ANNUAL FINANCIAL REPORT - Year 2016

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ABC arbitrage Group

Contents

Disclaimer

This annual report and its constituent parts have been translated from the original French versions. For the purposes of interpretation, the French originals will take precedence over the English translation.

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Société anonyme au capital de 928 817,07 €
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ANNUAL FINANCIAL REPORT - Year 2016

Management report

ABC arbitrage Group

1. Business review

Key consolidated figures for 2016 are presented below:

In EUR million	Dec. 31, 2016 IFRS	Dec. 31, 2015 IFRS	Change
Advisory revenues	-	-	*na*
Investment Services Fees [1]	17.5	13.6	*28.6%*
Net gains at fair value through profit or loss	35.9	34.1	*5.3%*
Net revenues	***53.3***	***47.7***	*11.9%*
Payroll costs	(16.2)	(13.6)	*19.4%*
Occupancy costs	(1.6)	(1.8)	*-13.7%*
Other expense	(5.2)	(5.4)	*-3.8%*
Other taxes	(0.2)	(0.6)	*-66.9%*
Total costs	***(23.1)***	***(21.4)***	*8.4%*
Income before tax	**30.2**	**26.3**	*14.7%*
Net income attributable to equity holders	**30.5**	**24.2**	***26.0%***

(1) Investment Services Fees relate to the services that the Group's management companies bill to Quartys Limited and ABCA Funds Ireland Plc.

IFRS net revenues came to €53.3 million and net income to €30.5 million at December 31, 2016, up nearly 26% year-on-year.

Return on equity (ROE) in 2016 was 19.65%.

In EUR thousand	Dec. 31, 2016 IFRS	Dec. 31, 2015 IFRS
Equity at January 1, 2016	141,227	130,975
Equity at December 31, 2016	169,650	152,390
Average equity	**155,438**	**141,682**

Return on equity	**19.65%**	**17.11%**
Gross return on equity	**34.32%**	**33.64%**

Return on equity = (net income / average (opening equity + closing equity)) x 100.
Gross return on equity = (proprietary trading revenues / average (opening equity + closing equity)) x 100.
Equity corresponds to shareholders' equity plus provisions adjusted for deferred taxes. This figure takes account of dividend payments (except for interim dividends) and changes in issued capital, and therefore corresponds to the capital available for investment in the market.

Continuing the trend observed in the second half of the previous year, 2016 began on a positive note for the Group's businesses. However, the combination of favorable factors didn't last and it was not long before the overall market environment became calm, although various macro-economic events triggered short-lived episodes of extreme volatility.

All told, the markets were fairly lively in the first half, after seven very quiet six-month periods, and renewed volatility did nothing to dampen M&A activity.

At over 18%, average volatility for the first half of 2016 was considerably higher than in earlier periods. The first quarter was very turbulent, with average volatility in excess of 20%, due to fears of negative macro-economic developments and a few localized peaks at over 25%. April and May saw a return to calm, with average volatility declining to less than 15%. However, in June the vote in favor of Brexit triggered a feverish couple of days' trading leading to a volatility spike of close to 26%.

Trading volumes on the stock markets remained stable overall. After peaking at the end of 2015, M&A activity remained

strong despite the increased volatility in the first quarter. In the second half of 2016, the market experienced another period of relative calm with average volatility falling back to 13%. The period nevertheless saw a few highly localized volatility spikes. This was notably the case at the time of the US presidential elections, when volatility surged to nearly 23%, although the impact on the markets was far less severe than some observers had expected. Stock market trading volumes fell sharply and primary market issues were few and far between. The only area of resilience was the M&A market, which remained strong in terms of both number and size.

For ABC arbitrage, 2016 provided a further demonstration of the Group's ability to adapt to the market environment. Gross margin for the year stood at over 30%, despite the period of low market volatility in the second half of the year, the increasingly restrictive regulatory environment and negative interest rates. The correlation with volatility is still very strong and the Group therefore continued to focus its R&D spend on developing low-volatility strategies and optimizing existing models in order to successfully offset the periods of market inertia. The result was an increase of nearly 12% in net revenues in 2016, reflecting positive contributions from all Group companies.

2016 was the final year of the Ambition 2016 plan. Over its three-year implementation period, the plan added some €74 million to consolidated net income, representing 82% of the original target. The Added Value plan, which is closely aligned with the Group's ambitions, has already had a major impact on the structure of the Group's teams and investments. The flow of ideas and innovations has been maintained by regularly hiring new employees to join the R&D team and leveraging the skills and experience of team members who have contributed to the research effort in recent years. This policy led to an increase in compensation and share-based payments and also resulted in IT costs remaining high.

2. Subsidiaries and holdings

A list of subsidiaries and holdings can be found in note 3.4. to the parent company financial statements.

At December 31, 2016, ABC arbitrage is furthering its international expansion strategy to take into account the demands of its partner financial institutions as well as competition and regulatory requirements.

At December 31, 2016, ABC arbitrage had almost no direct exposure on financial markets, except for its investments in the funds held by ABCA Funds Ireland.

The revamped investment fund offer unveiled in late 2015 went from strength to strength in 2016. The ABCA Opportunities fund performed well in both absolute terms and relative to competing funds. ABCA Reversion, which is designed to capture the benefits of market volatility, delivered a performance in line with 2016 volatility, except in June when the vote in favor of Brexit triggered an episode of extreme turbulence.
Due to cross-holdings, ABCA Funds Ireland had total assets of €294 million. The Group maintains its aim to develop a range of diversified investment funds and increase the flow of new money.

ABC arbitrage Asset Management, which is authorised by the French securities regulator (Autorité des Marchés Financiers – AMF), as a portfolio management company under Directive 2011/61/ EU, referred to as the AIFM since 22 July 2014, is the Group's main investment management company, with expertise in alternative investment funds, discretionary management mandates, investment strategy advice and trading in financial instruments with qualified investors and professional clients. The company's investments continue to support its ongoing drive to develop its expertise in equity derivative products and maximise its ability to adapt to market conditions.

ABC arbitrage Asset Management incurred a loss of €1.8 million in 2016.

ABC arbitrage Asset Management Asia Pte Ltd, an asset manager authorised as a Registered Fund Management Company (RFMC) by the Monetary Authority of Singapore (MAS), continued to develop the Group's business in Asian markets. Its result, despite an increase of 18%, remains a deficit (€-0.9 million) due to the investments needed to increase its activity. In line with initial expectations, the asset manager's contribution to the Group is already a positive one, particularly with the increase in the volume of transactions processed compared to 2015.

Quartys Limited, a financial instrument trader, continued to develop its business after significant capital increases. These led to a considerable rise in transaction volumes and a sharp year-on-year rise in net income, which totalled €31.4 million (+65%). In line with the strategic objectives set by its parent company, Quartys took the necessary steps to develop its scope of activity and forge relationships with new financial counterparties.

Clients' assets amounted €391 million at December 31, 2016.

3. Human resources

The Group employed an average of 85 people in 2016, compared with 88 in 2015.

It should be noted that the environment of instability and escalating regulatory requirements (CRD 4 and AIFM) triggered a significant increase in fixed salaries in the finance sector. This prompted the Group to gradually review its own compensation policy, leading to an increase in fixed staff costs. This trend continued in 2016, in line with recruitment and the Added Value component of “Ambition 2016”. These competitive constraints, coupled with our policy of hiring first-rate people and focusing on performance-related compensation, led to a 19% increase in staff costs in 2016.

With a view to motivating our people over the long term and aligning their interests with those of our shareholders, management has developed various share-based incentive schemes to drive growth by retaining core skills while containing payroll and other fixed costs in a highly competitive environment.

The Group's different schemes are described below:

Ambition 2016 share-based incentive programmes

On May 14, 2014, the Board awarded a maximum of 850,000 performance shares, through three separate plans:
- a maximum of 283,333 performance shares, which will vest according to cumulative consolidated net income for 2014 and 2015. Based on actual net income for that period and given the continuing presence requirement, 166,928 shares were definitely granted on May, 27, 2016.
- a maximum of 283,333 performance shares, which will vest according to cumulative consolidated net income for 2014 to 2016. Based on actual net income for that period and given the continuing presence requirement,183,916 shares should be definitely granted by the end of first semester 2017.
- a maximum of 283,334 performance shares, which will vest according to cumulative consolidated net income for 2014 to 2017.

On May 12, 2015, the Board awarded a maximum of 900,000 performance shares, through three separate plans:
- a maximum of 300,000 shares, which will vest according to cumulative consolidated net income for 2015 and 2016. Based on actual net income for that period and given the continuing presence requirement, 290,000 shares should be definitely granted by the end of first semester 2017.
- a maximum of 300,000 performance shares, which will vest according to cumulative consolidated net income for 2015 to 2017;
- a maximum of 300,000 performance shares, which will vest according to cumulative consolidated net income for 2015 to 2018.

On June 14, 2016, the Board awarded a maximum of 561,000 performance shares, through three separate plans:
- a maximum of 187,000 performance shares, which will vest according to cumulative consolidated net income for 2016 and 2017;
- a maximum of 187,000 performance shares, which will vest according to cumulative consolidated net income for 2016 and 2018;
- a maximum of 187,000 performance shares, which will vest according to cumulative consolidated net income for 2016 and 2019.

On the same meeting, the Board awarded a maximum of 999,000 stock options, through three separate plans:
- a maximum of 373,000 stock options, which will vest according to cumulative consolidated net income for 2016 and 2017;
- a maximum of 313,000 stock options, which will vest according to cumulative consolidated net income for 2016 and 2018;
- a maximum of 313,000 stock options, which will vest according to cumulative consolidated net income for 2016 and 2019.

On September 22, 2016, the Board awarded a maximum of 2,237,610 Stock Appreciation Rights (SAR):
- a maximum of 745,870 rights, which will vest according to cumulative consolidated net income for 2016 and 2017;
- a maximum of 745,870 rights, which will vest according to cumulative consolidated net income for 2016 and 2018;
- a maximum of 745,870 rights, which will vest according to cumulative consolidated net income for 2016 and 2019.

No shares will vest if net income is less than €12 million a year and they will vest progressively thereafter on a linear basis. For example, if net income is €20 million a year over the entire period, 42% shares will vest and if net income is €25 million a year over the entire period, 85% shares will vest.

Since the company’s incorporation in 1995, a total of 9,687,214 new shares, representing 17% of the capital, have been granted to employees in respect of equity instruments that have vested.

4. Corporate governance

The Board has seven directors, five of whom are independent. A non-voting director (censor) also attends Board meetings regularly. Two of the independent directors are men and three are women.

The percentage of issued capital held by employees under group plans is less than 3% and consequently there are no employee-elected Directors. A member of the Works Council attends Board meetings in a consultative capacity.

The Board also invites other people to attend its meetings in a consultative capacity either on an occasional or a regular basis.

In early February 2016, Theta Participations (formerly ABC participation et gestion) stepped down from its position as director.

On May 27, 2016, Muriel Vidémont Delaborde has been appointed as a new director and the terms of office of the expiring directors were all renewed.

The Board of Directors adopted the MiddleNext Corporate Governance Code for Small Caps and Midcaps on its publication in December 2009, which became since September 2016 the Middlenext corporate governance code, which can be consulted on the following website www.middlenext.com. This Code has been approved as a reference code by the Autorité des Marchés Financiers (AMF).

Under Article L. 225-102-1 of the French Commercial Code (Code de Commerce), we are required to report on total compensation and benefits paid to directors and executive officers of the listed company during the year.

The following table shows total salary and benefits grant by Group companies to the executive officers in 2016:

	Dominique CEOLIN
Position	Chief Executive Officer of ABCA Chief Executive Officer of ABCA AM Member of the Board of ABCA AM Asia
Gross salary	220,800
Adjustment related to paid leave and statutory bonuses	2,066
Company car	0
Incentive plan	19,308
Profit-sharing plan	24,107
Termination without cause benefit	77,000
Gross variable bonuses	305,000
Share-based compensation	117,164
Post-employment benefits	-

Figures in euros / ABCA: ABC arbitrage / ABCA AM: ABC arbitrage Asset Management
ABCA AM Asia: ABC arbitrage Asset Management Asia

The following table shows Directors' fees paid by Group companies to directors and executive officers in 2016:

Name	**Position**	**Directors' fees (€)**
Dominique CEOLIN	Chairman of the Board of ABCA	2,000
Aubépar Industries représentée par Xavier CHAUDERLOT	Member of the Board of ABCA	2 ,000
Jean-François DROUETS	Member of the Board of ABCA	4,750
Sabine ROUX DE BEZIEUX	Member of the Board of ABCA	6,500
Didier RIBADEAU DUMAS	Member of the Board of ABCA	11,000
Marie-Ange VERDICKT	Member of the Board of ABCA	8,000
Muriel VIDEMONT DELABORDE	Member of the Board of ABCA	4,000
Jacques CHEVALIER	Censor of the Board of ABCA	2,000

The following table shows a summary of the dealings in ABC arbitrage shares by the Directors and executive officers of the company in 2016.

Name	Purchases (in €)	Sales (in €)	Subscriptions (in €)
Dominique CEOLIN	-	-	509,357
Financière WDD*	5,016,172	-	1,234,364
Aubépar Industries et ses filiales**	-	160,020	1,620,824
Jean-François DROUETS	-	-	2,041
Didier RIBADEAU-DUMAS	442,169	-	2,930
Sabine ROUX DE BEZIEUX	-	-	-
Marie-Ange VERDICKT	-	-	222
Muriel VIDEMONT DELABORDE	6	-	-

** Holding company 50.01% owned by Dominique Ceolin*
*** Aubépar Industries and its subsidiaries reclassified €4,386.940 worth of ABC arbitrage shares within the Group*

As required by Article L. 225-102-1 of the French Commercial Code, the following table shows all directorships and other offices held by the executive officers of the company:

Name	Position	Directorships and other offices
Dominique CEOLIN	Chief executive officer	Chief Executive Officer of ABCA AM Member of the Board of ABCA AM Asia Chairman of the Board of Financière WDD Administrator of MiddleNext
AUBEPAR INDUSTRIES SE	Director Xavier CHAUDERLOT is Permanent representative of Aubépar Industries SE	**Aubépar Industries SE:** Chairman and Managing Director of Aubépar SE (represented by Xavier CHAUDERLOT) Chairman and Managing Director of Financière du Bailli SA (represented by Xavier CHAUDERLOT) Chairman and Managing Director of Lehmann Aviation SAS Chairman and Member of the Supervisory Board of Soondy SAS **Xavier CHAUDERLOT:** Chairman and Managing Director of Aubépar Industries SE Director of Aubépar SE Director of Financière du Bailli SA Director of Quartys Ltd
Jean-François DROUETS	Director	Chairman of Catella Valuation Advisors Member of the steering committee of Catella France
Sabine ROUX de BEZIEUX	Director	Managing director of Notus Technologies SAS Member of the Supervisory Board of ANF Immobilier Member of the Supervisory Board of Turenne Investissement Member of the strategy committee of Arteum SAS Director of IDLF - Inès de la Fressange - SA
Didier RIBADEAU DUMAS	Director	Representative of ABCA on the Board of ABCA AM Member of the Supervisory Board of La Banque Postale, wholly-owned subsidiary of La Poste group Chairman of the accounts committee, risks committee and appointments committee of La Banque Postale Member of the strategy committee and compensation committee of La Banque Postale Director of BPE, wholly-owned subsidiary of La Banque Postale Membre du conseil d’administration de BPE, filiale à 100% de La Banque Postale Director, Chairman of the Audit committee and member of the appointments and compensation committee, and member of the strategy committee of Poste Immo, wholly-owned subsidiary of La Poste group Member of the Supervisory Board of Comgest
Marie-Ange VERDICKT	Director	Member of the Supervisory Board of Wavestone Member of the Supervisory Board of CapHorn Invest Member of the Supervisory Board of Interparfums Member of the Supervisory Board of Bonduelle
Muriel VIDEMONT DELABORDE	Director	Represents Allianz IARD at the Board of La Rurale
Jacques CHEVALIER	Non-voting Director	N/A
Laetitia HUCHELOUP	Secretary of the Board	Corporate Secretary, ABCA AM Head of Compliance and Internal control

ABCA : ABC arbitrage ABCA AM : ABC arbitrage Asset Management ABCA Asia: ABC arbitrage Asset Management Asia

5. Payment periods

All trade payables outstanding at December 31, 2016 were payable no later than thirty days from the end of the month.

6. Share performance and share buyback programme

At December 31, 2016, issued capital amounted to €928,817.07 divided into 58,051,067 ordinary shares.
Average daily trading volume came to more than 81,919 shares, representing almost €517 thousand a day in value.
ABC arbitrage shares closed the year at €7.19. The par value of the shares is €0.016.

The Company has been authorised by shareholders to carry out a share buyback programme. Under the terms of the authorisation, shares may not be bought back at a price of more than €12 per share and the total amount invested in the programme may not exceed €20,000,000. In addition, the Board of Directors' authorisation is required for share buyback transactions representing over €500,000.

Reason for the buybacks	Number of shares purchased	Average price in EUR	% capital	Number of shares sold	Average price in EUR	% capital
For market making	308,041	6.26	0.53%	306,262	6.36	0.53%
For employee share offers carried out in 2016	-	-	-	-	-	-
For future employee share offers	137,490	7.28	0.24%	-	-	-
For cancellation	-	-	-	-	-	-
For allocation on exercise of rights to shares	-	-	-	-	-	-
For external growth transactions	-	-	-	-	-	-
For the payment of stock dividends	-	-	-	-	-	-
Other	-	-	-	-	-	-

Of the shares held at end-2015 for employee share-based plans (896,080 shares), 166,928 were allocated to performance share plans and 123,176 were allocated to exercise of stock-options.

7. Statutory disclosures

Under Article L. 233-13 of the French Commercial Code, the Board of Directors is required to disclose the names of shareholders whose holdings exceed the statutory disclosure thresholds at December 31, 2016. There was no significant change in the ownership structure in 2016.

Name	% of capital	% of voting rights
Aubépar Industries	14.4	14.6
Financière WDD*	11.4	11.5
Eximium	5.0	5.1
David HOEY	5.2	5.2
Autre Management**	5.0	5.0
Dominique CEOLIN	3.9	4.0

** Holding company 50.01% owned by Dominique Ceolin*
*** Executive management and independent non-executive directors excluding Dominique Ceolin and David Hoey*

At December 31, 2016, ABC arbitrage held 767,025 treasury shares (1.3% of issued capital).
The free float represented 53.8% of issued capital at the year-end.

The operating managers and some of ABC arbitrage's employees signed a shareholders' agreement. The agreement will take effect on July 1, 2014 and will end on July 1, 2018. The purpose of the agreement is to organise transfers of 40% of the ABC arbitrage shares acquired by the parties under the Horizon 2010 share-based incentive scheme, i.e. on the date of signature of the agreement, 3,600,200 ABC arbitrage shares representing 6.89% of the capital and voting rights. In the agreement, the parties state that they are totally free to exercise their rights as shareholders and expressly represent and warrant that they are not acting as members of a concert party with regard to ABC arbitrage.

No corporate mutual fund has been set up to hold shares on behalf of members of an employee share ownership plan.

8. Dividend policy

The table below shows dividends paid in respect of the last three fiscal years:

In €	2015	2014	2013
Dividend paid	0.40	0.40	0.40

All of these dividends qualified for the 40% tax relief available to individual shareholders resident in France for tax purposes, except for the €0.27074 per share in 2015 and €0.14867 per share in 2013 dividend distributed from additional paid-in capital.

The Annual Shareholders' Meeting of May 27, 2016 approved a 2015 dividend of €0.20 per share.
The ex-dividend date was July 1, 2016, and the dividend was paid on July 20, 2016. Shareholders had the option of receiving cash or reinvesting their dividend in shares.

The dividend is in addition to the €0.20 distribution paid in December 2015. The full distribution for 2015 therefore amount to €0.40 per share.

At the end of the option period, 1,317,657 new ordinary shares, ranking pari passu with the existing shares, were issued at a price of €5.70 per share, giving an overall reinvestment rate of more than 68%.
The dividend ultimately paid in cash amounted to €3.7 million.
The total issue proceeds included €21,082.51 in paid-up capital and €7,489,562.73 in additional paid-in capital. The new ordinary shares are fully paid.

ABC arbitrage distributed € 0.20 per share, solely in cash. The ex-dividend date was November 17, 2016, and the dividend was paid on November 21, 2016. Since the distribution was paid from the share premium account, it was treated as a repayment of capital contributions, pursuant to Article 112-1 of the French tax code (Code général des impôts). In view of the number of ABC arbitrage shares qualifying for the payment, the total amount came to €11.45 million.

At December 31, 2016, ABC arbitrage's share capital was represented by 58,051,067 fully paid ordinary shares with a par value of €0.016 each.

Net earnings per ordinary share amounted to €0.53 in 2016. With a view to maintaining an optimal balance between sources and uses of funds, the Board will recommend a dividend of €0.25 per share at the annual shareholders' meeting on June 16, 2017. The dividend payment procedure and date will be announced at a later date. The dividend is in addition to the €0.20 distribution paid in November 2016.

If approved by the shareholders, the full distribution for 2016 will therefore amount to €0.45 per share, which represents 85% of Net earnings per ordinary share payment, giving a net yield of 6.3% based on the share price at December 31, 2016 (€7.19).

9. Post-balance sheet events

As of the date of this report, the Board of Directors is not aware of any material events that may have occurred since the year-end.

10. CSR report

Information relating to the company’s social, societal and environmental responsibility is included in the CSR report appended to the annual financial report.

11. Outlook

The further sharp increase in consolidated net income in 2016 marked a successful end to the Ambition 2016 plan, with the completion of the international expansion plan and the development of low-volatility strategies.

The last three years' results confirm the effectiveness of the Group's overall strategy and have created a solid basis for the implementation of the Step Up 2019 plan.

This new plan focuses on the continued development of low-volatility strategies, along with on-going investment in IT and in R&D to enhance the Group's historical strategies, with the fundamental aim of being ever more successful in the market environment that has taken root since 2012.

By preparing ABC arbitrage for the next ten years, these investments should ultimately enable the Group to expand its management capabilities and guarantee more consistent earnings performance in most market environments.

As a result of these investments, expenses are expected to rise significantly over the next three years. However, the Group remains committed to delivering healthy profit margins. The Group expects to spend an additional €2 million in 2017 and €4 million in 2018, although these figures will have to be confirmed as the plan advances.

The overall aim is to generate at least €90 million in net income over the next three years, despite the sharp rise in investment spend. More importantly, the aim is to achieve this level of income even in less favorable market environments, although the correlation with volatility is one of the cornerstones of ABC arbitrage's businesses.

The overall environment observed since 2012 has continued to prevail since the start of 2017, shaped by declining volumes and volatility at its lowest level since 1995.
The first two months of 2017 saw a promising increase in clients’ assets, to €428 million at March 1, 2017, although the rate of business growth is inevitably affected by the market parameters discussed above.

Having already demonstrated its resilience in unfavorable situations, ABC arbitrage remains confident in its ability to offer attractive performances to its clients and shareholders.

The Board of Directors
March 23, 2017

ANNUAL FINANCIAL REPORT - Year 2016

Consolidated financial statements

ABC arbitrage Group

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Balance sheet - assets

In EUR	Note	Dec. 31, 2016 IFRS	Dec. 31, 2015 IFRS
Intangible assets	3.1	185,600	73,667
Property and equipment	3.1	1,434,074	1,453,049
Work in progress	3.1	-	-
Non-current financial assets	3.2	589,977	688,264
Deferred tax assets		773,365	392,532
Total non-current assets		**2,983,016**	**2,607,512**
Financial assets at fair value through profit or loss	3.4	141,490,232	120,954,545
Other accounts receivable	3.6	9,232,206	12,992,832
Current tax assets		1,524,650	2,166,157
Cash and cash equivalents		10,188,873	13,901,343
Total current assets		**162,435,961**	**150,014,878**
TOTAL ASSETS		**165,418,978**	**152,622,389**

Balance sheet - liabilities

In EUR	Note	Dec. 31, 2016 IFRS	Dec. 31, 2015 IFRS
Paid-up share capital		928,817	907,735
Additional paid-in capital		104,961,078	112,885,208
Retained earnings		21,699,929	3,193,864
Interim dividend		-	-
Net income		30,540,851	24,240,356
Total equity attributable to equity holders	**3.3**	**158,130,675**	**141,227,162**
Minority interests		(180)	(180)
Total equity		**158,130,495**	**141,226,982**
Provisions	3.7	50,000	200,000
Non-current financial liabilities		-	-
Deferred tax liabilities		-	-
Non-current liabilities		**50,000**	**200,000**
Financial liabilities at fair value through profit or loss	3.4	24,931	5,380,970
Other liabilities	3.6	7,213,551	5,814,437
Taxes payable		-	-
Short-term debt		-	-
Current liabilities		**7,238,483**	**11,195,407**
TOTAL EQUITY AND LIABILITIES		**165,418,978**	**152,622,389**

Statement of income

In EUR	Note	Dec. 31, 2016 IFRS	Dec. 31, 2015 IFRS
Net gain/loss on financial instruments at fair value through profit or loss	4.1	35,935,990	34,024,062
Investment services fees	4.2	17,451,268	13,570,088
Other revenue	4.3	264,778	250,237
Administrative expenses	4.4	(6,004,165)	(6,650,429)
Taxes and duties		(848,253)	(1,092,087)
Payroll costs	4.5	(15,766,665)	(13,048,831)
Depreciation and amortisation expense		(783,261)	(801,929)
OPERATING INCOME		**30,249,692**	**26,251,111**
Provision expense	4.6	(50,000)	70,000
INCOME BEFORE TAX		**30,199,692**	**26,321,111**
Current taxes	4.7	(39,675)	(1,482,790)
Deferred taxes		380,834	(597,965)
NET INCOME		**30,540,851**	**24,240,356**
Attributable to equity holders		30,540,851	24,240,356
Attributable to minority interests		-	-
Number of ordinary shares		*58,051,067*	*56,733,410*
Earnings per ordinary share		*0.53*	*0.43*
Diluted earnings per ordinary share		*0.51*[1]	*0.43*

Statement of comprehensive income

In EUR	Note	Dec. 31, 2016 IFRS	Dec. 31, 2015 IFRS
Net income		30,540,851	24,240,356
Change in foreign exchange		-	-
Remeasurement of available-for-sale assets		-	-
Remeasurement of hedging instruments		-	-
Remeasurement of non-current assets		-	-
Actuarial gains and losses on defined benefit plans		-	-
Share of other comprehensive income on equity-accounted affiliates		-	-
Income tax		-	-
Total other comprehensive income		**-**	**-**
NET INCOME AND OTHER COMPREHENSIVE INCOME		30,540,851	24,240,356
Attributable to equity holders		30,540,851	24,240,356
Attributable to minority interests		-	-

[1] Stock-option allocations are not taken into account when determining diluted earnings per shares if they are out of the money.

In EUR thousand	Paid-up share capital	Equity instruments and related reserves	Elimination of treasury shares	Retained earnings and net income	Total equity attributable to equity holders	Minority interests	Total equity
At December 31, 2014	**883**	**118,520**	**(4,551)**	**16,123**	**130,975**	**nm**	**130,975**
Issue of shares	-		-	-	**-**	-	**-**
Elimination of treasury shares	-	-	145	-	**145**	-	**145**
Share-based payments	-	-	-	749	**749**	-	**749**
Appropriation of 2014 net income	25	7,206	-	(10,950)	**(3,720)**	-	**(3,720)**
2015 interim dividend	-	-	-	(11,163)	**(11,163)**	-	**(11,163)**
Net income for the year	-	-	-	24,240	**24,240**	-	**24,240**
At December 31, 2015	**908**	**125,725**	**(4,406)**	**19,000**	**141,227**	**nm**	**141,227**
Issue of shares	-		-	-	**-**	-	**-**
Elimination of treasury shares	-	-	337	-	**337**	-	**337**
Share-based payments	-	-	-	1,173	**1,173**	-	**1,173**
Appropriation of 2015 net income	21	3,525	-	(7,244)	**(3,698)**	-	**(3,698)**
2016 interim dividend	-	(11,449)	-	-	**(11,449)**	-	**(11,449)**
Net income for the year	-	-	-	30,541	**30,541**	-	**30,541**
At December 31, 2016	**929**	**117,801**	**(4,068)**	**43,469**	**158,131**	**nm**	**158,131**

nm: non-material

In EUR thousand	Dec. 31, 2016 IFRS	Dec. 31, 2015 IFRS
Net income	**30,541**	**24,240**
Net allocations to provisions	(100)	(70)
Net allocations to depreciation and amortisation	783	802
Change in deferred taxes	(381)	598
Others	1,801	800
Net cash provided by operations before changes in working capital	**32,644**	**26,370**
Changes in working capital	**(20,140)**	**(14,680)**
Net cash provided by operating activities	**12,504**	**11,691**
Net cash used by investing activities	**(778)**	**(410)**
Net cash provided by capital transactions	-	-
Dividends paid	(15,147)	(14,882)
Share-based payments	(291)	95
Net cash used by financing activities	**(15,438)**	**(14,788)**
Net change in cash and cash equivalents	**(3,712)**	**(3,508)**
Cash and cash equivalents, beginning of period	13,901	17,409
Cash and cash equivalents, end of period	10,189	13,901

Contents

1. Accounting principles and policies

The Group's fiscal year runs from January 1 to December 31, 2016. The consolidated financial statements are presented in euros.

The financial statements have been approved by the Board of Directors and audited by the Group's two Statutory Auditors, Ernst & Young et Autres and Deloitte & Associés.

The ABC arbitrage Group’s consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union as of December 31, 2016.

The Group has applied the new standards, amendments and interpretations adopted by the European Union that are compulsory as of January 1, 2016. It has elected not to adopt those whose application is optional in 2016.

IFRS 9 – Financial Instruments, which was adopted for use in the European Union on September 22, 2016 and is effective for periods beginning on or after January 1, 2018, extensively modifies the rules applicable to the recognition and measurement of financial assets and liabilities compared with IAS 39. It also introduces a new forward-looking model for recognizing expected credit losses and a new hedge accounting model (except for macro-hedging transactions for which a separate standard is currently being prepared by the IASB).
The effects of applying IFRS 9 to financial instruments are currently being analyzed but they are not expected to be material in light of the Group's businesses.

IFRS 15 – Revenue from Contracts with Customers was adopted for use in the European Union on September 22, 2016 and is effective for periods beginning on or after January 1, 2018.
The standard defines the revenue recognition principles applicable to all contracts with customers, except for leases, insurance contracts, financial instruments and guarantees. Under IFRS 15, revenue is recognized according to a five-step process that starts with identifying the contract and ends with recognizing the revenue in the statement of income when the performance obligation has been satisfied:

- Step 1: Identify the contract(s) with the customer ;
- Step 2: Identify the performance obligations in the contract ;
- Step 3: Determine the transaction price ;
- Step 4: Allocate the transaction price to the performance obligations ;
- Step 5: Recognize the revenue when (or as) each performance obligation is satisfied.

The effects on the Group's revenue recognition policies of applying IFRS 15 are currently being analysed. They are not expected to be particularly material in light of the Group's businesses.

IFRS 16 – Leases was published by the IASB on January 13, 2016 and will be effective for periods beginning on or after January 1, 2019 subject to its adoption for use in the European Union.
IFRS 16 requires all leases to be recognized in the lessee's balance sheet, as follows:

- In assets: recognition of a right-of-use asset
- In liabilities: recognition of a lease liability

In the statement of income, depreciation of the leased asset is recognized separately from the portion of the lease payments corresponding to interest.
The effects of applying IFRS 16 to the Group's leases are currently being analyzed.

The financial statements are presented in euro, which is the functional currency of the Group companies. Where amounts are indicated in thousand euros rounding errors may occur.

Preparation of the financial statements required ABC arbitrage Group to make estimates and assumptions, which could have an impact on the amounts at which assets, liabilities, income and expenses are stated. The estimates, and the assumptions underlying them, have been made on the basis of other factors considered to be reasonable in the circumstances. They thus serve as the basis for the judgement made in determining the carrying amounts of assets and liabilities that could not be determined directly from other sources. The definitive amounts that will be stated in ABC arbitrage Group’s future financial statements may be different from the amounts currently estimated. These estimates and assumptions are reviewed on a continuous basis.

The Group takes an industrial approach to its business, focusing on the exclusive design of arbitrage strategies that take advantage of market imbalances in order to help eliminate them and thereby make the market both liquid and efficient. Its main aim is to deliver annual returns within a well-defined risk framework and to invest in the resources needed for sustainable growth.

1.1. Intangible assets and property and equipment

Intangible assets and property and equipment are carried on the balance sheet at cost. They are calculated on a straight-line basis over their expected useful lives.

The amortisation and depreciation periods generally applied by the Group are as follows:

- Intangible assets: 1 to 2 years
- Information systems equipment: 3 to 5 years
- Fixtures and fittings: 5 to 10 years

Amortisation and depreciation charges are recognised in the income statement under "*Depreciation and amortisation expense*".

1.2. Fair value of financial instruments

The Group's trading exposures ("Trading Exposures") include equities or equity derivatives (such as warrants and convertible bonds), derivative products such as futures, options and foreign exchange; and collective investment undertakings, the vast majority of which are traded on active markets, which may or may be not regulated, and are referred to collectively as "Financial Instruments".

An ensemble of related Trading Exposures constitutes an arbitrage model ("Arbitrage Model"). Trading Exposures may alternatively be referred to as Trading Positions ("Trading Positions").

An Arbitrage Model is designed to take advantage of an unjustified price differential between two financial instruments. The Group qualifies as "unjustified" only those differentials that can be objectively measured by a mathematical or statistical process, without a guarantee of long-term convergence.

Trading Exposures in Financial Instruments may be held in custody, as a creditor or a debtor to a counterparty or in synthetic format (contracts for differences, swaps).

Trading Exposures in Financial Instruments are held solely for trading purposes. They are classified as held-for-trading and are recognised in the accounts at fair value through profit or loss.

The fair value hierarchy is comprised of the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Financial assets and liabilities at fair value through profit or loss are initially recognised and measured at their fair value and are remeasured at fair value in subsequent periods. To measure its financial instrument portfolio, an entity must use the same assumptions that market participants would use to price an asset or liability, assuming they are acting in their own economic best interest. Fair value is defined as the price at which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction on the main market (or if there is no main market, on the most advantageous market) on the valuation date (i.e. an exit price), whether that price is directly observable or estimated using valuation techniques. Furthermore, IFRS 13 states that fair value must include all the risk assumptions that market participants would use.

As part of the application of IFRS 13 and in light of real business conditions for trading financial instruments, the exit price used to measure the financial instrument portfolio is the mid-price between bid and ask, quoted at the time when the financial instruments in the arbitrage transaction were last quoted simultaneously or with the smallest possible interval. If there is no active market for the instrument, fair value is determined using valuation techniques.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

In accordance with IAS 32, cash and securities receivable and deliverable are netted off when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The netting off of such balance sheet items results in a fairer presentation of the Company's financial position. It has no impact on the statement of comprehensive income.

The financial assets and liabilities held for trading purposes are recognised on the balance sheet at fair value under "*Financial assets or liabilities at fair value through profit or loss*". Changes in fair value are recorded in the statement of income for the period as "*Net gains or losses on financial instruments at fair value through profit or loss*".

The Group derecognises a financial asset or liability when the contractual rights to the cash flows from the financial asset or liability expire, or it transfers the rights to the contractual cash flows of the financial asset or liability in a transaction in which substantially all the risks and rewards of ownership of the financial asset or liability are transferred.

1.3. Portfolio revenue

Equity revenue is accounted when realized. Tax credits linked to equity revenue are included in "*Portfolio revenue*".

1.4. Dividend income

Dividend income is recognised on the ex-dividend date.

1.5. Share-based payment

ABC arbitrage has granted stock options to employees. On exercise of stock options, ABC arbitrage issues new shares or sells to employees shares previously acquired by the Group.

IFRS 2 "Share-Based Payment" requires that an expense be recognised equal to the fair value of the services rendered by the employees in return for the equity instruments granted to them.

1.6. Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event, provided that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

When the risk occurs or the expense is incurred, the provision release does not qualify as income as it does not result in a net increase in equity. It is therefore recognised as a reduction of the expense concerned. If the actual expense is lower than the provision and the balance of the provision is no longer required, the surplus then qualifies as income and is booked under the same line item as the original provision charge.

1.7. Corporate income tax

Corporate income tax includes current taxes and adjustments to deferred taxes. Deferred taxes are calculated on all timing differences between the recognition of income and expenses for financial reporting and tax purposes and on consolidation adjustments. Deferred tax assets and liabilities are calculated using the liability method, at the tax rates that are expected to apply when the timing differences reverse. They are not discounted.

The probability of deferred tax assets being recovered is reviewed regularly and may, where necessary, give rise to the derecognition of previously recognised deferred tax assets.

1.8. Financial statement presentation

1.8.1. Consolidation principles

The amendment to IFRS 10 “Consolidated Financial Statements”, approved by Regulation (EU) no. 1174/2013 of November 20, 2013 and published in the EU Official Journal on November 21, 2013, gives a definition of what constitutes an “investment entity” and introduces an exception to the consolidation requirements for subsidiaries of entities meeting that definition. Such investments are required to be measured at fair value through profit or loss.

A parent company shall determine whether it is an investment entity. An investment entity is an entity that: (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

Amendments to IFRS 10 and IAS 28, approved by Regulation (EU) no. 2016/1703 of September 22, 2016, stipulate that only subsidiaries that conduct business related to that of an investment entity parent and that are not investment entities themselves have to be fully consolidated. Accordingly, investment entity subsidiaries must be measured at fair value.

Under the standards, ABC arbitrage is considered as an investment entity, meaning that its investments:
1. in Quartys and ABCA Funds Ireland are presented as financial assets at fair value through profit or loss, since both entities are considered as investment entities due to the nature of their business;
2. in ABC arbitrage Asset Management and ABC arbitrage Asset Management Asia, the Group's asset management companies, remain fully consolidated because both companies provide services related to the Group's asset management business without actually qualifying as an investment entity.

1.8.2. Earnings per share

Diluted earnings per share is equal to net income for the year divided by the number of shares outstanding at December 31, 2016 plus the impact of all potentially estimated dilutive instruments.

2. Consolidation principles

ABC arbitrage, ABC arbitrage Asset Management and ABC arbitrage Asset Management Asia are fully consolidated.

Company	Country	% interest	Consolidation method
ABC arbitrage	France	Parent company	Fully consolidated
ABC arbitrage Asset Management	France	100.0%	
ABC arbitrage Asset Management Asia	Singapore	100.0%	

ABC arbitrage Asset Management and ABC arbitrage Asset Management Asia are the Group’s asset management companies.

In light of the exception to consolidation introduced by IFRS 10 “Consolidated Financial Statements” (see note 1), ABC arbitrage's interest in ABCA Funds Ireland and Quartys Limited is presented under financial assets at fair value through profit or loss.

The percentage interests are as follows:

Company	Country	% interest	Consolidation method
Quartys Limited	Ireland	100.0%	Fair value based on net asset value
ABCA Opportunities Fund	Ireland	44.5%	
ABCA Reversion Fund	Ireland	4.5%	

Quartys Limited trades in financial instruments.

ABCA Funds Ireland plc was incorporated in Ireland in 2011 and established as an umbrella fund with segregated liability between sub-funds:

- At 31 December 2016, ABCA Opportunities Fund had €114 million of funds under management.
- At 31 December 2016, ABCA Reversion Fund had €201 million of funds under management.

Due to cross-holdings, ABCA Funds Ireland had total assets of €294 million.

3. Notes to the balance sheet

3.1. Intangible assets and property and equipment

Gross value

In EUR thousand	Gross value Dec. 31, 2015	Acquisitions	Retirements /disposals	Gross value Dec. 31, 2016
Concessions and similar rights	417	245	-	662
Equipment, fixtures and fittings	1,276	10	-	1,286
Vehicles	-	-	-	-
Office and computer equipment, furniture	3,991	621	-	4,612
Total gross value	**5,684**	**876**	**-**	**6,560**

Amortisation and depreciation

In EUR thousand	Dec. 31, 2015	Increases	Decreases	Dec. 31, 2016
Concessions and similar rights	(343)	(133)	-	(477)
Equipment, fixtures and fittings	(841)	(140)	-	(981)
Vehicles	-	-	-	-
Office and computer equipment, furniture	(2,973)	(510)	-	(3,483)
Total amortisation and depreciation	**(4,157)**	**(783)**	**-**	**(4,940)**

Intangible assets are amortised and property and equipment are depreciated over their estimated useful lives. Amortisation and depreciation expense for the year are reported in the income statement under "*Depreciation and amortisation expense*".

3.2. Other non-current financial assets

At 31 December 2016, this item included €590 thousand in guaranteed deposits and securities.

3.3. Consolidated equity

3.3.1. Share-based payment – Ambition 2016 incentive program

On May 14, 2014, the Board awarded a maximum of 850,000 performance shares, through three separate plans:
- a maximum of 283,333 performance shares, which will vest according to cumulative consolidated net income for 2014 and 2015. Based on actual net income for that period and given the continuing presence requirement, 166,928 shares were definitely granted on May, 27, 2016.
- a maximum of 283,333 performance shares, which will vest according to cumulative consolidated net income for 2014 to 2016. Based on actual net income for that period and given the continuing presence requirement,183,916 shares should be definitely granted by the end of first semester 2017.
- a maximum of 283,334 performance shares, which will vest according to cumulative consolidated net income for 2014 to 2017.

On May 12, 2015, the Board awarded a maximum of 900,000 performance shares, through three separate plans:
- a maximum of 300,000 shares, which will vest according to cumulative consolidated net income for 2015 and 2016. Based on actual net income for that period and given the continuing presence requirement, 290,000 shares should be definitely granted by the end of first semester 2017.
- a maximum of 300,000 performance shares, which will vest according to cumulative consolidated net income for 2015 to 2017.
- a maximum of 300,000 performance shares, which will vest according to cumulative consolidated net income for 2015 to 2018.

On June 14, 2016, the Board awarded a maximum of 561,000 performance shares, through three separate plans:
- a maximum of 187,000 performance shares, which will vest according to cumulative consolidated net income for 2016 and 2017 ;
- a maximum of 187,000 performance shares, which will vest according to cumulative consolidated net income for 2016 and 2018 ;
- a maximum of 187,000 performance shares, which will vest according to cumulative consolidated net income for 2016 and 2019.

On the same meeting, the Board awarded a maximum of 999,000 stock options, through three separate plans:
- a maximum of 373,000 stock options, which will vest according to cumulative consolidated net income for 2016 and 2017 ;
- a maximum of 313,000 stock options, which will vest according to cumulative consolidated net income for 2016 and 2018 ;
- a maximum of 313,000 stock options, which will vest according to cumulative consolidated net income for 2016 and 2019.

On September 22, 2016, the Board awarded a maximum of 2,237,610 Stock Appreciation Rights (SAR) :
- a maximum of 745,870 rights, which will vest according to cumulative consolidated net income for 2016 and 2017 ;
- a maximum of 745,870 rights, which will vest according to cumulative consolidated net income for 2016 and 2018 ;
- a maximum of 745,870 rights, which will vest according to cumulative consolidated net income for 2016 and 2019.

No shares will vest if net income is less than €12 million a year and they will vest progressively thereafter on a linear basis. For example, if net income is €20 million a year over the entire period, 42% shares will vest and if net income is €25 million a year over the entire period, 85% shares will vest.

The expense related to these plans is deferred over the vesting period. The corresponding amount recognised in equity is calculated on the basis of the overall plan value determined on the date of grant by the Board of Directors.

In accordance with IFRS 2, an expense of €1 801 thousand, calculated on the basis of the estimated probable number of shares under the various plans, was recognised in respect of fiscal year 2016 (vs €800 thousand at 31 December 2015). The increase of IFRS 2 expense is related to the introduction of new plans but also the reassessment of the quantity expected to be allocated according to cumulative consolidated net incomes and plans' progress.

The after-tax loss on share buybacks used amounted to €419 thousand and was deducted from consolidated equity at 31 December 2016 (vs €34 thousand at 31 December 2015).

3.3.2. Issue of warrants to subscribe for new shares or purchase existing shares (BSAA 2011)

A BSAA is a warrant (option) entitling the holder to subscribe for new shares or purchase existing shares of the company in the future at a specified price and on specified terms and conditions. The purchase price per 2011 BSAA was set by the Board of Directors on July 5, 2011 at €0.45, within the price range determined by an independent accountant, and with no discount or employer's contribution. The exercise price is €9.20, corresponding to 128% of the average closing share prices quoted during the 20 trading sessions preceding July 5, 2011, and will be reduced by the amount of any dividend paid after July 12, 2011 with a minimum of €6.30.

In July 2011, ABC arbitrage issued 4,680,000 2011 BSAAs, which were purchased by 39 employees. The proceeds received by the Group at the time of issue amounted to €2.1 million and were accounted for as share premiums. The 2011 BSAAs are exercisable from June 1, 2015 to June 29, 2018 inclusive. The 2011 BSAAs will be listed on the stock exchange by March 31, 2017 and July 31, 2017 at the latest.
At December 31, 2016, in light of the results for the period 2010-2014 and the adjustments to the exercise ratio resulting from distribution of issue premiums, each 2011 BSAA entitled its holder to 0.256 ABC arbitrage shares with an exercise price of €6.63156.

The 2011 BSAAs are held in the Group employee share ownership plan for a period of five years, except in special circumstances.

3.3.3. Contingent capital

ABC arbitrage has entered into a contingent capital agreement in the form of a "PACEO" equity line with Société Générale, pursuant to the resolution passed at the annual shareholders' meeting of May 23, 2014. Société Générale has undertaken to subscribe, at ABC arbitrage's request, to successive capital issues made over the next 36 months, up to a maximum of 4,000,000 shares.

3.3.4. Capital increase resulting from reinvestment of dividends

The Annual Shareholders' Meeting of May 27, 2016 approved a 2015 dividend of €0.20 per share.
The ex-dividend date was July 1, 2016, and the dividend was paid on July 20, 2016. Shareholders had the option of receiving cash or reinvesting their dividend in shares.
The dividend is in addition to the €0.20 distribution paid in December 2015. The full distribution for 2015 therefore amount to €0.40 per share.

The final operation is treated as a repayment of capital contributions for tax purpose for €0.07074, pursuant to article 112.1° of the French general tax code and a distribution for €0.12926, drawn from the distributable income.

At the end of the option period, 1,317,657 new ordinary shares, ranking *pari passu* with the existing shares, were issued at a price of €5.70 per share, giving an overall reinvestment rate of more than 68%.

The dividend ultimately paid in cash amounted to €3.7 million.

The total issue proceeds included €21,082.51 in paid-up capital and €7,489,562.39 in additional paid-in capital. The new ordinary shares are fully paid.

At December 31, 2016, ABC arbitrage's share capital was represented by 58,051,067 fully paid ordinary shares with a par value of €0.016 each.

3.3.5. Distribution of €0.20 per share in November 2016

ABC arbitrage distributed €0.20 per share, solely in cash. The ex-dividend date was November 17, 2016, and the dividend was paid on November 21, 2016. Since the distribution was paid from the share premium account, it was treated as a repayment of capital contributions, pursuant to Article 112-1 of the French tax code (*Code général des impôts*). In view of the number of ABC arbitrage shares qualifying for the payment, the total amount came to €11.45 million.

3.3.6. Treasury stock

During 2016, ABC arbitrage sold 306,262 of its own shares. At the same time, 308,041 shares were purchased under the market-making agreement with Kepler Cheuvreux.

Of the shares held at December 31, 2015 (896,080 shares), 166,928 were allocated under performance share plans and 123,176 under stock option plans.
At December 31, 2016, ABC arbitrage held 767,025 of its own shares, acquired at a total cost of €4,068 thousand (at December 31, 2015, the company held 917,860 of its own shares, acquired at a total cost of €4,405 thousand).

In accordance with IFRS, treasury stock is deducted from equity.

3.4. Financial assets/liabilities at fair value through profit or loss

At December 31, 2015, financial assets and liabilities measured at fair value through profit or loss were classified (in the fair value hierarchy described in note 1.2, as follows:

In EUR thousand	Quoted prices in active markets for identical assets or liabilities (Level 1)	Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (Level 2)	Unobservable inputs for the asset or liability (Level 3)	Total
Financial assets at fair value through profit or loss	6,361	114,594	-	**120,955**
Financial liabilities at fair value through profit or loss	(5,381)	-	-	**(5,381)**

At December 31, 2016, these instruments were classified as follows:

In EUR thousand	Quoted prices in active markets for identical assets or liabilities (Level 1)	Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (Level 2)	Unobservable inputs for the asset or liability (Level 3)	Total
Financial assets at fair value through profit or loss	2,316	139,174	-	**141,490**
Financial liabilities at fair value through profit or loss	(25)	-	-	**(25)**

Financial assets at fair value through profit or loss classified in Level 2 correspond to the investments in Quartys Limited and the ABCA Funds Ireland Plc sub-funds. These investments are not consolidated, but are measured at fair value through profit or loss, in accordance with IFRS 10 (note 1). These items are classified in Level 2 as the value of the units is not directly observable in an active market, but their net assets comprise exposures to Level 1 financial instruments quoted on active markets, whose prices are directly observable.

There were no transfers between the various levels of the hierarchy during 2016.

Details of Financial instruments to be received and delivered are provided in note 5 “Risks factors”.

Cash reserves earn interest at variable rates (which may be negative) indexed to benchmark market rates.

3.5. Guarantees given

Most financial instruments recorded under "*Financial assets at fair value through profit or loss*" have been given as collateral to the institutions that provide the financing, as specified in note 5.2.

3.6. Other receivables and payables

All receivables and payables are due within less than one year.

In EUR thousand	Other receivables	Other payables
Trade receivables/payables	8,246	(932)
Accrued income/expenses	310	(1,294)
Accrued taxes and payroll costs	675	(4,987)
Total at December 31, 2016	**9,232**	**(7,214)**
Total at December 31, 2015	*12,993*	*(5,814)*

Accrued taxes mainly comprise corporate income tax, withholding tax and dividend tax credits.
Accrued taxes correspond mainly to corporate tax, bonuses payable to employees and amounts due to social security organizations.

Trade payables are generally payable within thirty days from the end of the month.

3.7. Provisions

In EUR thousand	
Total provisions at December 31, 2015	**200**
Provisions utilised in 2016	150
Provision reversal in 2016	-
Charge to provisions in 2016	-
Total provisions at December 31, 2016	**50**

4. Notes to the statement of income

4.1. Net gains on financial instruments at fair value through profit or loss

Net gains on financial instruments at fair value through profit or loss amounted to €35,936 thousand versus €34,024 thousand in 2015.

Net gains on financial instruments at fair value through profit or loss include all income, expenses and costs directly related to the trading business, namely:

- dividends and manufactured dividends;
- gains and losses on disposal of Financial Instruments at fair value through profit or loss;
- changes in fair value of Financial Instruments held or due;
- interest income and expenses;
- Financial Instrument securities carrying or lending costs;
- foreign exchange gains and losses;
- the net gains at fair value through profit or loss of Quartys Limited and the ABCA Funds Ireland Plc sub-funds recognised in accordance with IFRS 10; and
- any other transaction related revenues or expenses.

4.2. Investment services fees

Investment services fees amounted to €17,451 thousand at December 31, 2016. At December 31, 2015, they amounted to €13,570 thousand.

Investment services fees relate to the services that the Group's management companies bill to Quartys Limited and ABCA Funds Ireland Plc.

4.3. Other revenue

Other revenue comprises revenue from subletting premises and administrative services amounted to €265 thousand versus €250 thousand during 2015.

4.4. Administrative expenses

Administrative expenses principally comprise data mining and processing costs, together with administrative and communications costs.

This item totalled €6,004 thousand in 2016 versus €6,650 thousand in 2015.

4.5. Payroll costs

The average number of employees was 85 in 2016 versus 88 in 2015.
Payroll costs include €11,718 thousand in fixed and performance-related compensation together with statutory and discretionary profit-sharing (€9,356 thousand in 2015), payroll taxes of €4,048 thousand (€3,692 thousand in 2015). Payroll-based taxes amounted to €470 thousand (€368 thousand in 2015).

The *Crédit d'Impôt Compétitivité Emploi* (CICE) tax credit was recognised as a deduction from payroll costs in the amount of €28 thousand for 2016. This accounting treatment complies with the position published by the *Autorité des Normes Comptables* (ANC), the French accounting standards setter, in its information notice of February 28, 2013 and reflects the ultimate purpose of the legislation, which is to reduce payroll costs.

The Group does not provide any post-employment benefits (supplementary pensions or health insurance). Other long-term benefits are provided under defined contribution plans, which do not give rise to a future liability as the Group's only obligation is to make regular contribution payments.

During 2016, the following amounts were granted by Group companies to the executive officers of the parent company:

In EUR	
Directors' fees	422,250
Salary and other benefits	220,800
Gross bonuses	45,481
Share-based compensation	117,164
Post-employment benefits	-

4.6. Provision expense

Provision expense amounts to €50 thousand at December 31, 2016. At December 31, 2015, they amounted to €70 thousand income because of a provision reversal. Provision expense accrual is due to the difficulty to recover tax receivables.

4.7. Corporate income tax

The difference between the theoretical corporate income tax charge determined by applying the standard French tax rate to pre-tax income and the actual tax charge – corresponding to an effective tax rate of -1.13% - can be explained as follows:

Standard French tax rate	34.43%
Impact of permanent differences	1.07%
Impact of tax credit	(0.88)%
Impact of the portfolio revenue recognition method	0%
Impact of IFRS10 presentation	(35.85)%
Impact of temporary differences	0.10%
Effective tax rate	-1.13%

ABC arbitrage elected for group tax relief with ABC arbitrage Asset Management on January 1, 2004.

The tax group has signed an agreement whereby each member of the group (subsidiary and parent) recognises in its accounts the income tax that would be payable if it was taxed on a stand-alone basis. The charge is therefore calculated on their own taxable profit after deduction of any prior year losses.
Any tax savings made by the tax group through the utilisation of tax losses are retained by the parent company and treated as an immediate gain in the year.

5. Risk factors

The Group is exposed to a variety of risks: market risks, credit and counterparty risks, liquidity risks, operational risks and other risks.

ABC arbitrage provides subsidiaries with a general risk-management framework that the subsidiaries' boards of directors adhere to when setting their own policy.
The Group oversees the implementation and effectiveness of the controls carried out in its subsidiaries with the support of the executive managers and the control functions (market risk and internal control).

This is because the Group uses leverage as part of its financing agreements with counterparties, allowing it to take larger exposures than would be possible if it were acting alone.

Trading Exposures to Financial Instruments in isolation present a risk of loss of capital. The maximum loss of capital on long Trading Exposures to equities is limited to the fair value of those positions. The maximum loss of capital on long Trading Exposures to future contracts is limited to the notional contract value of those positions. The maximum loss on short Trading Exposures to futures contracts and equities is theoretically unlimited.

Exposures recorded as financial assets and liabilities at fair value through profit or loss break down as follows:

In EUR thousands	a. Gross carrying amount (before netting)	b. Gross amounts netted in the balance sheet	c. Net carrying amount [a-b] at Dec. 31, 2016	Financial assets at Dec. 31, 2016	Financial assets at Dec. 31, 2015
Non-derivative financial instruments	729,744	(354,316)	375,428		
Derivatives	118,377	(163,334)	(44,957)		
Unlisted derivatives	526,155	(788,342)	(262,187)		
Total long positions	**1,374,276**	**(1,305,992)**	**68,283**	**141,490**	**120,955**
Cash and margin accounts	60,518	(372,184)	(311,666)		
Currencies derivatives - Listed	62,801	(40)	62,761		
Currencies derivatives - Non listed	332,837	(10,725)	322,111		

In EUR thousands	a. Gross carrying amount (before netting)	b. Gross amounts netted in the balance sheet	c. Net carrying amount [a-b] at Dec. 31, 2016	Financial liabilities at Dec. 31, 2016	Financial liabilities at Dec. 31, 2015
Non-derivative financial instruments	-	-	-		
Derivatives	-	-	-		
Unlisted derivatives	-	-	-		
Total short positions	**-**	**-**	**-**	**(25)**	**(5,381)**
Cash and margin accounts	-	(25)	(25)		
Currencies derivatives - Listed	-	-	-		
Currencies derivatives - Non listed	-	-	-		

In EUR thousands	a. Gross carrying amount (before netting)	b. Gross amounts netted in the balance sheet	c. Net carrying amount [a-b] at Dec. 31, 2016		
Non-derivative financial instruments	729,744	(354,316)	375,428		
Derivatives	118,377	(163,334)	(44,957)		
Unlisted derivatives	526,155	(788,342)	(262,187)		
Total	**1,374,276**	**(1,305,992)**	**68,283**	**141,465**	**115,574**
Cash and margin accounts	60,518	(372,209)	(311,691)		
Currencies derivatives - Listed	62,801	(40)	62,761		
Currencies derivatives - Non listed	332,837	(10,725)	322,111		

a. ***Long Trading Exposures means that the Group has acquired an interest in the increase in price of a Financial Instrument.***
b. ***Short Trading Exposures means that the Group has acquired an interest in the decrease in price of a Financial Instrument.***

The breakdown of the geographical exposures is detailed as followed:

Fiscal year	2016	2015
Asia	4%	6%
Euro zone	38%	43%
USA	50%	44%
Other markets	8%	7%
Total	100%	100%

This geographic analysis is determined using the absolute value of the exposures at year-end, broken down by financial market, with the latter grouped by geographic area.

5.1. Market risks

Market risk is the risk that the fair value or future cash flows of Trading Exposures will fluctuate because of changes in market prices of Financial Instruments and include notably market price risk, interest rate risk and foreign currency risk.

✓Market risks

Equity risk, or price risk, arises mainly due to uncertainty about the future prices of Financial Instruments held. It represents the potential loss that could be incurred by the Group as a result of potential movements in price on its exposures to Financial Instruments.

The risk is never related to an unfavourable movement in market prices, for example a stock market crash, but can arise from an unfavourable event related to one of the above operations. By definition, the risks on arbitrage models are not interdependent. The Group hedges risks by spreading them across the greatest possible number of transactions, financial instrument types and geographic areas.

As at 31 December 2016, the aggregate VaR of the Trading Exposures of the Group was €4.6M (vs €2.6M at 31 December 2015). The parameters of calculation are a level of confidence of 99%, a “one year historical” methodology and a holding duration of 1 day.

✓Interest rate risk

Interest rate fluctuations may have a positive or negative influence on the value of Financial Instruments.

In general, the Trading Positions are composed by approximately equal amounts of long Trading Positions and short Trading Positions and the risk is therefore not material. If a specific Trading Position carries a material interest rate risk, this risk is systematically hedged. Consequently, no sensitivity analysis has been disclosed.

✓Currency risk

The Group may hold Trading Positions denominated in currencies other than the Group’s functional currency. Exchange rate fluctuations against the functional currency may have a positive or negative influence on their value.

Currency risks are systematically hedged by buying or selling the currency (or an exposition to the currency). The only risk is of a secondary nature – that the profit (or loss) realized in a given currency may vary if it is not converted into the functional currency. The Group regularly converts profits (or losses) into the functional currency and its exposure to currency risk is therefore marginal.

At December 31 2016, a 2% rise (fall) in the euro against all currencies would, all other things being equal, have increased (decreased) net assets by €77 thousand.

5.2. Credit and counterparty risk

This is the risk of a counterparty being unable to honor its contractual obligation to settle a transaction with the Group, due to deterioration in its financial position.

The ABC arbitrage Group deals solely with brokers/dealers (“Brokers”) and credit institutions and investment companies (“Counterparties”). All of these parties are subject to specific controls by the regulatory authorities in the countries in which they operate to ensure their solvency.

The Group’s trading activity mainly comprises Financial Instruments which are traded on active (if not regulated) markets which predominantly settle via a Central Clearing Party (CCP). The risk of default by Brokers for each and every market trade is therefore considered to be minimal, as the CCP serves to guarantee settlement, and the securities are not delivered until the Broker has made or received payment.

By unwinding transactions in financial instruments, a counterparty acts as depositary, creditor or debtor, or as counterparty to a synthetic product (CFDs, swaps) for the Group. In general the Group’s business requirements permits that very little (if any) of its assets are held in Custody. A significant proportion of the assets of the Group transferred to Counterparties are either pledged as a first security interest or transferred as margin (collectively “Collateral”) to support the Trading Positions. The Counterparty may re-use this Collateral for its own account but is required by contract to return the assets or equivalent assets upon first demand if it is no longer needed to support the Trading positions.

The risks related to the use of a Counterparty are:

- interruption or discontinuation of services as the Counterparty has the right to amend or discontinue the services;
- increased costs of maintenance of Trading Positions with the Counterparty;
- failure by the Counterparty to return Collateral used due to market events;
- failure by the Counterparty to return sums due as a result of bankruptcy;
- incorrect valuation of Trading Positions held and Collateral transferred to the Counterparty.

The Group manages this counterparty risk through the use of industry standard master agreements, close monitoring of Counterparty credit ratings and diversification of its relationships to spread risk while weighing up the pricing benefits of concentration on larger-scale relationships.

At year end, the maximum exposure to credit risk is included in the net amounts for financial instruments (note 5).

5.3. Liquidity risks

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due, or can only do so on terms that are materially disadvantageous.

The Group’s Trading Exposures consist almost exclusively of highly liquid Financial Instruments quoted on active markets and its obligations mainly comprise the necessity to provide Collateral to support the Group’s Trading Positions. The volume of Trading Positions which the Group may enter into is contractually based on the assets transferred as Collateral.

The Group's actual Trading Positions, taking into account existing agreements with Counterparties, is constantly monitored to ensure that the Group benefits from considerable flexibility in conducting its business as well as substantial liquid reserves. In addition, given the highly liquid nature of the Trading Positions the Group can alleviate the need for Collateral by reducing the volume of Trading Positions.

At December 31, 2016, the liquidity position was as follows:

In EUR thousand	Less than one month	One to three months	Three to twelve months	More than twelve months	Total
Financial assets at fair value through profit or loss	316	141,174*	-	-	141,490
Other receivables	187	8,564	481	-	9,232
Deferred tax assets	-	-	1,525	-	1,525
Cash and cash equivalents	10,189	-	-	-	10,189
Total current assets	**10,692**	**149,738**	**2,005**	**-**	**162,436**
Financial liabilities at fair value through profit or loss	(25)	-	-	-	(25)
Other liabilities	(2,452)	(3,685)	(1,077)	-	(7,214)
Current tax liabilities	-	-	-	-	-
Short-term borrowings	-	-	-	-	-
Total liabilities	**(2,476)**	**(3,685)**	**(1,077)**	**-**	**(7,238)**
Net balance	**8,216**	**146,054**	**928**	**-**	**155,197**

**Financial assets at fair value through profit or loss classified as between one and three months correspond to the investments in Quartys Limited and the ABCA Funds Ireland Plc sub-funds, which are shown at fair value in accordance with IFRS 10 (note 1), since ABC arbitrage is unable to recover their value in less than one month. By contrast, the net assets of these companies are mainly composed of exposures to Level 1 financial instruments traded on active markets and convertible into cash in much less than one month.*

5.4. Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people and systems.

In 2016, losses due to operational incidents represented 0.3% (vs 4.6% in 2015) of revenues.

This risk is managed upstream by ensuring that position taking is guided by written procedures and a rigorous internal control process. However, these procedures and controls cannot provide absolute assurance that operational losses will not occur and due care is taken at all times as this is a structural risk in the arbitrage business.

5.5. Other risks

✓*Compliance risk (Including legal risk)*

Compliance risk is the risk of failure to identify and/or comply properly with the provisions governing the Group's business activities. Such failure can lead to malfunctions, financial loss or sanctions (legal, disciplinary, administrative, etc). An ongoing monitoring system is in place within the Group's legal and tax department.

✓*Conflict of interest risk*
Conflict of interest risk is the risk of being confronted with situations where the interests of a client or company may conflict with those of another client or with those of a Group company or a Group employee.

To prevent conflict of interest situations, the Group has implemented:
- an internal conflicts of interest policy including guidance to be followed by employees in order to identify, prevent and manage conflicts of interest;

- strict procedures and rules governing the handling of orders and primacy of the client interest. The Group's asset management companies comply strictly with financial market operating rules and are not permitted to do anything that might contravene the principle of fair and equal treatment of orders. More particularly, orders transmitted to the market are pre-allocated and time and date stamped.

Transactions between Group companies are carried out on an arm's length basis.

✓*Brexit*
On triggering Article 50, the United Kingdom ("UK") will start a 2 year countdown to its official exit from the European Union ("EU"). At this juncture it is very difficult to identify the fullest extent of consequences, as the measures that will be put in place will result from a protracted negotiations between the UK and the EU and in all likelihood an extended transition period.

The group:
- does not have a permanent establishment or business operations in the UK;
- does not commercialise products in the UK;
- does not deploy personnel to the UK (save for infrequent business travel);
- contracts little services from the UK, yet maintains counterparty relationships it UK Credit Institutions (CI's) for financing services.

This context gives a sense of proportion to the relative degree of uncertainty facing the Company in that UK CI's will continue to desire to commercialise their services and other CI's will seek to seize a competitive edge.

As such it will be worth monitoring, not only how UK CI's adapt their product offering to a post-Brexit environment, but also:
- how non-UK CI's develop their product offerings to seize a competitive edge over UK CI's
- how other jurisdictions adapt their regulatory and financial ecosystem in order to offer an operating environment capable of attracting existing UK CI's.

The transition to a post-Brexit environment will be long and the threats and opportunities unclear until we enter into the final phases. The group will ensure the adequate and progressive implementation of means and measures to analyse the evolving environment, upholding the group's underlying opportunistic culture and philosophy.

6. Other information

6.1. Related party transactions

There were no material transactions with Aubépar Industries in 2016.

6.2. Fees paid to the Statutory Auditors

	ERNST & YOUNG ET AUTRES				DELOITTE ET ASSOCIES			
	Amount in EUR (excluding VAT)		%		Amount in EUR (excluding VAT)		%	
	2016	2015	2016	2015	2016	2015	2016	2015
Audit fees	28,786	30,500	50%	**50%**	28,786	30,500	50%	**50%**
Other services provided to fully consolidated subsidiaries *	28,405	29,125	50%	**50%**	28,405	29,125	50%	**50%**
Other audit-related work	3,000	26,000	100%	**55%**	0	21,000	0%	**45%**
TOTAL	**60,191**	**85,625**	**51%**	**52%**	**57,191**	**80,625**	**49%**	**48%**

** Excluding ABC arbitrage Asset Management Asia, whose 2015 financial statements were audited by Crowe Horwath First Trust (€7 thousand of fees).*

To the shareholders,

In compliance with the assignment entrusted to us by the Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying consolidated financial statements of ABC arbitrage;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis or by selection, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements present fairly the assets and liabilities, financial position and results of the companies included in the consolidated group, in accordance with the International Accounting Standards and International Financial Reporting Standards adopted by the European Union.

II. Basis of opinion

In accordance with the requirements of Article L.823-9 of the French Commercial Code relating to the justification of our assessments, we draw to your attention the following matters:

- As explained in note 1.2, the Group has determined the market price of financial instruments measured at fair value based on the bid price for assets held and liabilities to be issued and on the ask price for assets to be purchased and liabilities held. We assessed the data and assumptions used to determine these prices, reviewed the Group's calculations and assessed the appropriateness of the related disclosures made in the notes to the financial statements.

- As indicated in notes 1.5 to the consolidated financial statements, the Group has granted employees stock options and shares without consideration, for which an expense has been recognised equal to the fair value of the services rendered by the employees in return for the equity instruments granted to them. Our work consisted in assessing the data and assumptions used to determine this fair value, reviewing the Group's calculations and verifying the appropriateness of the related disclosures made in the notes to the financial statements.

The assessments were made in connection with our audit procedures on the consolidated financial statements, taken as a whole, and contributed to the formulation of our unqualified audit opinion expressed in the first section of this report.

Neuilly-sur-Seine, April 28, 2017

The Statutory Auditors

Deloitte & Associés	Ernst & Young et Autres
Charlotte Vandeputte	Olivier Durand

ANNUAL FINANCIAL REPORT 2016

Corporate Social Responsability Report

Social, environmental and social responsability

ABC arbitrage Group

Our social, environmental and societal responsibility involves two main areas:

- Active recruitment management and employee support:
  Our hiring policy focuses on diversity, without any form of discrimination, while the key aspects of our employee support policy are skills development and incentive-based compensation policies that combines the performance and results of ABC arbitrage.

- Taking environmental and societal considerations into account in our day-to-day decisions:
  We seek to raise employee awareness of environmentally responsible practices and to reduce our direct impact on the environment through the initiatives described below.

However, given the nature of its operations, the ABC arbitrage Group is not concerned by some of the social responsibility issues for which information must be disclosed in compliance with France's Grenelle II (article R225-105-1 of the French Commercial code (Code de commerce) modified the august 19, 2016 by the decree 2016-1138).
In particular, both our environmental footprint and our impact on host communities are limited. As a result, policies dedicated to these aspects have not been deployed and the corresponding indicators have been excluded from the Grenelle II disclosures.
In the summary table presented below, these excluded issues are designated as "not applicable" (N/A), whereas issues for which information is disclosed are referred to the corresponding paragraph in the report.

The scope of reporting is as follows :
- Details and information concerning our social responsibility and environmental performance focus mainly on the actions undertaken by ABC arbitrage and ABC arbitrage Asset Management, two French companies that account for 95% of all employees.
- Employee-related indicators cover the entire workforce, including the operations in Ireland and Singapore.

Note that information concerning these issues has been presented on www.abc-arbitrage.com since the company's founding.

Lastly, as a supplement to this CSR report, it is important to read the management report, which discusses the significant events of the year and our strategic vision and outlook

Contents

1. Societal information

a. Local, economic and social impact of our business

Since the outset, we have contributed to local development on our own scale, not only as an employer but also through our business activities by bringing liquidity to the markets and contributing to the development of the financial industry.

An arbitrage is a combination of transactions designed to take advantage of imperfections between different financial markets. It ensures that prices are identical in all markets at any given time. It creates smooth flows between the various markets and provides them with liquidity. Through our business, we contribute on our own scale to maintaining useful, efficient markets and compliance with regulations. It enables small retail investors to gain access to the market and acquire financial instruments at their fair value.

However, our contribution to society is not confined to our role in the financial markets. We have always redistributed the value we create to our employees and shareholders and also to the State in the form of compulsory imposition, payroll taxes and other taxes.

b. Relations with people or organisations affected by the company's activity

We aim to fulfill our corporate social responsibility by taking account of the expectations of our stakeholders (mainly shareholders and employees), with whom we foster open, frank dialogue:

- Employees can pass on their requests, suggestions and comments to their managers at any time. Appraisals are held twice yearly to discuss their daily activities and areas for improvement, set targets and plan their career paths. Dialogue also takes place between management and employee representative bodies. An intranet site is available to employees providing useful information about the organisation.
- Regular, high-quality financial reporting keeps investors and shareholders informed of the Group's results and key trends. In addition to the annual shareholders' meeting, regular press releases are issued to keep shareholders informed. Our website (www.abc-arbitrage.com) and email contact address (actionnaires@abc-arbitrage.com) are also available for obtaining any information they may need.

But our role in society and our relations with our stakeholders are not confined to our shareholders and employees. Our community involvement also involves facilitating entry in the workplace, links with educational institutions and membership in professional working groups:

- Employees regularly take part in engineering school forums,technology conferences and also universities to promote the Group and its activities, forge relationships with students and identify future talent. Internships are offered to students on a regular basis and provide a reservoir of talent for future recruitment.

- Continuously since the school year 2014/2015, funding was provided to the Maison des Talents, an innovative program of equal opportunities led by the Fondation Financière de l’Echiquier to enable deserving women scholarship students to pass the entrance examinations for France's most prestigious universities, or *grandes écoles*. Two girls are sponsored by ABC arbitrage during this school year. We hope that the partnership will make it easier for the new generation to earn scientific degrees, thereby helping to enhance France's performance and reputation for excellence in these fields.

- The Group also participated in the Basis.point initiative, a scheme created by the Irish investment fund industry to improve training and educational opportunities for disadvantaged young people in Ireland.

- ABC arbitrage also call upon the services of non-profit organisations and sheltered workshops that promote social inclusion and entry (or re-entry) in the workplace of disabled adults.

- ABC arbitrage is an active member of MiddleNext and, along with the other midcaps listed on the market, share the belief that we need to tailor corporate governance practices to the needs of different organisational structures, for example based on ownership structure or size, in order to create an informal governance system suited to the company's practices.

- ABC arbitrage is a member of IFA (Institut Français des Administrateurs), which provides corporate directors with all the information, training and expertise they need to carry out their role and brings together all those who wish to help develop professional standards and best governance practices.

- ABC arbitrage takes also part to Croissance Plus, an association of entrepreneurs who promote a sustainable development business model and share their wealth, knowledge and power within the organisation. Croissance Plus works to promote an alternative entrepreneurial model with the aim of creating businesses and jobs and defending the interests of the most dynamic SMEs whose needs are not always taken into consideration by the public authorities.

- Lastly, ABC arbitrage renewed its donation to the Wikimedia Foundation, a non-profit organization dedicated to encouraging the growth and development of free educational content.

c. Subcontracting and suppliers

The use of subcontractors is restricted to the preparation of pay statements, social security filings and facilities management. Our supplier base is small and offers only a limited selection. Other suppliers are called upon for items that are not directly linked to the group's business activity.As a result, there are no social responsibility or environmental purchasing policies in place.

d. Fair business practices

ABC arbitrage is listed on a regulated market. Consequently, immediately upon signing an employment contract, employees undertake to comply with all internal control procedures as regards dealing in ABC arbitrage shares and, more generally, the legislation and regulations on preventing insider trading. Similarly, ABC arbitrage Asset Management is a portfolio management company and its business is therefore regulated, subject to authorisation and supervised by the Autorité des Marchés Financiers (AMF). Employees undertake to comply with all of the mandatory rules and regulations governing asset management activities,particularly the primacy of the client's interests and the fight against bribery and money-laundering.
More generally, internal control and risk management procedures have been described in the report of the Chairman of the Board of Directors.
Lastly, ABC arbitrage pledges to uphold human rights, including those covered by the main ILO (International Labour Organization) conventions. Given that we operate in countries where democracy and human rights are promoted and controlled, no particular policy has been devised in this area.

2. Social information

Key employee data are summarised in the table below:

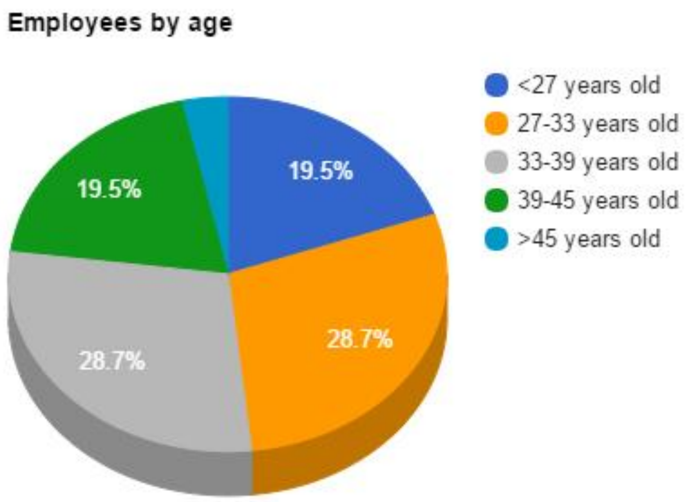
Indicator	Definition/unit of measurement	2016				2015	Change
		ABCA(1)	ABAM(2)	Étranger (3)	TOTAL	TOTAL	100%
Total headcount	Total number of interns, permanent and fixed term employees	2	81	4	**87**	**86**	1%
Average headcount	Total number of interns,permanent and fixed term employees	3	78	4	**85**	**88**	-3%
Permanent employees	Total number of permanent and fixed term employees	2	78	4	**84**	**86**	-2%
	Permanent employees as a % of total headcount	100	96	100	**97%**	**100%**	NA
Number of interns at the year-end	Total number of interns at December 31	0	0	0	**0**	**0**	NA
	Interns as a % of total headcount	0	0	0	**0**	**0%**	0%
Number of interns during the year	Number of short-term internships	0	1	0	**1**	**3**	0%
	Number of pre-hire internships	0	6	0	**6**	**3**	0%
	Percentage of pre-hire internships converted into permanent employment contracts	NA	100%	NA	**100%**	**67%**	NA
Headcount by category	Managers as a % of total headcount	100%	100%	100%	**100%**	**99%**	NA
	Other employees as a % of total headcount	0%	0%	0%	**0%**	**1%**	NA
Gender balance	% Women	50%	25%	50%	27%	26%	NA
	% Men	50%	75%	50%	73%	74%	NA
New hires	Number of new permanent hiresl	0	10	0	**10**	**14**	-29%
Resignations	Number of resignations during the year	1	4	0	**5**	**3**	67%
Contractually agreed terminations	Number of contractually agreed terminations during the year	1	4	0	**5**	**5**	0%
Dismissals	Total number of dismissals	0	1	0	**1**	**1**	0%
Other(4)	Other contract terminations	0	1	0	**1**	**2**	-50%
Average age	Average age of permanent employees	42	33	37	**33**	**34**	-2%
Average length of service	Number of years	15	6	10	**7,3**	**6,8**	7%
Training (5)	Number of hours training provided	8	162	0	170	189	-10%
Absenteeism (6)	Number of days absenteeism in France (%)	0.19%	2.55%	NC	**2.48%**	**1.88%**	NA

(1) ABCA = ABC arbitrage
(2) ABAM = ABC arbitrage Asset Management
(3) International = Quartys Ltd based in Ireland (one employee) and ABC arbitrage Asset Management Asia Pte Ltd based in Singapore (two employees).
(4) Other contract terminations corresponds to trial period terminations.
(5) Takes into account all data concerning employees who received training during the year, including those who were no longer part of the workforce at 31 December. Only training hours carried out with certified bodies are taken into account. Internal training hours (mentioned in section 2 g) are not included.
(6) Total number of days' absence (including maternity leave) divided by the total number of theoretical working days.

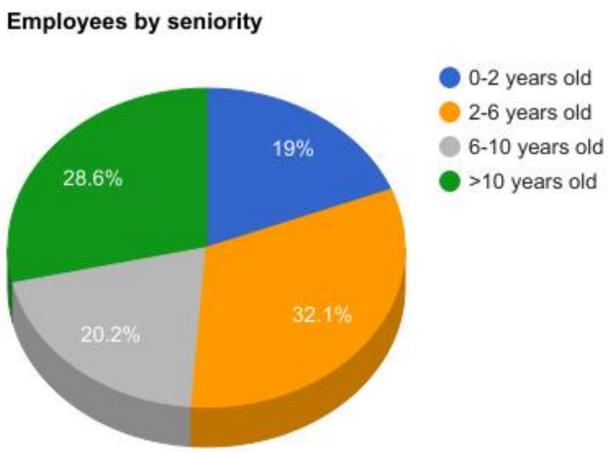
a. Turnover/length of service

Ten new permanent employees joined the Group in 2016, accounting for 12% of the workforce at year-end. They reflected our decision to combine veterans with proven technical or financial experience (three new hires) and recent engineering graduates (seven new hires).
This hiring policy encourages the emergence of new ideas and innovation, while capitalising on the expertise of our most loyal employees. As described in the management report, this assertive hiring process is an integral part of our growth plan.

Attesting to our forward-looking vision, the average age of our employees is a relatively young 33 (vs 34 in 2015) and 78 % are aged 27 to 39.



Average length of service for employees in the Group stands at 7.3 years (versus 6.8 years in 2015). However, the company has an experienced, loyal management team, with an average 15 years of service. These employees lead younger associates who fall into three categories: 2 to 6 years which represented 32.1% of employees, 6 to 10 years which represented 20.2% of employees, and less than 2 years, which represented 19%, as shown in the chart below.
This organization offers us the energy and momentum we need to drive growth.



b. Compensation policy

All of the regulatory information required under Article L.225-102 of the French Commercial Code is disclosed in the management report for 2016.

In an unstable and increasingly complex regulatory environment (CRD IV and AiFMD) that has triggered a noticeable increase in base salary costs in the finance industry, ABC arbitrage has had to gradually review its compensation policy, with a resulting increase in fixed costs of around 20% between 2012 and 2014. This strategy continued in 2015 and 2016. These competitive pressures, coupled with the hiring of high-quality employees and a performance-based bonus policy, drove a 20% increase in employee benefits expense during the year, to €16.2m at December 31, 2016.

With a view to motivating our people over the long term and aligning their interests with those of our shareholders, management has developed various share-based incentive schemes to drive growth by retaining core skills while containing payroll and other fixed costs in a highly competitive environment. We had already embarked on this approach well before the 2008 crisis and the resulting G20 recommendations. Despite the additional cost measures taken by various governments, we are still convinced that they have a role to play and we will continue to use them, albeit to a lesser extent.

All of the information concerning the share-based incentive schemes is presented in the management report.

c. Working time organisation

Working time varies according to the job and practices (fixed hours, flexible hours, organisation) differ depending on business needs. Employees work the hours specified in the collective agreement, which correspond to the legal hours, unless otherwise stipulated in their employment contracts. Where possible, subject to business constraints, employees are granted considerable flexibility in their working hours. They may also opt to work part-time. In 2016, there were four part-time female employees.
The Group employed three employees on fixed-term contracts in 2016, on one hand for a temporary increase of activity and on the other hand for a maternity leave replacement.

d. Absenteeism

Absenteeism and the reasons are tracked by the human resources department. The absenteeism indicator is the ratio between the number of days' absence and the total number of days' paid expressed as a percentage. Parental leave accounted for most (50%) of the days lost.
Short-term leave (i.e. less than three days), was taken mainly for illness or family events. These two reasons accounted for 21% of days lost during the year, for a short-term absenteeism rate of 0.53%.
The rate of unplanned leave, due to illness, stood at 1.05%.
These very low percentages attest to the positive workplace environment nurtured across the Group, as well as to the initiatives undertaken to enhance employee well-being.

e. Employee relations

Social dialogue is based on a process of consultation between employer and employees (or their representatives). There are three employee representative bodies:

- The Works Council, which plays a business role (company organisation and practices, working conditions, vocational training, apprenticeship, etc.) as well as a social and cultural role. It meets once a month whenever possible.
- Staff representatives, who represent all employees of the company and are responsible for ensuring compliance with all laws, regulations and the collective agreement on social protection, health and safety. They meet once a month whenever possible.
- The Health and Safety Committee, whose role is to contribute to protecting the health and safety of Group employees and improving working conditions. It meets once a quarter.

These bodies are informed and consulted when major decisions are made in order to take employees' interests into consideration. Employees are informed about them and the way they work, particularly upon first joining the company. The information is also available to everyone on the ABC arbitrage electronic documents.

Social dialogue also takes place regularly through twice-yearly meetings held to present the Group's results. Attendance is mandatory and the meetings provide an opportunity for employees to ask management questions about the company's results, future strategy, etc.

The collective agreements applicable to the Group are mainly those related to the incentive and mandatory profit-sharing schemes for french entity. There was no new agreement signed in 2016.
An employee savings plan is also available to all french employees (95% of employees).

f. Health and safety

Our policy on health in the workplace goes further than simply complying with changes in the regulations. Protecting the health of our people is a key priority for ABC arbitrage.

The Group pays 100% of the basic cost of their top-up health plan. A voluntary flu vaccination campaign is offered each year. In 2016, the occupational risk assessment report was reviewed in association with the occupational physician. This report aims to identify all the risks involved in the jobs carried out within the Group.

We are very attentive to the well-being of our people, which is reflected in various initiatives:

- Maximum flexibility in working hours subject to business constraints;
- Provision of childcare facilities;
- Balancing work and personal life (for example, by not scheduling recurring meetings after 6.00 p.m.);
- A pleasant, ergonomic working area;
- Training on gestures and good postures at work;
- The provision of fresh fruit and dried fruits.

In addition to the workplace emergency responders, a number of employees are also trained in basic first aid and some have been appointed and trained as fire officers. Note that no workplace accidents or incidences of occupational illness were reported in 2016.

g. Training

Training is a key priority for the ABC arbitrage group. There are two main aspects to our training policy:

- Technological, regulatory and fiscal training:

We organise many training courses enabling employees to keep abreast of regulatory, fiscal and technological developments.

- Core business training:

Our training policy for our core business is based primarily on mentoring and desk research. There is little or no direct training available for the arbitrage business and what is available tends to focus more on directional strategies rather than arbitrage. We therefore believe that mentoring (know-how transfer) is the best way to train our employees. As regards desk research, we encourage our employees to learn by regularly consulting professional and technical blogs and by reading a lot of technical literature.

Attesting to this commitment to training and mentoring, certain interns completing their programme are offered pre-employment assignments, 100% of which were transformed into permanent work contracts in 2016 (6 in total).

h. Equal opportunity

In its hiring and human resources management process, the ABC arbitrage Group refuses any and all forms of discrimination, in particular as regards nationality, culture, gender or disability. On the contrary, we embrace all our diversity, whether cultural or generational, by hiring and integrating employees from a wide variety of backgrounds.

We endeavour to hire motivated, skilled employees who will integrate effortlessly into the existing team and create an intelligent working relationship between people from a broad variety of backgrounds. As we indicate on our website, there is no typical ABC arbitrage profile, but more a common attitude of openness and balance; for example a belief that mutual support and exacting standards go hand in hand or that independence does not mean exclusion or exclusivity. Most importantly, we encourage ambition, provided it benefits the group as a whole.

3. Environmental information

Given the nature of our business, the ABC arbitrage Group does not have any direct or material impact on the environment. As a result, several indicators specified in article 225 of the Grenelle II Act have been excluded from the reporting process.
We are nonetheless aware of our responsibility and we endeavour to respect the environment in the conduct of our business activities, by taking environmental considerations into account in our day-to-day decisions.

a. General environmental policy

Our environmental policy aims to minimise the direct impacts of our internal activities on the environment through strict management of the natural and energy resources needed in our business.

In our arbitrage business, which is based on statistical and mathematical techniques, we select financial instruments to trade in by entirely neutral methods. Market inefficiencies are the only consideration that affects our decisions and we do not apply any environmental screens in our selection process.

Although the ABC arbitrage Group's environmental footprint is very limited, employee awareness is raised through:

- Regular email reminders about good environmental practices (turning off computer screens and office light in the evening, only printing documents when strictly necessary, using the various recycling bins, etc.);
- Encouragement to recycle and manage waste as described below.

b. Pollution and waste management

Various waste management mechanisms are available to employees:

- Recycling points for batteries, coffee capsules and plastic bottle stoppers are provided in the communal areas (coffee area);
- Each office has a paper and cardboard recycling bin;
- Printers (of which the number is very limited, the entire workforce sharing just three printers located in central points) are configured by default to print in duplex and in black and white;
- Used toner cartridges are collected by a waste service provider;
- We attempt to find a useful outlet for our used computer equipment (given away to employees, non-profit organisations, etc.). However, if this equipment cannot be "recycled", we ensure that it is properly destroyed (obtaining a certificate of destruction).

In addition, measures have been taken to prevent and reduce air emissions. For example, we took the considered decision to locate our offices in central Paris as it helps to encourage employees to use public transport for their commute.

Employees are made aware of environmental risks and they are encouraged to group their business meetings together to the extent possible in order to reduce business travel, to take the train rather than fly when distance permits, and to make maximum use of new technologies such as video or audio conferencing.

c. Sustainable use of resources

Given its activity, the Group's consumption of raw materials is restricted to:

- Energy, which for us mainly means electricity. Electricity consumption for the whole Group fell to 721,594 kWh versus 733,640 kWh in 2015. This translates into a nearly 1.6% reduction year-on-year and a decrease of slightly more than 4% over the past three years. When we moved into the Centorial building in early 2010, we introduced a mechanism to reduce our use of electricity and air conditioning. Outside of the programmed time bands (corresponding to our business needs), manual intervention is required to activate one hour of lighting and has to be reset each time. This complies with the legal requirements on the lighting of business premises.

- The paper consumption on which the group makes constant efforts. The group's processes are increasingly digitized, which significantly reduces the use of paper impressions. The digitization of our financial reports is part of this dynamic.

- Lastly, water consumption is minimal, and its cost is included in the property rental. Accordingly, we do not produce detailed data on our water consumption.

Cat.	Main Topic	Sub-topic	ABC Link
Societal	Regional, economic and social impact of the company's activity	Impact on employment and regional development	§ 1.a
		Impact on neighbouring or local populations	N/A
	Relations with stakeholders in the company's activity	Dialogue with stakeholders	§ 1.b
		Community involvement and philanthropy	§ 1.b
	Sub-contracting and suppliers	Integration of social and environmental issues in the purchasing policy	§ 1.c
		Importance of subcontracting and making corporate social responsibility a consideration in supplier and subcontractor relation	
	Fair business practices	Anti-bribery and corruption measures	§ 1.d
		Measures to protect consumer health and safetys	
	Human rights	Actions promoting human rights	
Social	Employment	Total workforce and breakdown by gender, age and geographic area	§ 2. Social information
		New hires and dismissals	§ 2.a
		Compensation and compensation trends	§ 2.b + §3of management report
	Work organisation	Organisation of working time	§ 2.c
		Absenteeism	§ 2.d
	Employee relations	Organisation of social dialogue, particularly as regards informing, consulting and negotiating with employees	§ 2.e
		Report on collective agreements	
	Health and safety	Health and safety in the workplace	§ 2.f
		Report on health and safety agreements with the trade union organisations and staff § 2.f representative bodies	
		Workplace accidents, including incidence and severity, and occupational disease	
	Training	Training policies	§ 2.g
		Total number of training hours	§ 2. Social information
	Diversity and equal opportunity/equal treatment	Gender equality policy and measures	§ 2.h
		Disability employment and inclusion policy and measures	
		Anti-discrimination policy and measures	
	Promotion of and compliance with the relevant ILO fundamental conventions	Freedom of association and right to collective bargaining	
		Discrimination (employment and occupation)	
		Abolition of forced labour	
		Abolition of child labour	

Environ-nmental	General environmental policy	Processes for integrating environmental issues and, where applicable, environmental assessment or certification policy	§ 3.a
		Actions to train and inform employees about environmental protection	§ 3.a
		Resources devoted to environmental risk and pollution prevention	N/A
		Amount of financial provisions for environmental risk, provided that this disclosure is not likely to seriously harm the company's position in an ongoing lawsuit	N/A
	Pollution and waste management	Prevention, mitigation or remedy of environmentally harmful air, water and ground emissions	§ 3.b
		Waste prevention, recycling and elimination	§ 3.b
		Noise and other forms of pollution specific to an activity	N/A
	Sustainable use of resources	Waste prevention and management: - preventive, recycling, reuse measures and other forms of recovery and disposal of waste; - actions to combat food wastage.	§ 3.b N/A
		Sustainable use of resources: - Water consumption and water supply according to local constraint; - Consumption of raw materials and measures taken to use them more efficiently; - Energy consumption, measures taken to improve energy efficiency and use of - renewable energy; - Land us.	§ 3.c § 3.c § 3.c N/A
	Climate change	Greenhouse gas emissions	N/A
		Adapting to climate change	N/A
	Protecting biodiversity	Processes for integrating environmental issues and, where applicable, environmental assessment or certification policy	N/A

ABC arbitrage

Year ended on December 31st, 2016

Independent verifier's report on consolidated social, environmental and societal information presented in the management report

ERNST & YOUNG et Associés

ABC arbitrage

Year ended on December 31st, 2016

Independent verifier's report on consolidated social, environmental and societal information presented in the management report

This is a free translation into English of the original report issued in the French language and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the shareholders,

In our quality as an independent verifier, accredited by the COFRAC[2], under the number n° 3-1050, and as a member of the network of one of the statutory auditors of the company ABC arbitrage, we present our report on the consolidated social, environmental and societal information established for the year ended on December 31st, 2016, presented in the management report, hereafter referred to as the "CSR Information," pursuant to the provisions of the article L.225-102-1 of the French Commercial code (*Code de commerce*).

Responsibility of the company

It is the responsibility of the Board of Directors to establish a management report including CSR Information referred to in the article R. 225-105 of the French Commercial code (*Code de commerce*), in accordance with the protocol used by the company (hereafter referred to as the "Criteria"), and of which a summary is included in the management report.

Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession as well as the provisions in the article L. 822-11 of the French Commercial code (*Code de commerce*). In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Responsibility of the independent verifier

It is our role, based on our work:

- to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of R. 225-105 of the French Commercial code (*Code de commerce*) (Attestation of presence of CSR Information);
- to express a limited assurance conclusion, that the CSR Information, overall, is fairly presented, in all material aspects, in according with the Criteria;

Our verification work mobilized the skills of four people between February and March 2017 for an estimated duration of three weeks.

[2] Scope available at www.cofrac.fr

We conducted the work described below in accordance with the professional standards applicable in France and the Order of 13 May 2013 determining the conditions under which an independent third-party verifier conducts its mission, and in relation to the opinion of fairness and the reasonable assurance report, in accordance with the international standard ISAE 3000[3].

1. Attestation of presence of CSR Information

Nature and scope of the work

We obtained an understanding of the company's CSR issues, based on interviews with the management of relevant departments, a presentation of the company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the company and its societal commitments, as well as, where appropriate, resulting actions or programmes.

We have compared the information presented in the management report with the list as provided for in the Article R. 225-105-1 of the French Commercial code *(Code de commerce).*

In the absence of certain consolidated information, we have verified that the explanations were provided in accordance with the provisions in Article R. 225-105-1, paragraph 3, of the French Commercial code *(Code de commerce).*

We verified that the information covers the consolidated perimeter, namely the entity and its subsidiaries, as aligned with the meaning of the Article L.233-1 and the entities which it controls, as aligned with the meaning of the Article L.233-3 of the French Commercial code *(Code de commerce)*.

Conclusion

Based on this work, we confirm the presence in the management report of the required CSR information.

2. Limited assurance on CSR Information

Nature and scope of the work

We undertook one interview with the people responsible for the preparation of the CSR Information in the department in charge of the data collection process and, if applicable, the people responsible for internal control processes and risk management, in order to:

- Assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality, and understandability, taking into consideration, if relevant, industry standards;
- Verify the implementation of the process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and extent of our tests and inspections based on the nature and importance of the CSR Information, in relation to the characteristics of the Company, its social and environmental issues, its strategy in relation to sustainable development and industry best practices.

For the CSR Information which we considered the most important[4]:

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[3] ISAE 3000 – *Assurance engagements other than audits or reviews of historical information*

[4] **Social information**: employment (total headcount and breakdown, hiring and terminations, remunerations and their evolution), organisation of working time, training policies, number of days of training, diversity and equality of treatment and opportunities (measures undertaken for gender equality, employment, inclusion of disabled people, anti-discrimination policies and actions).

Environmental and societal information: general environmental policy (organisation, training and information delivered to the employees, approaches to evaluation and certification, energy consumption, territorial, economic and social impact, relation with stakeholders (conditions for dialogue, partnership or sponsorship), business ethics (actions undertaken to prevent bribery and corruption)

-At the level of the consolidated entity, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the compilation of the information, and also verified their coherence and consistency with the other information presented in the management report;

-At the level of the representative selection of entities that we selected[5], based on their activity, their contribution to the consolidated indicators, their location and a risk analysis, we undertook interviews to verify the correct application of the procedures and undertook detailed tests on the basis of samples, consisting in verifying the calculations made and linking them with supporting documentation.

For the other consolidated CSR information, we assessed their consistency in relation to our knowledge of the company.

Finally, we assessed the relevance of the explanations provided, if appropriate, in the partial or total absence of certain information.

We consider that the sample methods and sizes of the samples that we considered by exercising our professional judgment allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

Conclusion

Based on our work, we have not identified any significant misstatement that causes us to believe that the CSR Information, taken together, has not been fairly presented, in compliance with the Criteria.

Paris-La Défense, March 24th, 2017

French original signed by:

Independent Verifier

ERNST & YOUNG et Associés

Partner, Sustainable Development
Caroline Delerable

Partner
Bruno Perrin

[5] ABC arbitrage Asset Management, ABC arbitrage Asset Management Asia and Quartys Ltd.

ANNUAL FINANCIAL REPORT 2016

Report of the chairman of the Board

ABC arbitrage Group

REPORT OF THE CHAIRMAN OF THE BOARD

Under article L. 225-37.6 of the French Commercial Code, the chairman of any company listed on a regulated market is required to report to the annual general meeting of shareholders on the company's corporate governance system (including board membership, board representation by gender and board practices), and on the internal control and risk management systems implemented by the company and more particularly its procedures for preparing and processing accounting and financial information for the parent company and, if applicable, the consolidated financial statements. In addition, this report describes any limitations set by the Board of Directors on the powers of the Chief Executive Officer.

This report covers both the parent company ABC arbitrage, particularly as regards corporate governance, and the ABC arbitrage group as a whole as regards internal control.

The underlying information was collected by the Corporate Secretary. The report was submitted to the Board for approval on April 20, 2017 and sent to the statutory auditors for their review and report.

1. Corporate governance

The underlying rules of the current governance system are based mainly on common sense and aim to strike an appropriate balance between implementing value added processes for improved security and maintaining the simplicity needed by an organization the size of the ABC arbitrage group.

The Board adopted MiddleNext's corporate governance code for small and midcaps as its reference code when it was published in December 2009. The MiddleNext code was updated in September 2016 and can be consulted on www.middlenext.com. It is approved by the Autorité des Marchés Financiers (AMF) as a reference code.

ABC arbitrage is an active member of the MiddleNext association. The group shares the association's belief that each company should adapt best governance practices based on its ownership structure, size and legal form, in order for the governance system to be closely aligned with its corporate practices.

ABC arbitrage is a member of IFA – *Institut Français des Administrateurs*, the French Institute of Directors (www.ifa-asso.com/). The IFA provides to administrators all the information, training and expertise necessary for the performance of their duties and associates all those who wish to contribute to the evolution of professional standards and best governance practices to its activities.

1.1. Board membership

The Board of Directors acts as a forum for exchanging the views and ideas of the management team that runs the company on a day-to-day basis, the main shareholders who make strategic choices as the company's owners, and external advisers who provide the benefit of their own experience and an objective, independent opinion.

This broad range of backgrounds and interests is considered to be the best way for the Board to work effectively and make the right decisions for the company and its various stakeholders.

As of December 31, 2016, the Board of Directors of ABC arbitrage had seven members, one non-voting member and a secretary.

The following table lists the other directorships and offices held by the members of the Board:

Name	Position	Directorships and other offices
Dominique CEOLIN	Chief executive officer	Chief Executive Officer of ABCA AM Member of the Board of ABCA AM Asia Chairman of the Board of Financière WDD Administrator of MiddleNext
AUBEPAR INDUSTRIES SE	Director Xavier CHAUDERLOT is Permanent representative of Aubépar Industries SE	**Aubépar Industries SE:** Chairman and Managing Director of Aubépar SE (represented by Xavier CHAUDERLOT) Chairman and Managing Director of Financière du Bailli SA (represented by Xavier CHAUDERLOT) Chairman and Managing Director of Lehmann Aviation SAS Chairman and Member of the Supervisory Board of Soondy SAS **Xavier CHAUDERLOT:** Chairman and Managing Director of Aubépar Industries S.E. Director of Aubépar S.E. Director of Financière du Bailli SA Director of Quartys Ltd
Jean-François DROUETS	Director	Chairman of Catella Valuation Advisors Member of the steering committee of Catella France
Sabine ROUX de BEZIEUX	Director	Managing director of Notus Technologies SAS Member of the Supervisory Board of ANF Immobilier Member of the Supervisory Board of Turenne Investissement Member of the strategy committee of Arteum SAS Director of IDLF - Inès de la Fressange - SA
Didier RIBADEAU DUMAS	Director	Representative of ABCA on the Board of ABCA AM Member of the Supervisory Board of La Banque Postale, wholly-owned subsidiary of La Poste group Chairman of the accounts committee, risks committee and appointments committee of La Banque Postale Member of the strategy committee and compensation committee of La Banque Postale Director of BPE, wholly-owned subsidiary of La Banque Postale Membre du conseil d’administration de BPE, filiale à 100% de La Banque Postale Director, Chairman of the Audit committee and member of the appointments and compensation committee, and member of the strategy committee of Poste Immo, wholly-owned subsidiary of La Poste group Member of the Supervisory Board of Comgest
Marie-Ange VERDICKT	Director	Member of the Supervisory Board of Wavestone Member of the Supervisory Board of CapHorn Invest Member of the Supervisory Board of Interparfums Member of the Supervisory Board of Bonduelle
Muriel VIDEMONT DELABORDE	Director	Represents Allianz IARD at the Board of La Rurale
Jacques CHEVALIER	Non-voting Director	N/A
Laetitia HUCHELOUP	Secretary of the Board	Corporate Secretary, ABCA AM Head of Compliance and Internal control

ABCA: ABC arbitrage ABCA AM : ABC arbitrage Asset Management ABCA Asia: ABC arbitrage Asset Management Asia

The directors have the experience and expertise required to fulfil their duties.

Dominique CEOLIN, Chairman, is a qualified actuary and holds an advanced degree in mathematics and information technology. In 1994, he joined ABN Amro Securities France where he took part in developing the Domestic Arbitrage business. In 1995, he used this experience to help found ABC arbitrage.

Aubépar Industries SE is one of the historical owners and founders of the group and is still one of the main shareholders with 14.4% at December 31, 2016. Its representative on the Board combines in-depth knowledge of arbitrage operations with an objective view of the business.

The other members qualify as independent directors based on the definition of MiddleNext's corporate governance code.

Jean-François DROUETS is a graduate of HEC business school and has a post-graduate diploma (DESS) in conveyancing law and is a Chartered Surveyor. He is the chairman and founder of Catella Valuation Advisors, a real estate valuation and consulting firm owned by Swedish group Catella. He provides the group with the benefit of his broad business experience.

Sabine ROUX DE BEZIEUX is a graduate of ESSEC business school and has a degree in accounting and financial studies (DECF). She started her career in CCF's investment banking division before spending 13 years at Arthur Andersen. Since 2013, she has been Managing Director of Notus Technologies, the family holding company. She is also heavily involved in the philanthropic scene in France.

Didier RIBADEAU DUMAS, a graduate of ENA, held various positions with the French Ministry of the Economy and Finance from 1971 to 1984 before joining CIC to head the bank's international subsidiary. In 1989, he joined an international strategy and management consulting firm, where he was Senior Vice President till 2006.

Marie-Ange VERDICKT is a graduate of the Ecole Supérieure de Commerce in Bordeaux (1984) and a member of the SFAF. After having gained experience as an auditor at Deloitte and as an analyst at Euronext, in 1998 she joined Financière de l'Echiquier, a portfolio management company where she was a mutual fund manager for 15 years. She has also developed Socially Responsible Investment practices during that time.

Muriel VIDEMONT DELABORDE holds an engineering degree from ESPCI ParisTech and an MBA from the University of Toronto. After working for the Boston Consulting Group, where she rose to the position of Principal, in 2009 she became Head of Strategic Projects for the Life & Health Partnership Division at Allianz France, where she was appointed Head of Strategy and Strategic Project Steering in 2011 and has been Vice President Controlling & Financial Steering since 2013.

The Board exercised its right to invite any person of its choice to take part in Board meetings on a consultative basis or as a non-voting member, to provide additional insight. Jacques CHEVALIER regularly took part in three Board meetings in 2016, as non-voting member.
Jacques CHEVALIER is a graduate of the Ecole Normale Supérieure, mathematics professor, qualified actuary and university lecturer. Former university professor, he is employed as a consultant to financial institutions and insurance companies.

Laetitia HUCHELOUP, a graduate of the ESCEM business school, joined ABC arbitrage in 1999 after spending five years with the Salustro Reydel audit firm. Recruited to manage the Finance/Internal Control Department, she was named Chief Compliance Officer in 2006. On October 1, 2011 she was promoted to the position of Corporate Secretary of ABC arbitrage Asset Management, with responsibility for the Finance/Internal Control, Human Resources and Legal & Tax departments.

A representative of the works council, Cédric LORANS, is invited to all Board meetings. Mr Lorans has been a financial analyst with ABC arbitrage Asset Management since 2000. He is now deputy manager of the Analysis & Research department.

In accordance with the by-laws, each director owns at least one share of the company.

<u>Gender diversity:</u>

Women account for 43% of Board members. Excluding the founding shareholder directors, women represent 60% of the Board (three in four members). By comparison, the average representation of women on company boards was about 33.5% for SBF120 companies at 27 January 2016 (source: Ethics & Boards).

Independent directors:

The definition of independent director is the same as set out in recommendation 3 of the MiddleNext Code:

- is not and has not been in the past three years an employee or executive officer of the company or a group company;
- must not have a significant business relationship with the company or its group (client, supplier, competitor, banker, etc), and must not have be in such a situation within the last two years;
- is not a major shareholder of the company and do not have a significant percentage of voting rights;
- is not related by close family ties to an executive officer or major shareholder;
- has not been an auditor of the company in the previous six years.

Term of office :

The choice of four-year terms is suited to the specific needs of the company, within the limits laid out by the law and in line with recommendation no.9 of the MiddleNext code.
The company Theta Participations stepped down as director of ABC arbitrage on February 2, 2016.
A new independent director, Muriel VIDEMONT DELABORDE, has been appointed at the Annual General Meeting held to approve 2015 financial statements.
Marie-Ange VERDICKT's terms will expire at the Annual General Meeting held to approve the 2016 financial statements.

Name	Position	Date last elected to the Board	Term ends
Dominique CEOLIN	Director	June 5, 2015	AGM held to approve the 2018 financial statements
	Chairman of the Board	June 5, 2015	AGM held to approve the 2018 financial statements
Aubépar Industries SE *Represented by Xavier CHAUDERLOT*	Director	May 27, 2016	AGM held to approve the 2019 financial statements
Jean-François DROUETS	Director	June 5, 2015	AGM held to approve the 2018 financial statements
Sabine ROUX de BEZIEUX	Director	June 5, 2015	AGM held to approve the 2018 financial statements
Didier RIBADEAU DUMAS	Director	May 27, 2016	AGM held to approve the 2019 financial statements
Marie-Ange VERDICKT	Director	May 31, 2013	AGM held to approve the 2016 financial statements
Muriel VIDEMONT DELABORDE	Director	May 27, 2016	AGM held to approve the 2019 financial statements

AGM: Annual General Meeting of Shareholders

Conflicts of interest and code of conduct:

Dominique CEOLIN is the Chairman and Chief Executive Officer of ABC arbitrage. The Board decided to combine the two roles after making sure that the principles of segregation of executive and supervisory functions would be upheld through sufficient counterweight to his powers and that the combined Chairman/Chief Executive role would not therefore pose a threat to the Group.

The Board asked to be informed directly of any unusual events or potential conflicts of interest. In 2016, no such events were brought to the Board's attention by the compliance officer, Chairman or any of the directors.

In addition, the directors asked Didier RIBARDEAU DUMAS to meet with Dominique CEOLIN on a regular basis to ensure that principles of segregation of executive and supervisory functions are upheld. In 2016, they met six times.

The Charter of the Board explicitly requires all members of the Board to assess whether they are faced with a potential, perceived or actual conflict of interest both as soon as they take up their directorship and throughout their entire term of office, and, if they are, to disclose the situation at the next Board meeting. The director concerned must then abstain from voting on any matters involved with or affected by the conflict.

Each year, the Board assesses the independence of its directors and identifies any potential conflict of interest areas. During this assessment, the directors are required to declare in writing that they are not aware of any conflict of interest that has not already been disclosed to the Board.

Compliance with codes of conduct and regulations is a key concern for Board members in accordance with recommendation 1 and 2 of MiddleNext's code, particularly in view of Directors' deontology and absence of conflict of interest.

This emphasis has been reinforced in view of the growing interest shown in this matter by investors in funds managed by ABC arbitrage Asset Management. In 2016, 60% of investors in number representing 68% of ABCA Funds Ireland share capital sent a due diligence questionnaire to the asset management company, which included questions about whether there had been any investigations or criminal, civil or administrative proceedings involving the company, an affiliated company or any of their key executives or employees. In the affirmative, the Company would be required to provide a description of the facts and final outcome, and this could severely hamper growth of the asset management business.

Appointment of directors:

The suitability of potential candidates for election to the Board of Directors is reviewed in a full Board meeting and several meetings are then arranged between the candidate or candidates and the independent directors, without the Chairman being present. Non-voting directors are then appointed by decision of all the members of the Board. At annual general meetings, each director is proposed for election or re-election in a separate resolution, to allow shareholders to freely decide on the membership of the Board. The list of candidates for election or re-election to the Board has been posted on the Group's website, along with details of their experience and skills.

The Board of Directors plans to recommend that shareholders re-elect all of the directors whose terms are due to expire.

1.2. Board practices and procedures

Directors' Charter:

On December 7, 2010, the Board drew up a Directors' Charter setting out the Board's key practices and principles which are in line with recommendation N°7 of the MiddleNext code.
The Charter describes the Board's roles and powers, as well as certain specific rules to be adhered to by directors in addition to the relevant provisions of French law and the company's bylaws. This is a purely internal document and under no circumstances does it take precedence over French company law or any related regulations or the relevant provisions of the company's bylaws.

The Directors' Charter is revised periodically and can be viewed on the company's website.

Board committees:

Recommendation 6 of the MiddleNext Code requires us to report to you on the special committees created by the Board, namely the Audit Committee, the Compensation Committee and the Strategy Committee. Members are designated on a case-by-case basis depending on the issues to be addressed. They meet at the request of executive management or any Board member.

Audit Committee

The Audit Committee was recast as the Audit Committee by the Board of Directors on January 17, 2017.
The Audit Committee met on March 15, 2016 to review the 2015 financial statements. The Committee members were all the Directors except Jean-François DROUETS. Laetitia HUCHELOUP, corporate secretary and secretary of the board, also attended. The Committee also met on September 20, 2016 to review the 2016 interim financial statements.. All the members of the Board (except Jean-François DROUETS and Sabine ROUX de BEZIEUX) attended. Laetitia HUCHELOUP also attended.

The Committee's role, ahead of the Board meetings held to approve the financial statements, is to review a report of all significant events during the period and particularly key issues relating to the financial statements, whether raised internally or by the statutory auditors during their audit work.

The following issues were addressed:

- Overview of the Group's operating activities
  - Analysis of results in relation to the market environment
  - Current strategy
  - Analysis of important events concerning the Group's companies
  - Overview and analysis of business risks
  - Changes in the operating structure and relationships with the main counterparties
- Accounting, regulatory and tax changes
- Changes in headcount, compensation policy and monitoring of corporate actions
- Pending litigation
- ABC arbitrage share price
- Distributable income

On January 17, 2017, the duties and functioning of the audit committee were redefined in accordance with the recommendations of the MiddleNext code by the Board of Directors.

Moreover, its composition was reviewed by decision of the same council. It is composed of four independent directors within the meaning of the MiddleNext Code. The Board of Directors of January 17, 2017 appointed Muriel VIDEMONT DELABORDE, independent director, as Chairman of the Audit Committee.

Compensation Committee

This committee's role is to prepare the Board’s compensation-related decisions and, more generally, to review compensation policy issues. The aim is to diversify and optimize the group's compensation policy in order to attract, motivate and retain its executives and employees and thereby preserve and improve the group's performance.
The Committee did not meet formally in 2016 and the work on remuneration was done in plenary session.

Strategy Committee

The Strategy Committee makes recommendations to the Board of Directors on the overall strategic direction of the Company and the Group, the business development strategy and any other important strategic issues examined by the Board. It also examines in detail any major investment, acquisition, divestment or disposal projects submitted for its review and makes recommendations to the Board as to whether the projects should be approved or rejected.

The Strategy Committee is made up of all directors, who may consult external advisors with specialized knowledge of the matter at hand. The Chairman of the Board of Directors and the Chief Executive Officer may be members of the Strategy Committee. The Strategy Committee meets as frequently as necessary to fulfil its remit.

During 2016, the Committee met twice, on January 12 and November 17.

Board meetings :

The Board of Directors defines the overall strategy of the company and the group and oversees its implementation by executive management. More specifically, the Board plays an active role in the strategic development of subsidiaries of the Parent company. Except for those powers expressly vested in the shareholders in general meeting, the Board of Directors considers and decides on all matters related to the company's affairs, subject to compliance with the corporate purpose.

Board meetings are scheduled several months ahead to enable as many directors as possible to attend. Proposed changes to the timetable are first discussed with the directors in order to take into account directors’ prior commitments whenever possible. In 2016, the attendance rate at Board meetings was 91%.

The Board reached a quorum for all of its meetings. After discussions, all decisions were made unanimously.

Board meetings are held at the head office. They may called by any method, but in practice are usually called by e-mail, fax or verbally. Prior to a meeting, directors receive an agenda and any available preparatory information, according to recommendation N°4 of the MiddleNext code in order for the Directors to collect all the information they need to duly perform their work. All directors are encouraged to take part in the discussions, based on full, synthetic and relevant information, with a focus on the core, mainly strategic, issues.

Minutes of each meeting are drawn up and held in a special register kept at the head office.

As required by article L. 823-17 of the French Commercial Code, the statutory auditors are invited to the meetings held to review the financial statements. They attended the meetings at which the Board reviewed and approved the 2015 annual and 2016 interim financial statements.

The Board of Directors met 9 times in 2016, thereby complying with recommendation 5 of the MiddleNext Code, on: February 9, March 17, April 7, May 3, May 27, June 14, September 22, October 18, December 6.

Under the share buyback program authorized by the shareholders at their annual general meeting of May 27, 2016, the Chief Executive Officer may not commit the company to amounts in excess of €500,000 without the prior authorization of the Board of Directors. There are no other restrictions on the Chief Executive Officer's powers.

As required by the recommendations 19 of the MiddleNext Code, at its various meetings the Board of Directors discusses the key points for attention and focuses on any developments in this area. The Board also discusses the company's equal opportunity and equal pay policies annually.

Key decisions in 2016 :

The Board of Directors reviewed and monitored progress in the company and group's various projects. It also discussed the key points for attention set out in the MiddleNext corporate governance code that are relevant to the ABC arbitrage group.

The Board's main work in 2016 involved:

- Group organisation and development;
- Monitoring of subsidiary business operations;
- Risk management;
- Regulatory developments;

- Review of the annual and interim financial statements;
- Discussion and approval of financial information for earnings announcements;
- Approval of management reports;
- Discussion of the Chairman's report on corporate governance and internal control procedures implemented by the company in 2015;
- Review of related-party agreements;
- Review of the action plan to promote gender equality in the workplace ;

- Preparations for the Annual General Meeting on May 27, 2016;
- Approval of the special report on the share and share-equivalent buyback programme ;
- Approval of the report on the resolutions to be submitted to the Annual General Meeting ;
- Approval of the report on stock options and performance share awards;
- Approval of the delegations of authority and powers granted by the Annual General Meeting to the Board of Directors for share issues;

- Implementation of the share buyback programme, block purchases and monitoring of the buyback account ;
- Distribution of the final 2015 dividend with reinvestment option;
- Distribution of issue premiums in November 2016;

- Vesting of options to subscribe or buy shares;
- Vesting of performance shares and definition of new performance share plans;
- Definition of the awarding of "Share Appreciation Rights" (SAR);
- Decision to introduce an additional employee profit-share for 2016;
- Setting directors' fees and variable compensation of executive officers;

Board assessment :

The Board also reviews and discusses the Chairman's report, which provides the opportunity to analyse the Board's work and practices each year. The Board considers that this process is equivalent to an assessment of Board practices and the information provided to Board members and therefore complies on this point with the spirit of MiddleNext recommendations 11.

1.3. Directors' fees and executive compensation

In accordance with Article L.225-37 of the French Commercial Code, this report must present "the principles and rules established by the board of directors for determining any and all types of compensation and benefits granted to executive directors."

Directors' fees :

At the Annual General Meeting of May 31, 2007, the shareholders set the total amount of directors' fees payable to Board members at €60,000 for 2007 and thereafter until a new resolution is passed. The Board is responsible for allocating this sum among its members.

The Board of Directors has decided to allocate a fixed amount to each kind of meeting. The payment of Directors’ fees is based on the actual presence of the representative and takes into account his actual contribution to the work of the board, in accordance with recommendation N°10 of the MiddleNext code.

The Board decided to allocate a fixed sum for each type of meeting, based on attendance as follows (excluding separate fees for and specific technical or preparatory work):

- €500 for each Board meeting attended;
- €500 for each shareholders' meeting attended;
- €1,000 for active participation in the shareholders' meeting;
- €1,000 for each audit committee meeting attended;
- €500 for each compensation committee meeting attended;
- €500 for other committee meetings or work sessions attended.

The final fees are set after discussion at a Board meeting as some directors may decide to waive all or part of their fees. For example, the founding directors have decided to limit their directors' fees to €2,000.

Directors' fees paid in 2016 by group companies amounted to €40,250 broken down as follows:

Name	Position	Directors' fees (€)		
		2016	2015	2014
Dominique CEOLIN	Chairman of ABCA	2,000	2,000	2,000
Aubépar Industries SE représentée par Xavier CHAUDERLOT	Director of ABCA	2,000	2,000	2,000
Jean-François DROUETS	Director of ABCA	4,750	7,250	5,500
Sabine ROUX de BEZIEUX	Director of ABCA	6,500	7,250	7,500
Didier RIBADEAU DUMAS	Director of ABCA	11,000	10,750	11,000
Marie-Ange VERDICKT	Director of ABCA	8,000	8,000	7,250
Muriel VIDEMONT DELABORDE	Director of ABCA	4,000	-	-
Jacques CHEVALIER	Non-voting director of ABCA	2,000	1,500	1,000

Employment contract and executive office:

As required by recommendation 15 of the MiddleNext Code, the Board of Directors reviewed the practice of combining executive office with an employment contract.

The employment contract of the Chairman and Chief Executive Officer was maintained. This is justified by his other technical responsibilities, which in all cases substantially pre-date his executive office, and by the group's principle of equal treatment of employees and executives (profit-sharing, welfare protection, health insurance, etc.).

Executive compensation:

The Board is involved in drawing up a general compensation policy for the group covering both executives and employees. The compensation package includes a fairly low fixed salary, a performance-related bonus, carefully selected and limited benefits and performance stock options/performance shares.

The Board applies the seven principles listed by recommendation 13 of MiddleNext corporate governance's code for the determination of executive compensation: (i) all components of the compensation package should be examined; (ii) the fixed and performance-based components of the compensation package should be balanced; (iii) compensation should be benchmarked; (iv) compensation policies should be consistent; (v) performance-based compensation should be based on clear rules and objectives; (vi) performance-based compensation should balance the interests of the executive and those of the company and be aligned with market practices; and (vii) full details of executive compensation should be disclosed to shareholders.

The principles governing executive compensation were first established in the early 2000s and remain unchanged today. Compensation is largely dependent on the group's performance as measured by net income, thereby taking account of all expenses borne by the shareholders, including executive compensation. In addition, compensation is also determined as a function of each person's operational responsibilities.

Following recommendation 18 of MiddleNext corporate governance's code, the Board takes due care that the executive managers are not allocated an unreasonable proportion of performance shares and performance stock options, and also ensures that the performance conditions reflect the group's medium and long-term interests.

Setting compensation levels:

Executive compensation forms part of an overall compensation policy covering all companies and employees throughout the group. It is mainly based on the principle of rewarding performance through bonuses. Executive officers' bonuses of Dominique CEOLIN are set by the Board and capped at between 1% and 3% of consolidated net income.

Bonuses are based on a number of both objective (quantitative) and subjective (qualitative) criteria, including the Group's performance, risk-reward profile, quality of management (staff turnover, etc.) and more generally any initiative designed to consolidate the Group's long-term development. In other words, the actual bonus depends partly on an assessment of the executive officer's quality of work and behaviour within the group.

Bonuses are based on the audited financial statements and are paid in half-yearly instalments by the management of each group company.

Termination benefits:

The aim of the contracts signed with the executive officers is to enable a complete or partial change of management to take place without threatening the company's stability. The Board of Directors is careful to ensure that any divergence of opinion with an executive officer will not prevent it from reorganizing the company's management on a basis determined beforehand when both parties shared the same view of the company's interests and their relationship was harmonious.

Executive officers are not entitled to termination benefits (recommendation 16 of MiddleNext corporate governance's code).

As of 2008, the Board decided to add a further bonus equal to 0.25% of consolidated net income for executive officers. Paying a percentage of each year's income to executive officers in the form of a bonus means that the officers are directly rewarded for their contribution to results and their long-term commitment.

This special bonus is designed to compensate the executive officer in advance for any future loss of office and, in part, for his noncompete clause.

In exchange, the executive officer expressly agrees not to claim any benefit upon termination, whatever the cause, except where blatantly unjustified.

Non-compete clause:

The purpose of a non-compete clause is to protect the legitimate interests of companies in the ABC arbitrage group and, therefore, to ensure the continued existence of its employees' jobs and the company's business activities.

Dominique CEOLIN (the executive manager) is executive officer of several ABC arbitrage group companies, which give him access to expertise, confidential and strategic information and business partners in the arbitrage and alternative investment business. Should he leave the group for any reason, he may not become involved either personally or through an intermediary in developing or conducting any arbitrage or alternative investment activity or service for its own account or on behalf of third parties that might compete with those activities and services already conducted by an ABC arbitrage group company on the date of the departure.

The executive manager has also undertaken not to use the processes, methods and confidential information obtained during the performance of its duties to the detriment of any ABC arbitrage group company.

This non-compete clause will apply for a period of eighteen months after the departure from the ABC arbitrage group and covers all financial markets in which the group exploits arbitrage strategies on the date of the departure, including but not limited to Europe and North America. It also covers all portfolios and clients that the executive managers may manage now or in the future.

In exchange, upon the departure from the group the executive manager will be irrevocably entitled to receive compensation in an amount equal to 40% of its average annual gross performance-related bonuses for the last 36 months in office, capped at a gross total of €150,000. This compensation will be in addition to the special bonus received during its term of office as referred to above.

It will be payable monthly in arrears over a period of eighteen months, provided that the company receives some form of evidence that executive office has complied with his non-compete undertaking each quarter (French Pole Emploi certificate, payslip, employer's certificate, affidavit).

Other employees in the ABC arbitrage group are also subject to a similar non-compete clause.

Pension commitments towards the executive managers:

Following recommendation 17 of MiddleNext corporate governance's code, the executive manager is not covered by any company-funded defined contribution or defined benefit pension plans and the Board of Directors has clearly stated that it is opposed to any such benefits being provided.

Executive compensation:

In 2016, the compensation granted in euros to Dominique CEOLIN, Chairman and Chief Executive Officer of the Company, compared to the two previous ones, in respect of his duties as a corporate officer or employee of ABC arbitrage companies, excluding directors' fees, breaks down as follows:

In EUR	2016	2015	2014
Gross salary	220,800	170,400	170,400
Vacation pay and statutory bonus adjustments	2,066	2,249	2,671
Company car	0	9,400	9,600
Incentive plan	19,308	19,020	18,748
Profit-sharing plan	24,107	23,610	18,811
Termination without cause benefit	77,000	60,500	47,070
Gross variable bonuses	305,000	252,000	213,000
Share-based compensation	117,164	48,598	25,669
Post-employment benefits	-	-	-

1.4. Other information

Dealings in ABC arbitrage shares:

For purposes of transparency and prevention of insider trading, directors and executives are not permitted to deal in ABC arbitrage shares for a period starting on January 1 or July 1 until the date of publication of the annual or interim financial statements. Executives and directors are required to report their share dealings to the company and on the websites of the French Autorité des Marchés Financiers and ABC arbitrage. The disclosure threshold is €20,000 per calendar year. The threshold applies not only to equity instruments but also to debt instruments and derivatives or other financial instruments that have ABC arbitrage equity or debt instruments as their underlying. Disclosures must be sent to France's securities regulator (AMF) and to ABC arbitrage within three business days of the transaction date.

Attendance at general meetings of shareholders:

All shareholders are entitled to attend general meetings on the basis set out by law and the regulations, regardless of the number of shares held.

In accordance with article L.225-106 of the French Commercial Code, shareholders who are unable to attend the general meeting in person may:

- Give proxy to any legal entity or natural person of their choice including to the chairman of the general meeting; or
- Sign and return the proxy form to the company without naming the proxy; or
- Vote by post.

The proxy documents provided for in articles R.225-81 and R.225-83 of the French Commercial Code (including the annual financial statements and a presentation of the proposed resolutions) can be obtained by writing to the company's head office in accordance with the applicable laws and regulations.

The documents to be presented during the meeting (as referred to in article R.225-73-1 of the French Commercial Code) are posted on the company's website (http://www.abc-arbitrage.com), at the latest on the 21st day preceding the meeting.

Shareholders may submit written questions to the Board of Directors. To be taken into account, the questions should be sent no later than the fourth day preceding the meeting, in accordance with the applicable laws and regulations.

Shareholders who fulfil the relevant legal and regulatory requirements may ask for resolutions or items to be added to the agenda of the meeting. To be taken into account, any such requests should be sent no later than the twenty-fifth day preceding the meeting, in accordance with the applicable laws and regulations.

Dominique CEOLIN, the Company's Chairman and Chief Executive Officer, meets significant shareholders regularly during the year and not just at General Meetings, in order to create the basis for a productive dialog (recommendation 12 of the MiddleNext Code).

Succession plan:

In accordance with the MiddleNext Code (recommendation 14), Dominique CEOLIN, Chairman and Chief Executive Officer, presents details of the Company's succession plan to the Board of Directors once a year.

2. Internal control and risk management

This report covers all companies forming part of the ABC arbitrage group.

The purpose of the internal control system implemented by the various group companies is to:

- Ensure that management decisions, business operations and staff behaviour comply with the guidelines set by the company's corporate governance structures, the applicable laws and regulations, and the company's own values, standards and rules;
- Prevent and control risks arising from the company's business operations and the risk of error or fraud;
- Ensure that the accounting, financial and management information provided to the company's corporate governance structures gives a true and fair view of the company's operations and financial position;
- To manage the identified risks.

More generally, the internal control system aims to provide shareholders and investors with reasonable assurance that the strategic objectives set by the Board in agreement with the shareholders will be met with an adequate level of security, control over risks and processes, and compliance with all applicable standards. Like any control system, it cannot provide absolute assurance that these risks will be totally eliminated.

2.1. Regulations

The ABC arbitrage group's internal control system is based on the following regulations and standards:

- The regulations and standards applicable to French companies whose shares are traded on a regulated market, in particular the general regulations and internal control guidelines published by the AMF;
- The regulations and standards applicable to French asset management companies, in particular the AMF's general regulations, the Code of Ethics issued by Association Française de Gestion (AFG) and the AIF Rulebook for alternative investment funds.

2.2. Internal control players

Control over the operating departments is exercised by the Finance & Internal Control and Market Risks units.

The boards have full power to request disclosure of the information they wish to obtain. The Board members to contact on questions relating to risk management are Laetitia HUCHELOUP, Corporate Secretary and
Head of Compliance and Internal control, and the Chairman and Chief Executive Officer, Dominique CEOLIN.

Finance & Internal Control

Finance & Internal Control reports directly to executive management and to the Board of Directors of the asset management company for specific questions. The three-member unit is headed by Laetitia HUCHELOUP.

It is responsible for drafting and updating documentation describing the resources required to ensure that internal controls are implemented on an efficient, effective and consistent basis. It also organizes and takes part in recurring and periodical controls.

Through regular meetings with each department, Finance & Internal Control checks that procedures describing the department's tasks in the operating process have been issued and are implemented. Given the size of the company, the reports and recommendations for improvement issued by Finance & Internal Control are discussed during informal meetings with the heads of the relevant departments and the management of group companies.

Finance & Internal Control is also responsible for financial control within the group. At each reporting date, it reviews and approves the manual or automatic accounting entries made by the operating departments.

Checks are performed through:

- Examinations of accounting vouchers, on a comprehensive or test basis ;
- Analytical reviews.

Its conclusions are set out in formal interim and annual reports that are reviewed by the statutory auditors.

 Market Risks

The three-member Market Risks unit reports directly to executive management, which in turn reports to the Board of Directors.

The unit is responsible for enforcing strict compliance with the group's investment rules. If this means unwinding all or part of a position, Market Risks has the power to call a meeting of the investment committee, which will define the action plan and timetable.

The unit performs day-to-day second-level controls, with the operating departments scheduling and performing first-level controls. It ensures that positions are effectively hedged, that trading limits are adhered to, that the trading strategies devised by the market operators are reasonable in light of market intelligence and that potential loss calculations are accurate.

Daily control reports are sent directly to the operating teams and the Board of the asset management company, without going through the department head. A meeting between Market Risks and the heads of the operating departments is scheduled at least once every six weeks.

 Compliance Officer

The Compliance Officer is responsible for making sure that all industry codes of conduct and practice are strictly observed. These rules are designed to guarantee the quality and integrity of the service offering and to promote its development. In liaison with all people and departments involved, the Compliance Officer makes sure that the rules are implemented and performs controls.

2.3. Risk assessment

The nature and extent of risks to which the Group is exposed through its dealings in financial instruments are described below.

The Group's trading exposures ("Trading Exposures") include equities or equity derivatives (such as warrants and convertible bonds), derivative products such as futures, options and foreign exchange; and collective investment undertakings, the vast majority of which are traded on active markets, which may or may be not regulated, and are referred to collectively as "Financial Instruments". An ensemble of related Trading Exposures constitutes an arbitrage model ("Arbitrage Model").

An Arbitrage Model is designed to take advantage of an unjustified price differential between two financial instruments. The Group qualifies as "unjustified" only those differentials that can be objectively measured by a mathematical or statistical process, without a guarantee of long-term convergence.

Trading Exposures in Financial Instruments may be held in custody, as a creditor or a debtor to a counterparty or in synthetic format (contracts for differences, swaps).

The Group is exposed to a variety of risks: market risks, credit and counterparty risks, liquidity risks, operational risks and other risks.

ABC arbitrage provides subsidiaries with a general risk-management framework that the subsidiaries' boards of directors adhere to when setting their own policy. The Group oversees the implementation and effectiveness of the controls carried out in its subsidiaries with the support of the executive managers and the control functions (market risk and internal control).

This is because the Group uses leverage as part of its financing agreements with counterparties, allowing it to take larger exposures than would be possible if it were acting alone.

Trading Exposures to Financial Instruments in isolation present a risk of loss of capital. The maximum loss of capital on long Trading Exposures to equities is limited to the fair value of those positions. The maximum loss of capital on long Trading Exposures to future contracts is limited to the notional contract value of those positions. The maximum loss on short Trading Exposures to futures contracts and equities is theoretically unlimited.

Market risks

Market risk is the risk that the fair value or future cash flows of Trading Exposures will fluctuate because of changes in market prices of Financial Instruments and include notably market price risk, interest rate risk and foreign currency risk.

Equity risk

Equity risk, or price risk, arises mainly due to uncertainty about the future prices of Financial Instruments held. It represents the potential loss that could be incurred by the Group as a result of potential movements in price on its exposures to Financial Instruments.

The risk is never related to an unfavourable movement in market prices, for example a stock market crash, but can arise from an unfavourable event related to one of the above operations. By definition, the risks on arbitrage models are not interdependent. The Group hedges risks by spreading them across the greatest possible number of transactions, financial instrument types and geographic areas.

Interest rate risk

Interest rate fluctuations may have a positive or negative influence on the value of Financial Instruments.

In general, the Trading Positions are composed by approximately equal amounts of long Trading Positions and short Trading Positions and the risk is therefore not material. If a specific Trading Position carries a material interest rate risk, this risk is systematically hedged. Consequently, no sensitivity analysis has been disclosed.

Currency risk

The Group may hold Trading Positions denominated in currencies other than the Group's functional currency. Exchange rate fluctuations against the functional currency may have a positive or negative influence on their value.

Currency risks are systematically hedged by buying or selling the currency (or an exposition to the currency). The only risk is of a secondary nature – that the profit (or loss) realized in a given currency may vary if it is not converted into the functional currency. The Group regularly converts profits (or losses) into the functional currency and its exposure to currency risk is therefore marginal.

Credit and counterparty risk

This is the risk of a counterparty being unable to honor its contractual obligation to settle a transaction with the Group, due to deterioration in its financial position.

The ABC arbitrage Group deals solely with brokers/dealers ("Brokers") and credit institutions and investment companies ("Counterparties"). All of these parties are subject to specific controls by the regulatory authorities in the countries in which they operate to ensure their solvency.

The Group's trading activity mainly comprises financial instruments which are traded on active (if not regulated) markets which predominantly settle via a Central Clearing Party (CCP). The risk of default by Brokers for each and every market trade is therefore considered to be minimal, as the CCP serves to guarantee settlement, and the securities are not delivered until the Broker has made or received payment.

By unwinding transactions in financial instruments, a counterparty acts as depositary, creditor or debtor, or as counterparty to a synthetic product (CFDs, swaps) for the Group. In general the Group's business requirements permits that very little (if any) of its assets are held in Custody. A significant proportion of the assets of the Group transferred to Counterparties are either pledged as a first security interest or transferred as margin (collectively "Collateral") to support the Trading Positions. The Counterparty may re-use this Collateral for its own account but is required by contract to return the assets or equivalent assets upon first demand if it is no longer needed to support the Trading positions.

The risks related to the use of a Counterparty are:

- interruption or discontinuation of services as the Counterparty has the right to amend or discontinue the services;
- increased costs of maintenance of Trading Positions with the Counterparty;
- failure by the Counterparty to return Collateral used due to market events;
- failure by the Counterparty to return sums due as a result of bankruptcy;
- incorrect valuation of Trading Positions held and Collateral transferred to the Counterparty.

The Group manages this counterparty risk through the use of industry standard master agreements, close monitoring of Counterparty credit ratings and diversification of its relationships to spread risk while weighing up the pricing benefits of concentration on larger-scale relationships.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due, or can only do so on terms that are materially disadvantageous.
The Group's Trading Exposures consist almost exclusively of highly liquid Financial Instruments quoted on active markets and its obligations mainly comprise the necessity to provide Collateral to support the Group's Trading Positions. The volume of Trading Positions which the Group may enter into is contractually based on the assets transferred as Collateral.

The Group's actual Trading Positions, taking into account existing agreements with Counterparties, is constantly monitored to ensure that the Group benefits from considerable flexibility in conducting its business as well as substantial liquid reserves. In addition, given the highly liquid nature of the Trading Positions the Group can alleviate the need for Collateral by reducing the volume of Trading Positions.

Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people and systems.

This risk is managed upstream by ensuring that position taking is guided by written procedures and a rigorous internal control process. However, these procedures and controls cannot provide absolute assurance that operational losses will not occur and due care is taken at all times as this is a structural risk in the arbitrage business.

Other risks

Compliance risk (including legal risk)

Compliance risk is the risk of failure to identify and/or comply properly with the provisions governing the Group's business activities. Such failure can lead to malfunctions, financial loss or sanctions (legal, disciplinary, administrative, etc). An ongoing monitoring system is in place within the Group's legal and tax department.

Conflict of interest risk

Conflict of interest risk is the risk of being confronted with situations where the interests of a client or company may conflict with those of another client or with those of a Group company or a Group employee.

To prevent conflict of interest situations, the Group has implemented:
- an internal conflicts of interest policy including guidance to be followed by employees in order to identify, prevent and manage conflicts of interest;
- strict procedures and rules governing the handling of orders and primacy of the client interest. The Group's asset management companies comply strictly with financial market operating rules and are not permitted to do anything that might contravene the principle of fair and equal treatment of orders. More particularly, orders transmitted to the market are pre-allocated and time and date stamped.

Risks associated with climate change

In light of its business, ABC arbitrage has not identified any material financial risks associated with the effects of climate change.
The Group is nevertheless aware of its responsibilities and endeavors to adopt eco-friendly practices by taking environmental factors into consideration in routine decisions.
The Group's environmental policy is described in the third section of the CSR report.

2.4. Internal control organization

In order to face with the previously identified risks, the ABC arbitrage group's internal control system is based on:

Clear, easily accessible staff and line organization charts
The charts provide an overall description of the group’s structure and ensure proper segregation of tasks.

Procedures describing the investment processes
Procedures are drafted by employees in different departments describing data flows, as well as the required documents, decisions, entries and controls. These procedures reflect the expertise of the asset management company in its core business.

Investment rules
Investment rules are defined by management in association with Market Risks for all new arbitrage types. These rules ensure that everyone involved follows the same guidelines with regard to trading limits, maximum potential losses, leverage, etc.

Regular controls are performed to ensure that limits exist, are regularly reviewed and are strictly adhered to.

Bespoke information system
The information system is the cornerstone of the organization structure. Adapted to the specific requirements of the business, it is used to perform a large number of programmed controls and to produce daily management reports. A number of blocks can also be set in the system to limit operational errors in the work processes. The information system was developed and is maintained in-house by the asset management company’s IT team.

Permanent audit trail
The entire production and operations chain is recorded and archived in the company's system to provide a full audit trail of all transactions.

Accountability of operations staff
Operating staff are responsible for first-level risk management and control to ensure that they are aware of and observe control and compliance rules as regards risk limits and existing standards.

Segregation of execution and control tasks
Preventing the risk of collusion or accidental error depends on segregating the main line functions. Transaction authorization, processing, recording and accounting functions are therefore clearly divided between the various operating departments. Where a particular function cannot be fully segregated due to the group's small size, controls are reported directly to the Board or executive management and decisions are taken on a consensus basis.

Restricted delegated authorities
Only the Chief Executive Officer has the power to represent ABC arbitrage. There is a general delegation of authority in his absence and a special delegation of authority from the Chief Executive Officer to a head of department on a needs only basis.

Codes of conduct
It is assumed that all employees may possess sensitive information or may be faced with a conflict of interest. The code of conduct is specifically designed to reduce the risk of such information being used or the conflict of interest arising.

The code of conduct includes specific rules concerning:
- Use of confidential, inside or sensitive information;
- Blackout periods for dealing in the company shares, imposed by ABC arbitrage's management throughout the life of the company to avoid any arguments or the exercise of personal judgement on share dealing during sensitive periods (e.g. before the results are published).

The group always makes sure that it has sufficient available cash to cope with very difficult market conditions. It has never experienced any financing or credit difficulties.

The group is based in premises that meet its trading room needs and encourage a seamless information flow.

2.5. Preparation of financial and accounting information

ABC arbitrage prepares separate and consolidated financial statements each year. They are drawn up by Finance & Internal Control, reviewed by the Audit Committee and approved by the Board of Directors.

The ABC arbitrage group also publishes interim consolidated financial statements.
The statutory auditors have always issued unqualified opinions on the financial statements of the company and the group.

Led by Finance & Internal Control, the accounting control organization is designed to ensure that ABC arbitrage's information system and associated databases comply with the regulations and, in particular, provide a continuous audit trail.

 Matching and freezing entries

A unique internally-developed "Transactions" module allows information about the type and specific features of each arbitrage transaction (direction, type and description of security traded, trade date, value date, quantity, price, fees and commissions, Broker's symbol, deposit account, etc.) to be stored at two levels.

The first level is used by market operators to input their transactions. The second level is used by post-market financial operators to validate the transactions based on the confirmation notes received from counterparties.

This module is a dynamic interface between front and back-office teams that also guarantees full segregation between the input and control tasks carried out by the two units.

Ce module représente une interface dynamique entre les opérateurs de marché et les opérateurs financiers tout en garantissant une parfaite séparation des fonctions de saisie et de contrôle entre ces deux départements.

For all information flows giving rise to an accounting entry, security mechanisms have been developed that prevent any possibility of editing or deleting an entry once it has been validated.

The security mechanisms apply to transaction data entered by the market operators, which cannot be edited once they have been validated by the financial operators (i.e. they match the confirmation notes received from the Brokers).

Similarly, settlement and delivery information and the associated accounting entries cannot be edited, once confirmed and matched against the counterparty's confirmation notes.

All provisional entries are fixed after accounting validation as of a "freeze date".

Lastly, central ledgers are entered monthly in an accounting application approved by the tax authorities and used for the annual closing procedure no later than the end of the following period. The closing procedure is applied to all movements booked in the accounts.

Entries related to non-operating activities are input directly in the accounting application.

 Creating and editing an account profile

Only two designated people are authorized to edit (or create) account profiles, one a user and the other an IT team member. They ensure that the account details (number, label, etc.) are accurate and reliable.

 Accounting input templates

For automatic accounting entries, debit and credit input templates are pre-completed. The financial operator's validation of the transaction type and designated counterparty generates an accounting flow. These flows cannot be edited downstream because this type of transaction cannot be input manually. Flows are therefore automatically subject to the various desk checks performed by the various operating departments.

For manual entries, which may only be recorded for certain specific transaction types, there are also pre-set debit and credit input templates to guide the operator and limit the available options.

In addition, Finance & Internal Control reviews the accounting treatment of any proposed new or complex transaction and, if necessary, has it validated by the statutory auditors ahead of their audit work.

Limitation of menu lists

All application screens offer the operators pre-set menu lists. These lists are restrictive and help speed up data input, avoid many material errors and prevent data inconsistency. The menu lists are updated dynamically for all users once approved by two managers.

The main data menu lists concern currencies, securities, choice of accounts proposed depending on the counterparty (clients, brokers, Prime Brokers, etc.) and accounts having an impact on P&L depending on transaction type.

Second level controls performed by Finance & Internal Control

Daily recurring controls are performed by the middle and back offices to check that transactions generated by the management systems have been properly uploaded to the accounting systems.

As mentioned earlier, Finance & Internal Control is responsible for performing second-level controls. This involves validating on a test basis entries booked manually or automatically in the information system by the operating department. Performed at each accounting close prior to the statutory auditors' audit procedures, the control procedures include reconciliations to external vouchers and consistency tests.

The unit reports formally on its control activity and makes sure that the financial statements accurately reflect the accounting entries.

The current internal control system is designed to support the group's harmonious, profitable growth. It therefore focuses on preventing and controlling risks arising from business activities and, in particular, ensuring that accounting records and the financial statements are reliable and give the shareholders a true and fair view of the company and group. Management will continue its efforts to improve and upgrade the internal control system whilst bearing in mind that the system cannot provide absolute assurance and that the utmost care must always be taken in this area.

Paris, April 20, 2017

Dominique CEOLIN
Chairman of the Board of Directors

To the Shareholders,

In our capacity as Statutory Auditors to ABC arbitrage and in accordance with the requirements of article L. 225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French Commercial Code for the year ended December 31, 2016.

The Chairman of the Board of Directors is required to draw up and submit to the Board for approval a report that i) describes the internal control and risk management procedures set up within the company and ii) discloses the other information required under article L. 225-37 of the French Commercial Code, notably regarding the system of corporate governance.

Our responsibility is to:

- Report to shareholders our comments on the information contained in the Chairman’s report concerning the internal control and risk management procedures related to the preparation and processing of accounting and financial information; and

- Provide a statement confirming that the Chairman’s report includes the other information required under article L. 225-37 of the French Commercial Code, although we are not responsible for verifying the accuracy of said information.

We performed our procedures in accordance with professional guidelines applicable in France.

Information on internal control and risk management procedures related to the preparation and processing of accounting and financial information

Professional guidelines require us to perform procedures to assess the fairness of the information set out in the Chairman’s report concerning the internal control and risk management procedures related to the preparation and processing of accounting and financial information.

These procedures included:

- Examining the internal control and risk management procedures related to the preparation and processing of accounting and financial information underlying the information presented in the Chairman's report, as well as existing documentation.

- Acquiring an understanding of the work performed in order to prepare this information and existing documentation.

- Determining whether any major internal control weaknesses concerning the preparation and processing of accounting and financial information that we may have identified as part of our audit are appropriately disclosed in the Chairman’s report.

Based on our procedures, we have no matters to report concerning the information provided on the Company’s internal control and risk management procedures related to the preparation and processing of accounting and financial information, as contained in the report of the Chairman of the Board of Directors prepared in accordance with article L.225-37 of the French Commercial Code.

Other information

We confirm that the report of the Chairman of the Board of Directors also contains the other information required by article L. 225-37 of the French Commercial Code

Neuilly-sur-Seine, April 28, 2017

The Statutory Auditors

Deloitte & Associés	Ernst & Young et Autres
Charlotte Vandeputte	Olivier Durand

www.abc-arbitrage.com