

Annual report 2016

BNP Paribas Arbitrage Issuance B.V.

Herengracht 595
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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.

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.

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 | 1 | | |
| Repurchase agreements | | 286,204,491 | 0 |
| OTC contracts | | 34,684,127,289 | 30,238,524,334 |
| | | <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 | | 352,062 | 76,012 |
| | | <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 | 2 | | |
| Share capital issued and paid up | | 45,379 | 45,379 |
| Retained earnings | | 419,613 | 399,827 |
| Result for the period | | 23,307 | 19,786 |
| | | <u>488,299</u> | <u>464,992</u> |
| Long term liabilities | | | |
| Issued securities | 3 | 34,970,331,780 | 30,238,524,334 |
| Current liabilities | | | |
| Issued securities | 3 | 13,348,097,212 | 12,802,271,892 |
| Other liabilities – non group | | 685,142 | 1,178,689 |
| – group | | 671,475 | 135,421 |
| | | <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> |

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> |

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>276,050</u> | <u>(576,441)</u> |
| Movements in cash at banks | | |
| Cash at banks at January 1 | 76,012 | 652,453 |
| Increase / (Decrease) cash at banks | <u>276,050</u> | <u>(576,441)</u> |
| Cash at banks | <u>352,062</u> | <u>76,012</u> |

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

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>488,299</u> | <u>464,992</u> |

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.

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.

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.

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.

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 | Level 2 | Level 3 | Total |
|----------------------------|----------------|-----------------------|-----------------------|-----------------------|
| | EUR | EUR | EUR | 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> |

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.

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.

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.

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.

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.

INDEPENDENT AUDITOR'S REPORT

To: the Director and the Shareholder of BNP Paribas Arbitrage Issuance B.V.

Report on the audit of the financial statements 2016 included in the annual report

Our opinion

We have audited the financial statements 2016 of BNP Paribas Arbitrage Issuance B.V., based in Amsterdam. In our opinion the accompanying financial statements give a true and fair view of the financial position of BNP Paribas Arbitrage Issuance B.V. as at 31 December 2016 and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- the balance sheet as at 31 December 2016;
- the income statement for the year then ended;
- the cash flow statement for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of BNP Paribas Arbitrage Issuance B.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 240 million. The materiality is based on 0.5% of total assets. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the board of directors that misstatements in excess of EUR 7 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated one key audit matter with the board of directors. The key audit matter is not a comprehensive reflection of all matters discussed.

This matter was 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 this matter.

Fair value of financial instruments (issued securities and OTC contracts)

Issued securities and OTC contracts, both amounting to EUR 47.9 billion, are measured at fair value and a substantial part is measured using 'level 2' and 'level 3' valuations. Fair value measurement of these financial instruments is significant to our audit as the fair value is subject to estimation uncertainty. Due to the nature of the company, the fair values are mainly provided by BNP Paribas group entities, that are considered as service organisations in our audit.

As part of our audit, we have assessed the quality of information provided by the BNP Paribas group entities, also by relying on information provided by these service organisation's auditors. We have received a specific report from the service organisation's auditors and we performed a file review on their audit files, including their involvement of valuation specialists. We furthermore focused on the adequacy of the fair value disclosures in note 3 of the financial statements.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the managing director's report;
- other information as required by Part 9 of Book 2 of the Dutch Civil Code;

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The managing director is responsible for the preparation of the other information, including the managing director's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code. Report on other legal and regulatory requirements

Engagement

We were engaged as auditor of BNP Paribas Arbitrage Issuance B.V. as of the audit for year 2012 and have operated as statutory auditor ever since that year.

Description of responsibilities regarding the financial statements

Responsibilities of the managing director for the financial statements

The managing director is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

BNP Paribas Arbitrage Issuance B.V.

The managing director should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

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. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A full description of our responsibilities is available at [the NBA website](#).

Amsterdam, 14 April 2017

MAZARS PAARDEKOOPEL HOFFMAN ACCOUNTANTS N.V.

w.s. J.C. van Oldenbeek MSc RA