

Annual report 2016

BNP Paribas Arbitrage Issuance B.V.

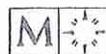
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The Netherlands
Chamber of Commerce Amsterdam No. 33215278

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MANAGING DIRECTOR'S REPORT

Description and principal activity of the Company

BNP Paribas Arbitrage Issuance B.V. (the Company) was incorporated on 19 November 1989 under the law of the Netherlands.

The principal objectives of the Company are to issue securities, such as warrants, certificates, private placements, notes, to enter into related OTC agreements and to issue and acquire financial instruments of any nature for account of various entities of the BNP Paribas group.

Audit committee

The Company qualifies as an organisation of public interest pursuant to Dutch and EU law. By making use of the exemption for groups the Company did not install an audit committee. The Company belongs to the BNP Paribas group which has an audit committee that complies with international corporate governance rules.

Operating result

The net profit for the financial year was EUR 23,307 (2015 profit EUR 19,786).

Liquidity and shareholder's equity

No significant changes to liquidity resources occurred. Equity increased with the result for the period. Liquidity and capital resources are considered sufficient given the objective and activities of the Company.

Financial risk management

Market risk

The Company takes on exposure to market risks arising from positions in interest rates, currency exchange rates, commodities and equity products, all of which are exposed to general and specific market movements. However, these risks are hedged by swap agreements with BNP Paribas group entities and OTC option agreements or collateral arrangements and therefore these risks are mitigated in principle.

Credit risk

The Company has significant concentration of credit risks as all OTC contracts are acquired from its parent company and other group companies. Taking into consideration the objective and activities of the Company and the fact that the BNP Paribas group is under supervision of the European Central Bank and the *Autorité de contrôle prudentiel et de résolution*, Paris, management considers these risks as acceptable. The long term senior debt of BNP Paribas is rated (A) by Standard & Poor's and (A1) by Moody's.

Liquidity risk

The Company has significant liquidity risk exposure. To mitigate this exposure, the Company entered into netting agreements with its parent company and other group companies.

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Employees

The Company employs no personnel.

Future outlook

It is expected that the activities of the Company will remain in 2017 on the same level as in 2016.

Statement

To the best of our knowledge we declare that:

1. the financial statements at 31 December 2016 give a fair view of the assets, the financial position and the profit of the Company; and
2. the financial report at 31 December 2016 gives a fair view of the Company's condition on balance sheet date, the development of the Company during the financial year ended 31 December 2016 and all material risks to which the Company is exposed.

Amsterdam, 14 April 2017

The Managing Director,

Signed by

BNP Paribas Finance B.V.

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BALANCE SHEET AT 31 DECEMBER 2016
 (before appropriation of the net result)

	Notes	<u>31.12.2016</u> EUR	<u>31.12.2015</u> EUR
ASSETS			
Financial fixed assets			
Repurchase agreements	1	286,204,491	0
OTC contracts		<u>34,684,127,289</u>	<u>30,238,524,334</u>
		<u>34,970,331,780</u>	<u>30,238,524,334</u>
Current assets			
OTC contracts	1	13,348,097,212	12,802,271,892
Taxes receivable		62,256	11,702
Accounts receivable group		1,430,598	1,691,388
Cash at banks		<u>352,062</u>	<u>76,012</u>
		<u>13,349,942,128</u>	<u>12,804,050,994</u>
TOTAL ASSETS		<u>48,320,273,908</u>	<u>43,042,575,328</u>
SHAREHOLDER'S EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital issued and paid up	2	45,379	45,379
Retained earnings		419,613	399,827
Result for the period		<u>23,307</u>	<u>19,786</u>
		<u>488,299</u>	<u>464,992</u>
Long term liabilities			
Issued securities	3	<u>34,970,331,780</u>	<u>30,238,524,334</u>
Current liabilities			
Issued securities	3	13,348,097,212	12,802,271,892
Other liabilities – non group		685,142	1,178,689
– group		<u>671,475</u>	<u>135,421</u>
		<u>13,349,453,829</u>	<u>12,803,586,002</u>
TOTAL EQUITY AND LIABILITIES		<u>48,320,273,908</u>	<u>43,042,575,328</u>



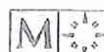
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PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	<u>2016</u> EUR	<u>2015</u> EUR
Net result financial instruments	4	0	0
Fee income and other income	5	399,805	315,558
Operating income		<u>399,805</u>	<u>315,558</u>
Operating expenses			
General and administrative expenses		(363,458)	(286,870)
Operating result		<u>36,347</u>	<u>28,688</u>
Interest income		12	112
Bank costs and similar charges		(3,629)	(4,067)
Profit before taxation		<u>32,730</u>	<u>24,733</u>
Corporate income tax	6	(9,423)	(4,947)
Profit after taxation		<u><u>23,307</u></u>	<u><u>19,786</u></u>



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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	<u>2016</u>	<u>2015</u>
	EUR	EUR
Cash flow from operating activities		
Issuing of securities against OTC coverage	0	0
Received reimbursed issuing expenses	6,637,867	6,667,813
Received reimbursed general expenses	514,251	405,929
Paid issuing expenses	(6,495,866)	(7,317,274)
Paid general expenses	(473,811)	(448,030)
Received taxes	93,609	115,121
Cash flow from operating activities	<u>276,050</u>	<u>(576,441)</u>
Cash flow from financing activities	0	0
Cash flow from investing activities	0	0
Increase/ (decrease) cash at banks	<u><u>276,050</u></u>	<u><u>(576,441)</u></u>
Movements in cash at banks		
Cash at banks at January 1	76,012	652,453
Increase / (Decrease) cash at banks	276,050	(576,441)
Cash at banks	<u><u>352,062</u></u>	<u><u>76,012</u></u>

Refer to page 11 for the principles for preparation of the cash flow statement.



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SHAREHOLDER'S EQUITY AT 31 DECEMBER 2016

	<u>31.12.2016</u>	<u>31.12.2015</u>
	EUR	EUR
Shareholder's equity		
Share capital issued and paid up	45,379	45,379
Retained earnings	419,613	399,827
Result for the period	23,307	19,786
TOTAL SHAREHOLDER'S EQUITY	<u><u>488,299</u></u>	<u><u>464,992</u></u>



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NOTES TO THE FINANCIAL STATEMENTS

GENERAL

BNP Paribas Arbitrage Issuance B.V. (the Company), having its registered address at Amsterdam, was incorporated under the law of the Netherlands on 10 November 1989 as a private limited liability company.

The principal objectives of the Company are to issue securities, such as warrants, certificates, private placements, notes, to enter into related OTC agreements and to issue and acquire financial instruments of any nature for account of various entities of the BNP Paribas group.

All outstanding shares of the Company are owned by BNP Paribas S.A., Paris, France, which company consolidates the figures of the Company. The financial statements of BNP Paribas S.A. can be found on the website group.bnpparibas.com.

SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The annual accounts of the Company are prepared in accordance with accounting principles generally accepted in the Netherlands. All amounts are stated in euros, the reporting currency, unless stated otherwise.

The accounting principles of the Company are summarised below. These accounting principles have all been applied consistently throughout the financial year and the preceding year unless indicated otherwise.

Accounting convention

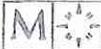
The accounts are prepared under the historical cost convention, except for derivatives that are measured at fair value with changes through profit and loss.

Going concern basis of accounting

The financial statements have been prepared on a going concern basis. The Company has a master hedging agreement with BNP Paribas group entities under which issued securities are hedged by swap agreements and OTC option agreements or collateral arrangements. In addition, the Company has an agreement with BNP Paribas group entities to recharge its operating expenses, with a margin of 10%.

Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in note 3.

Recognition of income and expenses

The net result financial instruments includes capital gains and losses, currency results, interest income and expense and changes in fair value on the issued securities and related OTC contracts. As the Company enters into a swap agreement with a BNP Paribas group company and an OTC option at exactly the same terms and conditions of the issued security or a collateral arrangement at each issue of securities, there is a complete hedge of the economic risk of the financial instruments. Therefore, the net result on the derivatives equals zero and is recorded on a net basis.

Fee income, other income and general and administrative expenses are taken in the year to which they relate. Profits are recognised in the year they are realised; losses are taken as soon as they are foreseeable.

If securities are exercised against the Company, the Company fulfils its obligation by exercising the related OTC contracts with entities of the BNP Paribas group or the collateral arrangements as the case may be. Issued securities and related OTC contracts are released simultaneously. Issued securities not exercised at maturity and the related OTC contracts are released without any further future obligation for the Company.

Valuation of assets and liabilities - general

Unless indicated otherwise, assets and liabilities are stated at amortised cost.

Financial instruments

Financial instruments include accounts receivable and accounts payable, cash at banks and cash equivalents, issued securities and acquired OTC contracts.

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised when those contractual provisions are expired or transferred.

Non-derivative financial instruments are measured and accounted for at fair value upon initial recognition and subsequently at amortised cost.

Derivatives (Issued securities and OTC's)

Derivatives are measured and accounted for at fair value upon initial recognition and at subsequent dates. Gains and losses are directly recognised in profit and loss. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market or most advantageous market, at the measurement date. Reference is made to note 3 for details about the determination of fair values.

The fair values of OTC contracts are calculated in the same way as their related issued securities.

The Company does not apply hedge accounting.

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Currencies

The functional currency of the Company is the euro.

Balance sheet items denominated in currencies other than the euro are translated at the rate of exchange prevailing on balance sheet date. Transactions in foreign currencies (not concerning derivatives) during the reporting period have been incorporated at the rate of settlement.

The premiums of the issued securities and the cost of the related OTC contracts are denominated in different currencies. Moreover, the underlying contracts of the securities have their own currency denominations, which are often based on a basket of currencies. The net effect of the currency risk is nil though, as this risk is completely hedged.

Corporate income tax

Tax on result is calculated by applying the rates for the financial year to the result in the profit and loss account.

PRINCIPLES FOR PREPARATION OF THE CASH FLOW STATEMENT

The cash flow statement is prepared according to the direct method and consists of cash only; paid interest is taken into account under paid general expenses.

Netting agreements between the Company and entities of the BNP Paribas group have been drawn up for all flows resulting from securities and OTC contracts to avoid that payments have to be made for these flows. The outcome of this procedure is reflected in the cash flow report under the heading “Issuing of securities against OTC coverage”.

FINANCIAL RISK MANAGEMENT

Market risk

The Company takes on exposure to market risks arising from positions in interest rates, currency exchange rates, commodities and equity products, all of which are exposed to general and specific market movements. However, these risks are hedged by swap agreements with BNP Paribas group entities and OTC option agreements or collateral arrangements and therefore these and therefore these risks are mitigated in principle.

Credit risk

The Company has a significant concentration of credit risks as all OTC contracts are acquired from its parent company and other group companies. Taking into consideration the objective and activities of the Company and the fact that BNP Paribas group is under supervision of the European Central Bank and the *Autorité de contrôle prudentiel et de résolution*, Paris, management considers these risks as acceptable. The long term senior debt of BNP Paribas is rated (A) by Standard & Poor's and (A1) by Moody's.

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Liquidity risk

The Company has significant liquidity risk exposure. To mitigate this exposure, the Company entered into netting agreements with its parent company and other group companies.

RELATED PARTY TRANSACTIONS

The Company has entered into various agreements with its parent company and other group companies relating to the issuing of securities, the hedging of the related exposures and the reimbursement of costs. Taking into account the position of the Company within the group these agreements are at arms-length and have as objective to limit cash flow, credit and market risks.

NOTES TO THE BALANCE SHEET

1. Financial fixed assets

For all most all issued securities OTC contracts with BNP Paribas group companies are agreed having the same characteristics as the issued securities. This means that the underlying quantity, issue price, strike, parity, maturity and quoted price for exercise are identical. Concerning two issued securities the Company entered into repurchase agreements with BNP Paribas. Refer to note 3 for the details of the issued securities and hence the OTC contracts.

2. Shareholder's equity

Share capital:

The Company's authorised share capital amounts to EUR 225,000 (225,000 common shares of EUR 1 each), of which 45,379 shares are issued and fully paid-up.

During the financial year under review, there have been no changes in the authorised, issued or paid up capital.

Retained earnings:

The movement is as follows:

	EUR	EUR
	2016	2015
Opening balance	399,827	370,784
Appropriation result previous year	19,786	29,043
Closing balance	<u>419,613</u>	<u>399,827</u>

3. Issued securities

The Company establishes securities programmes and issues securities such as warrants, notes and certificates exercisable pursuant to the terms and conditions of such securities programmes. Entities of the BNP Paribas group have agreed to purchase the securities at the same time. The entities of the BNP Paribas group distribute the securities to third parties. BNP Paribas S.A. acts as guarantor for the securities programmes towards the investors.

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BNP Paribas Arbitrage Issuance B.V.

The issued securities can be specified as follows:

	Fair value 2016	Fair value 2015
	EUR	EUR
- Up to 1 year	13,348,097,212	12,802,271,892
- From 1- 5 years	21,277,018,059	17,234,733,656
- Exceeding 5 years	13,693,313,721	13,003,790,678
Financial fixed assets	<u>34,790,331,780</u>	<u>30,238,524,334</u>
Total as per 31 December	<u>48,318,428,992</u>	<u>43,040,796,226</u>

Specification (fair value) based on method of valuation

2016	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Warrants				
underlying shares	-	851,687,516	1,032,308,650	1,883,996,166
underlying indices	-	787,173,788	960,550,430	1,747,724,218
underlying currencies	-	17,355,452	7,582,531	24,937,983
underlying commodities	-	18,108,633	-	18,108,633
underlying funds	-	14,090	344,259	358,349
underlying credits	-	437,961	-	437,961
underlying interest rates	-	3,226,985	-	3,226,985
	-	<u>1,678,004,425</u>	<u>2,000,785,870</u>	<u>3,678,790,295</u>
Certificates				
underlying shares	-	5,940,386,599	951,584,558	6,891,971,157
underlying indices	-	18,709,266,316	7,151,675,520	25,860,941,836
underlying currencies	-	227,442,451	3,717,046	231,159,497
underlying commodities	-	700,464,579	52,784,109	753,248,688
underlying funds	-	23,085,143	277,810,102	300,895,245
underlying credits	-	3,978,780,504	-	3,978,780,504
underlying interest rates	-	446,237,588	-	446,237,588
	-	<u>30,025,663,180</u>	<u>8,437,571,335</u>	<u>38,463,234,515</u>
MTN's				
underlying shares	-	352,584,332	27,674,062	380,258,394
underlying indices	-	3,950,079,673	1,448,175,718	5,398,255,391
underlying currencies	-	44,554,148	-	44,554,148
underlying credits	-	69,775,690	-	69,775,690
underlying interest rates	-	283,560,559	-	283,560,559
	-	<u>4,700,554,402</u>	<u>1,475,849,780</u>	<u>6,176,404,182</u>
Total per 31 December 2016	-	<u>36,404,222,007</u>	<u>11,914,206,985</u>	<u>48,318,428,992</u>

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BNP Paribas Arbitrage Issuance B.V.

2015	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Warrants				
underlying shares	-	1,006,187,797	1,006,525,267	2,012,713,064
underlying indices	-	764,985,498	546,967,763	1,311,953,261
underlying currencies	-	16,784,950	2,470,694	19,255,644
underlying commodities	-	36,889,419	68	36,889,487
underlying funds	-	120,512	326,536	447,048
underlying credits	-	970,922	-	970,922
underlying interest rates	-	135,126	-	135,126
	-	1,826,074,224	1,556,290,328	3,382,364,552
Certificates				
underlying shares	-	4,862,208,289	956,346,755	5,818,555,044
underlying indices	-	17,320,580,396	7,267,732,416	24,588,312,812
underlying currencies	-	458,547,696	41,906,761	500,454,458
underlying commodities	-	606,955,662	161,114,014	768,069,676
underlying funds	-	20,195,799	371,987,732	392,183,531
underlying credits	-	2,616,031,768	-	2,616,031,768
underlying interest rates	-	459,757,403	-	459,757,403
	-	26,344,277,012	8,799,087,679	35,143,364,691
MTN's				
underlying shares	-	82,321,363	3,809,019	86,130,382
underlying indices	-	3,226,086,772	1,202,849,829	4,428,936,601
	-	3,308,408,135	1,206,658,848	4,515,066,983
Total per 31 December 2015	-	31,478,759,371	11,562,036,855	43,040,796,226

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

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

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

Level 1: fair values are determined using directly quoted prices in active markets for identical assets and liabilities. Characteristics of an active market include the existence of a sufficient frequency and volume of activity and of readily available prices.

Level 2: fair values are determined based on valuation techniques for which significant inputs are observable market data, either directly or indirectly. These techniques are regularly calibrated and the inputs are corroborated with information from active markets.

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

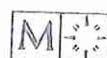
The level in the fair value hierarchy within which the asset or liability is categorised in its entirety is based upon the lowest level input that is significant to the entire fair value. All given estimated fair values are related to the market conditions prevailing at year end; the future values may differ.

When issued, securities are publicly offered or privately placed. Sometimes privately placed securities are listed for the secondary market. Listed securities are listed on stock exchanges in- and outside of the European Union; the related OTC contracts are not listed. The majority of the issued securities are not traded actively in active markets.

No accrued interest is presented in the balance sheet because the accrued interest is part of the market value of the derivatives as disclosed in the balance sheet. The net result on the derivatives equals zero and is recorded on a net basis in the profit and loss account, see note 4.

Conditions that can influence the future cash flow

In general it is assumed that the securities and the related OTC contracts are exercised at the exercise dates mentioned in the final terms of the securities against the fair value as determined. Based on these two assumptions the above specification based on maturity has been prepared. Netting agreements between the Company and entities of the BNP Paribas group have been drawn up for all flows resulting from securities and OTC contracts to avoid that payments have to be made for these flows. Conditions that could influence future cash flows will have therefore no impact on the cash flow of the Company.



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NOTES TO THE PROFIT & LOSS ACCOUNT

4. Net result financial instruments

The net result derivatives includes capital gains and losses, currency results, interest income and expense and changes in fair value on the issued securities and related OTC contracts. As the Company enters into a swap agreement with a BNP Paribas group company and an OTC option agreement at exactly the same terms and conditions of the issued security or a collateral arrangement at each issue of securities, there is a complete hedge of the economic risk of the Company. Therefore, the net result on the derivatives equals zero and is recorded on a net basis.

5. Fee income and other income

Other income concerns recharged general and administrative expenses of the Company increased with an up-count of 10%, based on cost plus agreements concluded for an indefinite period of time. These costs have been or will be invoiced to BNP Paribas group companies.

6. Corporate income tax

The corporate income tax is the estimated charge for the period amounting to EUR 8,183. The rate for the financial year 2016 is 25%. An additional provision has been in order to be aligned with the applied effective rate of the previous year has been amended to 25% (originally 20%).

BNP Paribas Arbitrage Issuance B.V. has entered into a consolidated tax group (fiscale eenheid) for Dutch corporate income tax purposes with other BNP Paribas Group entities domiciled in the Netherlands effective as of 1 January 2015. BNP Paribas Finance B.V. acts as parent of this consolidated tax group. As a consequence the Company can be held liable for the corporate income tax due by the consolidated tax group.

Issuing expenses and remunerations

Issuing expenses are expenses related to the issuing of the securities for account of the Company and are reimbursed by BNP Paribas group companies, if charged to the Company.

The directors of the Company have charged a management fee of EUR 59,188 over 2016 (2015: EUR 53,886).

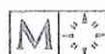
A fee of EUR 20,000 will be charged by Mazars Paardekooper Hoffman Accountants N.V. ("Mazars") to the Company for the financial year 2016 as audit fee (2015: 20,000 EUR). Mazars has charged an additional amount of EUR 13,750 to the Company during the year 2015 for audit-related fees.

Commitments, contingencies and off-balance items

The Company has issued securities with pledged collateral. The value of the pledged collateral amounts to EUR 1,081,624,562 (2015: EUR 505,000,207).

Employees

The Company employs no personnel.



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Subsequent events

No subsequent events have occurred.

Appropriation of the results for the years 2015 and 2016

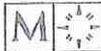
The profit of the year 2015 has been added to the retained earnings. The Managing Director proposes to the general meeting of shareholders to add the profit made by the Company during the year 2016 to the retained earnings. The financial statements do not reflect this proposal.

Amsterdam, 14 April 2017.

The Managing Director,

Signed by

BNP Paribas Finance B.V.

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MAZARS PAARDEKOOPEL HOFFMAN ACCOUNTANTS N.V.

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OTHER INFORMATION

STATUTORY ARRANGEMENTS CONCERNING THE APPROPRIATION OF PROFITS

In accordance with article 20 of the articles of association of the Company, profits are at the disposal of the general meeting of shareholders.

AUDIT

The independent auditor's report is included on the next page.

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