Rothschild & Cie Banque

Annual Report 2016

Contents

1. Consolidated balance sheet as at 31 December 2016 Financial years ended on 31 December 2016 and 2015

Assets

(in thousands of euros)	Notes	2016	2015
Cash and balances with central banks	8.1	**159,703**	18,999
Financial assets at fair value though profit and loss	8.2	**20,240**	188,107
Available-for-sale financial assets	8.3	**372,983**	76,851
Loans and advances to banks	8.4	**525,911**	627,401
• *Demand*		***175,870***	*627,401*
• *Term*		***350,041***	–
Loans and advances to customers	8.5	**309,547**	244,964
• *Demand*		***9,634***	*7,998*
• *Term*		***299,913***	*236,966*
Current tax assets		**–**	69
Deferred tax assets		**207**	207
Accruals and other assets	8.6	**177,425**	171,900
Investments accounted for by the equity method	8.7	**48,521**	54,162
Tangible fixed assets	8.8	**7,338**	6,524
Intangible fixed assets	8.9	**1,592**	2,509
Goodwill	8.10	**44,269**	44,269
TOTAL ASSETS		**1,667,736**	**1,435,962**

Liabilities and shareholders' equity

(in thousands of euros)	Notes	2016	2015
Financial liabilities at fair value through profit or loss		**4,302**	–
Due to banks	8.11	**10,875**	7,881
• *Demand*		***10,875***	*7,881*
• *Term*		–	–
Due to customers	8.12	**950,980**	793,627
Savings accounts subject to special arrangements			
• *Demand*		***30,885***	*26,571*
Other accounts payable			
• *Demand*		***886,891***	*767,056*
• *Term*		***33,204***	–
Debt securities in issue	8.13	**116,278**	123,818
Current tax liabilities		**6,004**	3,611
Deferred tax liabilities		–	42
Accruals and other liabilities	8.14	**226,529**	198,217
Provisions	8.15	**2,396**	5,321
Shareholders' equity		**350,372**	303,445
Shareholders' equity – Attributable to owners of the parent company		**233,964**	222,705
Share capital and associated premium		**85,756**	85,756
Consolidated reserves		**78,306**	79,628
Gains and losses directly recognised in shareholders' equity		**2,587**	5,832
Valuation differential on available-for-sale financial assets		***984***	*3,833*
Translation reserves		***1,603***	*1,999*
Result for the reporting period – Attributable to owners of the parent company		**67,315**	51,489
Non-controlling interests		**116,408**	80,740
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**1,667,736**	**1,435,962**

2. Consolidated income statement as at 31 December 2016

(in thousands of euros)	Notes	2016	2015
Interest income		5,008	3,233
On transactions with banks		975	492
On transactions with customers		4,033	2,741
Interest expense		(6,044)	(2,537)
On transactions with banks		(2,678)	(1,228)
On transactions with customers		(223)	(801)
On other interest expense		(3,143)	(508)
Fee income	9.1	468,601	402,963
Fee expense	9.1	(63,532)	(51,739)
Net gains/(losses) on financial instruments at fair value through profit and loss	9.2	3,475	5,102
Net gains/(losses) on available-for-sale financial assets	9.3	3,712	2,408
Other operating income		1,755	2,144
Other operating expense		(374)	(362)
Net banking income		412,601	361,212
Operating expenses		(236,746)	(224,851)
Personnel expense	9.4	(151,074)	(141,811)
Other administrative costs	9.5	(85,672)	(83,040)
Amortisation and depreciation of intangible and fixed assets		(3,620)	(4,552)
Gross operating income		172,235	131,809
Cost of risk	9.6	(787)	(77)
Net operating income		171,448	131,732
Net income from companies accounted for by the equity method	8.7	22,389	5,413
Net gains/(losses) on other assets	9.7	(976)	202
Earnings before tax		192,861	137,347
Income tax expense	9.8	(10,008)	(6,073)
Consolidated net income		182,853	131,274
Non-controlling interests		115,538	79,785
Net income – attributable to owners of the parent company		67,315	51,489

3. Statement of profit or loss and other comprehensive income

(in thousands of euros)	2016	2015
Consolidated net income	**182,853**	**131,274**
Items subsequently recyclable to net income		
Translation differences	(210)	(419)
Revaluation of available-for-sale financial assets	(2,849)	(2,500)
of which change in value transferred to profit or loss	*(3,223)*	*(2,364)*
Share of gains/losses directly recognised in equity for companies accounted for by the equity method	(116)	1,306
Items subsequently not recyclable to net income		
Total gains/losses directly recognised in shareholders' equity	(3,175)	(1,613)
Net income and gains and losses directly recognised in shareholders' equity	**179,678**	**129,661**
of which attributable to owners of the parent company	*64,140*	*49,876*
of which non-controlling interests	*115,538*	*79,785*

4. Changes in consolidated shareholders' equity

(in thousands of euros)	Share capital and associated premiums	Consolidated reserves	Gains and losses directly recognised in shareholders' equity: Valuation differentials on available for-sale financial assets	Gains and losses directly recognised in shareholders' equity: Translation reserves	Net income attributable to owners of the parent company	Shareholders' equity attributable to owners of the parent company	Shareholders' equity, non-controlling interests	Total consolidated shareholders' equity
Shareholders' equity at 31 December 2014	**85,756**	**64,374**	**6,333**	**1,030**	**56,302**	**213,796**	**61,524**	**275,320**
Appropriation of result	–	56,302	–	–	(56,302)	–	–	–
Dividends paid to general partners	–	(38,897)	–	–	–	(38,897)	(60,535)	(99,432)
Dividends paid to limited partners	–	(2,208)	–	–	–	(2,208)		(2,208)
Sub-total of changes linked to transactions with shareholders	–	**15,197**	–	–	**(56,302)**	**(41,105)**	**(60,535)**	**(101,640)**
Effect of changes in the value of financial instruments on equity	–	–	(136)	–	–	(136)	–	(136)
Gains on financial instruments transferred into result	–	–	(2,364)	–	–	(2,364)	–	(2,364)
Sub-total of changes in gains/ (losses) recognised directly in equity	–	–	**(2,500)**	–	–	**(2,500)**	–	**(2,500)**
Share of change in equity of associates and joint ventures accounted for by the equity method	–	(48)	–	1,354	–	1,306	–	1,306
Impact of acquisitions and disposals on non-controlling interests	–	103	–	(385)	–	(282)	(34)	(316)
2015 consolidated net income	–	–	–	–	51,490	51,490	79,785	131,275
Shareholders' equity at 31 December 2015	**85,756**	**79,626**	**3,833**	**1,999**	**51,490**	**222,705**	**80,740**	**303,445**
Impact of changes in accounting methods and error corrections	–	–	–	–	–	–	–	–

(in thousands of euros)	Share capital and associated premiums	Consolidated reserves	Gains and losses directly recognised in shareholders' equity: Valuation differentials on available for-sale financial assets	Gains and losses directly recognised in shareholders' equity: Translation reserves	Net income attributable to owners of the parent company	Shareholders' equity attributable to owners of the parent company	Shareholders' equity, non-controlling interests	Total consolidated shareholders' equity
Shareholders' equity at 1 January 2016	**85,756**	**79,626**	**3,833**	**1,999**	**51,490**	**222,705**	**80,740**	**303,445**
Appropriation of result	–	51,490	–	–	(51,490)	–	–	–
Dividends paid to general partners	–	(49,922)	–	–	–	(49,922)	(79,785)	(129,707)
Dividends paid to limited partners	–	(3,036)	–	–	–	(3,036)	–	(3,036)
Sub-total of changes linked to transactions with shareholders	–	**(1,468)**	–	–	**(51,490)**	**(52,958)**	**(79,785)**	**(132,743)**
Effect of changes in the value of financial instruments on equity	–	–	374	–	–	374	–	374
Gains on financial instruments transferred into result	–	–	(3,223)	–	–	(3,223)	–	(3,223)
Sub-total of changes in gains/ (losses) recognised directly in equity	–	–	**(2,849)**	–	–	**(2,849)**	–	**(2,849)**
Share of change in equity of associates and joint ventures accounted for by the equity method	–	155	–	(271)	–	(116)	–	(116)
Impact of acquisitions and disposals on non-controlling interests	–	–	–	–	–	-	–	–
Other movements	–	(8)	–	(125)	–	(133)	(85)	(218)
2015 consolidated net income	–	–	–	–	67,315	67,315	115,538	182,853
Shareholders' equity at 31 December 2016	**85,756**	**78,306**	**984**	**1,603**	**67,315**	**233,964**	**116,408**	**350,372**

5. Cash flow statement

(in thousands of euros)	2016	2015
Earnings before tax (I)	**192,861**	**137,452**
+/- Depreciation and amortisation expense on tangible and intangible fixed assets	3,620	4,552
+/- Net allowances for impairment and provisions	338	4,767
+/- Net (income)/loss from companies accounted for by the equity method	(22,389)	(5,413)
+/- Net loss/(gain) from investing activities	(3,178)	(2,428)
= Total non-monetary items included in net income and other adjustments (II)	**(21,609)**	**1,478**
+/- Interbank transactions	(246)	231
+/- Customer transactions	92,760	(142,177)
+/- Transactions related to issues or redemptions of debt securities in issue	(7,540)	123,818
+/- Transactions related to other assets and liabilities	19,281	(9,028)
- Corporate taxes paid	(7,604)	(2,719)
= Net decrease/(increase) in cash related to operating assets and liabilities (III)	**96,651**	**(29,875)**
Net cash inflow (outflow) related to operating activities (A) (I+II+III)	**267,903**	**109,055**
+/- Inflow (outflow) related to financial assets and stakes	(267,533)	(56,616)
+/- Inflow (outflow) related to tangible and intangible fixed assets	(3,474)	(3,029)
+/- Inflow (outflow) related to change in consolidation scope		
Net cash inflow (outflow) related to investment activities (B)	**(271,007)**	**(59,645)**
+/- Cash flows from/(to) shareholders	(132,808)	(101,685)
Net cash inflow (outflow) related to financial activities (C)	**(132,808)**	**(101,685)**
Impact of exchange rate changes on cash and cash equivalents (D)	**(314)**	**(913)**
Net cash inflow (outflow) of cash equivalents (A+B+C+D)	**(136,226)**	**(53,188)**
Net cash inflow (outflow) related to operating activities (A)	267,903	109,055
Net cash inflow (outflow) related to investment activities (B)	(271,007)	(59,645)
Net cash inflow (outflow) related to financing activities (C)	(132,808)	(101,685)
Impact of exchange rate changes on cash and cash equivalents (D)	(314)	(913)
Net cash and cash equivalents at the beginning of the period	**827,066**	**880,254**
+ Cash and balances with central banks, CCP (excl. accrued interest)	18,999	17,634
+ Accounts (assets and liabilities), demand deposits and loans with banks	808,067	862,620
Change in the scope of consolidation		
Net cash and cash equivalents at the end of the period	**690,840**	**827,066**
+ Cash and balances with central banks, CCP (excl. accrued interest)	159,703	18,999
+ Accounts (assets and liabilities), demand deposits and loans with banks	531,137	808,067
NET INFLOW (OUTFLOW) IN CASH	(136,226)	(53,188)

6. Application of the IFRS framework

The financial statements of the Rothschild & Cie Banque Group for the financial year ended 31 December 2016 are prepared in accordance with the IFRS framework in force at the reporting date, as endorsed in the European Union by EC Regulation no. 1606/2002.

The statements cover the period from 1 January 2016 to 31 December 2016 and are established in thousands of euros (€K).

The Group applies all the IAS (International Accounting Standards)/IFRS (International Financial and Reporting Standards) and their interpretations endorsed in the European Union at the closing date.

IFRS 13 "Fair Value Measurement", applicable to accounting periods beginning on or after 1 January 2013, affects the presentation of the notes to the financial statements relating to risk management and prudential regulation of the Rothschild Group.

Coming into force on 1 January 2014, IFRS 10 on "Consolidated Financial Statements", IFRS 11 on "Joint Arrangements", and IFRS 12 on "Disclosure of Interests in Other Entities" have no impact on the Group's consolidated financial statements.

During the 2014 financial year, the European Union adopted IFRIC 21 "Levies", the interpretation on recognition of operational levies, with a compulsory application date at the latest for reporting periods opened on or after 17 June 2014. IFRIC 21 was thus applied for the first time for the financial year opened on 1 January 2015.

With the exception of certain categories of assets and liabilities in accordance with the related rules established by the IFRS, the historical cost convention is the valuation basis used in the consolidated accounts.

The notes were drawn up taking into account the intelligibility, relevance, reliability, comparability, and materiality of the information provided.

In the absence of a format imposed by the IFRS, the summary statements are shown in a format that is the same as the format proposed for summary statements by the French accounting standards body, the Autorité des Normes Comptables (ANC), no. 2009-R-04 of 2 July 2009.

Pursuant to ANC recommendation 2013-04 and the amendment to IAS 1, the statement of comprehensive income has been renamed "Statement of net income and gains and losses recognised directly in equity" and distinguishes items that may be subsequently recycled in net income and items that cannot be subsequently recycled in net income. The format of the statement of changes in shareholders' equity has also been updated to comply with ANC recommendation 2013-04. In addition, the notion of "Group share" has been replaced with "Equity shareholders".

The information to be stated according to IFRS 7 is presented in the risk management and prudential regulation section of the annual report.

New standards and accounting interpretations

The standards and interpretations issued by the IASB but not yet adopted by the European Union are not applied by the Group at 31 December 2016. The most important are the following:

IFRS 9 – Financial instruments

IFRS 9 "Financial Instruments" is intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". It defines new principles for classification and measurement of financial instruments, credit risk impairment, and hedge accounting. IFRS 9 is mandatory for financial years beginning on or after 1 January 2018, subject to its adoption by the European Union.

With a view to the application of this standard, the Group's finance department is working with the business liens and the support functions that will be most affected by the changes. At the beginning of 2016, the group launched a project to apply IFRS 9, which began with an evaluation of the main issues of IFRS 9 as well as an evaluation of the main impacts by the business lines. They are expected to focus mainly on the following two changes:

Classification and measurement

Financial assets will be classified in three categories (amortised cost, fair value through profit or loss, and fair value through other comprehensive income) depending on the details of their contractual flows and the way the entity manages its financial instruments (business model).

By default, financial assets will be classified at fair value through profit or loss.

Debt instruments (loans, receivables, or debt securities) may be recorded at their amortised cost, provided that the contractual cash flows represent only repayments of principal and interest on principal and the business model is to receive contractual cash flows.

Debt instruments may also be recorded at fair value through equity with subsequent classification in profit or loss provided that the contractual cash flows represent only repayments of principal and the business model is to collect contractual cash flows and resell the instruments.

Equity instruments (outside the trading portfolio) will be recorded at fair value through profit or loss, except in the event of an irrevocable option for a fair-value measurement through equity without subsequent reclassification in profit or loss.

The recording of financial liabilities is in large part unchanged and should not have an impact on the financial statements of R&Co.

Impairment

IFRS 9 changes the credit risk impairment model, moving from one in which provisions are set aside for incurred credit losses to one in which provisions can be set aside for expected credit losses. The aim of the new approach is to allow credit losses to be recognised at the earliest possible time, removing the need to wait for an objective incurred loss event. A wide range of information can be used to estimate expected credit losses, including historical data on observed losses, cyclical and structural adjustments, and loss projections based on reasonable scenarios.

Work on implementing IFRS 9 will continue in 2016/2017.

IFRS 15 – Revenue Recognition

IFRS 15 "Revenue from Contracts with Customers" will replace the current standards and interpretations on revenue recognition. It will be applicable retrospectively as of 1 January 2018, subject to adoption by the European Union.

Under IFRS 15, the entity must recognise income arising from ordinary activities at an amount that reflects the consideration that the entity expects to receive in exchange for the transfer of goods and services promised to customers.

R&Co has begun work to analyse the impact of the new standard.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 "Leases", which will replace IAS 17 "Leases". Under the new requirements, lessees will be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The expected effective date is 1 January 2019. The standard has not yet been endorsed by the European Union.

The Group is in the process of considering the financial impacts of this new standard.

7. Accounting principles and valuation methods

Financial year-end of the consolidated companies and sub-groups

Rothschild & Cie Banque and its subsidiaries are consolidated on the basis of a financial year-end as at 31 December 2016, except for Rothschild Europe B.V. and N.M.R. Europe, whose financial years end on 31 March, and for which interim statements are prepared as at 31 December 2016.

Consolidation of RCB Group in its parent company's accounts

Since 1 April 2010, Rothschild & Cie Banque and its subsidiaries are consolidated in the financial statements of Rothschild & Co, the listed parent company of Rothschild Group, based on an interim contribution calculated on a financial year covering the period from 1 April to 31 March.

Since the Cavour operation on 8 June 2012, Rothschild & Co controls Rothschild & Cie Banque through its subsidiaries with an ownership interest close to 100%.

Fully consolidated subsidiaries

The companies are fully consolidated if the Group exclusively controls them. Exclusive control is defined as the power to govern the financial and operating policies of an affiliated company so as to obtain benefits from the activities of the entity. It results from:

- direct or indirect ownership of the majority of the voting rights in the subsidiary;
- the power to appoint or dismiss the majority of the members of the subsidiary's governing, management, or supervisory bodies or to control the majority of the voting rights at meetings; or
- the power to exercise dominant influence over a subsidiary pursuant to an agreement or to clauses in the memorandum and articles of association.

The financial statements of subsidiaries are included in the consolidated financial statements as from the date when control is obtained until the date when control ceases.

Joint ventures

Joint ventures or companies in which the Group exercises joint control with partners are consolidated using the equity method, in accordance with paragraph 32 of IAS 31 "Interests in Joint Ventures".

Associates

Associates are companies over whose financial and operational decisions the Group exercises significant influence but not control (this generally demonstrates when the percentage of voting rights is equal to or greater than 20% but less than 50%).

They are consolidated using the equity method from the date on which the significant influence commences to the date on which it ceases.

If the Group's share of the losses of an associate is greater than its investment in the company, the book value of the shares consolidated using the equity method is reduced to zero, and the Group ceases to record its share in future losses unless the Group has a legal or implied obligation to book its share in losses or to make payments on behalf of the associate.

Non-controlling interests

Non-controlling interests are itemised separately from shareholders' equity on the balance sheet.

Earnings attributable to non-controlling interests are presented separately in the income statement.

Non-controlling interests included in the consolidated financial statements are calculated in accordance with the legal provisions applicable to French limited partnerships based on individual local result, taking into account the share related to work remuneration.

Changes in consolidation scope during the prior financial year

Messine Investissement (public limited company – Luxembourg), a subsidiary of Messine Participations SAS, which is being wound up, was removed from the consolidation scope.

The 25% stake of Sélection 1818 (public limited company) held by Messine Participation SAS was sold to Banque Privée 1818 SA on 27 April 2016. RTI Partenaires (limited partnership), 98.8% owned by Rothschild & Cie, was formed in July 2016.

Aix Rabelais (simplified joint stock company) and Bastia Rabelais (simplified joint stock company), subsidiaries of Rothschild & Compagnie Banque, were brought into the consolidation scope in 2016.

Summary of significant judgments and estimates

To prepare the financial statements in accordance with the Group's accounting methods, the management has made assumptions and carried out estimates that may affect the book value of assets and liabilities, incomes and expenses. Each time statements are produced, Rothschild & Cie Banque draws conclusions from its past experience and from all the relevant factors in view of its business.

Translation of foreign currencies

Transactions in foreign currencies are converted at the exchange rate in force as of the date of the transaction in the individual statements of consolidated companies. At the closing date, items denominated in foreign currencies are converted at the exchange rate applicable at that date. Exchange differences determined in this way are included as unrealised exchange gains or losses. These are allocated to the profit and loss account within the consolidated accounts.

In addition, during consolidation, group companies whose assets and liabilities are expressed in foreign currencies are translated at the exchange rate applicable at the closing date.

In accordance with the accounting rules applicable to all the entities of the Rothschild & Co Group, the consolidated accounts of Rothschild & Cie Banque are presented on the principle of periodic currency translation. Variations in items of the profit and loss account are thus translated at the average exchange rate for the quarter to which they relate, a rate representative of the cumulative effect of the rates applying at the translation dates.

The exchange differences resulting from the application of the two aforementioned rates are allocated to shareholders' equity and shown as a specific item in equity.

Business combinations and goodwill

Business combinations are accounted for using the purchase method stipulated by IFRS 3 "Business Combinations". Thus, upon initial consolidation of a newly acquired company, the identifiable assets, assumed liabilities and any contingent liabilities of the acquired entity are measured at fair value in accordance with the instructions of IFRS. The goodwill generated on such an occasion is recognised in the assets and liabilities in question, including for non-controlling interests. The difference remaining between the cost of acquisition and the purchaser's share of net assets valued at their fair value is recorded as goodwill.

Any negative goodwill is immediately booked in the income statement.

Costs directly relating to a business combination operation form a separated transaction booked in the income statement.

Positive goodwill generated on the acquisition of a company is shown as a separate item in the balance sheet. It is subjected to an impairment test at least on an annual basis in accordance with IAS 36.

On the date of acquisition of an entity, any stake in this entity already held by the Group is revalued at fair value through profit or loss.

At the date when the Group loses control of a consolidated subsidiary, any investment retained in the former subsidiary is revalued at fair value through the statement of comprehensive income.

Income from subsidiaries acquired or sold during the financial year is included in the consolidated income statement respectively from their acquisition date and up to their disposal date.

Change in holding rate

In the event of an increase in the Group's stake in entities over which it already exercises control, the difference between the price paid for the additional stake and the assessed fair value of the share of net assets acquired at this date is booked in consolidated reserves. In the same way, any reduction in the Group's stake in an entity that it continues to control is accounted for as an equity transaction between shareholders.

Tangible and intangible fixed assets

Operating fixed assets are booked in the balance sheet assets at their acquisition cost. As soon as they are in use, the assets are depreciated over their period of use. When applicable, the residual value of the asset is deducted from cost when calculating the depreciation charge.

The Rothschild & Cie Banque Group does not provide an analysis of its assets since the amounts are not material.

Depreciation is calculated using the straight-line method depending on useful economic life, which has been estimated in the following bands:

Type of fixed assets	Useful life
Fixtures and fittings	7 to 10 years
Computer hardware and software	1 to 5 years
Office equipment	4 to 7 years
Office furniture	5 to 10 years
Motor vehicles	4 to 5 years

Impairment of assets

In accordance with IAS 36 "Impairment of Assets", if events or changes in the market environment indicate a loss of value of tangible or intangible assets, and at least once a year in the case of Goodwill, such assets must be reviewed in detail in order to determine whether their net book value is less than their recoverable fair value, which is defined as the higher of the sales value (less sales costs) and the value in use. The value in use is determined for an asset viewed individually (on condition that the said asset does not generate incoming cash payments that are to a large extent independent of the incoming cash payments generated by other assets or groups of assets) on the basis of valuation methods deemed relevant by the Group.

The impairment indicators defined by the Group are based on a decline in the key financial figures (turnover, operating profitability, etc.) adapted to the special features of each business line of the Group.

If the recoverable amount is less than the net book value, an impairment charge is booked for the difference between these two amounts.

At each closing date, the Group reviews where an impairment previously booked is likely to have become smaller or even disappeared completely. If there is such an indication, the recoverable value is assessed. Impairment previously booked might be written back if there has been a change in the estimates used to assess the recoverable value of the asset (or group of assets) since the last time an impairment test was performed. In these circumstances, the book value of the asset is increased by the amount of the recoverable value. The resulting increase in book value must not exceed the book value that would have been the case, net of depreciation, if no value impairment had been recorded previously. A value impairment write-back is recorded in the profit and loss account unless the asset is recorded at its revalued amount, in which case the write-back is treated as an upward revaluation. When a value impairment write-back has been made, the depreciation is adjusted for future periods in order to spread the adjusted book value of the asset (or group of assets) over the remaining period of use.

Financial assets at fair value though profit and loss

This category records all the financial assets at fair value through profit or loss as defined in Paragraph 9 of IAS 39.

These are financial assets held for trading purposes. They are valued at their fair value at the balance sheet date and shown as "Financial assets at fair value through profit or loss".

Changes in fair value are shown under profits as "Net gains or losses on instruments at fair value through profit or loss".

Determining fair value

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. For financial instruments carried at fair value, market prices are used to determine fair value where an active market exists. Where no active market price is available, fair values are estimated using other valuation techniques.

The methods adopted to determine the fair value of each type of financial asset or liability are summarised below:

- Cash and balances at central banks, loans and advances granted to banks and customers, as well as deposits by them: the fair value of these instruments is materially the same as their carrying value due to the short-term nature of the financial asset or liability.
- Financial instruments: The fair value of investments listed on active markets is based on closing bid prices. If there are no listings or rates available on an active market, the fair values are determined through discounting techniques or other valuation techniques, using parameters based on market conditions existing as at the closing date. Equity securities for which the Group does not apply valuation techniques because of the insignificant nature of their valuation remain measured at their acquisition cost.
- Other assets and liabilities: their book value corresponds to a reasonable approximation of their fair value.

7. Accounting principles and valuation methods

Financial assets available for sale

These are non-derivative financial assets held for an undetermined period that the Group may sell at any time. By default, these are financial assets that are not classified either as loans and receivables or as financial assets at fair value through profit and loss.

These financial assets are booked in the balance sheet under “Financial assets available for sale” and valued at their fair value at the closing date. Changes in fair value are recognised in equity under “Gains and losses recognised directly in equity” until these assets are sold.

In the event that the fair value of financial instruments falls materially or on a lasting basis below their acquisition cost, the Group may decide to book an impairment loss. The Group considers that this may be the case for equity instruments that at the reporting date show unrealised losses exceeding 40% of their acquisition cost and for those in a situation of an unrealised loss during a continuous five-year period.

In such cases, the cumulative unrealised loss is transferred out of equity and recognised in the statement of comprehensive income. In the case of equity instruments, impairment losses are irreversible, and subsequent increases in fair value are recognised in equity.

Loans and advances to banks and customers

Loans and advances includes overdrafts (ordinary accounts and overnight transactions), reverse repos, term loans for banks, trade accounts receivable, ordinary accounts and other customer facilities.

Accrued interest on receivables is shown in the related receivables contra entry in the income statement.

Current and deferred taxes (assets and liabilities)

The tax charge includes current tax on profits and movements in deferred tax. In accordance with IAS 12, deferred tax is determined using the variable deferral method based on the last tax rate known at the closing date and booked on the basis of:

- temporary differences between the book values of assets and liabilities and their tax values;
- consolidation adjustments, excluding non-deductible goodwill.

A deferred tax asset corresponding to losses brought forward is recorded in a way that takes account of its recovery prospects.

In compliance with IAS 12, deferred tax assets and liabilities are not discounted.

Retirement compensation commitments

The Bank took out an insurance policy in December 1995 with La Mondiale, which is now Arial Assurance, with regard to the retirement compensation system.

An independent valuation firm assesses Group commitments at the end of each financial year.

Post-employment benefits

The Group manages its post-employment costs through defined contributions.

A defined-contributions scheme is a pension scheme under which the Group pays fixed contributions to an independent entity. In this case, the Group is not bound by any legal or implied obligation to top up the fund if the assets are insufficient to pay all the staff the benefits due in view of the services rendered during the current and previous financial years.

Under defined-contributions schemes, the Group is not bound by any other payment obligation after it has paid the contributions. The contributions are therefore recorded as expenses linked to staff benefits when they are payable.

Due to banks and to customers

Amounts due to banks and to customers include overdrafts (ordinary accounts and special accounts), term debts (financial and non-financial customers), and reverse repos.

Accrued interest is shown in the related debts contra entry in the income statement.

Provisions

In accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, the Group makes a provision under liabilities as soon as it has a present, legal, or implied obligation to a third party and it is probable or certain that this will result in a transfer of resources to the third party.

Commissions

The Group shows commission income and expenses for services in the income statement depending on the type of services to which they relate.

Commissions paid for on-going services are spread over the period during which the service is provided. Commissions paid for ad hoc services are fully recognised when the service has been completed. These are particularly success commissions received by the investment bank.

Net gains or losses on financial instruments at fair value through profit and loss

Net gains or losses on financial instruments valued at fair value through profit or loss include all items relating to the financial assets that the Group has designated as appropriate for valuation at fair value through profit or loss (capital gain or loss on sale, dividends on financial assets held for trading and change in fair value), with the exception of interest income and expenses shown in the “Interest income and expenses” item.

Net gains or losses on sales of financial assets available for sale

Net gains or losses on financial instruments available for sale include all items relating to the financial assets that the Group has designated as being available for sale (capital gain or loss on sale, dividends, depreciation and depreciation write-backs), with the exception of interest income and expenses shown in the “Interest income and expenses” item.

Cost of risk

The cost of risk consists of allowances, write-backs, and losses related to:

Litigation with customers of the merger and acquisition advising and asset management activities, booked in "Provisions" on the consolidated balance sheet.

Net gains or losses on other assets

This item mainly includes net gains or losses on sales of tangible and intangible assets and sales of investment in subsidiaries, including the revaluated share of residual interests held.

Income tax

The current tax charge is calculated based on the taxable profits of each entity that is a member of the consolidated tax group. Group companies that are fiscally transparent are subject to corporate income tax only on the share of profit attributable to the limited partners.

Current and deferred taxes are recognised as tax charges or tax credits in the "Income tax expense" line of the consolidated income statement.

Segmented information

In accordance with IFRS 8, the Group has chosen to distinguish between three activities: Global Advisory, Private Wealth & Asset Management, and Merchant Banking.

The segment results are presented excluding the effect of intra-Group transactions.

As the segmented information is not usually included in the reporting to Group management, this statement only includes items relating to the income statement.

Significant events of the year

Global Financial Advisory

In 2016, Global Financial Advisory confirmed its position as leader among investment banks in France.

With twice as many transactions as its nearest competitor, Rothschild & Cie dominated the French global financial advisory market by ranking first in number of mergers and acquisitions announced and finalised between 1 January and 31 December 2016 involving at least one French player and second in credited value for these same transactions. It was involved in the year's main transactions and particularly Crédit Agricole SA's sale of its stake in regional mutuals, the asset swap between Sanofi and Boehringer, the merger between Technip and FMC Technologies, Casino's sale of its stake in Big C Supercenter, the sale of Engie's US fossil fuel power plants, the acquisition of control of Paris by Eurosic, and Fnac's buyout of Darty.

In the Merchant Banking activity, Rothschild & Cie was involved in highly diversified sectors by advising the sale of Alkern, Primonial, But, Foncia, Etypharm, Parkeon, and HRA Pharma.

Rothschild & Cie also confirmed its place as leader in restructuring advising in France and Europe by ranking first in number of transactions on each of these markets. It was involved in large-scale transactions like Vivarte, Solocal, and Camaieu in France and Metinvest, Consmin, and DTEK in Eastern Europe.

Given that 2016 was very favourable for M&A players in France, with increased volumes compared with 2015, Transaction R continued and accelerated its growth with more than 60 projects concluded (compared with 50 in 2015) with industrial operations on profitable companies on the sale or purchase side: small and mid-cap investment funds were particularly active thanks to low rates and the abundance of available bank financing. The new activities launched in 2015 such as fundraising advising for technology companies and financing advising contributed with around ten occurrences in 2016. The commercial prospecting activity, industrialised over the years, led to new mandates. One project was carried out in Switzerland, and five in Belgium. Certain deals brought in high fees thanks to the application of incentive scales.

The 2017 activity is well under way given a large number of projects in progress. In the same way as in 2016, the rate of conversion of missions into concluded transactions will be the key parameter of turnover made up of success commissions.

In 2016, emphasis was placed on recruiting several junior bankers, thus increasing the sourcing and execution capacity, which suggests a very active new year in terms of the number of mandates, despite the electoral uncertainties that temporarily slow down the flow of transactions every five years.

On 1 January 2013, Transaction R Belgique, a subsidiary of Transaction R located in Brussels, began its activity in design, organisation, and advising in all merger operations between one or more companies by way of sale, purchase, contribution, merger, or in any other form of capital reorganisation able to give rise to issued transferable securities, as well as financing and debt restructuring operations.

Wealth and Asset Management

Despite the numerous uncertainties that punctuated 2016 (China, Brexit, collapse of commodity prices, US elections, or Italian referendum), equity markets ended higher with the MSCI World, which gained 9% in dollars and 11.4% in euros. The US market finished ahead, increasing +15.3% in euros for the S&P, followed by +11.6% for the MSCI Emerging, including +76% for Brazil and +9.5% for Nikkei, driven mainly by the yen's appreciation. Europe finished up 2.3% but with major geographical disparities: +19.1% for the English market in local currency, despite the planned exit from the European Union, and -6.5% and -9% for Italy and Portugal respectively, negatively affected by disappointments about economic growth, but also by political uncertainties. Economic activity demonstrated some resistance against certain shocks that could have been more damaging, and the last quarter even saw an upturn. After a difficult start of the year, commodities rebounded strongly with increases of 52% for the Brent and 17.6% for industrial metals. On the other hand, the result of the US elections, the good performance of economic indicators, and the beginning of a more restrictive monetary policy had a negative impact on US bond markets with the return of the reflation theme: the US 10-year bond yield doubled from the July low points, closing up 20bp over the entire year. However, yields in Europe continued their downward movement, with a 40bp decline for the German 10-year bond, which ended at 0.2%, and 2-year yields finishing at a record low of -0.76%. The government bond index finished with a gain of 3.2%, credit obligations 4.7%, and high yield 8.5%.

The year had two very different parts between the first half and the second half with a drastic rotation of themes and markets.

7. Accounting principles and valuation methods

The first part started very badly with markets at their lowest point on 11 February: the Nikkei lost 17%, the Stoxx 600 14%, the MSCI World and the S&P around 11%, with investors still full of the concerns that had driven the market at the end of 2015 (fear of devaluation of the yuan, risk of recession in the United States, further decline in commodity prices, and pressure on the solvency of certain emerging countries). Against this backdrop, risk premiums exploded, and safe-haven assets like fixed-income investments, gold, and high-quality stocks outperformed, peaking at the time of the outcome of the Brexit vote, which had not been anticipated by the market.

The second half favoured equities and value stocks. The good performance of macroeconomic indicators in the United States, the continued rebound of emerging markets having benefited from the rise in commodities, and Europe's resistance despite political shocks like the US elections, the Italian referendum, and especially Brexit reassured the market. Against all odds, the latest phase of rising equity indices came in the wake of Donald Trump's victory in the US, with the market focusing on the expected positive impact of tax cuts and infrastructure spending on growth. The victory of the "no" side on the Italian referendum, probably in large part already integrated by the market, did not reverse the trend and even signalled the turnaround of the Italian market and peripheral financial stocks. Emerging markets had more mixed performance levels in the last part of the year, affected by investor concerns both domestically and internationally. Domestically, several countries are still suffering from imbalances relating to the recent periods of strong credit growth. China is one of the countries with the fastest-growing debt load. Debt servicing absorbed 14% of disposable income of private agents in Turkey, 20% in China and Korea, and 23% in Brazil. By comparison, at the height of the US debt bubble in 2007, this proportion was 18%. Internationally, the increase in global interest rates and the appreciation of the dollar, combined with protectionist rhetoric and a possible challenge to global trade, were deemed negative for emerging countries, especially in a context of added major political uncertainties in countries like Turkey, South Africa, and Brazil.

In this respect, the central banks remained very accommodative at the global level. The Fed thus adopted a very prudent tone throughout the year, waiting until December to announce a 25bp increase in its key rate, only the second since it began its monetary normalisation in December 2015. For its part, the ECB decided to extend its quantitative easing programme by nine months (until December 2017) instead of the anticipated six months, while announcing a reduction in monthly current asset purchases from €90 billion to €60 billion. Improved employment and the recovery in the credit cycle allowed the eurozone economy to post 1.7% growth in 2016 compared with 1.9% the previous year. However, weak global trade, uncertainty among emerging countries, as well as political uncertainties in the eurozone were all factors that convinced the Board of Governors to continue its monetary measures.

Performance by sector changed significantly in Europe between the first and second half. With the exception of basic products and energy stocks, which performed well over both parts of the year, cyclical and financial stocks, which had suffered greatly until June, caught up.

All in all, the year was full of surprises, marked by spurts of volatility on equity markets and a more favourable period-end balance sheet than at the end of the first half. December represented all of the year's gains for eurozone equity markets.

In these circumstances, our collective management strategies had contrasting performance levels between the various funds of the range.

Rothschild & Compagnie Gestion's global net inflow was slightly positive (+€12 million). The commercial investment efforts undertaken in previous years in favour of international development yielded results, with a net inflow of €651 million generated outside of our domestic market. In France, the distribution activity also made a positive contribution to inflows for the financial year, while the institutional segment suffered an outflow. Lastly, Wealth Management generated a historically high inflow (€978 million) over the year.

In this context, Rothschild & Compagnie Gestion's turnover for 2016 was down 5%, affected by a decline in transaction and performance fees. Net income decreased 3% from 2015.

The principal activity of Rothschild HDF Investment Solutions, a subsidiary of Rothschild & Cie Gestion, is third-party investment management, third-party portfolio management, and management in the form of UCITS, UCI, or foreign equivalents.

The 2016 financial year was marked by strong development of the "fund of one" activity with the InRis platform. The R Parus fund saw remarkable success in early 2016, which led us to close the fund at $1.4 billion in assets under management in March 2016. As a result of disappointing management performance, the second part of the year was marked by withdrawals on this fund. The R CFM fund also had very good growth.

Our selection and allocation advising activities also grew significantly, with the "R Inside" initiative and the development of our allocation offering in France, particularly with the success of ING Direct, the ramp-up of the Aviva and CNP offerings, and the winning of the Theseis call for tenders.

There was a confirmed loss of interest for alternative multi-management in Europe and France in particular, which resulted in a constant erosion of assets under management following client redemptions not offset by subscriptions. R Opal Global Trading was the exception with significant inflows ($25 million) in early 2016.

Lastly, the decline in traditional multi-management continued on our historical institutional client base of retirement funds, whose investments were down particularly because of the consolidation of the sector despite quality financial management.

Against this backdrop, we continued to streamline the product range, particularly with the continuation of the planned transfer of funds from Guernsey to Luxembourg. The change in the investment process to incorporate traditional alternative multi-management approaches also continued.

In terms of financial management, 2016 was characterised by performance that was ultimately commendable in traditional multi-management compared with its benchmark, which made it possible to collect outperformance fees on funds where applicable, despite a more difficult middle of the year after Brexit; an honourable relative performance of alternative multi-management compared with the peers but that continued to be disappointing in absolute terms and failed to regain inflow momentum; as well as performance by R Parus far below expectations.

With regard to the information systems after the Monakéa migration to Webfolio, for alternative multi-management, the plan to merge the traditional and alternative multi-management lines and operating tools on a single Webfolio architecture was carried out. This change will eventually make it possible to have a single middle-office team and better management of hybrid products.

To take account of the change in activity and margins, synergies were developed with Rothschild & Compagnie Gestion on the risk and compliance functions, internal transfers to Rothschild & Compagnie Gestion without replacements within Rothschild HDF Investment Solutions were carried out, two employees who left were not replaced, and two senior employees (the alternative CIO and the deputy long-only CIO) left the company. All of these reductions cut the company's costs.

For 2017, the strategy continues to be based on the same principles as in 2015 and 2016, particularly through the development of our initiatives to diversify and improve the business mix ("fund of one", R Inside, as well as the defence of the historical business of traditional and alternative multi-management).

Rothschild Assurance & Courtage (below "the Company") specialises in life insurance and guaranteed investment brokerage.

Rothschild Assurance & Courtage's net premium inflows (gross premiums paid less any redemptions, transfers, or conclusions by death) amounted to €129.9 million in 2016, a 7.2% decrease from 2015. This is explained by fewer new policies signed with French companies. Additional payments and transfers of contracts from outside remained at equivalent levels.

The French life insurance market was virtually stable in 2016 in terms of gross premiums collected at €134.7 billion; net inflows were €16.8 billion, compared with net inflows of €24.6 billion in 2015, with yields on life insurance remaining attractive in relation to short-term money market investments. However, the euro funds of the companies saw an average decrease in their yield rates for 2016 of around 0.4%. Life insurance policy assets (actuarial provisions + provisions for bonuses) totalled €1,632 billion at the end of 2016, a 3.3% increase.

The Company's turnover was stable compared with 2015. Outstandings were up 5.8% compared with 2015, a result of a positive market effect and positive net inflows. The result for the financial year was up significantly from the previous year due to financial income from equity interests of €4.6 million (versus €0.1 million in 2015). This income corresponds to a dividend received from Messina Participations. Expenses were down particularly due to a reduction of IT costs.

In November 2016, Rothschild Assurance & Courtage recruited an additional employee to deal with the increase in activity with Luxembourg companies, which represented 50% of outstandings and 48% of gross premiums in 2016.

For 2017, Rothschild Assurance & Courtage will continue its IT developments and its efforts to ensure the quality of the services provided.

8. Notes to the consolidated balance sheet

8.1. Cash and balances with central banks

(in thousands of euros)	31/12/16	31/12/15
Cash	599	465
Central banks	159,104	18,534
Total	**159,703**	**18,999**

8.2. Financial assets at fair value though profit and loss

(in thousands of euros)	31/12/15	Acquisitions	Disposals and redemptions	Net impairment – changes during the period	Unrealised gains/ (losses) from changes in fair value	31/12/16
Equities and other variable-income securities:						
Internal mutual funds (UCITS)	129,993	9,995	(129,993)	–	–	**9,995**
Negotiable debt securities:						
Government securities and equivalent	58,114	374,642	(426,844)	–	–	**5,912**
Derivatives:						
Trading derivatives	–	–	–	–	4,333	**4,333**
Total		**384,637**	**(556,837)**	**–**	**4,333**	**20,240**

Financial assets at fair value through profit and loss (excluding investments in stocks) correspond to very short-dated negotiable, debt securities as well as money market UCITS.

8.3. Available-for-sale financial assets

(in thousands of euros)	31/12/15	Acquisitions	Disposals and redemptions	Net impairment – changes during the period	Unrealised gains/ (losses) from changes in fair value	31/12/16
Fixed income securities						
Listed	70,000	396,608	(97,455)	–	(34)	**369,119**
Not listed	122	4	–	–	–	**126**
Shares in venture capital funds (VCT)						
Not listed	5,371	890	(4,266)	–	420	**2,415**
Internal mutual funds (UCITS)						
Listed	298	82	(184)	–	(15)	**181**
External mutual funds (UCITS)						
Listed	–	–	–	–	–	**–**
Portfolio activities						
Not listed	472	–	–	–	–	**472**
Shares in affiliated undertakings						
Listed	489	533	(352)	–	–	**670**
Not listed	100	–	(100)	–	–	**–**
Total	**76,852**	**398,117**	**(102,357)**	**–**	**371**	**372,983**

8.4. Loans and advances to banks

(in thousands of euros)	31/12/16	31/12/15
Demand		
Ordinary accounts	**81,572**	81,266
Overnight loans	**89,555**	146,134
Securities borrowed under repurchase agreements	**354,784**	400,000
Total	**525,911**	**627,400**
Accrued interest	**–**	1
Loans and advances to banks – Gross	**525,911**	**627,401**
Impairment allowance	**–**	–
TOTAL	**525,911**	**627,401**

Loans and advances to banks consist of cash and cash equivalents deposited by the Bank and its mutual funds at other financial institutions. In particular, they include securities received under repurchase agreements (OAT, BTF, BTN, treasury bills and government bonds) that are used to diversify Rothschild & Cie Banque's exposure.

8.5. Loans and advances to customers

(in thousands of euros)	31/12/16	31/12/15
Ordinary accounts advance		
Lombard Loans	**297,302**	236,366
Ordinary accounts	**11,528**	8,036
Total	**308,830**	**244,402**
Accrued interest	**718**	600
Loans and advances to customers – Gross amount	**309,548**	**245,002**
Impairment loss of loans and advances to customers	**(1)**	(38)
TOTAL	**309,547**	**244,964**

Loans and advances to customers correspond mainly to Lombard loans, debit balances and authorised overdrafts on the Bank's customers' current accounts, as well as value date differences between Rothschild & Cie Banque (accounting date balances) and the managed mutual funds (value date entries).

8.6. Accruals and other assets

(in thousands of euros)	31/12/16	31/12/15
Deposits and collateral	**17,400**	10,197
Settlement accounts on securities transactions	**10,651**	18,341
Accounts receivable	**136,348**	128,644
Accruals and other assets related to financial assets	**164,399**	**157,182**
Prepaid expenses	**1,536**	1,679
Taxes	**9,276**	10,604
Sundry debtors	**2,214**	2,435
Accruals and other assets related to non-financial assets	**13,026**	**14,718**
TOTAL	**177,425**	**171,900**

Other financial assets comprise mainly fees due from non-financial customers, receivables due from brokers and intermediaries on the purchase and/or sale of securities, and deposits and collateral related to the guarantee of deposits held at the Banque de France.

8.7. Investments accounted for by the equity method

This comprises the value of the shares consolidated using the equity method, updated to include the share of the profits/losses of the period and changes in associated shareholders' equity. Movements in financial year are shown in a single table summarising the impact of all IFRS adjustments and the current year flows.

(in thousands of euros)	NMR Europe	Rothschild Europe BV *	Rothschild Europe SNC	Sélection 1818	TOTAL
At 31 December 2014	**6,828**	**38,708**	**657**	**13,272**	**59,465**
of which goodwill	–	–	–	*9,355*	*9,355*
Share of profit	(105)	4,949	520	50	**5,414**
Change in consolidation scope	–	–	–	–	–
Exchange differences on translation	470	884	–	–	**1,354**
Distribution of profits	(3,074)	(8,310)	(574)	(298)	**(12,256)**
Other restatements	(24)	216	(7)	–	**185**
At 31 December 2015	**4,095**	**36,447**	**596**	**13,024**	**54,162**
of which goodwill	–	–	–	*6,818*	*6,818*
Share of profit	3,296	19,440	(347)	–	**22,389**
Change in consolidation scope	–	–	–	(13,024)	**(13,024)**
Exchange differences on translation	(521)	250	–	–	**(271)**
Distribution of profits	–	(14,366)	(524)	–	**(14,890)**
Other restatements	–	155	–	–	**155**
At 31 December 2016	**6,870**	**41,926**	**(275)**	**–**	**48,521**
of which goodwill	–	–	–	–	–

** Consolidated figures of REBV from 1 January to 31 December.*

The main financial aggregates of the companies consolidated under the equity method are as follows:

(in thousands of euros)	Total balance sheet	Net banking income	Net income
Rothschild Europe BV	187,150	186,534	39,084
Rothschild Europe SNC	890	535	(694)
NMR Europe	29,459	21,879	6,718
TOTAL	**217,499**	**208,948**	**45,108**

8.8. Tangible fixed assets

Details of tangible fixed assets

(in thousands of euros)	01/01/16	Allowances	Disposals	Write-backs	31/12/16
Fixtures and fittings	19,780	1,241	(223)	–	**20,798**
Computer equipment	3,368	1,055	(1,795)	–	**2,628**
Office equipment and furniture	4,653	464	(2)	–	**5,115**
Vehicles	3,381	819	(731)	–	**3,469**
Down payments on fixed assets	16	–	(16)	–	**–**
Other tangible fixed assets	159	46	(140)	–	**65**
Gross value of tangible fixed assets	**31,357**	**3,625**	**(2,907)**	–	**32,075**

Amortisation & Depreciation

(in thousands of euros)	01/01/16	Allowances	Disposals	Write-backs	31/12/16
Fixtures and fittings	(16,016)	(1,404)	210	–	**(17,210)**
Computer equipment	(3,264)	(104)	1,779	–	**(1,589)**
Office equipment and furniture	(4,186)	(329)	3	–	**(4,512)**
Vehicles	(1,367)	(644)	585	–	**(1,426)**
Total depreciation and amortisation	**(24,833)**	**(2,481)**	**2,577**	**–**	**(24,737)**
Net value of tangible fixed assets	**6,524**	**1,144**	**(330)**	–	**7,338**

8.9. Intangible fixed assets

(in thousands of euros)	01/01/16	Allowances	Disposals	Write-backs	31/12/16
Software					
Gross value	**10,252**	**222**	**–**	**–**	**10,474**
Amortisation & Depreciation	(10,032)	(154)	–	–	**(10,186)**
Net value	**220**	**68**	**–**	**–**	**288**
Other intangible fixed assets					
Net value	2,289	(985)	–	–	**1,304**
Net value of intangible fixed assets	**2,509**	**(917)**	–	–	**1,592**

8. Notes to the consolidated balance sheet

8.10. Goodwill

The goodwill recognised on the Group's consolidated accounts relates primarily to the businesses of SOGIP Gestion, SOGIP Banque and Financière Rembrandt, reclassified to goodwill as at 31 December 2001.

At 31 December 2015, there are no indications of impairment that would require the Group to record impairment of goodwill.

Goodwill relating to companies accounted for by equity method does not appear under goodwill, but is included in the value of investments accounted for by equity method.

(in thousands of euros)	31/12/16	31/12/15
Net carrying amount at the beginning of the period	**44,269**	**44,269**
Acquisitions	–	–
Disposals	–	–
Impairment recognised during the period	–	–
Net carrying amount at the end of the period	**44,269**	**44,269**
of which:		
– Gross book value	44,560	44,560
– Accumulated depreciation booked before the transition to IFRS	(291)	(291)

8.11. Due to banks

(in thousands of euros)	31/12/16	31/12/15
Demand		
Ordinary accounts	10,681	7,440
Due to banks	**10,681**	**7,440**
Accrued interest	194	441
TOTAL	**10,875**	**7,881**

8.12. Due to customers

(in thousands of euros)	31/12/16	31/12/15
Demand		
Customers' deposits		
Ordinary accounts	836,728	636,013
Other		
Personal equity plan (PEA) accounts	30,824	26,392
Passbook accounts	61	179
Borrowings secured by repurchase agreement	50,001	130,927
Term		
Non-financial customers' term accounts	33,204	–
Due to customers	**950,818**	**793,511**
Accrued interest	162	116
TOTAL	**950,980**	**793,627**

8.13. Debt securities in issue

(in thousands of euros)	31/12/16	31/12/15
Debt securities maturing in less than one year at issue	116,278	123,818
Negotiable debt securities	116,200	123,740
Cash certificates	78	78
TOTAL	**116,278**	**123,818**

8.14. Accruals and other liabilities

(in thousands of euros)	31/12/16	31/12/15
Deposits and guarantees	16,595	9,211
Settlement accounts on securities transactions	30,712	21,466
Accounts payable	7,632	8,974
Accruals and other liabilities related to financial liabilities	**54,939**	**39,651**
Deferred income	1,336	2,071
Staff accrued expenses	69,555	63,193
Tax and social debts	19,995	30,436
Other creditors	80,704	62,866
Accruals and other liabilities related to non-financial liabilities	**171,590**	**158,566**
TOTAL	**226,529**	**198,217**

8.15. Provisions

(in thousands of euros)	31/12/16	31/12/15
At the beginning of the period, of which:		
Provisions for claims or litigations	3,415	689
Long-service awards	1,906	1,301
Total at the beginning of the period	**5,321**	**1,990**
Allocations to provisions for the period	355	3,667
Write-backs of provisions utilised during the period	(2,518)	(336)
Write-backs of provisions not utilised	(762)	–
Total movements in provisions during the period	**(2,925)**	**3,331**
Total provisions at year-end	**2,396**	**5,321**
Provisions for claims or litigation	994	3,415
Long-service awards	1,402	1,268
Other provisions	–	638

9. Notes to the consolidated income statement

9.1. Commissions

(in thousands of euros)	Income 2016	Expenses 2016	Income 2015	Expenses 2015
Fees for advisory work and other services				
Global Financial Advisory	307,908	(34,266)	229,978	(25,653)
Corporate Market Services, Family Office	7,718	(1,295)	9,763	(1,192)
Portfolio and other management fees				
Asset management (including out-performance)	121,083	(23,854)	133,372	(23,667)
Transmission of orders	17,241	(258)	20,534	(280)
Custody	3,805	(52)	4,740	(227)
Other portfolio fees	2,281	(3,151)	3,629	(101)
Banking and credit-related fees and commissions				
Fees on customer accounts	612	–	613	–
Management of means of payment	99	–	161	–
Other				
Other fees	7,854	(656)	173	(619)
TOTAL	**468,601**	**(63,532)**	**402,963**	**(51,739)**

9.2. Net gains/(losses) on financial instruments at fair value through profit and loss

(in thousands of euros)	2016	2015
Debt securities	(91)	(22)
Equity securities	–	–
Gains/(losses) arising from forex operations and other trading operations	3,566	5,155
TOTAL	**3,475**	**5,133**

Gains/(losses) on fixed-income securities are related to interest on negotiable debt securities.

9.3. Net gains/(losses) on available-for-sale financial assets

(in thousands of euros)	2016	2015
Gains/(losses) on available-for-sale financial assets	3,147	2,396
Dividends on available-for-sale financial assets	565	12
TOTAL	**3,712**	**2,408**

9.4. Payroll expense

a. Payroll expense

(in thousands of euros)	2016	2015
Wages, salaries and social security charges	133,350	127,066
of which temporary and expatriate employees	*188*	*2,223*
Employee profit-sharing and related expenses	11,274	6,240
Provisions net of write-backs	2	2,393
Other payroll expenses	6,447	6,111
TOTAL	**151,073**	**141,810**

In 2015, "Payroll expense" included €1,401 K in "Seconded personnel" such as IT service expenses, front desk services and security agents. To comply with the Group's logic, they appear in 2016 under "Other administrative costs" for €1,631 K.

In 2015, costs billed back to other non-consolidated companies of the Group were fully applied against "Other administrative costs". €828 K concerned rebilling of personnel expense. To comply with the Group's logic, they appear in 2016 under "Other administrative costs" for €697 K.

b. Average headcount

(in thousands of euros)	Men 2016	Women 2016	Total 2016	Men 2015	Women 2015	Total 2015
Executive-grade	341	220	561	318	214	532
Non-executive staff	30	54	84	31	53	84
TOTAL	**371**	**274**	**645**	**349**	**267**	**616**

c. Transactions with directors of the company

Total compensation allocated to non-partner managing directors for their mandate amounted to: €55 K.

Total advances and loans granted to partners and non-partner managing directors: €268 K.

Total commitments made on behalf of these persons under guarantee: €1,128 K.

No attendance fees were paid to members of the Steering and Supervisory Board this year.

d. Miscellaneous

The Bank has no commitment with the Caisse de Retraite pour le Personnel de Banques (Retirement fund for bank personnel) in 2016.

The Bank pays all of its pension contributions to external organisations.

The IFC calculations conducted by Mercer in late 2016 show that the Group's business commitments in terms of entitlement to allowances granted on the day of the assessment are fully covered by the funds already in place.

In consideration of the total individual rights active on the date of the study, the company's partnership liabilities,including welfare expenses, comes to €2,847 including €213 K in additional provisions for the period.

The total value of the Group company's IFC equity pool as at 31 December 2016 was €2,523 K.

9. Notes to the consolidated income statement

9.5. Other administrative expenses

Administrative costs comprise, in particular, real estate leases amounting to €13,847 K for financial year 2016. Note that the Rothschild & Cie Group enjoyed a rent free period lasting several months. In accordance with interpretation SIC 15 "Operating Leases – Incentives" of IAS 17, the rent has been spread out on a straight-line basis for the duration of the lease. The Group thus bears the economic cost of the rents of the Messine site.

9.6. Cost of risk

(in thousands of euros)	2016	2015
Impairment to loans to customers	–	–
Charge to provisions for clams and litigation with customers	(1,340)	(327)
Write-offs	(600)	(4,750)
Impairment reversal on loans to customers	1,153	5,000
Reversal to provisions for clams and litigation with customers	–	–
TOTAL	**(787)**	**(77)**

9.7. Net gains/(losses) on other assets

(in thousands of euros)	2016	2015
Gains/(losses) on sales of tangible fixed assets	31	33
Gain/(loss) on acquisition of subsidiaries and associates (IFRS)	(9,527)	–
Gain/(loss) on acquisition of subsidiaries and associates (French GAAP)	8,520	169
TOTAL	**(976)**	**202**

Gain/(loss) on acquisition of subsidiaries and associates correspond to the disposal of share of 25% in Selection 1818. The loss on sale under IFRS is € 1,007 K, which is the difference between the fair value (rather than its book value) and the price of disposal.

9.8. Income tax expense

(in thousands of euros)	2016	2015
Ordinary tax charges attributable to French companies	5,052	2,320
Withholding taxes	–	–
Deferred taxes	(42)	(75)
Additional tax contributions	736	198
Overseas taxes	4,262	3,630
TOTAL	**10,008**	**6,073**

It should be noted that, except for the share of profits attributable to the limited partners, most of the profits of Group companies are not subject to corporation tax. It is therefore not appropriate to reconcile actual tax and theoretical tax using a standard tax rate.

9.9. Segmented information

(in thousands of euros)	Global Financial Advisory	Wealth and Asset Management	31/12/2016
Revenues			
External revenues	274,849	137,752	412,601
Net banking income	**274,849**	**137,752**	**412,601**
Operating income by segment before non-analysed expenses	193,183	27,790	220,973
Non-analysed expenses			(49,525)
Net operating income			**171,448**
Results of companies accounted for by the equity method before non-analysed expenses	22,389		22,389
Net gains/(losses) on other assets	37	(1,013)	(976)
Taxes			(10,008)
Consolidated net income			**182,853**

(in thousands of euros)	Global Financial Advisory	Wealth and Asset Management	31/12/2015
Revenues			
External revenues	205,106	156,106	361,212
Net banking income	**205,106**	**156,106**	**361,212**
Operating income by segment before non-analysed expenses	129,662	46,573	176,235
Non-analysed expenses			(44,503)
Net operating income			**131,732**
Results of companies accounted for by the equity method before non-analysed expenses	5,363	50	5,413
Net gains/(losses) on other assets	16	186	202
Taxes			(6,073)
Consolidated net income			**131,274**

10. Other information

10.1. Off-balance-sheet commitments

Only undertakings made on behalf of the Bank itself are listed below, since the amounts for affiliates are not material.

No specific comments are required for off-balance-sheet items, as most undertakings to customers were made against portfolio securities.

10.1.1. Commitments given

10.1.1.1. Loan commitments given to customers

(in thousands of euros)	2016	2015
Unused part of confirmed credit lines	66,078	76,439

10.1.1.2. Guarantee commitments given to customers

(in thousands of euros)	2016	2015
Lease, tax and other deposits to customers	21,952	23,697

10.1.1.3. Securities commitments

(in thousands of euros)	2016	2015
Underwriting commitments to invest in venture capital funds	3,758	3,648

10.1.2. Commitments received

10.1.2.1. Loan commitments received from banks

(in thousands of euros)	2016	2015
Loan commitments received from banks	50,000	50,000
Guarantees received from banks on deposits	11	11

10.1.3. Forex operation

(in thousands of euros)	2016	2015
Spot	3,812	6,616
Forward	644,513	745,291
Currencies to be delivered	*322,277*	*372,664*
Currencies to be received	*322,236*	*372,627*

10.2. Related parties

The Group has considered as transactions with related parties within the meaning of IAS 24 those transactions and outstandings with individuals or legal entities that directly or indirectly exercise control or significant influence over Rothschild & Cie Banque and transactions with companies over which the Group does not have full control.

(in thousands of euros)	Parent	Joint ventures	Associates	Main directors of the entity and its parent company	Entities controlled by the same parent company	Other related parties	Total
Assets							
Loans and advances	854	292	–	20	20,036	–	21,202
Other assets	664	8,948	–	–	11,939	–	21,551
TOTAL ASSETS	**1,518**	**9,240**	**–**	**20**	**31,975**	**–**	**42,753**
Liabilities							
Deposits	1,777	14	3,398	3,802	19,406	76,054	104,451
Other liabilities	212	12,957	–	–	15,432	–	28,601
Total liabilities	**1,989**	**12,971**	**3,398**	**3,802**	**34,838**	**76,054**	**133,052**
Commitment to financing and guarantee							
Guarantees issued by the Group	–	3,800	–	1,114	–	–	4,914
Guarantees received by the Group	–	–	–	–	–	–	–
Net income concerning transactions with related parties							
Commissions and fees received	53	6,769	–	–	12,241	–	19,063
Other income	645	2,974	–	–	10,036	–	13,655
Total income	**698**	**9,743**	**–**	**–**	**22,277**	**–**	**32,718**
Commissions and fees paid		11,818	–	–	18,360	–	30,178
Other expenses	531	3,542			9,191	371	13,635
Total expenses	**531**	**15,360**	**–**	**–**	**27,551**	**371**	**43,813**

The notion of parent company refers to companies that directly or indirectly exercise control or significant influence over the Group, namely Rothschild Concordia SAS, the head of the Group, Rothschild & Co., which fully consolidates Rothschild & Cie Banque, as well as SCS Holding SAS and Rothschilds Continuation Holding AG.

Joint ventures in which the Group is a venturer are the companies held jointly by Rothschild & Cie and NM Rothschild & Sons Limited, namely Rothschild Europe BV (consolidated), Rothschild Europe SNC and NMR Europe.

Associates are companies over which the Group exercises a significant influence, namely Sélection 1818.

The notion of entities controlled by the same parent company refers to all transactions entered into between companies consolidated by Paris Orléans that are not already included in one of the categories mentioned above.

Other related parties comprise essentially Rothschild & Cie Banque’s legal entity partners controlled by the Bank’s managers, as well as the Group’s non-consolidated subsidiaries.

Intercompany transactions and existing outstanding at the end of the financial year between fully consolidated companies of the group are fully eliminated on consolidation and therefore do not appear in the table above.

10.3. Fees to statutory auditors

Total fees to statutory auditors shown on the income statement for the year relating to the statutory audit and audit services directly related to the assignment, as they are defined by the professional standards mentioned in point II of Article L.822-11, are as follows:

(in thousands of euros)	Statutory audit	Fees related to audit services and related assignments
Rothschild & Cie Banque	145	–
Rothschild Belgique	35	–
Rothschild & Cie	54	–
Montaigne Rabelais	5	–
Rothschild Assurance & Courtage	14	–
Transaction R	18	–
Transaction R Belgique	–	–
Blackpoint Management	12	–
Rothschild HDF Investment Advisor Ltd	24	–
GIE Rothschild	10	–
Rothschild & Cie Gestion	63	–
Rothschild & Cie Gestion Italie	–	–
Rothschild & Cie Gestion Suisse	23	–
R Commodity Finance Fund General Partner	14	–
Messine Investissement	–	–
Messine Participation	5	–
Aix Rabelais	2	–
Bastia	2	–
Rothschild HDF Investment Solutions	77	–
Monceau Rabelais	5	–
TOTAL	**508**	**–**

The amounts indicated in the above table include the pro-rated amount of non-deductible VAT on these items.

10.4. Consolidation scope

Name	Country	Legal Status	Sector	Share capital (%) held by the Group 2016	Share capital (%) held by the Group 2015	Method (a)
Rothschild & Cie Banque	France	Limited partnership	Bank	Parent	Parent	Parent company
Rothschild & Cie	France	Limited partnership	Financial advisory	99.98%	99.98%	F.G.
Rothschild & Cie Gestion	France	Limited partnership	Asset management	99.99%	99.99%	F.G.
Rothschild & Cie Gestion Italie	Italy	Branch	Asset management	99.99%	99.99%	F.G.
Rothschild & Cie Gestion Suisse	Switzerland	Branch	Asset management	99.99%	99.99%	F.G.
Montaigne Rabelais	France	Simplified joined stock company	Holding company	100.00%	100.00%	F.G.
Rothschild Assurance & Courtage	France	Limited partnership	Insurance broking	99.83%	99.83%	F.G.
Transaction R	France	Limited partnership	Financial advisory	99.72%	99.72%	F.G.
Transaction R Belgique	Belgium	Branch	Financial advisory	99.72%	99.72%	F.G.
Transaction R Partenaires	France	Simplified joined stock company	Holding company	50.00%	50.00%	F.G.
Blackpoint Management Ltd	Guernsey	Société à responsabilité limitée	Asset management	100.00%	100.00%	F.G.
Rothschild HDF Investment Advisor Ltd	UK	Société à responsabilité limitée	Asset management	100.00%	100.00%	F.G.
GIE Rothschild	France	Economic interest grouping	GIE	100.00%	100.00%	F.G.
Messine Participations	France	Simplified joined stock company	Holding company	100.00%	100.00%	F.G.
Monceau Rabelais (ex. Rothschild Investment Solution)	France	Simplified joined stock company	Holding company	100.00%	100.00%	F.G.
Rothschild HDF Investment Solution	France	Simplified joined stock company	Asset management	63.00%	63.00%	F.G.
Messine Investissement S.A.	Luxembourg	Limited company	Asset management	100.00%	100.00%	F.G.
R Commodity Finance Fund General Partner	Luxembourg	Limited liability company	Asset management	100.00%	100.00%	F.G.
Aix rabelais	France	Simplified joined stock company with sole shareholder	Financial auxiliaries	100.00%	100.00%	F.G.
Bastia Rabelais	France	Simplified joined stock company	Financial auxiliaries	100.00%	100.00%	F.G.
RTI partenaires	France	Limited partnership	Financial advisory	100.00%	N/A	F.G.
Rothschild Europe S.N.C.	France	General partnership	Financial advisory	50.00%	50.00%	E.M.
N.M.R. Europe (1)	UK	Limited liability company	Financial advisory	50.00%	50.00%	E.M.
Rothschild Europe B.V.(1) (sous-groupe consolidé)	Netherlands	Limited liability company	Financial advisory	50.00%	50.00%	E.M.

Subsidiaries such as Stravinski SCS, Albinoni, Puccini and Vivaldi SAS are not included in the scope of consolidation on account of their immateriality.

(a) Consolidation method:

F.G. : fully consolidated. – E.M. : equity method. – N.C. : not consolidated.

(1) Closing date on a legal basis is 31 March.

Statutory auditors' report on the consolidated financial statements for the financial year ended 31 December 2016

Dear Shareholders,

In compliance with the assignment entrusted to us by your general meeting, we hereby report to you, for the year ended 31 December 2016, on:

- the audit of the accompanying consolidated financial statements of Rothschild & Compagnie Banque S.C.S;
- the justification of our assessments;
- the specific verification required by law.

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

1. 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 involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of the accounting principles used and reasons for accounting estimates made, as well as the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained provides a sufficient and appropriate basis for our audit opinion. We certify that the consolidated financial statements for the financial year are, with regard to the IFRS adopted in the European Union, truthful and in order and present a fair picture of the net worth, financial position, and the yearly earnings of the Group constituted by the entities included in the consolidation.

2. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (Code de Commerce), we bring to your attention the following matters:

- Notes 7 and 8.10 to the financial statements explain the accounting methods applying to goodwill;
- Note 7 to the financial statements explains the accounting methods applying to commissions.

As part of our assessment of the accounting principles applied by your company, we have assessed the appropriateness of the accounting methods mentioned above and of the disclosures included in the notes to the financial statements.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole and therefore contributed to the opinion we expressed in the first part of this report.

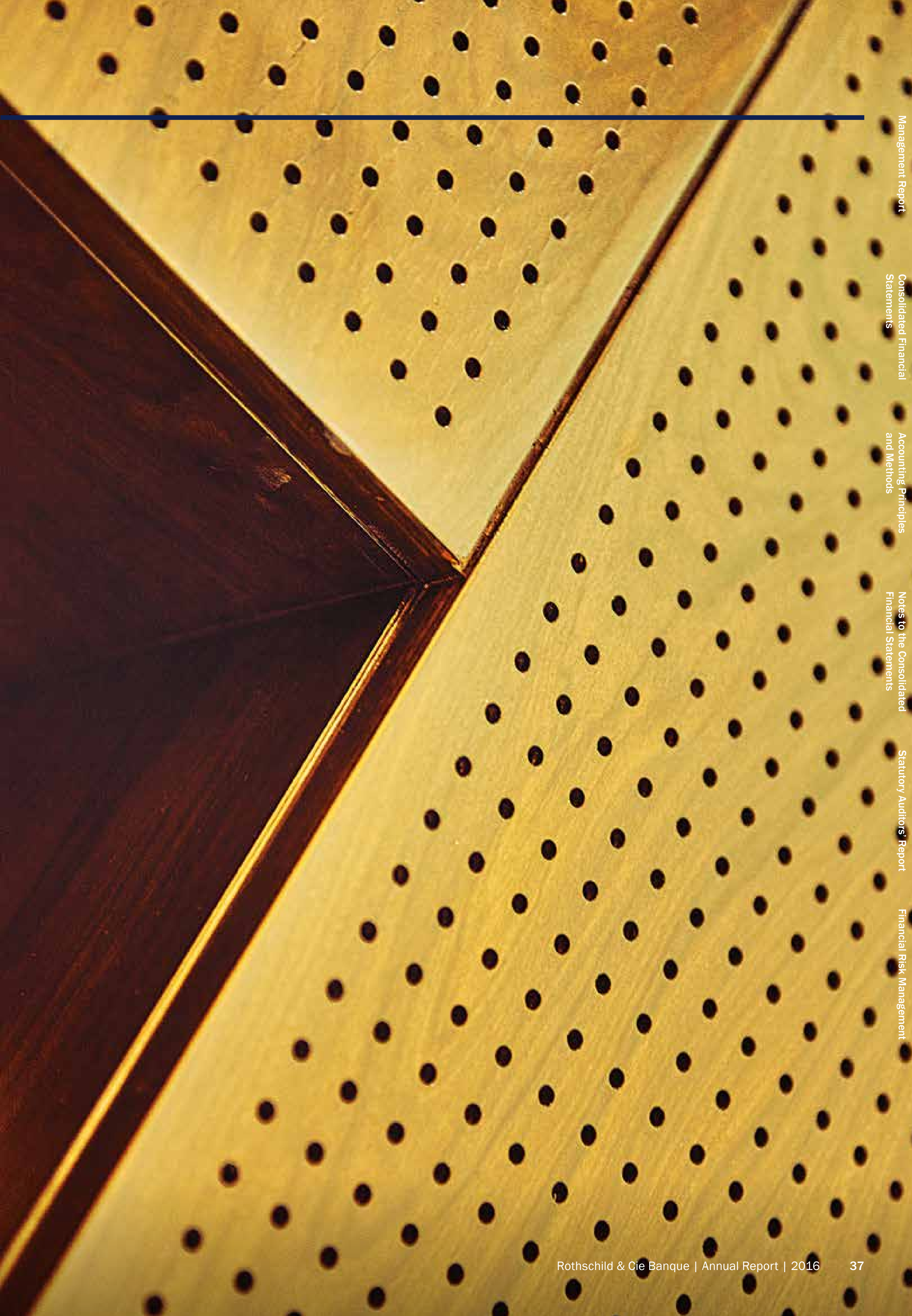
3. Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's Management report.

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

Paris La Défense and Paris, 6 March 2017

KPMG Audit FS II	Cailliau Dedouit et Associés
Pascal Brouard	Jean-Jacques Dedouit
Partner	Partner



Risk management and Capital Adequacy

In accordance with IFRS 7 “Financial instruments: Disclosures” and the prudential regulations, the risks relating to financial instruments and the way in which these are managed by the Rothschild & Cie Banque are described below.

A. Governance

The risks faced by Rothschild & Cie Banque and principal operating subsidiaries can be categorised as follows:

Credit risk arises from the potential failure of counterparties and customers to meet their obligations. This risk is managed and mitigated through loan documentation, credit policies, including credit approval, and monitoring and review processes that are independent of the relationship managers.

Market risk arises from changes in the market value of assets and liabilities. Financial instruments are used to offer customers solutions to achieve their commercial objectives. The market risk from trading activities is subject to internal limits and is measured and monitored independently of cash management staff.

Liquidity risk arises from banking activities, in particular from the funding of lending. Liquidity is measured by classifying assets and liabilities depending on their maturity date, and the net balance is compared each period.

Operational risk, which is inherent in all business activities, is the risk of loss resulting from inadequate or failed internal controls, internal processes and systems, or from external events. Key to the management of operational risk is the maintenance of a strong framework of internal controls.

Procedures implemented within the Group

Risk tolerance rules and prescribed limits

The counterparty limits are set by the monthly Treasury Committee, which is chaired by the Managing Partner in charge of risks. The fixing of limits by counterparty is based on the rating, which must be at least A1 or equivalent over the short term (Fitch, Moody’s, Standard & Poor’s) and based on an issue programme of significant size.

Limit monitoring and response to breaches

The Bank manages, on a consolidated basis, the counterparty and limit breach risks related to its own money market transactions and those of the UCITS for which it is depository or that Rothschild & Cie Gestion and Rothschild HDF Investment Solutions manage.

Since 31 December 2010, new risk exposure constraints have changed the authorised counterparty limits; these constraints are assessed on a consolidated basis with the Group’s various entities.

The Back Office produces a summary statement of counterparty outstandings and limits allowing it to check for breaches.

In the event of a breach, it alerts the Managing Partner in charge of risks, who requests that the breach be rectified or, if a new limit needs to be set, calls an ad hoc Treasury Committee meeting.

Fully loaded Core Equity Tier 1 Ratio

The initial directives on equity requirements (2006/48 and 2006/49) were replaced by a new legislative package called "CRD IV". The package, which has applied since 1 January 2014, includes a regulation (CRR) and a directive (CRD IV). This is the third series of amendments to the original directives, after the two previous revisions adopted by the Commission in 2008 (CRD II) and 2009 (CRD III).

The prudential equity capital at 31 December 2016 is determined in accordance with Regulation (EU) no. 575/2013 concerning the prudential requirements applicable to credit institutions and investment firms (CRR).

The table below shows the Core Equity Tier 1 solvency ratio (in accordance with the final provisions of CRR), which is equal to the ratio between overall tier one regulatory capital and the aggregate of risks weighted for credit risk, market risk, and operational risk.

(in thousands of euros)	31/12/16	31/12/15	
Group share of equity	**233,964**	**222,705**	
Group share of net income	67,316	51,490	
Prudential equity capital			
Group share of equity (excl. net income)	166,648	171,215	
Prudential adjustments:			
Goodwill	*(44,269)*	*(51,142)*	(1)
Other intangible fixed assets	*(1,592)*	*(2,509)*	
Adjustment on prudent valuation	*(398)*	*(265)*	
Application of more stringent requirements	*(15,800)*	*(8,948)*	(2)
Common Equity Tier 1 (A)	**104 589**	**108 351**	(3)
Total risk-weighted exposures (credit, market and operational) (B)	**927 275**	**861 280**	
Credit risk	*424,737*	*427,247*	
Market risk	*158*	*6,486*	(4)
Operational risk	*502,380*	*427,547*	(5)
Ratio Common Equity Tier 1 (A)/(B)	*11,28%*	*12,58%*	

(1) *of which: €6,873 K in goodwill included in the Sélection 1818 valuation as at 31 December 2015.*

(2) *of which: €-10,000 K concerning the foreseeable dividend by Messine Participation; €-9,800 K concerning 70% of dividend received in 2016 from Rothschild Europe BV to Rothschild et Compagnie; €+4,000 K concerning retained earnings by Montaigne Rabelais.*

(3) *Transitional" prudential equity capital amount to €105,453 K after the neutralisation of unrealised gains of €46 K.*

(4) *market risk RWAs correspond to the R Court Terme units held, calculated in interest rate position risk as at 31 December 2015.*

(5) *increase of operational risk is due to the increase of 3 year average Net banking income.*

B. Credit risk

Credit risk arises from all exposures to failure of counterparties relating to the Group's lending, trading, and investment activities.

During financial year 2016, the volume of customer loans increased in line with the Group's desire to round out its offering of services with loans mainly in the form of Lombard loans.

Exposure to credit risk is managed by detailed analysis of customer and counterparty creditworthiness prior to entering into an exposure and by continued monitoring thereafter. A significant proportion of the Group's lending exposures is secured on property or other assets. The Group monitors the value of any collateral obtained.

No new commitment can be made without the approval of the credit committee, which consists of five people: three general partners of the bank, the Accounts Director, and the Director of Legal Affairs.

Rothschild & Cie Banque Credit Committee reviews credit exposures on loans and debt securities on a quarterly basis, and for this purpose, they are classified as follows:

Category 1	Exposures where the payment of principal and interest is not in doubt and which are not part of categories 2 to 5.
Category 2	Exposures where the payment of interest or principal is not in doubt, but which require closer observation than usual due to some deterioration in the position of the client. Examples include: poor trading results; difficult conditions in the client's market sector; competitive or regulatory threats; or the potential impact from currency or other factors.
Category 3	Exposures where there has been further deterioration in the position of the client. Although the exposure is not considered as needing provisions, the relationship requires close monitoring by the front office team.
of which past due but not impaired financial assets	Financial assets that are past due but not impaired are exposures in respect of which it is not considered necessary to establish provisions despite non-payment of the contractual obligations.
Category 4	Exposures that are considered to be impaired and which carry a provision against part of the loan (unless collateral exists which exceeds the exposure's carrying value). At least some recovery is expected to be made.
Category 5	Exposures that are considered to be impaired and which carry a full provision. No significant recovery of value is expected.

The tables below disclose the maximum exposure to credit risk as at 31 December 2016 and as at 31 December 2015 for financial assets with significant exposure to credit risk, without taking account of counter-guarantees received.

Audited data to be published in accordance with IFRS 7

(in thousands of euros)	Category 1	Category 2	Category 3	Past due but not impaired	Category 4	Category 5	Impairment allowance	31/12/16
Financial assets at fair value through profit or loss (excluding investments in stocks)	10,245	–	–	–	–	–	–	10,245
Loans and advances to banks	525,911	–	–	–	–	–	–	525,911
Loans and advances to customers	309,547	–	–	–	–	1	(1)	309,547
Available-for-sale financial assets – Debt securities	369,246	–	–	–	–	–	–	369,246
Other financial assets	156,594	–	–	7,448	240	2,672	(2,555)	164,399
Sub-total of assets	**1,371,543**	**–**	**–**	**7,448**	**240**	**2,673**	**(2,556)**	**1,379,348**
Commitments and guarantees	88,030	–	–	–	–	–	–	88,030
TOTAL	**1,459,573**	**–**	**–**	**7,448**	**240**	**2,673**	**(2,556)**	**1,467,378**

(in thousands of euros)	Category 1	Category 2	Category 3	Past due but not impaired	Category 4	Category 5	Impairment allowance	31/12/15
Financial assets at fair value through profit or loss (excluding investments in stocks)	58,114	–	–	–	–	–	–	58,114
Loans and advances to banks	627,401	–	–	–	–	–	–	627,401
Loans and advances to customers	244,964	–	–	–	–	38	(38)	244,964
Available-for-sale financial assets – Debt securities	70,122	–	–	–	–	–	–	70,122
Other financial assets	154,112	–	–	2,970	100	2,668	(2,668)	157,182
Sub-total of assets	**1,154,713**	**–**	**–**	**2,970**	**100**	**2,706**	**(2,706)**	**1,157,783**
Commitments and guarantees	100,136	–	–	–	–	–	–	100,136
TOTAL	**1,254,849**	**–**	**–**	**2,970**	**100**	**2,706**	**(2,706)**	**1,257,919**

Credit risk analysis

Rothschild & Cie Banque monitors concentrations of credit risk by geographic location and industry sector. The tables below show an analysis of credit risk by location and by sector as at 31 December 2016 and 31 December 2015.

a) Credit risk by location

Location for loans and advances is measured by reference to the location of the borrower. Debt securities are recorded based on the location of the issuer of the security.

Audited data to be published in accordance with IFRS 7

(in thousands of euros)	UK and Channel	France	Switzerland	Rest of Europe	Americas	Australia and Asia	Other	31/12/16
Financial assets at fair value through profit or loss (excluding investments in stocks)	–	10,245	–	–	–	–	–	10,245
Loans and advances to banks	20,479	427,538	21,570	54,734	1,524	66	–	525,911
Loans and advances to customers	14,135	229,983	–	61,413	2,898	100	1,018	309,547
Available-for-sale financial assets – Debt securities	–	290,806	–	78,440	–	–	–	369,246
Other financial assets	15,421	104,932	149	27,271	7,651	5,906	3,069	164,399
Sub-total of assets	**50,035**	**1,063,504**	**21,719**	**221,858**	**12,073**	**6,072**	**4,087**	**1,379,348**
Commitments and guarantees	1,857	82,261	–	3,912	–	–	–	88,030
TOTAL	**51,892**	**1,145,765**	**21,719**	**225,770**	**12,073**	**6,072**	**4,087**	**1,467,378**

(in thousands of euros)	UK and Channel	France	Switzerland	Rest of Europe	Americas	Australia and Asia	Other	31/12/15
Financial assets at fair value through profit or loss (excluding investments in stocks)	–	3,002	–	–	55,112	–	–	58,114
Loans and advances to banks	15,144	551,314	12,742	47,176	988	14	23	627,401
Loans and advances to customers	4,830	186,288	2	49,734	2,355	764	991	244,964
Available-for-sale financial assets – Debt securities	–	122	–	70,000	–	–	–	70,122
Other financial assets	15,850	90,320	15,937	19,497	6,292	2,445	6,841	157,182
Sub-total of assets	**35,824**	**831,046**	**28,681**	**186,407**	**64,747**	**3,223**	**7,855**	**1,157,783**
Commitments and guarantees	5,640	77,388	–	16,921	91	–	96	100,136
TOTAL	**41,464**	**908,434**	**28,681**	**203,328**	**64,838**	**3,223**	**7,951**	**1,257,919**

b) Credit risk by business sector

The business sector analysis is based on Global Industry Classification Standards.

Audited data to be published in accordance with IFRS 7

(in thousands of euros)	31/12/16	31/12/15
Financial	831,394	890,445
Government	276,611	58,822
Private clients	286,991	238,035
Others	72,382	70,617
TOTAL	**1,467,378**	**1,257,919**

Financial sector exposures may be analysed as follows:

Audited data to be published in accordance with IFRS 7

(in thousands of euros)	31/12/16	31/12/15
Short-term interbank exposures	171,253	227,522
Securities borrowed under repurchase agreements	354,784	400,000
Negotiable debt securities	269,145	70,122
Other	36,212	192,801
TOTAL FINANCIAL SECTOR	**831,394**	**890,445**

Breakdown of credit risks

		Exposures after risk mitigation			
(in thousands of euros)	Gross exposures	Exposures at Default (EAD)	Capital requirement as at 10.5%	% of EAD	% of Req
General administration and central banks	269,968	–	–	0.00%	0.00%
Credit institutions	552,429	44,477	4,670	10.47%	10.47%
Non-financial corporations	659,090	204,509	21,473	48.15%	48.15%
UCITS	10,000	10,000	1,050	2.35%	2.35%
Households	68,021	3,540	372	0.83%	0.83%
Shares	48,597	72,896	7,654	17.16%	17.16%
Other assets	99,051	89,315	9,378	21.03%	21.03%
TOTAL	**1,707,156**	**424,737**	**44,597**	**100.00%**	**100.00%**

c) Large exposures monitoring

Large exposures (LE) are defined by Exposures at Default i.e. after risk mitigation incurred with a single counterparty when these transactions exceed 10% of Eligible capital. Natural persons or legal entities that are connected in such a way that, if one of them were to encounter financial problems, the others would probably experience repayment difficulties, are deemed to constitute a single counterparty.

In accordance with EU regulation 575/2013 (CRR), the total amount of Exposures at default on a group of credit institutions considered as a single counterparty must not exceed 25% of the Group's Eligible capital. Nevertheless, the limit for small institutions such as Rothschild & Cie Banque is 100% of eligible capital or €150 Millions.

(in thousands of euros)	31/12/16	31/12/15
Reporting threshold – 10% of eligible capital	10,454	10,590
Limit for non-banking counterparties – 25% of eligible capital	26,136	26,475
Limit for bank-related exposures – 100% of eligible capital	104,543	105,898

d) Settlement and delivery risk

Settlement and delivery risk arises from the realisation of exchange transactions, securities purchases/sales, or repo transactions, whether such transactions are undertaken for the Bank or on behalf of customers.

The Bank conducts almost all of its foreign exchange transactions through its global custodian, Bank of New York, which is subcontracted to hold foreign securities. Foreign exchange transactions are therefore carried out by means of simple transfers from one Bank of New York account to another, without any risk of a difference between the currency delivered and the currency received.

Repo transactions may consume capital in respect of settlement risk in the event that the delivery deadline is more than five business days after the second contractual payment or delivery date. At the close of the year, all securities due under repo agreements had been delivered.

Settlement and delivery risk subsists on purchases and sales of securities. The Bank has therefore put in place a certain number of alert and reporting procedures designed to manage this risk. At the close of the year, all securities subject to purchase or sale transactions had been delivered.

Due to the very short-term maturity on these transactions, the Bank had no capital requirements in respect of the associated payment risk at 31 December 2016.

C) Market risks

Rothschild & Cie Banque incurs market risks with respect to the following:

- Dealing in the money market and the foreign exchange market on behalf of the mutual funds for which the Bank is depository;
- Shares or units owned in the mutual funds that the Group manages. This position is monitored by the Accounting Department.

The Bank's cash surplus is invested in money-market instruments. The Accounting Department ensures that the commitments undertaken by the Bank remain within the regulatory capital requirements limits set under banking regulations.

1. Interest rate risk

The following table summarises the Bank's overall interest rate position at 31 December 2016.

Audited data to be published in accordance with IFRS 7

(in thousands of euros)	Fixed-rate lendings		Fixed-rate borrowings
Loans to customers		Customer demand deposits	855,153
Treasury bonds	5,912	Customer term deposits	33,204
Other debt securities	98,815	Debt securities issued	
TOTAL	**104,727**	**TOTAL**	**888,357**
		Fixed-rate short position	***783,630***

2. Risks related to equity investments

Rothschild & Cie Banque has exposure to the risk of changes in prices on its investments in equity instruments through holdings of share in venture capital funds (VCT) and unconsolidated equity investment.

Audited data to be published in accordance with IFRS 7

(in thousands of euros)	31/12/16	31/12/15
Internal mutual funds (UCITS)	10,176	130,291
External mutual funds	–	–
Venture capital funds (VCT)	2,415	5,371
Non-consolidated equity investments	1,268	1,183

3. Currency risk

Rothschild & Cie Banque runs a foreign exchange brokerage activity because it has a large number of mutual funds invested in foreign currency-denominated assets. It takes currency positions on an ancillary basis and keeps them at limited levels. The operational exposure to currency risk, which is measured by reference to the net book value of assets and liabilities in foreign currencies other than those denominated in a subsidiary's operating currency, was not material at 31 December 2016.

Risk tolerance rules and prescribed limits

Foreign currency limits are set by the Treasury Committee, which generally meets every quarter and is made up of representatives from the Bank's management and the Treasury Department.

The overall currency risk limit is €200,000; this risk is monitored daily for each currency concerned, based on limits set by the Treasury Committee of between €10,000 and €100,000.

Limit monitoring and response to breaches

The Back Office monitors the Bank's foreign currency position. Every day it checks the balances on the nostro accounts and reconciles the Bank's overall foreign currency position (including on customer accounts) with its accounting position.

The Back Office produces a monthly statement summarising the foreign currency position, which it sends to the Corporate Secretary, the Managing Partner in charge of risks, and the Head of Internal Control.

In the event of a breach, it alerts the Managing Partner in charge of risks, who requests that the breach be rectified or, if a new limit needs to be set, calls an ad hoc Treasury Committee meeting.

D. Liquidity risk

The management of liquidity risk is of fundamental importance for Rothschild & Cie Banque in order to ensure that it can meet its current liabilities. The Bank must maintain an adequate level of liquidity with respect to its internal liquidity policy and the provisions laid down by the French Prudential Supervisory Authority (Autorité de Contrôle Prudentiel et de Résolution).

Rothschild & Cie Banque's liquidities, which are made up of customer and mutual fund accounts as well as the results of the Bank's outstanding transactions, are placed with central banks in the form of overnight or short-term loans on maturities commensurate with the Bank's management requirements and its forecast positions.

The Bank makes these investments with counterparties authorised by the monthly Treasury and Intermediaries Committee.

1. Liquidity coverage ratio (LCR)

The 30-day Liquidity Coverage Ratio (LCR) came into force on 1 October 2015 setting the minimum coverage ratio for net cash outflows at 70% until 31 December 2016, then 80% in 2017 and 100% in 2018. The Group measures its liquidity requirements in accordance with the provisions of the Delegated Act adopted by the European Commission in January 2015. It has adapted its management process in keeping with this regulation.

(in thousands of euros)	31/12/16	31/12/15
Liquidity coverage ratio	220%*	736%

**Note that liquidity ratio as at 31 december 2015 is calculated under Basel 2 rules.*

The Group's regulatory liquidity reserve (High quality liquid assets, HQLA) amounted by EUR 252 million as at 31 december 2016, of which central bank deposits amounted to EUR 147 million and sovereign bonds amounted to EUR 105 million.

Cash outflows under the 30-day liquidity stress scenario amounted to EUR 459 billion. A large part of this amount corresponds to deposit outflow assumptions of EUR 385 billion out of total deposits of EUR 1,113 billion, i.e. an average outflow rate of 35%. They resulted in a net cash outflows of EUR 115 million. In 2016 the Group optimised its liquidity reserve in term of capital return, of which part of the invested securities are not recognised as liquidity within the meaning of the European prudential regulation and not included in the regulatory liquidity reserve.

2. Contractual maturity

The following table shows the financial assets and liabilities of Rothschild & Cie Banque and affiliates, analysed by remaining contractual maturity at the balance sheet date.

Audited data to be published in accordance with IFRS 7

(in thousands of euros)	Demand- < 1 month	> 1 month- < 3 months	> 3 months- < 1 year	> 1 year- < 2 years	> 2 years- < 5 years	> 5 years	No contractual maturity	31/12/16
Cash and balances at central banks	159,703	–	–	–	–	–	–	159,703
Financial assets at FVTPL	4,333	5,912	–	–	–	–	9,995	20,240
Hedging derivatives	–	–	–	–	–	–	–	–
Available-for-sale financial assets	194,044	5,331	138,820	30,925	–	126	3,737	372,983
Loans and advances to banks	225,911	300,000	–	–	–	–	–	525,911
Loans and advances to customers	83,949	19,712	192,040	12,706	1,140	–	–	309,547
Other financial assets	163,557	36	–	–	–	–	806	164,399
TOTAL ASSETS	**831,497**	**330,991**	**330,860**	**43,631**	**1,140**	**126**	**14,538**	**1,552,783**
Due to banks	10,875	–	–	–	–	–	–	10,875
Due to customers	950,980	–	–	–	–	–	–	950,980
Debt securities in issue	5,378	18,450	92,450	–	–	–	–	116,278
Subordinated debts	–	–	–	–	–	–	–	–
Other financial liabilities	55,041	(102)	–	–	–	–	–	54,939
TOTAL LIABILITIES	**1,022,274**	**18,348**	**92,450**	**–**	**–**	**–**	**–**	**1,133,072**

E. Operational risk

Operational risk is defined by the banking regulation (cf. CRR) as the risk of loss resulting from the unsuitability or failure of procedures, personnel or internal control systems, or from external events, including events with a low occurrence probability, but with a high risk of loss. Operational risk thus defined includes legal risks, but excludes strategic and reputational risks.

The French Prudential Supervisory Authority (L'Autorité de Contrôle Prudentiel) has authorised Rothschild & Compagnie Banque, as from 31 December 2008, to use the Advanced Measurement Approach (AMA) to measure its regulatory capital requirements in respect of operational risks.

The approach adopted for quantifying operational risks is based on the following methodology:

- Analysis of historical loss data:

Discounting to present value of losses;

Descriptive statistics of internal historical losses.

- Definition of operational risk classes:

The model in its current design is based on a number of operational risk classes, with operational risk for the Rothschild & Cie Banque group as a whole being measured by aggregating the measurements recorded for each of these classes;

This breakdown by operational risk class and the calculation methods used for each of these classes have been designed to reflect Rothschild's specific characteristics and the risk profiles of each event category. Clearly, this is an iterative approach depending on the probability of obtaining statistically acceptable results when the capital is measured.

- Determination of the calculation methods associated with these risk classes and calculation of the capital:

The calculation methods used for each of the classes are based on the actuarial method (Loss Distribution Approach) when the internal data are adequate or on a strict scenario analysis based on the risk map and analysis of the external losses database, with validation by business line experts. Studying the risk map makes it possible to ensure that the estimated risk profiles have been comprehensively researched.

(in thousands of euros)	31/12/16	31/12/15
Weighted risks related to operating risk	502,380	427,547

Information systems security

The aim of information systems security is to provide adequate IT security, especially concerning the methods of preserving data integrity and confidentiality.

The Group has created the post of Head of Information Systems Security with the aim of protecting exposed IT equipment (firewalls) and internal systems (anti-virus software, backups and disaster recovery plan) and applying the security procedures that the Group has defined.

Non-compliance risk

Non-compliance risk is defined as "the risk of a legal, administrative or disciplinary sanction, of financial loss or harm to reputation as a result of failure to comply with the legislative and regulatory provisions, professional standards, code of ethics and accepted practices specific to banks' or ISPs' operations".

This risk is different from the legal risk of litigation because it does not aim to sanction institutions for their contractual obligations, but for the harmful consequences of failure to comply with rules chiefly consisting of banking and finance regulations and rules of public policy.

More generally, the audits by the ACPR on the application of the Order of 3 November 2014 repealing 97-07 and by the AMF concerning application of the measures applicable to ISPs aim more at analysing the internal control system and its ownership by employees. The various inspection teams met by Rothschild & Cie Banque have enabled an improvement in risk management and monitoring processes and reinforcement of the control team. The recommendations were therefore put to good use to improve the system.

When performing mapping and identification of noncompliance risks, the financial prejudice was estimated by the following method:

- Identification of main non-compliance risks and internal control system enabling monitoring and management of these risks.
- Identification of any financial losses and evaluation of the internal control process to cope with them.

F. Fair value of financial instruments

The fair value of financial instruments is determined at the end of the financial year in accordance with the accounting principles and methods described in this report.

Hierarchy of the assets measured at fair value

Audited data to be published in accordance with IFRS 7 and IFRS 13

	31/12/2016				31/12/2015			
		Measured using				Measured using		
(in thousands of euros)	TOTAL	Level 1	Level 2	Level 3	TOTAL	Level 1	Level 2	Level 3
Government securities and equivalent	5,912	5,912	–	–	58,114	58,114	–	–
Mutual funds (UCITS)	9,995	9,995	–	–	129,993	129,993	–	–
Derivatives	4,333	–	4,333	–	–	–	–	–
Total financial assets at fair value through profit and loss	**20,240**	**15,907**	**4,333**	**–**	**188,107**	**188,107**	**–**	**–**
Other fixed-income securities	369,245	369,119	–	126	70,122	70,000	–	122
Sub-total of debt securities	***369,245***	***369,119***	***–***	***126***	***70,122***	***70,000***	***–***	***122***
Venture capital funds (VCT)	2,415	–	–	2,415	5,371		–	5,371
Mutual funds (UCITS)	181	181	–	–	298	298	–	–
Listed shares	670	670	–	–	489	489	–	–
Unconsolidated interests	472	–	–	472	572	–	–	572
Sub-total of equity securities	***3,738***	***851***	***–***	***2,887***	***6,730***	***787***	***–***	***5,943***
Total available-for-sale financial assets	**372,983**	**369,970**	**–**	**3,013**	**76,852**	**70,787**	**–**	**6,065**
TOTAL	**393,223**	**385,877**	**4,333**	**3,013**	**264,959**	**258,894**	**–**	**6,065**

For publication purposes, IFRS 13, with mandatory application as at 1 January 2013, requires the fair value measurement of financial instruments to be classified according to a three-level scale that takes account of whether the data falling within the measurement methods are observable.

Level 1 includes instruments whose fair value is determined directly using prices listed on active markets. For the RCB Group, these are mainly securities of Rothschild & Co and UCITS units whose net asset value is available and determined on a daily basis. The €5.9 M in government securities corresponds to French Treasury bonds acquired by Rothschild & Cie Banque.

Level 2 comprises instruments that are not listed on an active market, but whose measurement technique used incorporates parameters that are either directly observable (price) or indirectly observable (price derivatives) over the entire maturity of the instrument. For the RCB Group, these are primarily UCITS units whose value is not determined and published on a daily basis, but that are nevertheless the subject of regular publications of net asset values or their valuations are established from observable data.

Level 3 includes instruments whose measurement is based, at least in part, on unobservable market data that are likely to have a significant impact on the valuation. For the RCB Group, instruments classified in level 3 are mainly:

- non-listed shares that use non-observable data;
- FCPR units for which the manager or the external evaluator published a net asset value at the closing date, using a measurement technique using parameters that are not directly observable, or taking into account observable data, but with a significant adjustment that is not observable.

Changes in level 3 financial instruments at fair value as at 31 December 2016

The following table presents the movement in assets valued using Level 3 valuation methods in the period:

Audited data to be published in accordance with IFRS 7 and IFRS 13

(in thousands of euros)	Fixed income debt securities	UCITS	Shares
Opening	**122**	**5 371**	**572**
Transfer into/(out of) Level 3	–	–	–
Total gains/(losses) included in income statement	–	–	–
Total gains/(losses) recognised directly as equity	–	420	–
Acquisitions	4	890	–
Disposal	–	(4,266)	(100)
Closing	**126**	**2,415**	**472**

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