)	960,052			960,052
Accrued income and other assets	2,082,216		2,082,216		(54,046)	2,028,170
• Guarantee deposits paid	341,177		341,177		(54,046)	287,131
Financial liabilities at fair value through profit or loss	4,256,708	(338,049)	3,918,659			3,918,659
• Financial instruments derivatives	1,742,141	(338,049)	1,404,092			1,404,092
Accrued expenses and other liabilities	815,844		815,844		(83,572)	732,272
• Guarantee deposits received	86,659		86,659		(83,572)	3,087
31/12/17						
Financial assets at fair value through profit or loss	4,677,900	(399,752)	4,278,148			4,278,148
• Financial instruments derivatives	1,359,804	(399,752)	960,052			960,052
Accrued income and other assets	985,649		985,649		(85,672)	899,977
• Guarantee deposits paid	395,100		395,100		(85,672)	309,428
Financial liabilities at fair value through profit or loss	4,441,385	(399,752)	4,041,633			4,041,633
• Financial instruments derivatives	1,470,930	(399,752)	1,071,178			1,071,178
Accrued expenses and other liabilities	722,490		722,490		(21,308)	701,182
• Guarantee deposits received	23,699		23,699		(21,308)	2,391

5.2. AVAILABLE-FOR-SALE FINANCIAL ASSETS

From 1 January 2018, available-for-sale assets are now classified as financial assets at fair value through profit and loss under IFRS 9 (cf. 2.1 Applicable accounting standards).

5.3. LOANS AND RECEIVABLES / DEBTS DUE FROM / TO CREDIT INSTITUTIONS

(in thousands of euros)	31/12/18	31/12/17
Deposits paid on security borrowing	712,269	720,296
Demand accounts	165,549	112,675
Short-term loans	324,376	133,898
Interest on current accounts	388	195
Loans and receivables due from credit institutions (at amortised cost)	1,202,582	967,064
Deposits received on security lending	211,888	398,363
Demand accounts	54,858	29,466
Long-term borrowings	523,006	597,007
Accrued interest	802	773
Debts due to credit institutions (at amortised cost)	790,554	1,025,609

The breakdown by residual maturity is as follows:

(in thousands of euros)	Overnight (excluded) to 1 month	Over 5 years	Total
31 December 2018			
Loans and receivables due from/to credit institutions	1,202,582		1,202,582
Debts due to credit institutions	267,548	523,006	790,554
31 December 2017			
Loans and receivables due from/to credit institutions	967,064		967,064
Debts due to credit institutions	428,602	597,007	1,025,609

5.4. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

(in thousands of euros)	31/12/18	31/12/17
Current tax assets	3,520	5,627
Deferred tax assets	48,386	34,568
Total assets	51,906	40,195
Current tax liabilities	14,957	7,176
Deferred tax liabilities	12,950	15,725
Total liabilities	27,907	22,901

5.5. ACCRUED INCOME / EXPENSES AND OTHER ASSETS / LIABILITIES

(in thousands of euros)	31/12/18	31/12/17
Settlement accounts related to market transactions	540,012	457,318
Guarantee deposits and bank guarantees paid	341,177	395,100
Social and tax assets	12,792	12,841
Accrued income and prepaid expenses	49,414	45,388
Other accrued income and other assets	62,700	75,002
Net asset value	1,006,095	985,649
Settlement accounts related to market transactions	484,293	425,464
Guarantee deposits received	86,659	23,699
Social and tax liabilities	177,105	187,408
Deferred income and accrued expenses	50,627	54,706
Other accrued expenses and other liabilities	17,160	31,213
Net liability value	815,844	722,490

5.6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(in thousands of euros)	31/12/18			31/12/17
	Gross	Amortisation and provisions	Net	Net
IT and electronics	22,518	(19,521)	2,997	4,756
Furniture, fixtures and telephony system	28,177	(19,660)	8,517	9,196
Total property, plant and equipment	50,695	(39,181)	11,514	13,952
Software	28,065	(18,478)	9,587	9,404
Other intangible assets	2,087	(2,085)	2	2
Total intangible assets	30,152	(20,563)	9,589	9,405

5.7. PROVISIONS

(in thousands of euros)	31/12/17	New provisions	Write-backs	31/12/18
Provisions	32,662	3,013	914	34,761

Provisions include provisions for employee benefit obligation (retirement commitments, retirement indemnities) and other long-term benefits (long-term awards), as well as other provisions hedging some potential risks.

→ Defined-contribution plans

In the different countries where the Group is located and depending on local regulations, there are different types of defined-contribution plans. In France, retirement is split between the core scheme and the additional plans. In the United Kingdom, the Group has set up a retirement scheme financed by its subsidiary Exane Limited. The contributions paid for these schemes are based on a percentage of annual wage and recognised as an expense for the period.

→ Defined-benefit schemes

In the United States of America, the Group offers only one defined-benefit scheme, for its subsidiary Exane Incorporated. It is based on the acquisition of a rent defined according to the average wage and to the number of years of work.

In France, employees benefit from retirement indemnities.

Post-employment benefits: commitments related to defined-benefit schemes

(in thousands of euros)	31/12/17	New provisions	Write-backs	31/12/18
Net obligation for defined-benefit plans	8,417	605		9,022

Change in the present value of the defined-benefit obligation

(in thousands of euros)	31/12/18	31/12/17
Present value of defined-benefit obligation at the beginning of the period	13,921	13,310
Current service cost	1,525	1,293
Expense related to the measurement of the commitments	393	340
Actuarial gains/losses on obligation	(536)	264
Benefits paid	(73)	(413)
Exchange rate impact	342	(826)
Others	102	(47)
Present value of defined-benefit obligation at the end of the period	15,675	13,921

Change in the fair value of plan assets

(in thousands of euros)	31/12/18	31/12/17
Present value of plan assets at the beginning of the period	5,504	5,619
Expected return on plan assets	295	288
Actuarial gains/losses on plan assets	(356)	76
Contributions paid	939	646
Benefits paid from plan assets	0	(413)
Exchange rate impact	272	(696)
Others	0	(17)
Present value of plan assets at the end of the period	6,653	5,504

Components of the cost of defined-benefit plans

(in thousands of euros)	31/12/18	31/12/17
Total expense recognised in staff costs	1,726	1,337
Service costs for the current period	1,525	1,293
Service costs for previous periods	102	(7)
Expenses related to the measurement of the commitments	393	340
Expected return of plan assets	(295)	(288)

The discount rates used for the calculation of the employee benefits obligations are as follows:

(in thousands of euros)	31/12/18		31/12/17	
	France	USA	France	USA
Discount rate	1.57%	3.61%	1.30%	4.20%

5.8. DEBT SECURITIES AND SUBORDINATED DEBT

The 100 million euros bond issued on 17 October 2016 by Exane SA expired in 2018.

5.9. SHAREHOLDERS' EQUITY

(in thousands of euros)	31/12/17 as per IFRS 9	Appropriation of 2017 net income and dividend	Impact of valuation of employee benefits	Others	2018 Net income	31/12/18
Capital	40,690					40,690
Consolidated earnings	291,163	(98)		(60)		291,005
Gains/losses on equity	(2,025)		(28)	7		(2,046)
2017 net income	26,649	(26,649)				0
2018 net income					30,130	30,130
Total	356,477	(26,747)	(28)	(53)	30,130	359,779

A dividend of 26.7 million euros has been paid in 2018.

Equity breaks down as follows at 31 December 2018:

	31/12/18		31/12/17	
	Number of shares	% Capital	Number of shares	% Capital
Verner Investissements	180,539	100%	180,539	100%
Others	1	0%	1	0%
Total	180,540	100%	180,540	100%

Ordinary shares have a notional value of 170 euros each.

6. NOTES TO THE PROFIT AND LOSS ACCOUNT

6.1. INTEREST INCOME AND EXPENSES

(in thousands of euros)	31/12/18	31/12/17
Demand accounts	249	115
Deposits paid on security borrowing	59,726	69,134
Other interests	2,134	2,210
Interest income	62,109	71,459
Demand accounts	2,521	1,670
Deposits received on security lending	36,305	59,441
Other loans and cash flows	6,917	4,813
Interest expenses	45,743	65,924

6.2. NET COMMISSION INCOME AND EXPENSES

(in thousands of euros)	31/12/18	31/12/17
Security transactions	271,584	291,698
Forward and options contracts	11,957	12,352
Primary market	21,307	23,043
Commission (income)	304,848	327,093
Security transactions	68,930	75,406
Forward and options contracts	5,531	6,575
Cash flows	2,521	2,820
Commission (expenses)	76,982	84,801

6.3. NET GAIN / LOSS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(in thousands of euros)	31/12/18	31/12/17
Fixed-income and variable-income securities	71,362	403,080
Financial instruments	(10,736)	(319,870)
Remeasurement of currency positions	(630)	(141)
Net gain/loss on financial instruments at fair value through profit or loss	59,996	83,069

6.4. NET INCOME AND EXPENSES FROM / ON OTHER ACTIVITIES

Income from other activities mainly consists of the fees Exane charges for financial analysis and research and which amounted to 51.5 million euros at 31 December 2018 versus 47.3 million euros at 31 December 2017.

6.5. OPERATING EXPENSES

This item includes “Salary and employee benefit expenses” and “Other operating expenses”.

6.5.1. SALARY AND EMPLOYEE BENEFIT EXPENSES

(in thousands of euros)	31/12/18	31/12/17
Fixed and variable remuneration	149,594	152,942
Social security taxes	48,140	49,275
Payroll taxes	4,169	4,666
Profit-sharing	5,123	3,997
Total salary and employee benefit expenses	207,026	210,880

The average workforce of the Exane Group developed as follows:

Number of people employed	31/12/18	31/12/17
Executives	769	790
Supervisors	21	28
Employees	48	45
Average workforce	838	863

Since there are few corporate officers, giving any indication on remunerations granted to the members of management bodies would result in disclosing each member’s remuneration. Thus, this information is not shown in the notes to the financial statements.

6.5.2. OTHER OPERATING EXPENSES

(in thousands of euros)	31/12/18	31/12/17
Office rent	14,959	14,847
Fees	4,579	4,581
Auditors fees	878	791
Travel and entertainment expenses	10,885	11,354
Sub-contracted IT services	13,422	16,049
Other taxes	5,371	7,173
Other expenses	42,988	45,208
Other operating expenses	93,082	100,001

6.6. DEPRECIATION / AMORTISATION EXPENSES

This item discloses depreciation/amortisation expenses on property, plant and equipment and intangible assets as at 31 December 2018.

6.7. NET GAIN / LOSS ON OTHER ASSETS

There is no gain / loss on other assets as at 31 December 2018.

6.8. CORPORATE INCOME TAX

The composition of the tax charge is as follows:

(in thousands of euros)	31/12/18	31/12/17
Current tax charge	28,796	27,356
Deferred tax assets and liabilities	(16,988)	(9,842)
Total	11,808	17,514

In compliance with IFRS, the Group recognises deferred taxes for all taxable deductible temporary differences between the tax value of assets and liabilities and their carrying value recognised on the balance sheet. Deferred tax assets are recognised based on the probability that they will be recovered.

The amount of deferred taxes developed as follows:

(in thousands of euros)	31/12/18	31/12/17
Taxable temporary difference	49,027	34,861
Consolidation adjustments	(13,591)	(16,019)
Total	35,436	18,842
• of which income impact	16,988	9,842
• of which equity impact	(72)	(59)
• of which balance sheet impact only	(322)	(1,626)

Exane SA, Exane Derivatives, Exane Finance, Exane Derivatives Gerance, and Ellipsis Asset Management have each authorised Verner Investissements to be exclusively liable for corporate income tax, so as to calculate the Group's general taxable income, in accordance with Article 223 A of the French Tax Code.

7. FINANCING COMMITMENTS AND GUARANTEE COMMITMENTS

7.1. FINANCING COMMITMENTS

The Group's financing commitments mainly consist of the commitments given by BNP Paribas as regards the implementation of credit facilities.

At 31 December 2018, these commitments amounted to 1,386 million euros, of which 1,051.3 million euros received from BNP Paribas, versus 969.6 million euros for the year ended 31 December 2017, of which 786.8 million euros received from BNP Paribas.

7.2. GUARANTEE COMMITMENTS

At 31 December 2018, there is no more commitments.

8. SEGMENT INFORMATION

8.1. PRESENTATION OF BUSINESS SEGMENTS AND BUSINESS LINES

A business segment is a group of assets and processes meant to provide products and services, and whose risk and profitability is different from the risk and profitability profile of any other industry.

A geographic area is a group of assets and processes meant to provide products and services in a special environment, and whose risk and profitability profile is different from the risk and profitability profile of the economic environments in which the Group's transactions are booked.

The Exane Group is composed of three core businesses:

- **Cash Equities**

Under the brand name Exane BNP Paribas, created in 2004 when the agreement with BNP Paribas was signed, Exane provides institutional investors with a range of services, such as research, sale and execution on European equities.

- **Derivatives**

Exane Derivatives, a subsidiary of Exane, provides its clients with a whole range of tailor-made products, such as structured products, convertible bonds, and options.

Exane Derivatives serves all investor profiles, particularly private bankers, fund management companies, and institutional investors.

- **Asset management**

Asset Management includes the business of both entities Exane Asset Management and Ellipsis Asset Management.

8.2. BREAKDOWN OF REVENUES BY BUSINESS LINE

(in millions of euros)	31/12/18	31/12/17
Cash Equities	233.4	233.2
Derivatives	63.1	70
Asset Management	61	76.3
Others	(1.9)	(2.3)
Total	355.7	377.2

8.3. BREAKDOWN OF THE BALANCE SHEET AND REVENUES BY GEOGRAPHICAL ZONE

Exane Derivatives, Exane SA and Exane Limited have branches in Switzerland, Italy, Germany, Spain, Sweden and Singapore. Balance sheet bottom lines and revenues of these foreign offices are not significant from the Group's point of view; therefore they are not presented separately in the tables below.

8.3.1. BREAKDOWN OF THE BALANCE SHEET

(in millions of euros)	31/12/18	31/12/17
France	5,656	6,029
United Kingdom	264	240
USA	44	51
Total	5,963	6,320

8.3.2. BREAKDOWN OF REVENUES

(in millions of euros)	31/12/18	31/12/17
France	211.9	232.9
United Kingdom	118.7	113.4
USA	25.1	30.9
Total	355.7	377.2

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This statutory auditors' report includes information required by French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the annual general meeting of Exane SA,

OPINION

In compliance with the engagement entrusted to us by your general meeting, we have audited the accompanying consolidated financial statements of Exane SA for the year ended 31 December 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

BASIS FOR OPINION

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the «Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements» section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1st January 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in the French Code of ethics (code de déontologie) for statutory auditors.

EMPHASIS OF MATTER

We draw attention to the following matter described in Note 2.1 to the consolidated financial statements relating to the first time application of accounting standards IFRS 9 about financial instruments and IFRS 15 about revenue from contracts with customers. Our opinion is not modified in respect of this matter.

JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we inform you that the assessments which, in our professional judgment, were of most significance in our audit of the consolidated financial statements addressed the appropriateness of the accounting principles used and the reasonableness of the significant estimates made and the overall presentation of the financial statements, and in particular:

Valuation of financial instruments

As described in Note 2.3.2 “Derivatives” to the consolidated financial statements, your company uses internal models to value its financial instruments which are not traded on active markets. Our procedures consisted in reviewing the control framework of the models used, assessing the data and the assumptions used, and ensuring that the risks and results related to these financial instruments have been taken into account.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

VERIFICATION OF THE INFORMATION PERTAINING TO THE GROUP PRESENTED IN THE MANAGEMENT REPORT

As required by law, we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

We attest that the consolidated non-financial statement required by Article L. 225-102-1 of the French Commercial Code is included in the Group management report, being specified that, in accordance with the provisions of Article L. 823-10 of the code, we have not verified the fair presentation and the consistency with the consolidated financial statements of the information contained therein and should be reported on by an independent assurance services provider.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The consolidated financial statements were approved by the Board of Directors.

STATUTORY AUDITORS’ RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Paris-La Défense and Courbevoie, 13 March 2019

The Statutory Auditors

French original signed by

Mazars

Odile COULAUD

Deloitte & Associés

Charlotte VANDEPUTTE



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BALANCE SHEET EXANE SA

Financial year ended 31 December 2018

Assets (in thousands of euros)	Note	31/12/18	31/12/17
Cash and amounts due from central banks and post office banks		9	14
Receivables due from credit institutions	3.1	448,191	271,730
Customer items	3.2	151,017	616,391
Bonds, equities and other variable-income and fixed-income securities	3.3	68,481	107,748
Trading and settlement accounts		442,442	245,716
Investments in affiliates	3.4	37,420	36,598
Property, plant and equipment	3.5	10,665	12,319
Intangible assets	3.5	5,331	3,870
Other assets	3.6	397,327	369,137
Accrued income	3.7	28,483	8,191
Total assets		1,589,366	1,671,713

Liabilities and equity (in thousands of euros)	Note	31/12/18	31/12/17
Due to credit institutions	3.1	578,169	624,762
Customer items	3.2	174,584	106,904
Debt securities	3.3	222,016	332,230
Trading and settlement accounts		260,093	280,622
Other liabilities	3.6	59,894	53,626
Accrued expenses	3.7	31,835	27,914
Provisions	3.8	6,517	5,949
Capital for general banking risk		32,163	32,163
Shareholder's equity	3.9	224,094	207,544
Share capital		30,692	30,692
Reserves		93,902	93,902
Retained earnings carried forward		56,203	27,485
Net income		43,297	55,465
Total liabilities		1,589,366	1,671,713

PROFIT AND LOSS ACCOUNT EXANE SA

Financial year ended 31 December 2018

(in thousands of euros)	Note	31/12/18	31/12/17
Interest income	5.1	8,194	7,606
Interest expense	5.1	(8,094)	(6,273)
Income earned on variable-income securities	5.2	37,146	28,593
Commission income	5.3	71,560	94,874
Commission expense	5.3	(34,436)	(31,129)
Gain/loss on trading portfolio transactions	5.4	(336)	9,735
Gain/loss on investment portfolio transactions	5.5	(132)	12,420
Other operating income	5.6	62,033	28,201
Other operating expense	5.6	0	(20)
Revenues		135,935	144,007
Operating expense	5.7	(76,852)	(72,240)
Depreciation, amortisation and impairment of property, plant and equipment, and intangible assets		(5,584)	(9,249)
Operating income		53,499	62,519
Gain/loss on non-current assets	5.8	498	279
Pre-tax income		53,997	62,798
Corporate income tax	5.9	(10,700)	(7,333)
Net income		43,297	55,465

OFF-BALANCE SHEET EXANE SA

Financial year ended 31 December 2018

(in thousands of euros)	Note	31/12/18	31/12/17
Commitments given			
Guarantee commitments	4.1	12,505	15,506
Commitments received			
Financing commitments	4.2	1,236,018	969,582

NOTES TO ACCOUNTING DOCUMENTS

Financial year ended 31 December 2018

1. PROFILE

Exane SA is an investment company authorised and supervised in France by the “Autorité de Contrôle Prudentiel et de Résolution”, the French supervisory authority for credit institutions and investment companies. Exane SA provides all investment services in accordance with Book III of the General Regulation of the “Autorité des Marchés Financiers”, the French financial markets regulatory body.

Exane SA mainly serves institutional investors with a range of services, such as research, sales and execution on European equities.

Evolution of the Group

A number of constraints lead to rethinking the legal organisation of Exane Limited. A merger project between Exane SA and Exane Limited is planned for early 2019. This transformation would be achieved through an Exane SA merger of Exane Limited and the creation of an Exane SA branch in London. This operation would be subject to the regime of EU Directive 2017/1132 of 14 June 2017, providing a simplified framework for merger and tax neutrality. In order to benefit from this simplified framework, it is necessary to carry out all the merger operations (and to obtain the agreement of all the relevant regulatory authorities) by March 30th 2019.

Parallel to this merger project, with Exane operating in the UK and Continental Europe, the Group is working to ensure the resilience of its operations to a hard Brexit. The current system makes it possible to address a large part of the subjects and its adaptation is in progress. The impacts for the Group are not non material.

2. ACCOUNTING PRINCIPLES AND METHODS

The financial statements have been prepared in accordance with accounting standards applicable to credit institutions as defined by French regulation ANC n°2014-07 of 26 November 2014.

2.1. RECEIVABLES AND DEBTS DUE FROM / TO CREDIT AND FINANCIAL INSTITUTIONS

This item includes on the one hand balances of accounts held by French and foreign correspondent institutions, i.e. credit and financial ones, stockbrokers, and custodians, stemming from flows of cash on overnight securities and cash lending/borrowing, and on the other hand receivables and debts representing the value of securities borrowed or lent against cash.

2.2. SECURITY TRANSACTIONS AND OTHER FORWARD AND OPTIONS CONTRACTS

2.2.1. SECURITY TRANSACTIONS

→ Trading securities

Cash equities, UCITS shares and other variable-income and fixed-income securities of the security transactions portfolio are marked to market valued with the last known quoted price for securities traded on an active and liquid market at the balance sheet date, or in the absence of such a market, at a price given by the Risk Management Department with the use of an internal valuation model. Measurement adjustments are recognised in the profit and loss account under expense/income revaluation.

→ Investment securities

Investment securities are recorded at acquisition cost in the investment securities portfolio. An impairment loss is recognised against the fair value of these securities whenever it may fall below book value at balance sheet date.

→ Securities lending / borrowing transactions against cash (repurchase agreements)

Securities lent against cash are taken to the balance sheet.

Securities borrowed against cash are not taken as assets to the balance sheet.

However, the cash related to securities lent or borrowed is recorded as “Deposits paid or received on securities lent/borrowed” on the line “Receivables and debts due from/to credit and financial institutions”. Receivables and debts are not valued at fair value at the balance sheet date.

→ Security-backed lending / borrowing

Borrowed securities collateralised by other securities are taken to the balance sheet under “Shares and other variable-income securities”. The corresponding debt is recorded as a liability under “Debts on security borrowing”. Borrowed securities and debts on security borrowing are marked to market.

→ Equity interests

Equity interests mainly consist of participating interests in issuing companies whose decision-making body Exane SA significantly influences. The interests are recorded at acquisition cost.

2.2.2. OTHER FINANCIAL INSTRUMENTS

→ Options

• Organised markets

Call or put premiums on options bought or sold on organised markets are booked separately in assets and liabilities on the balance sheet. At each balance sheet date, these instruments are measured at the last quoted price published by compensation firms or brokers. Valuation changes are recorded under income or expenses in the profit and loss account.

In order to cancel out the profit and loss impact of unexplained price discrepancies that may occur at market close, the difference between the last quoted price and the theoretical price of the instrument, which is calculated with the use of an internal model and uniform market parameters for all transactions, is recorded as an unrealised gain or loss. The price is submitted for the formal approval of the Risk Management Department.

• Over-the-counter markets

Premiums on OTC options are recognised separately in assets and liabilities on the balance sheet. Changes in the value of options are recorded directly in the profit and loss account.

Financial instruments are priced based on internal models in the absence of organised markets. The price is submitted for the formal approval of the Group’s Risk Management Department.

→ Futures and forwards

• Organised markets

Positive and negative margins arising from settled or unsettled transactions carried out on futures markets are recognised in the profit and loss account.

In order to cancel out the profit and loss impact of unexplained price discrepancies that may occur at market close, the difference between the last quoted price and the theoretical price of the instrument which is calculated with the use of an internal model and uniform market parameters for all transactions, is recorded as an unrealised gain or loss. The price is submitted for the formal approval of the Group's Risk Management Department.

• Over-the-counter markets

Financial instruments are priced based on internal models in the absence of organised markets. The price is submitted for the formal approval of the Group's Risk Management Department.

Changes in the value are recognised in the profit and loss account.

2.2.3. VALUATION POLICY AND CONTROL

The valuation policy, whether derivatives instruments are listed on an organised market or OTC traded, is validated by the Group's Risk Management Department. The main parameters used for the valuation policy are:

- underlying quotation,
- interest rates,
- volatility,
- dividends estimation,
- correlation.

The portfolio is valued at the last know price for securities traded on an active and liquid market at the balance sheet date or, in the absence of such market, at a price determined with the use of a valuation model (based on observable or non-observable parameters). All these prices and parameters are checked by the Group's Risk Management and compliant with the existing banking regulations.

2.3. TRADING AND SETTLEMENT ACCOUNTS

Accounts payable and receivable on cash equity market transactions are primarily composed of trading and settlement accounts that record, in euros and at the acquisition price, securities transactions on behalf of brokers, financial institutions or banks, for which the settlement remains outstanding. Purchase and sale accounts used to record euro-denominated transactions with the same counterparty, as well as current accounts, are offset. Purchase and sale accounts used to record foreign currency-denominated transactions with the same counterparty are offset separately.

These accounts are also used to record outstanding coupon/dividend payments with the same counterparties.

2.4. INVESTMENTS IN AFFILIATES

This item comprises shares and other variable-income securities issued by affiliated companies.

Securities are recorded at acquisition cost. At period end, a provision for impairment may be applied if the value in use is lower than the cost.

Investments in foreign currencies are converted into euros at the historical exchange rate.

2.5. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

Costs arising from the acquisition of tangible and intangible assets are amortised on the basis of the estimated useful life in the company.

The table below shows the different amortisation methods applied by Exane SA as well as the useful life of the assets at 31 December 2018:

Type of assets	Provisions for impairment - Type and period
Software	Straight line 3 years to 8 years
IT and electronics	Straight line 3 years
Telephony systems	Straight line 5 years
Office furniture	Straight line 5 years/lease term
Fixtures	Straight line 5 years/lease term

2.6. RECOGNITION OF INCOME AND EXPENSES

Income and expenses are recorded when they originate.

Fees are recorded at trade date.

Financial assets and liabilities are recognised at their fair value and any changes thereto are reflected in the profit and loss at each balance sheet date.

The total amount of compensation (immediate or deferred) is recorded in full as an expense in the financial year of attribution.

2.7. OFF-BALANCE SHEET

Exane's commitments are recorded off-balance sheet at commitment value. Off-balance sheet entries reflect rights and obligations that may have an impact on the amount or substance of net assets.

Off-balance sheet commitments comprise commitments given and commitments received, and correspond to:

- financial commitments given to or received from credit institutions or clients,
- guarantee commitments including sureties, endorsements and other guarantees requested by credit institutions or clients or received from credit institutions,
- commitments on securities which are mainly securities to be received and/or to be delivered.

The off-balance sheet value for financial instrument commitments is determined:

- for futures and forward options at the option's strike price,
- for credit default swaps at the notional amount,
- for exchange-traded transactions on forward financial instruments at the notional amount.

3. NOTES TO THE BALANCE SHEET

3.1. RECEIVABLES AND DEBTS DUE FROM CREDIT INSTITUTIONS

(in thousands of euros)	31/12/18	31/12/17
Deposits paid on security borrowing	35,229	73,706
Short-term loans	324,376	133,898
Demand accounts	88,585	64,126
Total assets	448,191	271,730
Deposits received on security lending	28	14
Long-term borrowing	523,093	597,007
Demand accounts	55,048	27,741
Total liabilities	578,169	624,762

The items “Deposits paid and received on securities lent/borrowed” correspond to repurchase agreements. The maturity of other receivables and debts is less than one year.

3.2. CUSTOMER ITEMS

(in thousands of euros)	31/12/18	31/12/17
Accounts receivable	151,017	616,391
Total assets	151,017	616,391
Accounts payable	174,584	106,904
Total liabilities	174,584	106,904

Customer items correspond to current accounts opened between Exane SA and the Group’s various subsidiaries. The maturity of debts and receivables is less than one year.

3.3. EQUITIES AND OTHER VARIABLE-INCOME SECURITIES / DEBT SECURITIES

(in thousands of euros)	31/12/18	31/12/17
Trading portfolio ⁽¹⁾	15,899	45,761
• Equities and other variable-income securities	15,899	45,761
Investment portfolio ⁽²⁾	52,582	61,987
Total assets	68,481	107,748
Short Selling ⁽³⁾	690	920
• Equities and other variable-income securities	690	920
Debt securities ⁽⁴⁾	221,326	331,310
Total liabilities	222,016	332,230

(1) Securities are MTM-valued and disclosed here net of valuation adjustments.

(2) This portfolio is made of shares in Exane Asset Management funds amounting to 42.5 million euros, and shares in external funds amounting to 10 million euros.

(in thousands of euros)	31/12/18	31/12/17
Acquisition cost	52,582	61,987
Total investment portfolio	52,582	61,987
Unrealised capital loss	6,220	6,774

(3) Including short positions recorded in Exane's proprietary trading book. Securities are MTM-valued and disclosed here net of valuation adjustments.

(4) Securities issuances are made of medium-term marketable securities for 221 million euros. Bonds issuance on 17 October 2016 for 100 million euros became due in 2018. The maturity and the category of medium-term negotiable warrants issued by Exane SA are the following:

(in thousands of euros)	31/12/18	31/12/17
From 3 months to 1 year	125,672	0
From 1 to 2 years	95,654	134,552
From 2 to 3 years		196,758
Total	221,326	331,310

3.4. INVESTMENTS IN AFFILIATES AND UNAFFILIATED COMPANIES

(in thousands of euros)	Legal status	Shareholders' equity	2018 income	31/12/17	Disposals/ Acquisitions	31/12/18
Fully integrated French subsidiaries						
Exane Finance	French SA - stock corporation	6,485	684	5,504		5,504
Exane Derivatives Gérance	French SA - stock corporation	323	(8)	34		34
Exane Derivatives	French SNC - General partnership	(18,787)	(24,007)	19,037		19,037
Exane Participations	French SNC - General partnership	1		1		1
French subsidiaries held at 50% to 100%						
Exane Asset Management	French SAS	61,139	22,791	4,493	822	5,315
Fully integrated foreign subsidiaries						
Exane Limited	Private Company Limited	51,689	9,320	3,184		3,184
Exane Incorporated	Incorporation	14,695	4,532	4,346		4,346
Total assets		115,545	13,312	36,598	822	37,420

3.5. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

(in thousands of euros)	31/12/18			31/12/17
	Gross value	Amortisation and provisions	Net value	Net value
IT and electronics	19,098	(16,445)	2,653	4,023
Furniture, fixtures and telephony systems	18,981	(10,968)	8,012	8,296
Total property, plant and equipment	38,078	(27,414)	10,665	12,319
Software	15,111	(9,857)	5,254	3,622
Other intangible assets	2,087	(2,010)	77	247
Total intangible assets	17,198	(11,867)	5,331	3,870
Total property, plant, equipment and intangible assets	55,277	(39,281)	15,996	16,188

3.6. OTHER ASSETS AND LIABILITIES

(in thousands of euros)	31/12/18	31/12/17
Financial options purchased ⁽¹⁾	221,324	231,200
Collaterals ⁽²⁾	108,390	86,796
Tax assets	224	280
Deposits and guarantees	22,305	28,476
Accrued commissions ⁽³⁾	9,961	9,248
Other assets ⁽⁴⁾	35,123	13,137
Total assets	397,327	369,137
Social security liabilities	38,160	36,323
Tax liabilities	14,079	7,242
Suppliers	1,133	1,445
Other liabilities ⁽⁵⁾	6,522	8,616
Total liabilities	59,894	53,626

(1) This item comprises OTC option premiums to hedge structured products which are issued by external institutions, but arranged and underwritten by Exane.

(2) The collaterals are mainly call deposits held as collateral with clearing houses and clearers.

(3) This item encloses outstanding commissions on primary market transactions.

(4) The other assets are mainly securities transactions receivables, coupons, dividends and withholding taxes.

(5) The other liabilities are mainly securities transactions taxes (French Financial Transactions taxes) for 4.2 million euros and Commission Sharing Agreements for 1.9 million euros.

3.7. NET ACCRUED INCOME AND EXPENSES

(in thousands of euros)	31/12/18	31/12/17
Debtor adjustments accounts	10,736	1,907
Accrued income	12,950	4,145
Prepaid expenses	4,797	2,139
Total assets	28,483	8,191
Creditor adjustments accounts	6,189	3,852
Accrued expenses	25,634	24,061
Deferred income	12	0
Total liabilities	31,835	27,914

Most adjustment accounts enclose market transactions currently being settled, i.e. technical, breakdown, and OTC reference accounts.

Income receivable corresponds to the invoicing of the last quarter of the research.

Accrued expenses mainly consist of operating expenses.

3.8. PROVISIONS

(in thousands of euros)	31/12/17	New provisions	Write-off	31/12/18
Provisions	5,949	670	102	6,517

Provisions include provisions for employee benefit obligation (retirement commitments, retirement indemnities) and other long-term benefits (long-term awards), as well as other provisions hedging some potential risks.

The amount set aside represents the best estimate of the expense needed to settle the obligation.

The commitments related to employee benefits are measured on the basis of actuarial, financial, and demographic assumptions, and probability that employees will leave before retirement age, salary inflation, and social security taxes.

The amount of the employee benefits provision is discounted at each balance sheet date.

Exane SA calculated the amount of its commitment towards its employees, present in the firm and under employment contract at 31 December 2018, with the following assumptions:

Actuarial assumptions	31/12/18	31/12/17
Discount rate	1.57%	1.30%
Average rate of increase in salary	6% maximum declining with time	6% maximum declining with time
Retirement age	65 years old	65 years old
Labour turnover rate	6.1% declining with time	8.55% declining with time
Employers' contributions	52.50%	52.50%

3.9. SHAREHOLDERS' EQUITY

(in thousands of euros)	31/12/17	Appropriation of 2017 income and dividend	Interim dividend	2018 income	31/12/18
Capital	30,692				30,692
Additional paid-in capital	9,997				9,997
Legal retained earnings	3,069				3,069
Discretionary retained earnings	80,836				80,836
Balance brought forward	27,485	55,465	(26,747)		56,203
2017 net income	55,465	(55,465)			0
2018 net income				43,297	43,297
Total	207,544	0	(26,747)	43,297	224,094

A dividend of 26.7 million euros was paid in accordance with the decision of the General Meeting of Shareholders held on 20 March 2018.

Equity breaks down as follows:

	31/12/18		31/12/17	
	Number of shares	% Capital	Number of shares	% Capital
Verner Investissements	180,539	100%	180,539	100%
Others	1	0%	1	0%
Total	180,540	100%	180,540	100%

Ordinary shares have a notional value of 170 euros each.

4. NOTES TO THE OFF-BALANCE SHEET

4.1. GUARANTEE COMMITMENTS

A commitment of 12.5 million euros for the guarantee given by Exane SA to the landlord of Exane Limited has been recorded in 31 December 2018.

4.2. FINANCING COMMITMENTS

This item mainly entails financing commitments given by BNP Paribas as regards the implementation of credit facilities.

4.3. COMMITMENTS ON FORWARD AND OPTIONS CONTRACTS

The following table details Exane's commitments on forward and options contracts at 31 December 2018.

The commitments entailed in the table can only be construed as indicators of the Company's activity on financial markets, exclusively built on nominal bases. Therefore, they do not reflect risks on the markets.

Exane holds positions in futures markets which are managed within its own investment portfolio.

The breakdown by residual maturity is as follows:

(in thousands of euros)	31/12/18			31/12/17		
	Total	0 to 1 yr	1 to 5 yrs	Total	0 to 1 yr	1 to 5 yrs
Futures and forwards	121,906	121,906		61,858	61,858	
Organised markets	15,457	15,457		44,400	44,400	
Equity index instruments	15,457	15,457		44,400	44,400	
Over-the-counter markets	106,449	106,449		17,458	17,458	
Index swaps and equity swaps	69,288	69,288		3,542	3,542	
Foreign exchange contracts	37,161	37,161		13,916	13,916	
Options	215,437	115,000	100,437	210,889	115,000	95,889
Over-the-counter markets	215,437	115,000	100,437	210,889	115,000	95,889
Trading securities options	215,437	115,000	100,437	210,889	115,000	95,889
Total	337,342	236,906	100,437	272,747	176,858	95,889

4.4. COMMITMENTS ON SECURITIES

With BNP Paribas, Exane offers its corporate clients share buy-back programs. Exane executes the transactions. The remaining purchases to be reached amounted to 79.8 million euros at 31/12/2018.

4.5. RISK MANAGEMENT

4.5.1. FINANCIAL RISKS CONTROL FRAMEWORK

The Risk Management Department reports directly to the Chief Executive Officer of the Group. Its main tasks comprise:

Market risk:

- defining and measuring risk indicators,
- setting limits, monitoring overruns, managing overrun approval,
- validating pricing models,
- validating products and their description in the management system,
- validating valuation parameters,
- calculating and monitoring own funds requirements regarding market risk (based on the standard approach).

Counterparty risk:

- validating any entry into business relations with any new third party (principal, introducing broker, distributor, OTC counterparty, etc.),
- assigning an internal rating,
- monitoring commitments and limits on a daily basis,
- calculating and monitoring own funds requirements regarding counterparty risk (based on the standard approach).

Liquidity risk:

- daily monitoring cash consumption by activities,
- defining and monitoring risk indicators,

- control of the internal buffer of liquidity and liquidity assets.

The Risk Management Department performs for all the financial risks, the reporting of its activity and results of its controls to Management Risk Committee Group, Executive Committee and Board of Directors.

Market risks:

Five market risk measurement processes are carried out daily:

- a calculation of capital requirements according to the standard method defined in the banking regulations,
- a calculation based on an proprietary stress scenario model called Internal Capital Allowance (ICA),
- a normal Value-at-Risk and a stressed Value-at-Risk each calculated on a panel of 300 scenarios of daily changes of market parameters in according to the internal model,
- historic and hypothetical stress scenarios meeting the requirements of an internal model,
- a wide range of (Greek) sensitivity measures evaluated against the various market parameters.

The ICA uses the worst-case scenario for each area studied, based on sudden changes, whether simultaneous or not, in interest/exchange rates, the price of underlying assets, volatility, credit, correlations and dividends. Asset decorrelation risk is also included in these calculations.

Credit / counterparty risk :

Credit risk exists in all of the Group's positions in equity instruments and debt instruments through issuer risk. These positions are subject to market risk limits.

Counterparty risk is generated:

- by OTC hedging transactions with banks,
- by OTC transactions with clients with special internal agreements,
- by swaps to hedge structured products which are issued by external institutions; these transactions are entered into with highly rated financial organisations,
- by securities lending/borrowing related to trading and brokerage activities,
- by security transaction with settlement franco under the facilitation activity.

Each position has an internal limit on the total exposure to issuer risk and counterparty risk. The Group has changed its calculation method of exposure to counterparty risk and now resorts to ICA principles.

Settlement risk:

Settlement risks stem from the Group's Cash Equities and Equity Derivatives businesses. The Risk Management Department carries out a calculation of the following risks every day:

- a specific risk over 1, 2 or 3 days for a given counterparty and a given security to be settled/delivered,
- a general risk over 1, 2 or 3 days calculated on all of the transactions to be settled for a given third party.

A limit is assigned with respect to the specific risk and general risk based on the internal credit rating of the third party.

Liquidity risk:

Liquidity and refinancing risk is based on the liquidity policy approved by the Management. The target is to maintain sufficient available resources, in particular by the available part of BNP Paribas financing line, in order to address activities requirements and to face liquidity crisis.

In 2018, the Group has modified its approvals to carry out all its activities as investment companies. Henceforth, the constitution of a regulatory buffer of liquid assets in accordance with the CRR (compliance with a LCR ratio greater than 100%) is no longer applicable to the Group.

However, the Group has a control framework governed by a liquidity risk tolerance policy in accordance with the CRD IV:

- Internal liquidity buffer; liquid asset buffer equal to three months of fixed overheads and available part of financing line,
- Limits on cash flow indicators and cash consumption by business lines,
- Financial management committee overseeing liquidity management.

4.5.2. OPERATIONAL RISK CONTROL FRAMEWORK

The Permanent Control and Operational Risk Department is managed by the Coordinator of Group Permanent Control, reporting to the Deputy Chief Executive Officer of Exane SA, in charge of central functions of the Group.

This process relies on Operational Risk Correspondents within each of the Group's business line and function, and has the following missions:

- ensuring that consistency, completeness and efficiency of permanent control process regarding non-financial risks, in particular in connection with Compliance and IT Security Departments;
- monitoring operational risk process at a Group level.

These missions are illustrated by:

- maintaining the processes/risks/controls mapping with the respect of the defined methodology;
- checking adequacy, supporting documentation and correct running of control process, and analysis and monitoring founded anomalies;
- analysing operational incidents report;
- coordinating the follow-up of essential services providers;
- validating, monitoring and closing the related control plans;
- reporting its activity and results of its controls to Management Risk Committee Group, Executive Committee and Board of Directors and its Risks Committee.

The Exane Group applies the standard approach for the calculation of own funds requirements regarding operational risk and is compliant with the qualitative requirements linked to this option thanks to the process described above.

5. NOTES TO THE PROFIT AND LOSS ACCOUNT

5.1. NET INTEREST INCOME

This item breaks down as follows:

(in thousands of euros)	31/12/18	31/12/17
Deposits paid related to borrowed securities	45	34
Demand accounts	8,149	7,573
Total income	8,194	7,606
Deposits received related to lent securities	377	355
Subordinated borrowings	0	935
Borrowings	5,889	3,766
Demand accounts	1,828	1,217
Total expenses	8,094	6,273

5.2. INCOME EARNED ON VARIABLE-INCOME SECURITIES

This income corresponds to the dividends received from the subsidiaries of Exane SA.

5.3. COMMISSION INCOME AND EXPENSES

This item breaks down as follows:

(in thousands of euros)	31/12/18	31/12/17
Security transactions	61,137	85,383
Forward and options contracts	473	266
Primary market	9,950	9,226
Total income	71,560	94,874
Security transactions	32,044	28,293
Cash transactions	2,270	2,749
Forward and options contracts	61	39
Distribution fees	61	48
Total expenses	34,436	31,129

Commissions on securities transactions mainly consist on execution fees (please, refer to 5.6 MIFID II research services).

5.4. GAIN / LOSS ON TRADING PORTFOLIOS TRANSACTIONS

This item comprises gains and losses on:

- trading securities,
- forward and options contracts,
- foreign exchange.

5.5. GAIN / LOSS ON INVESTMENT PORTFOLIOS TRANSACTIONS

This item consists of capital gains and unrealised losses in Exane Asset Management funds.

5.6. OTHER OPERATING INCOME AND OPERATING EXPENSES

(in thousands of euros)	31/12/18	31/12/17
Research service	40,008	14,200
Execution and clearing fees	21,795	12,974
Other recharge	229	1,027
Total other operating income	62,033	28,201
Other operating expenses	0	20
Total other operating expenses	0	20

The research service item mainly comprises the billing of analysis and research services. Since January 2018, the financing of research has been governed by the Financial Instruments Directive II (MIFID II), which requires Investment Services Providers (ISP) that receive or use research in connection with their investment services to separate the financing of research and execution. Therefore, research has been paid directly, independently of execution fees on securities.

Other recharges consist of the expenses the Group recharges its companies.

Other operating expenses mostly comprise the interest on subordinated debts.

5.7. OPERATING EXPENSES

5.7.1. SALARY AND EMPLOYEE BENEFIT EXPENSES

This item breaks down as follows:

(in thousands of euros)	31/12/18	31/12/17
Fixed and variable remuneration	38,558	37,326
Employee benefits	670	412
Social security taxes	17,244	16,111
Profit-sharing	2,550	1,920
Total	59,022	55,769

The average number of staff in Exane SA has evolved as follows:

Number of people employed	31/12/18	31/12/17
Executives	274.3	271.5
Supervisors	18.0	22.1
Employees	28.4	27.7
Total	320.7	321.3

5.7.2. OTHER OPERATING EXPENSES

(in thousands of euros)	31/12/18	31/12/17
Office rent, database, market data	20,593	21,285
Sub-contracted IT services	6,375	7,072
Fees	1,714	1,143
Travel and entertainment expenses	3,374	3,579
Other taxes	3,101	3,950
Intragroup invoices	(28,855)	(31,460)
Other expenses	11,529	10,901
Total	17,830	16,471

5.8. GAIN / LOSS ON FIXED ASSETS

The item consists of the gains on the sale of equity interests.

5.9. CORPORATE TAX

The French corporate income tax includes all taxes calculated on net income.

Due to a change in the French tax administration's doctrine in 2018, and in order to have an homogeneous approach in the Exane Group, bonuses are from now deductible the year they are announced and not the year of attribution.

The tax payable is the amount of tax calculated on taxable income as at December 31, 2018.

6. CASH-FLOW STATEMENT

(in thousands of euros)	31/12/18	31/12/17
Operating activities		
Pre-tax net income	53,997	62,798
Non-monetary items included in pre-tax net income and other adjustments	5,584	9,284
Net depreciation/amortisation expenses on property, plant and equipment and intangible assets	5,584	9,398
Net income or loss from financing activities	0	(114)
Net increase/decrease in cash related to assets and liabilities generated by operating activities	296,428	136,256
Net increase/decrease in cash related to transactions with customers	315,799	136,070
Net increase/decrease in cash related to transactions involving other financial assets and liabilities	(9,240)	7,222
Net increase/decrease in cash related to transactions involving non-financial assets and liabilities	568	296
Taxes paid	(10,700)	(7,333)
Net increase/decrease in cash and equivalents generated by operating activities	356,009	208,338
Investing activities		
	31/12/18	31/12/17
Change in equity investments	(822)	46,870
Net increase/decrease related to property, plant and equipment and intangible assets	(5,390)	(4,739)
Net increase/decrease in cash and equivalents generated by investing activities	(6,213)	42,132
Financing activities		
	31/12/18	31/12/17
Net increase/decrease in cash and equivalents related to transactions with shareholders	(26,747)	(60,995)
Net increase/decrease in cash and equivalents generated by other financing activities	(100,000)	0
Net increase/decrease in cash and equivalents generated by financing activities	(126,747)	(60,995)
Net increase/decrease in cash and equivalents	223,048	189,476
Balance of cash and equivalent accounts at the beginning of the period		
Cash and amounts due from central banks and post office banks	14	11
Demand deposits/loans with/from credit institutions	(353,032)	(542,504)
Balance of cash and equivalent accounts at the end of the period		
Cash and amounts due from central banks and post office banks	9	14
Demand deposits/loans with/from credit institutions	(129,978)	(353,032)
Net increase/decrease in cash and equivalents	223,048	189,476

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This statutory auditors' report includes information required by French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the annual general meeting of Exane SA,

OPINION

In compliance with the engagement entrusted to us by your general meeting, we have audited the accompanying financial statements of Exane SA for the year ended 31 December 2018.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.

BASIS FOR OPINION

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from 1st January 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in the French Code of ethics (code de déontologie) for statutory auditors.

JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we inform you that the assessments which, in our professional judgment, were of most significance in our audit of the financial statements addressed the appropriateness of the accounting principles used and the reasonableness of the significant estimates made and the overall presentation of the financial statements, in particular:

Impairment of investment securities and investments in affiliates

- As described in Note 2.2.1 “Security transactions” to the financial statements, your company determines whether it is necessary to record provisions for impairment with respect to investment securities depending on their market value,
- As described in Note 2.4 “Investments in affiliates” to the financial statements, your company determines whether it is necessary to record provisions for impairment with respect to shares and other variable-yield investments held in affiliated entities depending on the changes in the share held in the accounting net assets or the value in use.

As part of our assessment of these estimates, we have examined the monitoring and review procedures implemented in respect of these investment securities, shares and other variable-yield investments held in affiliated entities leading to the determination of the necessary level of impairment.

Valuation of financial instruments

As described in Note 2.2.2 “Other financial instruments” to the financial statements, your company uses internal models to value its financial instruments which are not traded on active markets. Our procedures consisted in reviewing the control framework of the models used, assessing the data and assumptions used, and ensuring that the risks and results related to these financial instruments have been taken into account.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

VERIFICATION OF THE MANAGEMENT REPORT AND OF THE OTHER DOCUMENTS PROVIDED TO THE SHAREHOLDERS

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law and regulation.

Information given in the management report and in the other documents provided to the Shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents provided to the Shareholders with respect to the financial position and the financial statements.

Information relating to corporate governance

We attest that the Board of Directors’ report on corporate governance, sets out the information required by Article L. 225-37-4 of the French Commercial Code.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The financial statements were approved by the Board of Directors.

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Paris-La Défense and Courbevoie, 13 March 2019

The Statutory Auditors

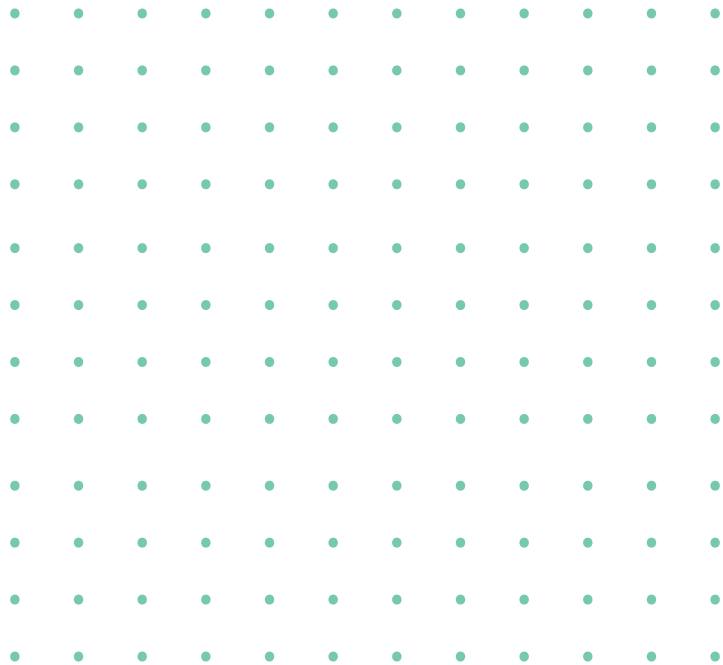
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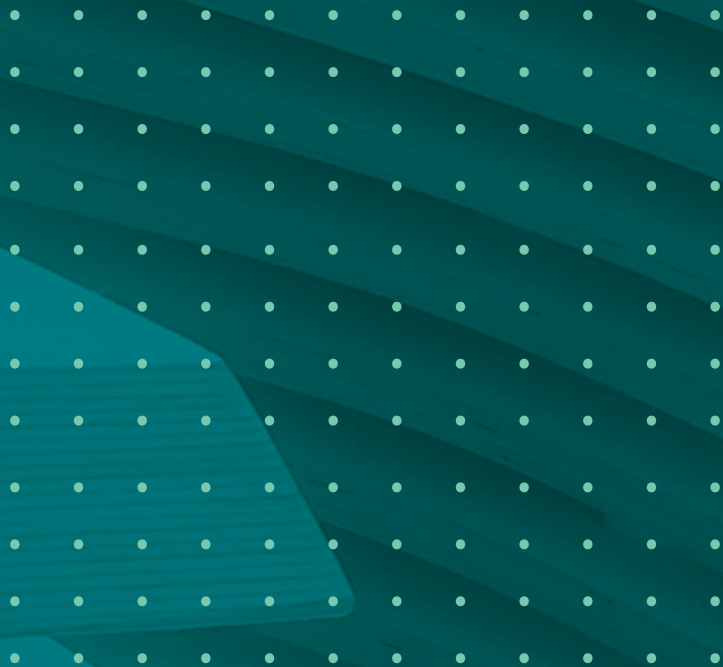
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