Crédit Mutuel Arkéa

Société Anonyme Coopérative de crédit à capital variable

1, rue Louis Lichou
29480 Le Relecq-Kerhuon

Statutory Auditors’ review report on the half-year financial information

For the period from January 1 to June 30, 2016

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This is a free translation into English of the statutory auditors' report on the interim financial statements issued in the French language and is provided solely for the convenience of English speaking readers. The report must be read in conjunction and construed in accordance with French law and French auditing professional standards.

Ladies and Gentlemen,

In compliance with the assignment entrusted to us by your annual General Shareholder's Meeting, and in accordance with the requirements of article L.451-1-2 III of the French monetary and financial code (Code monétaire et financier), we hereby report to you on :

- the review of the condensed half-year consolidated financial statements of Crédit Mutuel Arkéa for the period from January 1st to June 30th, 2016 ;

- verification of the information contained in the interim management report.

These condensed half-year consolidated financial statements were prepared under the responsibility of the Board of Directors. Our role is to express our conclusion on these financial statements, based on our limited review.

I- Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

II- Specific verification

We have also verified the information presented in the interim management report commenting the condensed half-year consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and its consistency with the condensed half-year consolidated financial statements.

Courbevoie and Neuilly-sur-Seine, August 29, 2016

The Statutory Auditors
French original signed by

Mazars	Deloitte & Associés
Charles de BOISRIOU	Jean-Vincent COUSTEL

Consolidated financial statements at June 30, 2016

Balance sheet			(In thousands of euros)
Assets	**Notes**	**06/30/16 IFRS**	**12/31/15 IFRS**
Cash, due from central banks	1	1,826,974	2,112,531
Financial assets at fair value through profit or loss	2	16,658,749	14,689,440
Derivatives used for hedging purposes	3	927,856	814,113
Available-for-sale financial assets	4	39,823,353	36,268,355
Loans and receivables due from banks	1	8,546,525	7,039,982
Loans and receivables due from customers	5	46,004,977	44,368,199
Remeasurement adjustment on interest-rate risk hedged portfolios		449,292	326,603
Held-to-maturity financial assets		141,527	151,544
Current tax assets		116,821	216,872
Deferred tax assets		66,573	93,885
Accruals, prepayments and sundry assets		2,604,410	2,221,532
Non-curent assets held for sale		0	0
Deferred profit-sharing		0	0
Equity method investments		219,531	207,534
Investment property		560,596	581,135
Property, plant and equipment		240,207	235,251
Intangible assets		422,570	336,192
Goodwill	6	542,438	448,633
TOTAL ASSETS		**119,152,399**	**110,111,801**

Liabilities	**Notes**	**06/30/16 IFRS**	**12/31/15 IFRS**
Due to central banks	7	0	0
Financial liabilities at fair value through profit or loss	8	773,959	570,479
Derivatives used for hedging purposes	3	649,095	504,095
Due to banks	7	6,821,565	6,455,557
Customer accounts	9	46,407,976	41,450,622
Debt securities	10	13,634,533	13,779,820
Remeasurement adjustment on interest-rate risk hedged portfolios		58,997	19,229
Current tax liabilities		144,122	163,170
Deferred tax liabilities		196,084	133,466
Accruals, deferred income and sundry liabilities		4,419,563	3,296,487
Liabilities associated with non-current assets held for sale		0	0
Insurance companies' technical reserves	11	38,793,040	37,214,272
Provisions	12	379,102	366,385
Subordinated debt		896,349	381,953
Total equity		**5,978,014**	**5,776,266**
Shareholders' equity, group share		5,975,388	5,773,723
Share capital and reserves		2,200,143	2,202,620
Consolidated reserves		3,240,079	2,980,801
Gains and losses recognised directly in equity		348,468	293,987
Net income		186,698	296,315
Minority interests		2,626	2,543
TOTAL LIABILITIES		**119,152,399**	**110,111,801**

Consolidated financial statements at June 30, 2016

Income statement			**(In thousands of euros)**
	Notes	**06/30/16 IFRS**	**06/30/15 IFRS**
Interest and similar income	14	941,347	1,019,004
Interest and similar expense	14	(651,321)	(690,132)
Fee and commission income	15	288,836	303,564
Fee and commission expense	15	(101,467)	(88,042)
Net gain (loss) on financial instruments at fair value through profit or loss	16	13,840	2,686
Net gain (loss) on available-for-sale financial instruments	17	77,311	20,918
Income from other activities	18	3,332,469	3,363,050
Expense from other activities	18	(2,964,590)	(3,016,039)
Net banking income		**936,425**	**915,009**
General operating expenses	19	(606,421)	(587,671)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		(50,887)	(46,615)
Gross operating income		**279,117**	**280,723**
Cost of risk	20	(26,041)	(46,894)
Operating income		**253,076**	**233,829**
Share of earnings of companies carried under equity method		4,959	1,382
Net income on other assets	21	(3,183)	5,796
Goodwill variations		0	0
Pre-tax income		**254,852**	**241,007**
Income tax	22	(68,144)	(90,568)
After-tax income from discontinued or held-for-sale operations		0	0
NET INCOME		**186,708**	**150,439**
O/w Minority interests		10	393
NET INCOME - GROUP SHARE		**186,698**	**150,046**

Statement of net income and gains and losses recognised directly in equity
(In thousands of euros)

	Notes	**06/30/16 IFRS**	**06/30/15 IFRS**
Net income		**186,708**	**150,439**
Actuarial gains and losses on defined-benefit plans		(7,161)	(2,910)
Gains and losses non recognised directly in equity for companies accounted for by the equity method		10	(155)
Items not to be recycled in profit and loss		**(7,151)**	**(3,065)**
Revaluation of available-for-sale financial assets		50,044	17,618
Revaluation of derivative hedging instruments		4,826	5,902
Gains and losses recognised directly in equity for companies accounted for by the equity method		6,762	5,725
Items to be recycled in profit and loss		**61,632**	**29,245**
Total gains and losses recognised directly in equity		**54,481**	**26,180**
Net income and gains and losses recognised directly in equity		**241,189**	**176,619**
O/w group share		241,179	176,228
O/w minority interests		10	391

CHANGE IN SHAREHOLDERS' EQUITY (In thousands of euros)

	Share Capital	Reserves	Total gains and losses recognised directly in equity	Net income, group share	Total equity, group share	Minority interest in equity	Total equity
Position at 1 January 2015	**2,211,473**	**2,758,102**	**223,558**	**269,469**	**5,462,602**	**5,734**	**5,468,336**
Capital increase	(17,296)				(17,296)		**(17,296)**
Elimination of own shares					0		**0**
Issuance of preferred shares					0		**0**
Equity components of hybrid instruments					0		**0**
Equity components whose payment is share-based					0		**0**
Allocation of the previous year income		269,469		(269,469)	0		**0**
Dividend paid in 2015 in respect of 2014		(40,911)			(40,911)	(1,305)	**(42,216)**
Change in equity interests in subsidiaries with no loss of control		184			184	(13)	**171**
Subtotal of movements related to relations with shareholders	2,194,177	2,986,844	223,558	0	5,404,579	4,416	**5,408,995**
Changes in gains and losses recognised directly in equity			26,183		26,183		**26,183**
First half of 2015 net income				150,046	150,046	393	**150,439**
Subtotal	2,194,177	2,986,844	249,741	150,046	5,580,808	4,809	**5,585,617**
Impact of acquisitions and disposals on minority interests		1,418			1,418		**1,418**
Share of changes in shareholders' equity of equity method associates and joint ventures		(1,550)			(1,550)		**(1,550)**
Change of accounting methods		6,646			6,646	9	**6,655**
Other changes		(87)			(87)	2	**(85)**
Position at 30 June 2015	**2,194,177**	**2,993,271**	**249,741**	**150,046**	**5,587,235**	**4,820**	**5,592,055**
Capital increase	3,005				3,005		**3,005**
Elimination of own shares					0		**0**
Issuance of preferred shares					0		**0**
Equity components of hybrid instruments					0		**0**
Equity components whose payment is share-based		(6,894)			(6,894)	(2,038)	**(8,932)**
Allocation of the previous year income					0		**0**
Dividend paid in 2015 in respect of 2014					0		**0**
Change in equity interests in subsidiaries with no loss of control		(184)			(184)	1	**(183)**
Subtotal of movements related to relations with shareholders	2,197,182	2,986,193	249,741	150,046	5,583,162	2,783	**5,585,945**
Changes in gains and losses recognised directly in equity			44,246		44,246	0	**44,246**
Second half of 2015 net income				146,269	131,675	(235)	**271,145**
Subtotal	2,197,182	2,986,193	293,987	296,315	5,773,677	2,548	**5,776,225**
Impact of acquisitions and disposals on minority interests					0		**0**
Share of changes in shareholders' equity of equity method associates and joint ventures		428			428		**428**
Change of accounting methods		8			8	(6)	**2**
Other changes		(390)			(390)	1	**(389)**
Position at 31 December 2015	**2,197,182**	**2,986,239**	**293,987**	**296,315**	**5,773,723**	**2,543**	**5,776,266**
Capital increase	(2,477)				(2,477)		**(2,477)**
Elimination of own shares					0		**0**
Issuance of preferred shares					0		**0**
Equity components of hybrid instruments					0		**0**
Equity components whose payment is share-based					0		**0**
Allocation of the previous year income		296,315		(296,315)	0		**0**
Dividend paid in 2016 in respect of 2015		(39,174)			(39,174)	(5)	**(39,179)**
Change in equity interests in subsidiaries with no loss of control		1,190			1,190	21	**1,211**
Subtotal of movements related to relations with shareholders	2,194,705	3,244,570	293,987	0	5,733,262	2,559	**5,735,821**
Changes in gains and losses recognised directly in equity			54,481		54,481	0	**54,481**
First half of 2016 net income				186,698	186,698	10	**186,708**
Subtotal	2,194,705	3,244,570	348,468	186,698	5,974,441	2,569	**5,977,010**
Impact of acquisitions and disposals on minority interests		1,345			1,345		**1,345**
Share of changes in shareholders' equity of equity method associates and joint ventures		(66)			(66)		**(66)**
Change of accounting methods					0		**0**
Other changes		(332)			(332)	57	**(275)**
Position at 30 June 2016	**2,194,705**	**3,245,517**	**348,468**	**186,698**	**5,975,388**	**2,626**	**5,978,014**

CASH FLOW STATEMENT

In thousands of euros

	06/30/16	06/30/15
Cash flows from operating activities		
Net income	186,708	150,439
Income Tax	68,144	90,568
Pre-tax income	**254,852**	**241,007**
Amortisation and depreciation of property, plant and equipment and intangible assets	50,347	45,632
Depreciation and impairment of goodwill and other fixed assets	(22)	0
Net additions to depreciations	1,581,200	1,407,957
Share of earnings of companies carried under equity method	(4,959)	(1,382)
Net loss/(gain) from investing activities	(36,960)	(18,023)
Net loss/(gain) from financing activities	0	0
Other movements without cash flows	81,044	39,235
Total non-cash items included in net income and other adjustments	**1,670,650**	**1,473,419**
Interbank and money market items	(924,865)	994,146
Customer items	516,876	(160,874)
Other financial items	(2,230,326)	(1,796,170)
Other non-financial items	784,075	(306,168)
Dividends received from companies carried under equity method	524	535
Taxes paid	3,356	21,390
Increase/(decrease) in operating assets/liabilities	**(1,850,360)**	**(1,247,141)**
CASH FLOWS FROM OPERATING ACTIVITIES	**75,142**	**467,285**
Cash flows from investing activities		
Financial investments	6,545	25,176
Investment property	8,616	1,660
Plant, equipment and intangible assets	(48,797)	(39,844)
Other	0	0
CASH FLOWS FROM INVESTING ACTIVITIES	**(33,636)**	**(13,008)**
Cash flows from financing activities		
Cash flows from/(to) the shareholders	(41,026)	(42,174)
Other cash flows from financing activities	(133,393)	0
CASH FLOWS FROM FINANCING ACTIVITIES	**(174,419)**	**(42,174)**
Net increase/(decrease) in cash and cash equivalents	**(132,913)**	**412,103**
Cash flows from operating activities	75,142	467,285
Cash flows from investing activities	(33,636)	(13,008)
Cash flows from financing activities	(174,419)	(42,174)
Cash and cash equivalents, beginning of the year	**2,114,121**	**1,272,473**
Cash, due from/to central banks (Assets and liabilities) (Notes 1 and 7)	2,112,531	1,340,308
Loans and receivables due from/to banks (Assets and liabilities) (Notes 1 and 7)	1,590	(67,835)
Cash and cash equivalents, end of the year	**1,981,208**	**1,684,576**
Cash, due from/to central banks (Assets and liabilities) (Notes 1 and 7)	1,826,974	1,883,556
Loans and receivables due from/to banks (Assets and liabilities) (Notes 1 and 7)	154,234	(198,980)
CHANGE IN NET CASH	**(132,913)**	**412,103**

The cash flow statement is presented using the indirect method.

Net cash and cash equivalents includes cash, debit and credit balances with central banks and demand debit and credit sight balances with banks.

Changes in cash from operations record the cash flow generated by the Group's lines businesses including such flows arising from negotiable debt securities.

Changes in cash from financing activities include changes related to shareholders' equity, subordinated debt and bonds.

Notes to the consolidated financial statements at June 30, 2016

MAJOR EVENTS

Crédit Mutuel Arkéa acquired exclusive control of Keytrade Bank on June 6, 2016.

This transaction, which aligns perfectly with the orientation of the Arkéa 2020 strategic business plan, enables Crédit Mutuel Arkéa to accelerate its growth in the online banking and digital financial services market and significantly strengthen its European positioning.

The acquisition of Keytrade Bank makes it possible to create a major online banking player in Europe, with nearly 600,000 clients in four countries (France, Belgium, Luxembourg and Switzerland) and €20 billion in assets under management.

Despite an unfavorable economic environment – persistently low interest rates, a falling stock market and Brexit – weighing heavily on online banking activities, Crédit Mutuel Arkéa Group still managed to record a solid overall performance in the first half. Net banking income was sustained and the cost of risk fell sharply thanks to effective risk management.

The income statement showed a non-recurring capital gain of €26 million following the disposal of the stake in Visa Europe, which was purchased by Visa Inc. The transaction was settled by Visa Inc. in cash, preferred shares and a three-year deferred cash payment.

In terms of its balance sheet structure and solvency and liquidity ratios, Crédit Mutuel Arkéa continues to post robust fundamentals.

The Group's growth momentum was also reflected by a Tier 2 subordinated debt offering in the second quarter of 2016.

ACCOUNTING STANDARDS APPLIED

Pursuant to European Regulation 1606/2002 of July 19, 2002 on the application of international standards, Crédit Mutuel Arkéa group prepared its interim consolidated financial statements for the period ending June 30, 2016 in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable as of that date. These statements are presented in accordance with ANC recommendation 2013-04. The content of these financial statements was determined in accordance with the provisions of IAS 34 relating to condensed interim financial reporting.

As of June 30, 2016, the Group is subject to new standards, applicable at January 1, 2016, which are presented in the following table:

IAS / IFRS Standards	Topic	Application date	Impact of application
Amendments to IAS 19 - Employee Contributions	The purpose of the amendments is to clarify and simplify the accounting for contributions that are independent of an employee's number of years of service.	01/01/16	No impact
Annual improvements 2010-2012	As part of the IFRS annual improvement process, the IASB published a series of amendments relating to existing standards.	01/01/16	Limited
Amendments to IFRS 11	These amendments further clarify accounting for the acquisition of an interest in a joint operation whose activity constitutes a business as defined in IFRS 3. These acquisitions must be recognized in accordance with the principles of IFRS 3 and other IFRS that do not conflict with the guidance in IFRS 11. Information required for business combinations must be disclosed in the notes to the financial statements.	01/01/16	Limited
Amendments to IAS 16 and IAS 38	These amendments provide clarification on acceptable methods of depreciation and amortization. The amendments to IAS 16 specify that the depreciation and amortization methods based on revenues are inappropriate for intangible assets and property, plant and equipment. However, this presumption for intangible assets may be disregarded in certain cases.	01/01/16	No impact
Amendments to IAS 16 and IAS 41	These amendments pertain to bearer biological assets that now fall under the scope of IAS 16 instead of IAS 41.	01/01/16	No impact
Amendments to IAS 1 - Disclosure initiative	The amendments aim to strengthen the requirement for companies to use professional judgment in determining the disclosures to provide in their financial statements so that the disclosures are relevant and effective	01/01/16	Limited
Annual improvements 2012-2014	As part of the IFRS annual improvements cycle, the IASB issued a series of amendments to existing standards.	01/01/16	Limited
Amendments to IAS 27 - Use of the equity method in separate financial statements	The purpose of the amendments is to enable entities to use the equity method to account for their investments in subsidiaries, joint ventures and associates in their separate financial statements.	01/01/16	No impact

In addition, the group decided not to apply optional new standards and interpretations adopted by the European Union when application is only optional in 2016.

Main standards not adopted by the European Union as of June 30, 2016

IFRS 9 Financial instruments

Subject to its adoption by the European Union, IFRS 9 should become mandatory in fiscal years beginning on or after January 1, 2018. At present, CM Arkéa Group does not plan to adopt this standard early.

Since the amount of the issuer credit spread is considered immaterial, CM Arkéa Group does not intend to pursue the early recognition of this item in shareholders' equity.

Aware of the strategic and operational impact represented by IFRS 9, CM Arkéa's management designated the IFRS 9 project as essential for the Group and chose to launch it in the first half of 2015.

Following the impact analysis work that resulted from IFRS 9 performed in 2015, CM Arkéa Group plans, in 2016 and 2017, to upgrade its IT systems and revise part or all of its information organizing and gathering processes.

IFRS 15 Revenue from contracts with customers

Subject to its adoption by the European Union, IFRS 15 will become mandatory for fiscal years starting January 1, 2018. At the present time, CM Arkéa Group does not plan to adopt the standard early.

This standard defines the principles for recognizing revenue from contracts with customers, with the exception of contracts subject to special standards, in particular leasing agreements, insurance contracts and financial instruments.

The Group is still reviewing the main impacts of this new standard.

The standards adopted by the European Union may be viewed on the European Commission web site:
http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm

ACCOUNTING PRINCIPLES AND EVALUATION METHODS

Use of judgments and estimates in the preparation of financial statements

Preparation of the Group's financial statements requires making assumptions and estimates whose future realisation involves certain risks and uncertainties. Accounting estimates requiring the use of assumptions are used primarily for measuring the following:

- fair value of financial instruments not quoted on an active market and measured at fair value,
- permanent impairment of financial assets classified as "available-for-sale,"
- impairment of loans and receivables,
- impairment tests of intangible assets,
- deferred tax assets,
- provisions.

The conditions for using any judgments or estimates are specified in the accounting principles and valuation methods described below.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities at fair value are divided into those held for trading and those assigned to this category under the option afforded by IAS 39. This allows financial instruments to be designated at fair value through profit or loss on initial recognition in the following cases:

- hybrid instruments containing one or more embedded derivatives,
- groups of assets or liabilities measured and managed at fair value,
- substantial elimination or reduction of an accounting treatment inconsistency.

The Crédit Mutuel Arkéa group uses this option to record the following financial instruments at fair value through profit or loss:

- investments serving as cover for unit-linked life insurance contracts in order to eliminate the inconsistency in accounting treatment with the related insurance liabilities,
- shares of UCITS in which the management company is in the Group
- certain structured or restructured products (CDOs, convertible bonds),
- issues of liabilities originated and structured on behalf of clients whose risks and any hedging thereof are managed as part of the same whole.

Unless they qualify for hedge accounting, derivative financial instruments are by default classified as trading instruments.

Derivatives are covered by master netting agreements, which make it possible to net winning and losing positions in case of counterparty default. The Group negotiates ISDA-type master agreements for each derivative transaction.
However, these derivatives are not netted on the balance sheet.
Through these collateralization agreements, the Group receives or disburses only cash as guarantees.

IFRS 13 allows for the recognition of own credit risk when valuing derivative financial liabilities (debt value adjustment – DVA). Moreover, the change in valuation techniques, which in particular takes into account the clarifications provided by this standard, led the Group to adjust the methods for measuring counterparty risk in the fair value of derivative financial assets (credit value adjustment – CVA).

The Group calculates the CVA and DVA on derivative instruments for each counterparty to which it is exposed.

The credit valuation adjustment (CVA) calculation consists of multiplying the Group’s expected positive exposure with regard to the counterparty, estimated using the so-called swaptions method, by the probability of default (PD) of the counterparty and the loss given default (LGD) rate. The debt valuation adjustment (DVA) calculation consists of multiplying the Group’s expected negative exposure with regard to the counterparty, estimated using the so-called swaptions method, by the Group’s probability of default (PD) and loss given default (LGD) rate.

The calculation methodology uses market data, notably CDS curves to estimate the PD.

The funding valuation adjustment (FVA) is intended to materialize the cost to finance positions on derivative instruments that do not involve any posting of collateral. The FVA calculation consists of multiplying the Group’s expected exposure with regard to the counterparty by the estimated market financing cost.

A positive amount of €30.8 million was recognized on the balance sheet for valuation adjustments as of June 30, 2016.

Financial assets representative of unit-linked insurance contracts include bonds issued by group entities that have not been eliminated through consolidation, in order to maintain the matching of technical provisions on unit-linked contracts with the fair value of the identified assets, which are themselves recognised at fair value. Not eliminated fixed-income securities totaled €397 million as of June 30, 2016 compared with €412 million as of June 30, 2015. Their elimination would have reduced pre-tax net income by €7.1 million as of June 30, 2016.

Initially, financial assets or liabilities at fair value through profit or loss are recognised at their fair value excluding acquisition costs and including accrued dividends. At the balance sheet date, they are measured at fair value and changes in fair value are recorded in the income statement for the period under the heading “net gain (loss) on financial instruments at fair value through profit or loss.”

Dividends from variable-income securities and the gains or losses realised on such securities are also recorded in the income statement heading “net gain (loss) on financial instruments at fair value through profit or loss.”
Accrued or earned income from fixed-income securities belonging to this category is recorded in the profit and loss account under the heading “Net gain (loss) on financial instruments at fair value through profit or loss”. No impairment is recognised on the assets at fair value through profit or loss as the counterparty risk is included in the market value.

Embedded derivatives

An embedded derivative is a component of a hybrid instrument that, when separated from its host contract, satisfies the definition of a derivative. It is designed to affect certain cash flows, much like a standalone derivative.
This derivative is split off from the host contract and accounted for separately as a derivative instrument at fair value through profit or loss when the following three conditions are met:

- the hybrid instrument that hosts the embedded derivative is not measured at fair value through profit or loss;
- the economic characteristics of the derivative and its related risks are not considered to be closely linked to those of the host contract;
- the separate measurement of the embedded derivative to be separated is sufficiently reliable to provide an accurate assessment.

Realised and unrealised gains and losses are recognised on the income statement under “Net gain (loss) on financial instruments at fair value through profit or loss”.

Derivative financial hedging instruments – assets and liabilities

To classify a financial instrument as a hedging derivative, the Group prepares formalised documentation of the hedging transaction at inception: hedging strategy, designation of the hedged instrument (or the portion of the instrument), nature of the hedged risk, designation of the hedging instrument, procedures for measuring the effectiveness of the hedging relationship. According to this documentation, the Group assesses the effectiveness of the hedging relationship at inception and at least every six months. A hedging relationship is deemed to be effective if:

- the ratio between the change in value of the hedging derivatives and the change in value of the hedged instruments for the risk hedged lies between 80% and 125%,
- the changes in value of the hedging derivatives expected over the residual term of said derivatives offset those expected from the hedged instruments for the risk hedged.

The Group designates a derivative financial instrument as a hedging instrument in a fair value hedge or in a cash flow hedge based on the nature of the risk hedged.

Fair value hedging:

The goal of fair value hedging is to reduce the risk of a change in fair value of a financial transaction. Derivatives are used notably to hedge the interest rate risk on fixed-rate assets and liabilities.

With respect to fair value hedging transactions, the change in fair value of the derivative is recorded on the income statement under the heading “Net gain (loss) on financial instruments at fair value through profit or loss” in symmetry with the revaluation of the hedged transaction. The only impact on the income statement is the potential ineffectiveness of the hedge.

The goal of the derivative financial instruments used as macro-hedging transactions is to hedge comprehensively all or part of the structural rate risk resulting primarily from retail banking operations. For the accounting treatment of such transactions, the Group applies the depreciations contained in IAS 39 as adopted by the European Union (the IAS 39 “carve-out”).

The accounting treatment of derivative financial instruments designated from an accounting standpoint as fair value macro-hedging is the same as the accounting treatment for derivatives used in fair value micro-hedging. The change in the fair value of portfolios hedged against interest rate risk is recorded in a separate line of the balance sheet entitled “Remeasurement adjustment on interest-rate risk hedged portfolios” with an offsetting entry recorded in the income statement. The effectiveness of hedges is checked prospectively by verifying that at inception derivatives reduce the interest rate risk of the hedged portfolio. Retrospectively, hedges must be discontinued when the underlyings to which they are linked become insufficient.

Cash flow hedging:

The goal of cash flow hedging is to reduce the risk related to a change in future cash flows from financial instruments. Derivatives are used notably to hedge the interest rate risk on adjustable rate assets and liabilities.

In cash flow hedging transactions, the effective portion of the change in the fair value of the derivative is recorded in a separate line in equity “Gains and losses recognised directly in equity” while the ineffective portion is recognised in the profit and loss account under the heading “Net gain (loss) on financial instruments at fair value through profit or loss.”

As long as the hedge is effective, the amounts recorded in equity are transferred to the income statement under “interest and similar income (expense)” synchronised with the cash flows of the hedged instrument impacting profit or loss. If the hedging relationship is discontinued or if it becomes ineffective, hedge accounting ceases. The accumulated amounts recorded in equity as part of the revaluation of the hedging derivative are transferred to the income statement under “interest and similar income (expense)” at the same time as the hedged transaction itself impacts the income statement, or when it has been determined that such transaction will not take place.

The Group does not hedge net investments in foreign operations.

Available-for-sale financial assets

IAS 39 defines available-for-sale financial assets (AFS) as a category containing both fixed and variable income securities that are neither financial assets at fair value through profit or loss, nor financial assets held to maturity, nor loans.

Available-for-sale securities are recognised initially at their fair value i.e. the purchase price, including acquisition costs - if they are material – and accrued dividends. On the balance sheet date, such securities are measured at their fair value through equity “Gains and losses recognised directly in equity”.

Such unrealised gains or losses recognised in equity are only recognised in the income statement if the securities are disposed or if there is permanent impairment.

The accrued or earned income from fixed-income securities is recognised in the income statement under the heading “interest and similar income” according to the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. Dividends from variable-income securities are recognised in the income statement under the heading “Net gain (loss) on financial instruments available-for-sale.”

Impairment of securities

Impairment is recorded when objective signs of a decline in the value of securities exist. Objective signs of impairment are evidenced by a long-term, material decline in the value of equity shares or by the appearance of a material decline in credit risk due to default risk on debt securities.

In the case of variable-income securities, the group employs a quantitative criterion to identify material and long-term declines: impairment is recognised when a security has lost at least 50% of its value compared with its initial cost or over a period of more than 24 consecutive months. Analysis is performed line by line. the aforementioned criteria are nevertheless assessed for impairment if management believes that the amount invested cannot reasonably be expected to be collected in the near future. The loss is recognised in the income statement under “Net gain (loss) on financial instruments available-for-sale”. Any subsequent decline in value leads to an increase in impairment charged against net income. In the event of an increase in value, the provision may not be reversed through the income statement.

In the case of on debt securities, impairment is recorded in “Cost of risk,” and may be written back through profit when the market value of the security has increased due to some objective event that has taken place since the last time it was written down.

Held-to-maturity financial assets

Held-to-maturity financial assets are primarily fixed-income or determinable income securities with a fixed maturity that the Group intends and is able to hold to maturity.

Initially, they are recognised at their acquisition price including acquisition costs – when material – and accrued dividends. On the balance sheet date, they are valued according to the amortised cost method at the effective interest rate and may be the subject of impairment when necessary.

Loans and receivables due from financial institutions and customers

"Loans and receivables" are financial assets with fixed or determinable payments that are not quoted on an active market. All loans and receivables owed to Crédit Mutuel Arkéa group by financial institutions and customers that are not intended for sale when extended are recognised in the "loans and receivables" category.

Initially, they are recognised at market value which is usually the net amount initially paid out including the transaction costs directly attributable to the transaction and fees analysed as an adjustment to the effective yield of the loan. On the balance sheet date, loans and receivables are valued at amortised cost. Interest, transaction costs, and fees included in the initial value of the loans are amortised over the life of the loan. In this manner they contribute to the formation of income over the life of the loan.

Fees received in connection with financing commitments that have a low probability of being drawn or which are used haphazardly over time and in terms of amount are spread on a straight-line basis over the term of the commitment.

The fees received for commercial loan renegotiations are deferred. The renegotiation of the loan results in the derecognition or modification of the former loan. According to this principle, the fees remaining to be deferred on former loans are recognized immediately in income.

The restructuring of a loan following the debtor's financial difficulties results in the novation of the loan agreement. Based on the definition of this concept by the European Banking Authority (EBA) in its draft standards, published in late October 2013, the Group identified loan restructuring (Forbearance) on those loans held as of December 31, 2013. The accounting impact of the loan restructuring was integrated into the financial statements of 2014.

Impairment of loans and receivables

Receivables written-down on an individual basis

Recorded in the cost of risk, impairment losses are recognised on all kinds of receivables, even those with guarantees, once there is an established credit risk corresponding to one of the following situations:

- there have been one or more delinquent payments lasting at least three months (six months for loans to homebuyers and takers of property leases, nine months for loans to local governments, owing to the specific characteristics of these credits);
- the position of a counterparty presents characteristics such that even if there has been no delinquency, we can conclude that there is an established risk;
- the counterparty is involved in litigation, including proceedings for overindebtedness, court-ordered reorganisation/receivership, court-ordered settlement, court-ordered liquidation, personal bankruptcy, liquidation of property, including assignments in an international court.

The classification of the outstandings of any given counterparty as impaired leads by contagion to an identical classification of all those counterparty's assets and liabilities, and this irrespective of the existence of guarantees or collateral. This contagion extends to all of the other members of the same household (except minors) as well as all counterparties belonging to the same risk group.

The loss due to impairment is the difference between amortised cost and the present value of discounted estimated future cash flows. Discounting is carried out at the initial effective interest rate of the loan for fixed-rate loans and at the last effective interest rate set according to the contractual terms and conditions for variable-rate loans. In practice, future flows are discounted only if the impact of discounting is material compared to their amounts estimated conservatively. As a result, only the impairment on disputed receivables has been discounted. In the income statement, impairment loss movements are recorded under the heading "cost of risk" except for the add-backs for the effects of the reversal of discounting, which are recorded under "Interest and similar income."

Receivables written-down on a collective basis

Loans not individually impaired are grouped together based on their level of credit risk in order to form homogenous groups. The method for calculating group impairment is based primarily on the standards for measuring risks implemented as part of the Basel II reform.

This method entails recording impairment for the classes of risk corresponding to the highest probabilities of default. It takes into account the recalibration of the algorithms requested by the Autorité de Contrôle Prudentiel et de Résolution as part of the Basel II certification.

Furthermore, Crédit Mutuel Arkéa may be led to establish an additional collective reserve to cover the credit risk of a given economic sector or geographic region that is not covered by any individual impairment provisions.

Customer finance leases

Leasing operations are classified as finance leases when they transfer to the lessee substantially all the risks and rewards incidental to the ownership of the leased property. When this is not the case, leasing operations are classified as operating leases.
Finance leases are posted on the balance sheet at the amount corresponding to the value of the minimum payments receivable from the lessee discounted at the implied interest rate of the contract plus any unsecured residual value. The interest portion of the rental payments is recorded on the income statement under the heading "interest and similar income."

Property, plant and equipment, intangible assets and investment property

Pursuant to IAS 16, IAS 38 and IAS 40, property, plant and equipment or investment property is recognised as an asset if:

- it is likely that the future economic rewards from this asset will belong to the enterprise and
- the cost of said asset can be measured reliably.

Pursuant to IAS 40, the Group's property is classified as "investment property" when it is held primarily to earn rentals or for capital appreciation. Property held primarily to be occupied by the Group for administrative or sales uses is classified as "property, plant and equipment."

Property, plant and equipment and investment property are recorded on the balance sheet at cost plus expenses that can be directly attributable to the purchase of the property (e.g. transfer duties, fees, commissions, legal fees).
After initial recognition, property, plant and equipment and investment property are valued at cost minus accumulated depreciation and any impairment losses.

The fair value of investment properties is determined on a specific expert evaluation.

The method used to account for internally developed software is as follows:

- all software-related expenditures that do not satisfy the conditions for capitalisation (notably preliminary research and functional analysis expenses) are recognised as expenses;
- all software expenditures incurred after the start of the production process (detailed analysis, development, validation, documentation) are capitalised.

If one or more components of property, plant and equipment or investment property have a different use or earn economic rewards at a different pace than that of the property, plant and equipment or investment property as a whole, said components are depreciated according to their own useful life. The Group applied this accounting method for “Property, plant and equipment” and “Investment property”. The following components and amortisation periods have been adopted by the Group:

Component	Amortisation period
Land	Not amortised
Structural works	Head offices and investment property: 50 years Agencies: 25 years
Non-structural works	25 years
Plant and Equipment	20 years
Fixtures and fittings	3 to 10 years

The other tangible and intangible assets are depreciated according to their own useful life:

	Amortisation period
Furnitures	10 years
Computer equipment	3 to 5 years
Self-produced and acquired software	2 to 5 years
Portfolio of customer contracts acquired	6 to 13 years

In cases where the software is used in connection with a commercial contract the amortisation period may exceed five years, and is defined in terms of the contract period.

Amortisation is calculated using the straight-line method. For tangible and intangible non-current assets, amortisation is recorded on the income statement under the heading “Depreciation, amortisation and impairment of property, plant and equipment and intangible assets”. For investment property, they are recorded under the heading “expense from other activities.”

Indefinite-life assets are not depreciated but are the subject of impairment tests at least once a year.

Insofar as concerns goodwill, if the recoverable amount of the related cash-generating unit is less than its carrying amount, an irreversible provision for impairment loss of goodwill is recognised. The impairment loss is equal to the difference between the carrying amount and the recoverable amount. The recoverable amount is calculated by applying the most appropriate valuation method at the level of the cash-generating unit (CGU).

Given favorable market parameter trends and the absence of any factors that would fundamentally call into question the CGU forecasts for 2016 and the medium term, no impairment test was performed as part of the June 30, 2016 financial statements closing.

Gains or losses on the disposal of property, plant and equipment are recorded in the income statement under the heading “net income on other assets” while net gains and losses on the disposal of investment property are recorded under the heading “income or expense from other activities.”

Non-current assets held for sale

A non-current asset (or group of assets) satisfies the criteria for assets held for sale if it is available for sale and if the sale is highly likely to occur within 12 months.

The related assets and liabilities are shown separately in the statement of financial position, on the lines "Non-current assets held for sale" and "Liabilities associated with non-current assets held for sale". Items in this category are recorded at the lower of their carrying amount and fair value less costs to sell, and are no longer amortised.

When non-current assets held for sale or associated liabilities become impaired, an impairment loss is recognised in the income statement.

Discontinued operations include operations which are held for sale or which have been shut down, and subsidiaries acquired exclusively with a view to resale. They are shown separately in the income statement, on the line "After-tax income (loss) from discontinued operations."

Amounts owed to credit institutions and customers

At inception, amounts owed to credit institutions and customers are recognised at fair value, which is normally the net amount received initially less transaction costs that can be directly attributed to the transaction when they are significant. On the balance sheet date, such amounts are valued at their amortised cost according to the effective interest rate method.

By their nature, regulated savings products earn interest at the market rate. Housing savings plans and housing savings accounts are subject to a provision when necessary.
Accrued interest or interest due on amounts due to credit institutions and customers are recorded on the income statement under the heading "Interest and similar expense."

Debt securities

Liabilities in the form of securities issued are broken down by type of security (certificates of deposit, interbank market securities and negotiable debt securities, bond issues and similar) except for subordinated debt securities which are classified as subordinated debt.

Initially, they are recognised at fair value i.e. at their issue price less any transaction costs that can be directly related to the transaction when they are significant. On the balance sheet date, said amounts are valued at amortised cost according to the effective interest rate method. Accrued interest or interest due on debt securities represented by a certificate are recorded in the income statement under the "Interest and similar expense."

Provisions

The Group's obligations for which it is probable that an outflow of resources will become necessary to settle them and whose amount or due date are uncertain but which may be estimated reliably are the subject of provisions. In particular, such provisions cover labor-related commitments, home savings product risks, disputes and liability guarantees.

Pension commitments

Pension plans include defined-contribution plans and defined-benefit plans. Defined contribution plans do not give rise to an obligation for the Group and consequently do not require a provision. The amount of employer's contributions payable during the period is recognised as an expense, recorded in « personnel expenses ». Only defined benefit plans give rise to an obligation for the Group. This obligation must be measured and recognised as a liability by means of a provision. These pension commitments are fully provisioned in the balance sheet under "Provisions". Retirement benefits, time savings accounts and long-term service awards are recorded in this same account.

The Group's obligation is calculated with the projected unit credit method, using demographic, workforce turnover, salary increase, discount and inflation rates. Specifically, the calculations use a discount rate of 1.35% in June 2016, this rate is determined by reference to the iBoxx corporate AA 10+ euro zone index based on corporate bonds. The calculations also include an employee turnover rate of between 0.73% and 5.70% and a salary increase rate of between 1.52% and 2.50%[1]. Commitments are calculated using the TH00-02 and TF00-02 life expectancy tables for the phase during which the commitment is being constituted and the TGH05 and TGF05 life expectancy tables for the phase during which pensions are paid out.

Actuarial gains and losses represent the differences arising from changes in assumptions or differences between earlier assumptions and actual results.

For others long-term benefits, differences are recognised immediately in the income statement for the year.

As for post-employment benefits, actuarial differences are recognised under "Gains and losses recognised directly in equity".

Provisions for home savings accounts and plans

The purpose of the home savings provision is to cover the risks related to:
- the commitment to extend home loans to account holders and subscribers of home savings plans at a mandated interest rate that could be lower than the prevailing market rate.
- the obligation to pay interest for an indeterminate period of time on the savings in home savings plans at a rate set when the contract is signed (this rate can be higher than future market rates).

This provision is computed by generation of home savings plans (plans at the same rate at opening are considered a generation) and for all the home savings accounts (which are a single generation). The commitments between different generations are not offset. The commitments are computed based on a model that factors in:
- historical data on subscriber behavior,
- the yield curve and a stochastic modeling of changes thereto.

Provision allocations and write-backs are recognised in the income statement under "Interest and similar income" and "Interest and similar expense".

Subordinated debt

Subordinated debt are fixed or indefinite term debt that may or may not be represented by a certificate and which differ from receivables or bonds because repayment will take place only in the event of the liquidation of the debtor and after all the secured creditors have been paid. They are valued according to the amortised cost method. The accrued interest or interest due on subordinated debt is recorded on the income statement under the heading "Interest and similar expense."

Equity

Difference between liabilities and equity

[1] Arkade UES (Unité Economique et Sociale) and Arkéa-SCD rates representing 97% of the commitment

A debt instrument or a financial liability is defined as a contractual obligation to deliver cash or another financial asset or to exchange financial instruments under potentially unfavorable conditions.
An equity instrument is defined as a contract containing a residual interest in an enterprise after subtracting all its debts (net assets).

Shares

Pursuant to these definitions, the shares issued by the Crédit Mutuel savings banks are considered shareholders equity within the meaning of IAS 32 and IFRIC 2 interpretation and treated as such in the Group's consolidated financial statements.

Measurement of fair value of financial instruments

The fair value of assets and liabilities is defined as the price that would be received for the sale of an asset or paid for the transfer of a liability during an arm's length transaction between market participants as of the measurement date. Initially, fair value is usually the transaction price.

Financial assets and liabilities measured at fair value are assessed and recognized at fair value at the first-time consolidation as well as at subsequent measurement dates. These assets and liabilities include:
- Financial assets and liabilities at fair value through profit or loss
- Available-for-sale financial assets
- Derivatives used for hedging purposes

Other financial assets and liabilities are initially recognized at fair value. They are subsequently recognized at their amortized cost and are subjected to valuations whose methods are disclosed in the notes to the financial statements. These other financial assets and liabilities include:
- Loans and receivables due from banks and customers;
- Held-to-maturity financial assets;
- Liabilities to credit institutions and customers;
- Debt securities and Subordinated debt.

Assets and liabilities are furthermore broken down into three hierarchy levels, corresponding to the degree of observability of inputs used in the valuation techniques to determine their fair value.

Level 1: Assets and liabilities whose fair value is calculated using prices quoted (unadjusted) to which the entity has access on the measurement date on active markets for identical assets or liabilities.

An active market is one which, for the asset or liability being measured, has transactions occurring with sufficient frequency and volume as to provide price information on a continuous basis.

This category includes notably equities, bonds and shares of UCITS listed on an active market.

Level 2: Assets and liabilities whose fair value is calculated using data other than quoted prices that are observable either directly or indirectly.

In the absence of any such quotation, fair value is determined using "observable" market data. These valuation models are based on techniques widely used by market operators, such as the discounting of future cash flows for swaps or the Black & Scholes model for options.
This category includes notably the following financial instruments:
- Equities and bonds listed on a market that is considered inactive or that are unlisted;
- Over the counter derivative instruments like swaps and options products,
- Structured products.

The fair value of loans and receivables, liabilities to credit institutions, debt securities and subordinated debt are also included in this level.

Two methods are used to measure banks loans and receivables deposits:

- the fair value of fixed-rate items, such as fixed-rate loans and deposits, is measured by discounting the expected future cash flows;
- the fair value of variable-rate items, such as adjustable-rate loans, maturing in over one year is measured using the Black & Scholes model.

The market value of traditional fixed-rate loans, borrowings, debt securities and fixed-rate subordinated debt is obtained by discounting future cash flows and the use of dedicated yield curve spreads.

The market value of loans, borrowings, debt securities and variable-rate subordinated debt is obtained by discounting future cash flows with calculation of a forward and the use of dedicated yield curve spreads.

Signature cost of the Group is included in the rate curve held for the valuation of debt securities and subordinated debt.

The nominal value of short-term receivables and debt (under one year) is equivalent to their fair value.

Level 3 : Assets and liabilities whose fair value is calculated using data on assets or liabilities that are not based on observable market data.

Valuation methods using unobservable market data are used only in the folowing cases:

- loans and receivables, and liabilities to customers
- equity securities not listed on an active market.
- private equity funds
- certain specialized financings
- securities held by private equity companies.

Equity investments that are not listed on an official market are measured internally. In most cases, these holdings are measured on the basis of their revalued net assets or their carrying amount, on an entity-by-entity basis.

The valuation methods used by private equity companies generally include:

- the transaction price for recent acquisitions
- the historical multiples method for mature companies
- adjusted net asset value for portfolio companies (holding companies) and investment firms (funds).

Given the diversity of the instruments valued and the reasons for their inclusion in this category, any calculation of the sensitivity of the fair value to changes in parameters would not provide relevant information.

The valuation provided by the models is adjusted to reflect liquidity risk: using the valuations produced on the basis of a median market price, prices are adjusted to reflect the net position of each financial instrument at the bid or ask price (on selling or buying positions, respectively).

The day-one profit, i.e. the difference between the transaction price and the valuation of the instrument using valuation techniques, is considerated as null: transactions carried out by the Group for its own account are recognised at their fair value. Transactions carried out on behalf of customers generate a premium, which is recognised as revenue at inception.

Accounting principles for the insurance business

The specific accounting policies and valuation methods applied to assets and liabilities arising from the issuance of insurance policies are established in accordance with IFRS 4. The latter is also applicable to reinsurance contracts entered into and financial contracts that include a discretionary profit-sharing provision.

The other assets held and liabilities issued by insurance companies follow the rules common to all of the Group's assets and liabilities.

The same assumptions were used in both fiscal years to value assets under insurance contracts and insurance liabilities.

Assets

The accounting methods applied to financial assets, investment properties and other fixed assets are described elsewhere.

The financial assets representing the technical provisions on unit-linked contracts are presented in "Financial assets at fair value through profit or loss."

Liabilities

Insurance liabilities, representing commitments to policyholders and beneficiaries, are reported on the line "Insurance companies' technical reserves". They are valued, recognised and consolidated in accordance with French GAAP.

The technical provisions on life insurance contracts consist primarily of mathematical provisions, representing the difference between the present value of the commitments undertaken respectively by the insurer and the insured. The risks covered include primarily death, disability and inability to work (for credit insurance).

Life insurance provisions are estimated conservatively on the basis of contractually-defined technical rates.

Technical provisions on unit-linked contracts are valued at the reporting date, based on the value of the assets used to support these contracts.

Technical provisions on non-life insurance contracts include unearned premium (portion of premiums issued pertaining to later years), provisions for increasing risks (difference between the present value of the commitments undertaken respectively by the insurer and the insured) and claims payable.

Technical provisions are calculated gross of reinsurance, and the reinsurers' share is stated in assets.

Insurance contracts and financial contracts with a discretionary profit-sharing provision are subject to "shadow accounting." The provision for deferred profit-sharing represents the share of unrealised capital gains and losses on assets attributable to the insured. This provision is presented on either the liability or the asset side of the balance sheet. On the asset side, it appears as a separate item.
At the reporting date, an adequacy test is performed on the liabilities associated with these contracts (net of other items involving related assets or liabilities, such as deferred acquisition costs and the portfolio securities acquired): a verification is performed to ensure that the liability recorded is adequate to cover the future cash flows projected at that date. Any shortfall in the technical provisions is recognised in income for the period (and would be reversed, if necessary, at a subsequent date).

Income statement

Income and expenses arising on insurance contracts written by the Group are recognised in the Income statement under “Income from other activities” and “Expense from other activities”.

Income and expenses relating to the insurance entities’ proprietary activities are recognised under the appropriate headings.

CONSOLIDATION PRINCIPLES AND METHODS

SCOPE OF CONSOLIDATION AND CRITERIA

Consolidating entity

The consolidation scope includes all significant entities over which the consolidating entity exercises control or influence over management.

The consolidating entity of the Crédit Mutuel Arkéa group is Crédit Mutuel Arkéa as defined in the collective license issued by the “Autorité de Contrôle Prudentiel et de Résolution”. This credit institution consists of:

- the Federations of Crédit Mutuel de Bretagne, of Crédit Mutuel du Sud-Ouest and of Crédit Mutuel Massif Central,
- the Crédit Mutuel savings banks that are members of said federations
- Crédit Mutuel Arkéa.

Entities included in the consolidation scope are those over which the Group exercises exclusive or joint control or has significant influence and whose financial statements have a material impact on the Group’s consolidated financial statements, in particular with respect to total assets and net income contribution.

Shareholdings owned by private equity companies over which joint control or significant influence is exercised are excluded from the scope of consolidation. These investments are recognized at fair value through profit or loss.

Controlled entities

Control exists when the Group (i) has power over an entity, (ii) is exposed to or has a claim on variable returns through its ties to the entity, and (iii) has the ability to exercise its power over the entity in such a way as to influence the amount of the return it obtains.

The consolidation of a subsidiary in the Group’s consolidated financial statements begins on the date when the Group obtains such control and ends on the date when the Group relinquishes control over this entity.

Companies under exclusive control are fully consolidated. Full consolidation consists in substituting the value of the shares with the assets and liabilities of each subsidiary. The share of minority interests in equity and in the profit and loss account is recorded separately on the liabilities side of the consolidated balance sheet and in the consolidated income statement.

Investments in associates and joint ventures

An associate is an entity over which the Group exercises significant influence. Such influence is characterized by the ability to participate in decisions involving the entity’s financial and operating policies, even though control or joint control over these policies has not been obtained.
Significant influence is presumed if the Group owns, directly or indirectly, 20% or more of the voting rights in an entity. If more than 20% of the voting rights are held, the absence of significant influence can be shown through the lack of representation on governing bodies or the absence of participation in the process for determining company policies.

A joint venture is a partnership in which the parties exercising joint control over the entity have claims on the entity’s net assets.

Joint control is determined by the contractually agreed upon control exercised over an entity, which only exists in cases where decisions affecting the relevant activities require the unanimous consent of the parties sharing control.

The earnings, assets and liabilities of investments in associates and joint ventures are recognized in the Group's consolidated financial statements using the equity method.

Under this method, investments in associates and joint ventures are initially recognized at their acquisition cost, subsequently adjusted to reflect the Group's share in the earnings and other comprehensive income of the associates or joint ventures.

An investment is recognized using the equity method as of the date when the entity becomes an associate or joint venture. At the time of acquisition of an associate or joint venture, the difference between the cost of the investment and the Group's share of the fair value of the entity's identifiable net assets and liabilities is recognized as goodwill. In cases where the fair value of the entity's identifiable net assets and liabilities exceeds the cost of the investment, the difference is shown through profit and loss.

Investment in joint operations

A joint operation is a partnership in which the parties exercising joint control over the entity have direct claims over the assets as well as obligations with respect to the liabilities related to this operation.

Main changes in scope of consolidation

In June 2016, the Group acquired 100% of Keytrade, an online bank that specializes in banking and investment products. This acquisition adds four new fully consolidated entities to the consolidation scope:

- Keytrade Bank SA: an online bank based in Belgium;
- Keytrade Bank Luxembourg SA: a Subsidiary of Keytrade Bank SA in Luxembourg;
- Strateo: a Swiss branch of Keytrade Bank SA;
- RealLease SA: a leasing company.

The consolidation scope was also affected by the addition of SMSPG, a new special purpose vehicle held mainly by SPG managers that will also be fully consolidated.

The consolidated entities of Crédit Mutuel Arkéa are presented in note 25.

CONSOLIDATION PRINCIPLES

Balance sheet date

The balance sheet date for nearly all the consolidated companies is December 31.

Inter-company transactions

Reciprocal receivables, payables, and commitments and significant reciprocal expenses and income are eliminated for companies that are fully consolidated. For companies consolidated proportionally, the percentage consolidated of the company controlled jointly is eliminated.

Accounting for acquisitions and goodwill

The Group applies Revised IFRS 3 for business combinations. The acquisition cost is the sum of the fair values, at the business combination date, of the assets given, liabilities incurred or assumed, and equity instruments issued by the acquiree.
Revised IFRS 3 allows the recognition of total or partial goodwill, as selected for each business combination. In the first case, non-controlling interests are measured at fair value (so-called total goodwill method); in the second, they are based on their proportional share of the values assigned to the assets and liabilities of the acquired company (partial goodwill).

If goodwill is positive, it is recorded on the balance sheet under “Goodwill”; if negative, it is recognised immediately in the income statement, through “Goodwill variations”.

Goodwill is subject to an impairment test at least once per year and when there is evidence of an impairment loss.
Each goodwill item is allocated to a cash generating unit that stands to benefit from the acquisition. Any goodwill impairment is determined based on the recoverable amount of the cash generating unit to which it was allocated. Cash generating units are defined based on the group’s organisational and management method and take into account the independent nature of these units.

When the Group increases its percentage stake in a company that is already controlled, the difference between the purchase price of the stock and the additional share of the consolidated shareholders’ equity that these securities represent on the acquisition date is recognised in shareholders’ equity.
In the event of a reduction in the equity interest without any loss of control, the impact of the change in equity interest is also recognized directly in equity.

Leases, leases with a buy-out clause and financial leases

Rental, leases with a buy-out clause and financial leases are re-processed in such a way as to take financial accounting into consideration.

Translation of foreign currency denominated financial statements

The balance sheets of entities whose accounts are kept in a foreign currency are translated on the basis of the official foreign translation rate on the balance sheet date. The difference on share capital, reserves and retained earnings is recorded in shareholders’ equity in the “Translation Reserves” account. The income statement is translated on the basis of the average translation rate during the fiscal year. Translation differences are recorded directly in the “Translation Reserves” account.

Taxes

IFRIC 21 “levies charged by a public authority” specifies the conditions for recognizing a liability for a levy. An entity must recognize this liability only when the obligating event occurs in accordance with the relevant legislation. If the obligating event occurs over a period of time, the liability is recognized progressively over the same period. Lastly, if the obligating event is triggered on reaching a threshold, the liability is recognized when that minimum threshold is reached.

Deferred taxes

Deferred taxes are recognised on the temporary differences between the carrying amount of an asset or liability and its tax base. They are calculated using the liability method at the corporate tax rate known at the closing date for the period and applicable when the temporary difference is used.

Deferred tax assets are recognised only when it is probable that the enterprise will have sufficient future taxable profit against which the temporary differences can be used. Deferred taxes are recognised as income or expense except for those related to unrealised or deferred gains or losses for which deferred tax is allocated directly against this heading in equity. Deferred taxes are also recorded in respect of tax losses from prior years when there is convincing evidence of the likelihood that such taxes will be collected.

Deferred taxes are not discounted.

The « contribution économique territoriale » (CET) is treated as an operating expense, it does not entail the recognition of deferred taxes in the consolidated financial statements.

NOTES ON THE BALANCE SHEET In thousands of euros

Note 1. Cash, due from central banks
Loans and receivables due from banks

	06/30/16	12/31/15
Cash, due from central banks		
Due from central banks	1,705,451	1,974,987
Cash	121,523	137,544
TOTAL	**1,826,974**	**2,112,531**
Loans and receivables due from banks		
Crédit Mutuel network accounts	584,016	601,688
Other regular accounts	526,945	259,694
Loans	6,693,690	5,606,697
Securities not listed on an active market	10,000	10,000
Repurchase agreements	702,664	500,939
Receivables written down on an individual basis	0	0
Receivables related to all accounts	29,210	60,964
Depreciation	0	0
TOTAL	**8,546,525**	**7,039,982**
Of which, demand loans and deposits with banks	569,051	352,923

Note 2. Financial assets at fair value through profit or loss

	06/30/16	12/31/15
Assets classified at fair value option	16,012,427	14,214,563
Assets held for trading purposes	646,322	474,877
TOTAL	**16,658,749**	**14,689,440**

Note 2a. Assets classified at fair value option

	06/30/16	12/31/15
Securities	15,996,324	14,198,757
Treasury bills, notes and government bonds	0	0
Bonds and other fixed-income securities	4,548,756	4,179,123
Listed	4,419,335	4,114,081
Unlisted	129,421	65,042
Stocks and other variable-income securities	11,447,568	10,019,634
Listed	6,616,428	6,436,835
Unlisted	4,831,140	3,582,799
Other financial assets (1)	16,103	15,806
Of which securities loaned under purchased agreements	0	0
TOTAL	**16,012,427**	**14,214,563**

(1) customers and interbank loans and receivables

The maximum non-recovery risk for loans recognized at fair value through profit or loss totaled €15,871 thousand. This amount is not hedged by credit derivatives.

Note 2b. Assets held for trading purposes

	06/30/16	12/31/15
Securities	3,070	3,112
Treasury bills, notes and government bonds	0	0
Bonds and other fixed-income securities	3,070	3,112
Listed	3,056	3,098
Unlisted	14	14
Stocks and other variable-income securities	0	0
Listed	0	0
Unlisted	0	0
Derivatives held for trading purposes	643,252	471,765
Other financial assets	0	0
Of which securities loaned under purchased agreements	0	0
TOTAL	**646,322**	**474,877**

Derivative trading instruments are held as economic hedges on customer transactions.

Note 3. Derivatives used for hedging purposes

	06/30/16		12/31/15	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedges	1,471	24,055	2,057	24,897
Fair value hedges	926,385	625,040	812,056	479,198
TOTAL	**927,856**	**649,095**	**814,113**	**504,095**

The value of changes in cash flows recycled through profit or loss was equal to €805 thousand.

Note 4. Available-for-sale financial assets

	06/30/16	12/31/15
Treasury bills, notes and government bonds	**16,272,848**	**14,049,036**
Bonds and other fixed-income securities	**20,506,836**	**18,956,963**
Listed	18,787,398	17,860,524
Unlisted	1,719,438	1,096,439
Stocks and other variable-income securities	**1,936,173**	**2,343,231**
Listed	1,275,355	1,361,683
Unlisted	660,818	981,548
Investment securities	**662,848**	**549,775**
Long-term investments	397,580	276,849
Other long-term investments	174,030	180,418
Shares in associates	91,238	92,508
Translation adjustements	0	0
Loaned securities	0	0
Related receivables	**444,648**	**369,350**
TOTAL	**39,823,353**	**36,268,355**
Of which unrealised gains/losses recognised directly in equity	572,001	438,961
Of which securities sold under repurchase agreements	0	0
Of which impaired securities	0	0
Of which impaired bonds	35,241	40,655
Of which depreciation for impairment recorded in profit or loss	(57,350)	(57,762)
Of which listed long-term investment	0	0

Note 5. Loans and receivables due from customers

	06/30/16	12/31/15
Performing receivables	43,561,038	42,062,147
Commercial receivables	132,320	141,608
Other loans to customers	43,304,344	41,794,130
Housing loans	22,857,121	22,232,478
Other loans and various receivables, including repurchase agreements	20,447,223	19,561,652
Related receivables	124,374	126,409
Securities not listed on an active market	0	0
Insurance and reinsurance receivables	165,754	131,761
Receivables written down on an individual basis	1,509,035	1,513,100
Gross receivables	**45,235,827**	**43,707,008**
Specific depreciations	(853,786)	(854,549)
Collective depreciations	(103,449)	(108,596)
SUBTOTAL I	**44,278,592**	**42,743,863**
Finance leases (net investment)	1,766,574	1,663,460
Movable goods	956,145	863,672
Real estate property	745,552	725,080
Receivables written down on an individual basis	64,877	74,708
Depreciation	(40,189)	(39,124)
SUBTOTAL II	**1,726,385**	**1,624,336**
TOTAL	**46,004,977**	**44,368,199**
Of which Equity loans with no voting rights	12,165	12,165
Of which subordinated loans	0	0

Note 6. Goodwill

	12/31/15	Acquisitions	Disposals	Other	06/30/16
Gross goodwill	448,633	93,805	0	0	542,438
Depreciation	0	0	0	0	0
Net goodwill	**448,633**	**93,805**	**0**	**0**	**542,438**

Allocation by cash generating unit (CGU):

	Concerned companies	06/30/16	12/31/15
Investor services and on line savings	Fortuneo Keytrade Procapital	322,949	229,144
Provider of banking services	Monext	100,250	100,250
Restructuring of loans and associated funding	CFCAL Banque CFCAL SCF	38,216	38,216
Equipment lease financing	Leasecom Leasecom Car	32,723	32,723
Online payments	Leetchi SA Mangopay	25,682	25,682
Asset management	Schelcher Prince Gestion	11,649	11,649
Non-life insurance	Suravenir Assurances	10,969	10,969
Net goodwill		**542,438**	**448,633**

Note 7. Due to central banks - Due to banks

	06/30/16	12/31/15
Central banks	**0**	**0**
Banks	**6,821,565**	**6,455,557**
Crédit Mutuel network accounts	25,396	10,214
Other current accounts	336,581	249,561
Loans	2,052,851	1,724,779
Other liabilities	51,819	51,143
Repurchase agreements	4,340,625	4,407,717
Related liabilities	14,293	12,143
TOTAL	**6,821,565**	**6,455,557**
Of which, loans and deposits with banks	414,817	351,333

Note 8. Financial liabilities at fair value through profit or loss

	06/30/16	12/31/15
Financial liabilities held for trading	**757,610**	**564,946**
Derivatives	757,610	564,946
Fair value option financial liabilities through profit or loss	**16,349**	**5,533**
Due to banks	82	18
Customer accounts	16,267	5,515
Debt securities	0	0
Subordinated debt	0	0
TOTAL	**773,959**	**570,479**

The redemption value of liabilities measured at fair value amounted to €773,933 thousand at June 30, 2016, against €570,473 thousand at December 31, 2015. Given the terms applicable to the Group's offerings, fair value changes due to changes in the Crédit Mutuel Arkéa group's issuer risk were negligible as of June 30, 2016.

Note 8a. Financial assets and liabilities subject to netting, an enforceable master netting agreement or a similar agreement.

	06/30/16						
	Gross amount of financial assets / liabilities recognized	Gross amount of financial assets / liabilities recognized and netted on the balance sheet	Net amount of financial assets / liabilities shown on the balance sheet	Related amounts not netted on the balance sheet			Net amount
				Impact of master netting agreements	Financial instruments received/given as guarantees	Cash collateral	
Assets							
Derivatives	1,571,108	0	1,571,108	(428,959)	0	(614,748)	527,401
Reverse repurchase agreement of securites, securities borrowing or similar agreements	702,664	0	702,664	0	(702,664)	0	0
Other financial assets	0		0	0	0	0	0
Total assets	**2,273,772**	**0**	**2,273,772**	**(428,959)**	**(702,664)**	**(614,748)**	**527,401**
Liabilities							
Derivatives	1,406,705	0	1,406,705	(428,959)	0	(822,098)	155,648
Repurchase agreements of securities, securities lending or similar agreements	4,340,626	0	4,340,626	0	(4,316,802)	(21,876)	1,948
Other financial assets	0		0	0	0	0	0
Total liabilities	**5,747,331**	**0**	**5,747,331**	**(428,959)**	**(4,316,802)**	**(843,974)**	**157,596**

	12/31/15						
	Gross amount of financial assets / liabilities recognized	Gross amount of financial assets / liabilities recognized and netted on the balance sheet	Net amount of financial assets / liabilities shown on the balance sheet	Related amounts not netted on the balance sheet			Net amount
				Impact of master netting agreements	Financial instruments received/given as guarantees	Cash collateral	
Assets							
Derivatives	1,285,878	0	1,285,878	(357,852)	0	(546,465)	381,561
Reverse repurchase agreement of securites, securities borrowing or similar agreements	500,939	0	500,939	0	(500,939)	0	0
Other financial assets	0		0	0	0	0	0
Total assets	**1,786,817**	**0**	**1,786,817**	**(357,852)**	**(500,939)**	**(546,465)**	**381,561**
Liabilities							
Derivatives	1,069,041	0	1,069,041	(357,852)	0	(643,035)	68,154
Repurchase agreements of securities, securities lending or similar agreements	4,409,469	0	4,409,469	0	(4,327,898)	(57,141)	24,430
Other financial assets	0		0	0	0	0	0
Total liabilities	**5,478,510**	**0**	**5,478,510**	**(357,852)**	**(4,327,898)**	**(700,176)**	**92,584**

Note 9. Customer accounts

	06/30/16	12/31/15
Savings accounts governed by special regulations	23,364,892	20,989,441
Demand accounts	18,368,971	16,179,123
Term accounts	4,995,921	4,810,318
Debt related to savings account	130,292	9,290
Subtotal	**23,495,184**	**20,998,731**
Current accounts	15,011,227	12,682,257
Term accounts and term loans	7,793,060	7,671,706
Repurchase agreements	0	0
Insurance and reinsurance liabilities	35,618	46,818
Related liabilities	72,887	51,110
Subtotal	**22,912,792**	**20,451,891**
TOTAL	**46,407,976**	**41,450,622**

Note 10. Debt securities

	06/30/16	12/31/15
Certificates of deposit	21,865	21,971
Interbank market securities and negotiable debt securities	3,220,363	3,202,656
Bond issues	10,205,589	10,287,338
Related liabilities	186,716	267,855
TOTAL	**13,634,533**	**13,779,820**

Note 11. Insurance companies' technical reserves

	06/30/16	12/31/15
Life	30,982,269	29,533,979
Of profit-sharing	2,814,968	2,327,128
Non life	442,511	433,264
Unit-linked contracts	7,200,638	7,108,811
Other	167,622	138,218
TOTAL	**38,793,040**	**37,214,272**
Active deferred profit-sharing	0	0
Reinsurers' share	(72,355)	(68,524)
Net technical provisions	**38,720,685**	**37,145,748**

Note 12. Provisions

	12/31/15	Allocations	Write-backs (used)	Write-backs (not used)	Other	06/30/16
Provisions for pension costs	253,091	23,643	(2,752)	(76)	326	**274,232**
Provisions for home savings accounts and plans	35,865	0	0	(5,236)	0	**30,629**
Provisions for execution of guarantee commitments	23,493	5,299	(147)	(4,256)	0	**24,389**
Provision for taxes	3,660	22	(391)	(91)	0	**3,200**
Provisions for legal proceedings	8,343	970	(1,776)	(631)	265	**7,171**
Provisions for risks	10,697	631	(2,013)	(40)	(1)	**9,274**
Other	31,236	1,619	(2,025)	(790)	167	**30,207**
TOTAL	**366,385**	**32,184**	**(9,104)**	**(11,120)**	**757**	**379,102**

Note 13a. Ranking of fair value

06/30/16	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	**33,595,081**	**4,215,688**	**2,012,584**	**39,823,353**
- Treasury bills and similar securities	16,421,668	41,218	0	16,462,886
- Bonds and other fixed-income securities (1) (2)	15,931,779	4,173,703	649,569	20,755,051
- Stocks and other variable-income securities	1,241,633	430	700,505	1,942,568
- Equity investments and other long-term investments	1	337	571,272	571,610
- Shares in associates	0	0	91,238	91,238
Financial assets at fair value through profit or loss	**7,839,735**	**4,537,073**	**4,281,941**	**16,658,749**
- Bonds and other fixed-income securities - Held for trading	0	3,070	0	3,070
- Bonds and other fixed-income securities – FVO (3)	560,703	3,874,648	113,405	4,548,756
- Stocks and other variable-income securities – Held for trading	0	0	0	0
- Stocks and other variable-income securities – FVO	7,279,032	0	4,168,536	11,447,568
- Due from banks – FVO	0	406	0	406
- Customer loans – FVO	0	15,697	0	15,697
- Derivatives and other financial assets - Held for trading	0	643,252	0	643,252
Derivatives used for hedging purposes	**0**	**927,856**	**0**	**927,856**
TOTAL	**41,434,816**	**9,680,617**	**6,294,525**	**57,409,958**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**0**	**773,959**	**0**	**773,959**
- Due to banks – FVO	0	82	0	82
- Customer deposits - FVO	0	16,267	0	16,267
- Debt securities - FVO	0	0	0	0
- Derivatives and other financial liabilities – Held for trading	0	757,610	0	757,610
Derivatives used for hedging purposes	**0**	**649,095**	**0**	**649,095**
TOTAL	**0**	**1,423,054**	**0**	**1,423,054**

(1) €187 million have been removed from level 1 to level 2. These consist mainly of bonds whose characteristics correspond to the criteria defined for level 2.
(1) €52 million have been removed from level 2 to level 1. These consist mainly of bonds whose characteristics correspond to the criteria defined for level 1.
(1) €25 million have been removed from level 1 to level 2. These consist mainly of bonds whose characteristics correspond to the criteria defined for level 2.

12/31/15	Level 1	Level 2	Level 3	Total
Financial assets				
Available-for-sale financial assets	**30,168,554**	**2,171,093**	**3,928,708**	**36,268,355**
- Treasury bills and similar securities	14,018,802	194,380	0	14,213,182
- Bonds and other fixed-income securities (1)	14,853,005	1,975,585	2,333,114	19,161,704
- Stocks and other variable-income securities	1,296,747	794	1,046,153	2,343,694
- Equity investments and other long-term investments	0	334	456,933	457,267
- Shares in associates	0	0	92,508	92,508
Financial assets at fair value through profit or loss	**8,695,502**	**3,622,855**	**2,371,083**	**14,689,440**
- Bonds and other fixed-income securities - Held for trading	0	3,112	0	3,112
- Bonds and other fixed-income securities – FVO (2)	1,021,189	3,132,172	25,762	4,179,123
- Stocks and other variable-income securities – Held for trading	0	0	0	0
- Stocks and other variable-income securities – FVO (3)	7,674,313	0	2,345,321	10,019,634
- Due from banks – FVO	0	659	0	659
- Customer loans – FVO	0	15,147	0	15,147
- Derivatives and other financial assets - Held for trading	0	471,765	0	471,765
Derivatives used for hedging purposes	**0**	**814,113**	**0**	**814,113**
TOTAL	**38,864,056**	**6,608,061**	**6,299,791**	**51,771,908**
Financial liabilities				
Financial liabilities at fair value through profit or loss	**0**	**570,479**	**0**	**570,479**
- Due to banks – FVO	0	18	0	18
- Customer deposits - FVO	0	5,515	0	5,515
- Debt securities - FVO	0	0	0	0
- Derivatives and other financial liabilities – Held for trading	0	564,946	0	564,946
Derivatives used for hedging purposes	**0**	**504,095**	**0**	**504,095**
TOTAL	**0**	**1,074,574**	**0**	**1,074,574**

(1) €442 million have been removed from level 1 to level 2. They primarily relate to structured bonds with characteristics corresponding to criteria defined for Level 2.
(2) €90 million have been removed from level 1 to level 2. They primarily relate to structured bonds with characteristics corresponding to criteria defined for Level 2.
(3) €417 million have been removed from level 1 to level 3. They involve mutual funds (UCITS) whose valuation corresponds to the criteria defined for level 3.

Note 13b. Fair value of financial assets and liabilities recognised at amortised cost

	06/30/16					
	Market value	Balance sheet value	Unrealised gains and losses	Level 1	Level 2	Level 3
Assets	**55,560,616**	**54,693,029**	**867,587**	**32,180**	**8,336,109**	**47,192,327**
Loans and receivables due from banks	8,225,547	8,546,525	(320,978)		8,225,547	0
Loans and receivables due from customers	47,192,327	46,004,977	1,187,350		0	47,192,327
Held-to-maturity financial assets	142,742	141,527	1,215	32,180	110,562	0
Liabilities	**70,482,564**	**67,760,423**	**2,722,141**	**0**	**24,098,478**	**46,384,086**
Due to banks	8,292,583	6,821,565	1,471,018		8,292,583	0
Customer accounts	46,384,086	46,407,976	(23,890)		0	46,384,086
Debt securities	14,903,780	13,634,533	1,269,247		14,903,780	0
Subordinated debt	902,115	896,349	5,766		902,115	0

	12/31/15					
	Market value	Balance sheet value	Unrealised gains and losses	Level 1	Level 2	Level 3
Assets	**52,880,039**	**51,559,725**	**1,320,314**	**41,790**	**6,853,153**	**45,985,096**
Loans and receivables due from banks	6,736,190	7,039,982	(303,792)		6,736,190	0
Loans and receivables due from customers	45,985,096	44,368,199	1,616,897		0	45,985,096
Held-to-maturity financial assets	158,753	151,544	7,209	41,790	116,963	0
Liabilities	**66,562,499**	**62,067,952**	**4,494,547**	**0**	**25,093,144**	**41,469,355**
Due to banks	7,565,126	6,455,557	1,109,569		7,565,126	0
Customer accounts	41,469,355	41,450,622	18,733		0	41,469,355
Debt securities	17,129,966	13,779,820	3,350,146		17,129,966	0
Subordinated debt	398,052	381,953	16,099		398,052	0

NOTES ON THE INCOME STATEMENT In thousands of euros

Note 14. Interest and similar income/expense

	06/30/16		06/30/15	
	Income	Expense	Income	Expense
Banks and central banks	48,266	(72,488)	69,375	(47,253)
Customers	711,373	(283,354)	752,111	(292,371)
Derivative hedge instruments	124,969	(119,109)	120,742	(127,038)
Available-for-sale financial assets	55,460	0	74,799	0
Held-to-maturity financial assets	1,279	0	1,977	0
Debt securities	0	(176,305)	0	(223,009)
Subordinated debt	0	(65)	0	(461)
TOTAL	**941,347**	**(651,321)**	**1,019,004**	**(690,132)**

In 2016, the decline in interest rates resulted in certain financial assets having a negative interest rate. The IFRS interpretations committee noted that interest related to a negative interest rate on a financial asset does not satisfy the definition of interest revenue in accordance with IAS 18 Revenue. This interest expense related to a financial asset should not be presented on the interest revenue line but in an appropriate expense line item. Negative interest is immaterial for the Group.

Note 15. Fee and commission income/expense

	06/30/16		06/30/15	
	Income	Expense	Income	Expense
Banks	4,807	(1,817)	3,648	(1,514)
Customers	45,713	(221)	57,267	(229)
Derivatives	4,362	(251)	5,239	(7)
Foreign currency	1,115	(135)	1,478	(20)
Financing and guarantee commitments	304	(1,880)	327	(829)
Securities and services	232,535	(97,163)	235,605	(85,443)
TOTAL	**288,836**	**(101,467)**	**303,564**	**(88,042)**

Note 16. Net gain (loss) on financial instruments at fair value through profit or loss

	06/30/16	06/30/15
Instruments held for trading	(7,571)	(12,662)
Fair value option instruments	17,251	11,107
Hedging ineffectiveness	814	4,421
cash flow hedges	25	19
fair value hedges	789	4,402
change in fair value of hedged items	(89,826)	99,099
change in fair value of hedges	90,615	(94,697)
Foreign exchange gains (losses)	3,346	(180)
TOTAL OF CHANGES IN FAIR VALUE	**13,840**	**2,686**

Note 17. Net gain (loss) on financial instruments available-for-sale

	06/30/16				06/30/15			
	Dividends	Realised gains/losses	Impairment	Total	Dividends	Realised gains/losses	Impairment	Total
Treasury bills, bonds and other fixed-income securities	0	17,634	0	**17,634**	0	8,828	0	**8,828**
Stocks and other variable-income securities	6,341	14,180	(278)	**20,243**	657	(683)	61	**35**
Investment securities	3,164	36,790	(520)	**39,434**	2,733	10,169	(847)	**12,055**
Other	0	0	0	**0**	0	0	0	**0**
TOTAL	**9,505**	**68,604**	**(798)**	**77,311**	**3,390**	**18,314**	**(786)**	**20,918**

Note 18. Income/expense from other activities

	06/30/16		06/30/15	
	Income	Expense	Income	Expense
Insurance business	3,222,339	(2,910,724)	3,255,260	(2,967,167)
Investment property	1,312	(13,237)	4,899	(14,707)
Other income	108,818	(40,629)	102,891	(34,165)
TOTAL	**3,332,469**	**(2,964,590)**	**3,363,050**	**(3,016,039)**

Note 19. General operating expenses

	06/30/16	06/30/15
Personnel expenses	(374,182)	(357,243)
Other expense	(232,239)	(230,428)
TOTAL	**(606,421)**	**(587,671)**

Note 19a. Personnel expenses

	06/30/16	06/30/15
Salaries, wages and compensation	(222,798)	(203,793)
Payroll taxes	(91,391)	(94,964)
Mandatory and optionnal employee profit-sharing	(25,608)	(29,794)
Taxes, levies and similar payments on compensation	(30,669)	(28,684)
Other	(3,716)	(8)
TOTAL	**(374,182)**	**(357,243)**

Note 19b. Other expenses

	06/30/16	06/30/15
Taxes other than on income or payroll-related	(51,760)	(60,245)
External services	(180,288)	(170,129)
Other expenses	(191)	(54)
TOTAL	**(232,239)**	**(230,428)**

Note 20. Cost of risk

	Allocations	Write-backs	Irrecoverable loans and receivables covered	Irrecoverable loans and receivables not covered	Collection of receivables written off	06/30/16
Financial institutions	0	0	0	0	0	**0**
Customers	(133,732)	143,698	(34,940)	(5,358)	1,293	**(29,039)**
Finance leases	(7,256)	6,883	(1,049)	(1,768)	0	**(3,190)**
Loans to customers	(120,550)	130,399	(33,891)	(3,590)	1,293	**(26,339)**
Financing and guarantee commitments	(5,926)	6,416	0	0	0	**490**
Available-for-sale assets	(85)	1,757	(8)	(68)	845	**2,441**
Held-to-maturity assets	0	0	0	0	0	**0**
Other	(2,077)	2,758	(158)	0	34	**557**
TOTAL	**(135,894)**	**148,213**	**(35,106)**	**(5,426)**	**2,172**	**(26,041)**

Note 21. Net income on other assets

	06/30/16	06/30/15
Tangible and intangible assets	(331)	5,796
losses on disposals	(820)	(317)
gains on disposals	489	6,113
Expenses related to business combinations	(2,852)	0
TOTAL	**(3,183)**	**5,796**

Note 22. Income tax

Breakdown of the income tax :

	06/30/16	06/30/15
Current income tax expense	(71 003)	(89 198)
Net deferred income tax expense	2 859	(1 370)
NET INCOME TAX EXPENSE	**(68 144)**	**(90 568)**
Income before taxes and income of companies accounted for under the equity method	249 893	239 625
EFFECTIVE TAX RATE	**27,27%**	**37,80%**

Analysis of effective tax rate:

	06/30/16	06/30/15
Normal taxe rate	34,43%	38,00%
Permanent differences	2,79%	4,31%
Impact of tax rate on long-term capital gains and tax relief	-9,17%	-2,68%
Impact of fiscal losses	-1,55%	-1,50%
Credit Tax	0,00%	-0,37%
Exceptional items	0,44%	0,15%
Other	0,33%	-0,11%
EFFECTIVE TAX RATE	**27,27%**	**37,80%**

OTHER NOTES In thousands of euros

Note 23. Commitments given and received

	06/30/16	31.12.2015
Commitments given	**11,060,314**	**10,898,488**
Financing commitments given	7,687,928	7,931,006
to banks and financial institutions	50,050	50,050
to customers	7,637,878	7,880,956
Guarantees given	2,945,026	2,769,235
to banks and financial institutions	26,267	76,197
to customers	2,918,759	2,693,038
Commitments on securities	427,360	198,247
repurchase agreements	0	0
other commitments given	427,360	198,247
Commitments received	**37,704,274**	**34,502,209**
Financing commitments received	10,147,085	8,491,975
from banks and financial institutions	10,141,585	8,491,975
from customers	5,500	0
Guarantees received	26,691,879	25,274,076
from banks and financial institutions	32,676	29,467
from customers	26,659,203	25,244,609
Commitments on securities	865,310	736,158
reverse repurchase agreements	0	0
other commitments received	865,310	736,158

Financing commitments given include the €50,050 thousand cash advance made to CRH to fund it.

	06/30/16	12/31/15
Receivables pledged as collateral	**14,098,588**	**12,357,037**
Banque de France	11,195,304	9,407,645
European Investment Bank	559,228	581,297
Caisse de Refinancement de l'Habitat	1,391,813	1,391,758
Caisse des dépôts et consignations	952,243	976,337
Société de Financement de l'Economie Française		
Securities lent	**0**	**0**
Deposits on market transactions	**995,687**	**772,753**
Securities sold under repurchase agreements	**4,340,625**	**4,407,717**

For its refinancing activity, the group entered into repurchase agreements of debt and/or equity securities. These agreements involve the transfer of ownership of the securities, which the beneficiary may in turn lend out, with interest or dividends going to the borrower. These transactions are subject to margin calls and the Group is exposed to the risk that the borrower may not return the securities.

As of June 30, 2016, the fair value of assets provided in repurchase agreements totaled €4,372 million.

Note 24. Segment reporting

	Retail banking		Insurance and asset management		Group	
	06/30/16	06/30/15	06/30/16	06/30/15	06/30/16	06/30/15
Internal income (1)	111,285	106,078	(111,285)	(106,078)	0	0
External income (2)	590,302	570,691	346,123	344,318	936,425	915,009
Net banking income	**701,587**	**676,769**	**234,838**	**238,240**	**936,425**	**915,009**
Operating expenses and allocations to amortisation	(575,268)	(559,890)	(82,040)	(74,396)	(657,308)	(634,286)
Gross operating income	**126,319**	**116,879**	**152,798**	**163,844**	**279,117**	**280,723**
Cost of risk	(26,066)	(46,769)	25	(125)	(26,041)	(46,894)
Operating income	**100,253**	**70,110**	**152,823**	**163,719**	**253,076**	**233,829**
Share of earnings of companies carried under equity method	3,304	2,369	1,655	(987)	4,959	1,382
Other	(3,164)	(253)	(19)	6,049	(3,183)	5,796
Pre-tax income	**100,393**	**72,226**	**154,459**	**168,781**	**254,852**	**241,007**
Income tax	(13,672)	(29,638)	(54,472)	(60,930)	(68,144)	(90,568)
Net income	**86,721**	**42,588**	**99,987**	**107,851**	**186,708**	**150,439**
Minority interests	3	(96)	7	489	10	393
Net income, Group share	**86,718**	**42,684**	**99,980**	**107,362**	**186,698**	**150,046**

	06/30/16	12/31/15	06/30/16	12/31/15	06/30/16	12/31/15
Business line assets	**73,574,533**	**67,055,024**	**45,577,867**	**43,056,777**	**119,152,399**	**110,111,801**

(1) Sectoral income arising on transactions with other sectors.

(2) Sectoral income arising on sales to external customers

Segment reporting is based on two business lines:

- Retail banking includes primarily the branch networks of CMB, CMSO and CMMC, the subsidiaries that finance businesses and the real estate division of the group,
- The other business line comprises subsidiaries specialised in asset management and insurance.

An analysis by geographical region is not relevant for the group as nearly all of its business is carried out in France.

Note 25. Scope of consolidation

Company name	Country	Sector / Activity	Controlling %		Interest % Group	
			06/30/16	12/31/15	06/30/16	12/31/15
Crédit Mutuel Arkéa + Fédérations et Caisses du Crédit Mutuel de Bretagne, du Sud-Ouest et du Massif Central	France	Bank / Mutualist bank	Consolidating entity			
Full consolidated companies						
ARKEA BANQUE ENTREPRISES ET INSTITUTIONNELS	France	Bank / Corporate banking	100,0	100,0	100,0	100,0
ARKEA BANKING SERVICES	France	Bank / Banking services	100,0	100,0	100,0	100,0
ARKEA BOURSE RETAIL	France	Bank / Holding	100,0	100,0	100,0	100,0
ARKEA CAPITAL GESTION	France	Insurances and asset management / Asset management	100,0	100,0	100,0	100,0
ARKEA CAPITAL INVESTISSEMENT	France	Bank / Venture capital	100,0	100,0	100,0	100,0
ARKEA CAPITAL PARTENAIRE	France	Bank / Venture capital	100,0	100,0	100,0	100,0
ARKEA CREDIT BAIL	France	Bank / Leasing and finance lease	100,0	100,0	100,0	100,0
ARKEA FONCIERE	France	Bank / Real-estate	100,0	100,0	100,0	100,0
ARKEA HOME LOANS SFH	France	Bank / Refinancing structure	100,0	100,0	100,0	100,0
ARKEA PUBLIC SECTOR SCF	France	Bank / Refinancing structure	100,0	100,0	100,0	100,0
ARKEA SCD	France	Bank / Services	100,0	100,0	100,0	100,0
CAISSE DE BRETAGNE DE CREDIT MUTUEL AGRICOLE	France	Bank / Mutualist bank	93,0	93,0	93,0	93,0
COMPAGNIE EUROPEENNE D'OPERATIONS IMMOBILIERES	France	Bank / Carry trading	100,0	100,0	100,0	100,0
CREDIT FONCIER ET COMMUNAL D'ALSACE ET DE LORRAINE BANQUE	France	Bank / Retail and specialised banking	100,0	100,0	100,0	100,0
CREDIT FONCIER ET COMMUNAL D'ALSACE ET DE LORRAINE SCF	France	Bank / Refinancing structure	100,0	100,0	100,0	100,0
FCT COLLECTIVITES	France	Insurances and asset management / Securitization fund	57,8	57,8	57,8	57,8
FEDERAL EQUIPEMENTS	France	Bank / Services	100,0	100,0	100,0	100,0
FEDERAL FINANCE	France	Insurances and asset management / Private bank and asset management	100,0	100,0	100,0	100,0
FEDERAL FINANCE GESTION	France	Insurances and asset management / Asset management	100,0	100,0	100,0	100,0
FEDERAL SERVICE	France	Bank / Services	97,0	97,3	97,0	97,2
FINANCO	France	Bank / Retail and specialised banking	100,0	100,0	100,0	100,0
Arkéa Direct Bank (ex Fortuneo SA)	France/Belgium	Bank / Financial and stock market intermediation	100,0	100,0	100,0	100,0
GICM	France	Bank / Services	100,0	100,0	97,0	97,2
KEYTRADE BANK Luxembourg SA (2)	Luxembourg	Bank / Financial and stock market intermediation	100,0	0,0	100,0	0,0
KEYTRADE BANK SA (2)	Belgium	Bank / Financial and stock market intermediation	100,0	0,0	100,0	0,0
LEASECOM	France	Bank / Leasing and finance lease	100,0	100,0	100,0	100,0
LEASECOM CAR	France	Bank / Leasing and finance lease	100,0	100,0	100,0	100,0
LEETCHI SA	France	Bank / Services	100,0	100,0	100,0	100,0
MANGOPAY SA (ex Leetchi Corp)	Luxembourg	Bank / Services	100,0	100,0	100,0	100,0
MONEXT	France	Bank / Services	100,0	100,0	100,0	100,0
NOVELIA	France	Insurances and asset management / Non-life insurance	100,0	100,0	100,0	100,0
PROCAPITAL	France/Belgium	Bank / Financial and stock market intermediation	100,0	100,0	100,0	100,0
REALLEASE SA (2)	Belgium	Bank / Services	100,0	0,0	100,0	0,0
SASP (2)	France	Insurances and asset management / Holding	100,0	0,0	100,0	0,0
SCHELCHER PRINCE GESTION	France	Insurances and asset management / Asset management	100,0	100,0	100,0	100,0
SMSPG (2)	France	Insurances and asset management / Holding	100,0	0,0	100,0	0,0
SOCIETE CIVILE IMMOBILIERE INTERFEDERALE	France	Bank / Real-estate	100,0	100,0	100,0	100,0
STRATEO (2)	Switzerland	Bank / Financial and stock market intermediation	100,0	0,0	100,0	0,0
SURAVENIR	France	Insurances and asset management / Life insurance	100,0	100,0	100,0	100,0
SURAVENIR ASSURANCES	France	Insurances and asset management / Non-life insurance	100,0	100,0	100,0	100,0

Company name	Country	Sector / Activity	Controlling %		Interest % Group	
			06/30/16	12/31/15	06/30/16	12/31/15
Investments accounted for under the equity method						
ALTAROCCA AM AS	France	Insurances and asset management /UCITS	87,1	87,1	31,0	31,5
CAISSE CENTRALE DU CREDIT MUTUEL	France	Bank / Mutualist bank	21,5	21,5	21,5	21,5
CREDIT MUTUEL CARTES DE PAIEMENTS	France	Bank / Mutualist bank	25,0	25,0	26,7	26,7
DERIVATIVES SOLUTIONS	France	Insurances and asset management	85,0	/	37,7	/
NEW PORT	France	Bank/Holding	31,0	31,0	31,0	31,0
PARISII GESTION PRIVEE	France	Insurances and asset management /UCITS	100,0	100,0	44,3	45,0
PRIMONIAL PARTENAIRES (EX-PATRIMMOFI)	France	Insurances and asset management /UCITS	100,0	100,0	44,3	45,0
PRIMONIAL	France	Insurances and asset management /UCITS	100,0	100,0	44,3	45,0
STAMINA AM	France	Insurances and asset management /UCITS	100,0	100,0	44,3	45,0
PRIMONIAL COURTAGE	France	Insurances and asset management /UCITS	100,0	100,0	44,3	45,0
PRIMONIAL HOLDING	France	Insurances and asset management /UCITS	44,3	45,0	44,3	45,0
PRIMONIAL INVESTMENT MANAGERS (1)	France	Insurances and asset management /UCITS	/	100,0	/	45,0
PRIMONIAL Luxembourg	Luxembourg	Insurances and asset management /UCITS	100,0	100,0	44,3	45,0
PRIMONIAL REIM	France	Insurances and asset management /UCITS	66,7	66,7	26,8	27,2
PRIMONIAL TI	Canada	Insurances and asset management /UCITS	100,0	100,0	44,3	45,0
ROCHE BRUNE AM SAS	France	Insurances and asset management /UCITS	67,8	67,8	30,0	30,5
SEFAL PROPERTY	France	Insurances and asset management /UCITS	100,0	100,0	44,3	45,0
SPORTINVEST	France	Insurances and asset management /UCITS	100,0	100,0	44,3	45,0
UPSTONE SAS	France	Insurances and asset management /UCITS	100,0	100,0	44,3	45,0
CODABEL MANAGEMENT	France	Insurances and asset management /UCITS	35,0	35,0	15,5	15,8
MATA CAPITAL	France	Insurances and asset management /UCITS	40,0	40,0	17,7	18,0
ROCHE BRUNE INVESTISSEMENT	France	Insurances and asset management /UCITS	67,8	100,0	30,0	30,5
VOLTAIRE CAPITAL	France	Insurances and asset management /UCITS	100,0	100,0	44,3	45,0

Company name	Country	Sector / Activity	Controlling %		Interest % Group	
			06/30/16	12/31/15	06/30/16	12/31/15
Short cut method consolidated companies						
ARKEA CAPITAL 1	France	Bank / UCITS	100,0	100,0	100,0	100,0
AUTOFOCUS 7	France	Insurances and asset management /UCITS	/	84,8	/	84,8
AUTOFOCUS 8	France	Insurances and asset management /UCITS	/	77,8	/	77,8
AUTOFOCUS CROISSANCE MARS 2015	France	Insurances and asset management /UCITS	78,0	/	78,0	/
AUTOFOCUS CROISSANCE JUIN 2015	France	Insurances and asset management /UCITS	94,0	/	94,0	/
AUTOFOCUS RENDEMENT JUIN 2014	France	Insurances and asset management /UCITS	87,3	87,5	87,3	87,5
AUTOFOCUS RENDEMENT OCTOBRE 2014	France	Insurances and asset management /UCITS	91,8	91,9	91,8	91,9
AUTOFOCUS RENDEMENT DECEMBRE 2014	France	Insurances and asset management /UCITS	93,8	93,8	93,8	93,8
AUTOFOCUS RENDEMENT MARS 2015	France	Insurances and asset management /UCITS	93,5	/	93,5	/
BPE RENDEMENT 2018	France	Insurances and asset management /UCITS	41,7	43,0	41,7	43,0

FCPI SWEN EUROPA 4	France	Insurances and asset management /UCITS	46,5	46,5	46,5	46,5
FCPI WEST WEB VALLEY (A)	France	Bank / UCITS	40,0	/	40,0	/
FCPR FUNERAIRE A	France	Insurances and asset management /UCITS	35,2	35,2	35,2	35,2
FCT SP EUROCREANCES	France	Insurances and asset management /UCITS	44,0	44,0	44,0	44,0
FEDERAL ACTIONS ETHIQUES	France	Insurances and asset management /UCITS	62,2	61,9	62,2	61,9
FEDERAL ACTIONS RENDEMENT	France	Insurances and asset management /UCITS	98,1	97,4	98,1	97,4
FEDERAL APAL	France	Insurances and asset management /UCITS	66,4	61,6	66,4	61,6
FED CAPITAL INV	France	Insurances and asset management /UCITS	100,0	100,0	100,0	100,0
FEDERAL CONVICTION GRANDE ASIE	France	Insurances and asset management /UCITS	94,3	/	94,3	/
FEDERAL CONVICTION ISR EURO	France	Insurances and asset management /UCITS	59,9	60,6	59,9	60,6
FEDERAL CROISSANCE	France	Insurances and asset management /UCITS	87,1	87,2	87,1	87,2
FEDERAL ESSOR INTERNATIONAL	France	Insurances and asset management /UCITS	51,6	53,6	51,6	53,6
FEDERAL INDICIEL JAPON	France	Insurances and asset management /UCITS	62,3	56,7	62,3	56,7
FEDERAL INDICIEL US	France	Insurances and asset management /UCITS	58,0	59,5	58,0	59,5
FEDERAL MULTI ACTIONS EUROPE	France	Insurances and asset management /UCITS	72,0	72,0	72,0	72,0
FEDERAL MULTI OR ET MATIERES 1ERES	France	Insurances and asset management /UCITS	86,8	87,2	86,8	87,2
FEDERAL MULTI PATRIMOINE	France	Insurances and asset management /UCITS	89,4	89,8	89,4	89,8
FEDERAL MULTI PME	France	Insurances and asset management /UCITS	84,6	85,8	84,6	85,8
FEDERAL OBLIGATAIRE	France	Insurances and asset management /UCITS	48,8	44,5	48,8	44,5
FEDERAL OPPORTUNITE EQUILIBRE	France	Insurances and asset management /UCITS	99,8	99,7	99,8	99,7
FEDERAL OPPORTUNITE MODERE	France	Insurances and asset management /UCITS	98,2	98,2	98,2	98,2
FEDERAL OPPORTUNITE TONIQUE	France	Insurances and asset management /UCITS	99,2	98,4	99,2	98,4
FEDERAL OPTIMAL	France	Insurances and asset management /UCITS	42,2	53,1	42,2	53,1
FEDERAL PEA SECURITE	France	Insurances and asset management /UCITS	51,9	48,4	51,9	48,4
FEDERAL SUPPORT TRESORERIE IR	France	Insurances and asset management /UCITS	37,9	39,5	37,9	39,5
FORMUL'ACTION 2017	France	Insurances and asset management /UCITS	94,1	94,3	94,1	94,3
FORMUL ACTION 2017 FP	France	Insurances and asset management /UCITS	82,6	82,8	82,6	82,8
FORMUL'ACTION SECURITE	France	Insurances and asset management /UCITS	93,3	93,1	93,3	93,1
KALEIDOSCOPE	France	Insurances and asset management /UCITS	98,8	98,8	98,8	98,8
OPCI CLUB FRANCE RET	France	Insurances and asset management /UCITS	46,3	46,3	46,3	46,3
OPCI PREIM DEFENSE 2	France	Insurances and asset management /UCITS	35,5	35,5	35,5	35,5
OPCI PREIMS EUROS	France	Insurances and asset management /UCITS	100,0	100,0	100,0	100,0
OPCI PREIM EUROS 2	France	Insurances and asset management /UCITS	100,0	100,0	100,0	100,0
OPCI TIKEHAU RET PRO	France	Insurances and asset management /UCITS	39,3	41,3	39,3	41,3
PRIMO ELITE	France	Insurances and asset management /UCITS	100,0	100,0	100,0	100,0
SCHELCHER EURO RENDEMENT	France	Insurances and asset management /UCITS	25,5	24,6	25,5	24,6
SCI PERENNITE PIERRE	France	Insurances and asset management /UCITS	100,0	/	100,0	/

SCI PR2 PREIM RET 2	France	Insurances and asset management /UCITS	38,0	38,0	38,0	38,0
SCI USUFRUIMMO	France	Insurances and asset management /UCITS	100,0	100,0	100,0	100,0
SCPI PATRIMMO CROISSANCE	France	Insurances and asset management /UCITS	61,5	68,0	61,5	68,0
SCPI PIERRE EXPANSION	France	Insurances and asset management /UCITS	57,0	/	57,0	/
SCPI PRIMONIAL CAPIMMO	France	Insurances and asset management /UCITS	38,5	/	38,5	/
SP CONVERTIBLES ISR EUROPE	France	Insurances and asset management /UCITS	28,2	35,9	28,2	35,9
SP HAUT RENDEMENT	France	Insurances and asset management /UCITS	31,5	/	31,5	/
STEREO 3	France	Insurances and asset management /UCITS	97,1	97,1	97,1	97,1
SURAVENIR INITIATIVE ACTIONS	France	Insurances and asset management /UCITS	100,0	100,0	100,0	100,0
SURAVENIR REFERENCE ACTIONS	France	Insurances and asset management /UCITS	100,0	100,0	100,0	100,0
SYNERGIE FINANCE INVESTISSEMENT	France	Bank / UCITS	100,0	100,0	100,0	100,0
TIKEHAU REIC	France	Insurances and asset management /UCITS	46,2	/	46,2	/

(1) Merger of assets and liabilities
(2) (2) Company consolidated for the first time in 2016

Recognition using the short-cut method is based on the use of the fair value option for all assets held through UCITS to be consolidated.
The short-cut method consists of:
- recognizing 100% of the fair value the fund shares in assets
- establishing a corresponding liability (financial liability) for the amount of the share not held by the Group (non-controlling interests).

Note 26. Business Combinations

During the first quarter, Crédit Mutuel Arkéa acquired a controlling interest in Keytrade, an online bank specializing in banking and investment products.

This acquisition adds four new fully consolidated entities to the consolidation scope:

- Keytrade Bank SA: an online bank based in Belgium;
- Keytrade Bank Luxembourg SA: a Subsidiary of Keytrade Bank SA in Luxembourg;
- Strateo: a Swiss branch of Keytrade Bank SA;
- RealLease SA: a leasing company.

The transaction generated €94 million in goodwill recognized on the balance sheet.

The initial recognition of the combination is only provisional.

If additional information regarding the facts and circumstances existing at the acquisition date becomes known, the Group has a period of twelve months to:
- identify the assets acquired and liabilities assumed from the acquired company that had not been recognised on the initial recognition of the business combination;
- retrospectively change the values initially assigned

Note 27: Events after the reporting period

No material events occurred subsequent to the June 30, 2016 close.