Degroof Petercam

RISK REPORT
PILLAR 3 OF BASEL III

2017

Bank Degroof Petercam sa
Rue de l'Industrie 44
1040 Bruxelles
TVA BE 0403 212 172
RPM Bruxelles
FSMA 040460 A
degroofpetercam.com

Contents

1. INTRODUCTION

PRESENTATION

Degroof Petercam is a leading independent financial institution serving individuals, institutional investors and organizations based on a rich history that dates back to 1871. When Bank Degroof and Petercam merged in October 2015, we set out a comprehensive strategy to further develop our bank and services for the benefit of our clients.

Our aims in this regard are as follows:

- to provide best-in-class and complementary services in our core fields of expertise, private banking, institutional asset management, investment banking and asset services;
- to expand across targeted European markets from our leading positions in Belgium and Luxembourg, with France and Spain as current focus.

PURPOSE OF PILLAR 3 DISCLOSURES – BASEL FRAMEWORK

The implementation of Basel III in Europe applies as of 1 January 2014. Basel III is a comprehensive set of reform measures in banking prudential regulation to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, to improve risk management and governance and to strengthen bank's transparency and disclosures. The general framework defined by Basel III is developed around three pillars.

The purpose of Pillar 3 disclosures is to provide information on banking institutions' risk management practices and regulatory capital ratios. This document is designed to satisfy these requirements and should be read in conjunction with our most recent annual report.

The Pillar 3 disclosure requirements from the Basel framework have been implemented in EU law via part Eight of Regulation (EU) N° 575/2013 of 26 June 2013 (the CRR) and Directive 2013/33/EU of 26 June 2013 (CRD IV).

OVERVIEW 2016

- Common equity tier-1 ratio (Basel III fully loaded based on Danish compromise) of 17.11% at year-end.
- Fully loaded Basel leverage ratio – based on CRR – of 6.19% at year-end.
- Strong liquidity position at year-end (NSFR at 172% and LCR at 309%), well above minimum regulatory requirements.

DISCLOSURE POLICY

It is the policy of Degroof Petercam to ensure that risk disclosures convey its comprehensive risk profile to market participants.

The Pillar 3 disclosures and the bank's regulatory capital ratio calculations are prepared at the highest consolidation level, i.e. the Degroof Petercam Group, in line with the CRR requirements.

Regulatory ratios with regard to Bank Degroof Petercam Luxembourg, Bank Degroof Petercam France and Bank Degroof Petercam Spain are provided in Appendix 1.
These disclosures documents are not required to be, and have not been, audited by our independent auditors. They are subject to review by risk management and finance representatives of the Bank and to formal approval by the Group Executive Committee of Bank Degroof Petercam.

Disclosure documents are available in English on the Degroof Petercam website and located at https://press.degroofpetercam.be/fy-2016-stable-results-and-successful-completion-of-the-merger.
They complete the annual report chapter dedicated to risk management. They will be updated each year, subject to Degroof Petercam's assessment of the need for update of any relevant items more frequently than annually.

The Bank Degroof Petercam disclosure policy has been validated by the Board of Directors

CROSS-REFERENCES

To avoid unnecessary duplication of certain information and in order to make risk disclosures clear as possible, we refer to the 2016 annual report of Degroof Petercam, insofar possible.

Key risk-related elements, such as exposure charts, are duplicated between the Annual Report and this Risk report, in order to foster consistency and clarity of disclosures.

Information that will not be duplicated include notably :

Topics	Reports
Information regarding governance arrangements	Corporate governance section of the annual report Internet site: www.degroofpetercam.com/annualreport2016
Information on remuneration policy	Chapter 7 of the Management Report section of the annual report Internet site: http://annualreport2016-en.degroofpetercam.com/couch/uploads/file/degroofpetercam_2016_management_report.pdf

SCOPE OF APPLICATION

Information disclosed in this Risk Report is at December 31st, 2016 and expressed in thousands euros (unless otherwise specified). The scope of consolidation for the purpose of these disclosures is the same as the consolidation scope of our financial statements as published in our annual report.

2. RISK MANAGEMENT GOVERNANCE

Risk Management General principles

The Bank's executive committee has defined the group's risk management policy in accordance with the risk tolerances defined in the Bank's economic capital model (ICAAP) and Liquidity model (ILAAP), which have been validated by the risk committee and the board of directors. The adequacy of the risk profile of the bank with the risk appetite defined by the board is validated annually.

The main risks to which the Bank and its subsidiaries are exposed are:

a. asset management risk
b. compliance risk
c. market risk
d. liquidity risk
e. credit risk
f. operational risk

These are identified, monitored and mitigated through a risk management organization which is, in the executive committee's view, adequate and consistent with its risk appetite, size and activities.

The Risk Management's organization is defined in a Risk Management charter, approved by the board of directors.

The executive committee has delegated certain of its responsibilities for implementing its risk management policy to the following committees:

- The ALM committee is responsible for managing the group's balance sheet and off-balance sheet assets and liabilities, in order to provide a stable and adequate financial margin within acceptable risk limits. This committee also manages the consolidated liquidity risk;
- The credit committee is responsible for granting new credit lines and new limits (for market operations) to non-banking counterparties. It also reviews existing credit lines and limits;
- The limits committee is responsible for granting new limits for all products for banking and brokerage counterparties of the group. It also reviews existing limits on a regular basis.

In addition, day-to-day risk management and monitoring of limits are managed by the risk management department. This ensures that market, liquidity, credit and counterparty, wealth management and operational risks are followed up.

Comprehensive Assessment – Asset Quality Review (AQR) & Stress Test

In December 2014, Bank Degroof Petercam was added to the list of significant banks at the European level by the European Central Bank (ECB). Since then, the Bank has been subject to direct prudential control by the ECB.

During 2015, the Bank was subject to a 'Comprehensive Assessment' exercise. The exercise was carried out in respect of data as at 31 December 2014. Even though the exercise was performed exclusively in respect of Bank Degroof (as it covered the period prior to the merger with Petercam), its results are globally valid for Bank Degroof Petercam given the absence of credit activities and proprietary trading positions at Petercam.

A 'Comprehensive Assessment' exercise comprises two parts: the Asset Quality Review (AQR) and the Stress Test. The AQR comprises an in-depth analysis of the assets (primarily loans) and the accounting processes of the bank being tested. The objective is to ensure that the level of own funds of the bank (CET1 ratio) reflects reality, and that all necessary provisions have been recorded. The AQR exercise results in a correction to the CET1 ratio (adjusted CET1) which is used as the starting point for the Stress Test. The Stress Test ensures that the bank has a sufficient CET1 ratio for the following three years, even during a major crisis.

Two scenarios (the first known as the base scenario which simulates a normal development of market factors, the second known as the unfavorable scenario which simulates a major crisis) are applied to the results and the balance sheet of the bank. The minimum thresholds of the CET1 ratio that need to be met are 8% under the base scenario and 5.5% under the unfavorable scenario. If a bank falls below these thresholds, it has nine months following the publication of the results to remedy the situation.

The Bank passed the Comprehensive Assessment exercise by a comfortable margin. It was only lightly impacted by the Stress Test and ended with a CET1 ratio significantly superior to the minimum regulatory requirement.

	Result of the Bank	Minimum regulatory requirement
Base scenario	17.8	8%
Unfavorable scenario	14.2	5.50%

Risk Measurement Methodology

The method used for calculating regulatory capital adequacy requirements in accordance with European regulations concerning prudential requirements applicable to credit institutions (Basel III) has been used since 31 March 2014. The Bank has chosen the following methodologies:

a. The basic approach for evaluating capital adequacy requirements for operational risk;
b. The standard approach based on external ratings for credit risk;
c. The standard approach for market risk.
d. The basic indicator approach for operational risk

3. OWN FUNDS AND CAPITAL ADEQUACY

Own funds according to the CRD

		31/12/2016	31/12/2015	Difference
CET1 Own funds		**483,553**	**468,282**	**15,271**
of which Tier I		**483,553**	**468,282**	**15,271**
Capital instruments eligible as CET 1 Capital		407,160	408,937	-1,777
of which Paid up capital	34,212			
of which Share premium	420,553			
of which Direct holdings of CET 1 instruments	-47,605			
Retained earnings		118,220	167,016	-48,796
of which Previous years retained earnings	107,650			
of which Profit attribuable to owners of the parent	57,877			
of which Part of year-end profit non eligible	-47,307			
Accumulated other comprehensive income		-1,771	-231	-1,540
Other reserves		327,311	268,031	59,280
of which Legal reserve	4,411			
of which Untaxed reserve	15,108			
of which Available reserves	93,137			
of which Other reserves	214,655			
Adjustments to CET1 due to prudential filters		-3,439	-3,206	-233
Goodwill and other intangible assets (1)		-356,799	-365,221	8,422
Deferred tax assets that rely on future profitability		-1,969	0	-1,969
Other transitional adjustments to CET1 Capital		-5,160	-7,044	1,884
of which Unrealised gains	-5,631			
of which Unrealised gains (Central governments AFS)	-317			
of which Deferred tax assets that rely on future profitability	788			
of which Tier II		**0**	**0**	**0**

(1) Whereof goodwill considered as intangible asset (275,881) and included in the evaluation of important investments (125), business assets after deduction of deferred taxes (76,132) and softwares (4,661).

The capital is represented by 10.842.209 shares without nominal value. All the shares have been fully subscribed and paid up.

The relation between accounting and CRD own funds can be explained as follows :

	31/12/2016	31/12/2015	Difference
Own funds	**898,911**	**902,540**	**-3,629**
Own funds financed by the group	0	-244	244
Part of year-end profit non eligible	-47,306	-57,931	10,625
Goodwill and other intangible assets	-356,799	-365,220	8,421
AFS Reserves	-5,948	-7,044	1,096
Deferred tax	-1,182	0	-1,182
Minority interests	-684	-613	-71
Adjustments to CET1 due to prudential filters	-3,439	-3,206	-233
CET1 Own funds	**483,553**	**468,282**	**15,271**

Risk-weighted Assets by Risk categories

The table below presents a summary of the components of RWAs calculated in accordance with the Basel III/CRD framework at year end 2016. More details on each of the material components, can be found in the remainder of this document, under the section headings indicated below.

Total Risk exposure amount			2,826,741
1. Total Risk exposure amounts for credit risk		1,868,130	
(of which Securisation positions : 37,913)			
2. Total Settlement/Delivery Risk exposure amount		1	
3. Total Risk exposure amounts for operational risk		841,583	
4. Total Risk exposure amount for credit valuation adjustment		34,280	
5. Total Risk exposure amount for position, foreign exchange and commodities risks		82,747	
a. Traded debt instruments	10,949		
b. Equity	47,682		
c. Foreign exchange	24,116		
T1 Capital ratio			17.11%

Leverage Ratio

As at 31/12/2016, the leverage ratio consisted of the following components:

Total Leverage ratio exposure			7,743,781
Total derivatives		128,381	
Total SFT exposures		13,076	
Total other assets		7,409,942	
Total off-balances		192,382	
Tier 1 capital - fully phased-in definition	488,713		
Tier 1 capital - transitional definition	483,553		
Leverage Ratio - using a fully phased-in definition of Tier 1 capital			6.31%
Leverage Ratio - using a transitional definition of Tier 1 capital			6.24%

The leverage ratio of the Bank is structurally stable. As at 31/12/2015, it amounted to 6.09%. The transition to 6.24% does not demonstrate any major changes in its composition but reflects an improvement of the own funds of the Bank.

4. CREDIT RISK

Credit Risk Exposure by Exposure Class

The total amount of risk-weighted exposure for credit risk by exposure class is as follows:

Central governments or central banks	0
Regional governments or local authorities	0
Public sector entities	0
Multilateral Development Banks	0
International Organisations	0
Institutions	124,918
Corporates	907,459
Retail	103,284
Secured by mortgages on immovable property	21,226
Exposures in default	35,438
Items associated with particular high risk	67,789
Covered bonds	58,637
Claims on institutions and corporates with a short-term credit assesment	0
Collective Investments undertakings (CIU)	36,236
Equity	36,049
Other items	439,181
Securisation positions	37,913
Total	1,868,130

Risk weighted assets by exposure class

		Original exposure	Risk weighted exposure amount
Central gov.or central banks Public sector entities Local authorities Multilateral Dev.Banks			
	0%	3,576,466	0
Institutions			
	20%	599,825	104,137
	50%	9,574	4,787
	100%	304,205	15,995
Corporates			
	20%	28,945	5,789
	50%	115,758	57,879
	100%	1,399,236	843,790
CIU & Equity			
	100%	73,182	72,285
Retail			
	25%	414,760	103,284
Covered bonds			
	10%	586,372	58,637
Securisation			
	20%	6,883	1,376
	50%	310	155
	100%	5,322	5,322
	1250%	5,331	31,060
Other items			
	0%	89,988	0
	20%	3	1
	35%	61,882	21,226
	100%	715,423	365,305
	150%	94,005	90,786
	250%	34,526	86,316
Total		8,121,996	1,868,130

Credit Risk Exposure by Type of Asset

Breakdown of total exposures	Original exposure	Value adjustments and provisions	Net exposure	Financial collateral	Exposure value	Risk weighted exposure amount
On balance sheet exposures	7,517,194	-43,145	7,474,049	-1,120,488	6,353,561	1,726,803
Cash, balances with central banks and other demand deposits	1,789,278	0	1,789,278	0	1,789,278	64,993
Financial assets designated at fair value through profit or loss	1,740,919	0	1,740,919	-60,556	1,680,363	89,253
Available-for-sale financial assets	1,723,991	-6,563	1,717,428	-240,420	1,477,008	430,419
Loans and advances to credit institutions	157,250	0	157,250	0	157,250	31,488
Loans and advances to customers	1,729,372	-36,582	1,692,790	-819,512	873,278	847,187
(of which securisation : exposure 17,845 / rwa 37,913)						
Financial assets held to maturity	114,668	0	114,668	0	114,668	0
Property and equipment	86,458	0	86,458	0	86,458	86,458
Investments in entities accounted for using the equity method	183	0	183	0	183	458
Current tax assets	5,820	0	5,820	0	5,820	0
Deferred tax assets	30,187	0	30,187	0	30,187	75,468
Other assets	139,068	0	139,068	0	139,068	101,079
Off balance sheet exposures	400,623	0	400,623	-158,997	241,626	68,328
Securities Financing Transactions	75,798	0	75,798	-62,722	13,076	2,615
Derivatives & Long Settlement Transactions	128,381	0	128,381	-33,046	95,335	70,384
Total	8,121,996	-43,145	8,078,851	-1,375,253	6,703,598	1,868,130

Credit Risk Exposure by Geographic Area

Breakdown of total exposures	Belgium	EMU	Other	Total
On balance sheet exposures	2,924,686	3,947,101	645,407	7,517,194
Cash, balances with central banks and other demand deposits	884,115	744,170	160,993	1,789,278
Financial assets designated at fair value through profit or loss	437,470	1,069,460	233,989	1,740,919
Available-for-sale financial assets	376,443	1,240,262	107,286	1,723,991
Loans and advances to credit institutions	0	138,021	19,229	157,250
Loans and advances to customers	1,090,133	522,030	117,209	1,729,372
(of which securisation : UEM 12,514 / Other 5,331)				
Financial assets held to maturity	10,984	103,684	0	114,668
Property and equipment	40,644	45,642	172	86,458
Investments in entities accounted for using the equity method	0	0	183	183
Current tax assets	1,340	233	4,247	5,820
Deferred tax assets	28,945	72	1,170	30,187
Other assets	54,612	83,527	929	139,068
Off balance sheet exposures	244,363	127,695	28,565	400,623
Securities Financing Transactions	0	75,798	0	75,798
Derivatives & Long Settlement Transactions	38,995	55,167	34,219	128,381
Total	3,208,044	4,205,761	708,191	8,121,996

Credit Risk Exposure by Type of Asset and Exposure Class

Breakdown of total exposures	Central gov.or central banks Public sector entities Local authorities Multilateral Dev.Banks	Institutions	Corporates	CIU & Equity	Retail	Covered bonds	Other iterms	Securisation	Total
On balance sheet exposures	3,576,468	786,872	1,206,559	73,182	349,740	586,371	920,157	17,845	7,517,194
Cash, balances with central banks and other demand deposits	1,395,629	324,967	0	0	0	0	68,682	0	1,789,278
Financial assets designated at fair value through profit or loss	1,076,908	60,556	3,291	28,829	0	571,335	0	0	1,740,919
Available-for-sale financial assets	963,407	241,470	438,545	44,353	0	15,036	21,180	0	1,723,991
Loans and advances to credit institutions	0	157,250	0	0	0	0	0	0	157,250
Loans and advances to customers	64	2,629	764,418	0	349,740	0	594,676	17,845	1,729,372
Financial assets held to maturity	114,668	0	0	0	0	0	0	0	114,668
Property and equipment	0	0	0	0	0	0	86,458	0	86,458
Investments in entities accounted for using the equity method	0	0	0	0	0	0	183	0	183
Current tax assets	5,820	0	0	0	0	0	0	0	5,820
Deferred tax assets	0	0	0	0	0	0	30,187	0	30,187
Other assets	19,972	0	305	0	0	0	118,791	0	139,068
Off balance sheet exposures	0	0	273,286	0	54,625	0	72,712	0	400,623
Securities Financing Transactions	0	75,798	0	0	0	0	0	0	75,798
Derivatives & Long Settlement Transactions	0	50,934	64,094	0	10,396	0	2,957	0	128,381
Total	3,576,468	913,604	1,543,939	73,182	414,761	586,371	995,826	17,845	8,121,996

Credit Risk Exposure by Residual Maturity

Breakdown of total exposures	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undetermined	Total
On balance sheet exposures	1,789,278	1,010,653	1,492,569	2,180,512	653,665	390,517	7,517,194
Cash, balances with central banks and other demand deposits	1,789,278	0	0	0	0	0	1,789,278
Financial assets designated at fair value through profit or loss	0	143	308,566	965,421	437,960	28,829	1,740,919
Available-for-sale financial assets	0	70,498	589,056	833,859	140,444	90,134	1,723,991
Loans and advances to credit institutions	0	157,250	0	0	0	0	157,250
Loans and advances to customers	0	750,727	579,242	308,484	75,261	15,658	1,729,372
Financial assets held to maturity	0	26,215	15,705	72,748	0	0	114,668
Property and equipment	0	0	0	0	0	86,458	86,458
Investments in entities accounted for using the equity method	0	0	0	0	0	183	183
Current tax assets	0	5,820	0	0	0	0	5,820
Deferred tax assets	0	0	0	0	0	30,187	30,187
Other assets	0	0	0	0	0	139,068	139,068

Impairments

An impairment loss is recorded whenever the carrying value of an asset (net of any depreciation/ amortization) is higher than its recoverable value.

At each financial period-end, Bank Degroof Petercam assesses whether there is any indication (i.e. a loss-generating event) that an asset may have lost value. Where such an indication exists, an impairment test is carried out and, where appropriate, an impairment loss is recorded through the income statement. Even where no objective indication exists of impairment, such an examination is carried out, at least every year at the same date, in respect of intangible assets with indefinite useful lives and of goodwill.

FINANCIAL ASSETS

Impairment losses are recorded on financial assets or groups of financial assets whenever an objective evidence exists of measurable impairment resulting from one or more events occurring since the initial recording of the asset or group of assets and whenever this loss-generating event has had an impact on the future estimated cash flows of this asset or group of assets. The following indications, among others, are viewed as objective evidence of impairment:

- significant financial difficulties of the issuer;
- breach of contract such as a default or delay in the payment of interest or principal;
- the granting of facilities to the borrower for legal or economic reasons linked to its financial difficulties;
- strong probability of bankruptcy or financial restructuring;
- disappearance of an active market for this particular asset (as a result of financial difficulties);
- other observable data linked to a group of assets, such as an unfavorable change in the repayment behavior of borrowers in the group or an unfavorable change in a sector of activity that affects the group's borrowers;
- major or prolonged decline in the fair value of an equity instrument below its cost.

The analysis of the existence of any impairment is undertaken initially on an individual basis, and subsequently on a collective basis. The collective assessment for the calculation of an impairment on the credit activities of Bank Degroof Petercam involves grouping those counterparties that have not been individually impaired into homogenous portfolios with the assessment being based on the historic data for each portfolio. The methodology used by the Bank is based upon an approach that combines the probabilities of default, and the losses in case of default. This methodology and the assumptions used are reviewed regularly in order to reduce possible differences between the estimated losses and the real historic losses.

Impairment on financial assets recognized at amortized cost corresponds to the difference between their carrying amount and the value of estimated cash flows, discounted at the original effective interest rate.

Where the discount effect is negligible, it is ignored. Impairment losses are recognized in the income statement under 'impairments', with an off-setting entry to an allowance account in respect of the carrying amount of the impaired financial assets. If an event subsequent to the recording of the impairment indicates that the impairment loss no longer exists, or only partially exists, the previously recorded impairment loss is reversed through the 'impairments' heading of the income statement.

Once an impairment loss has been recorded on an asset, interest income is recognized based on the interest rate used for discounting the future cash flows. The recoverable value of available-for-sale financial assets is generally based on quoted market prices or, where these are not available, on the expected cash flows discounted at the current market interest rate for a similar asset. When an objective indication of impairment exists, the accumulated loss recorded directly in shareholders' equity is reversed out of shareholders' equity and recorded in the income statement under 'impairments'.

Where the fair value of a fixed income security on which an impairment loss has been recognized later appreciates as a result of an event subsequent to the impairment, the impairment loss is reversed through the income statement under ’impairments’. Any subsequent recovery in the fair value of an equity instrument is, however, recorded directly in shareholders’ equity.

OTHER ASSETS

The recoverable value of a non-financial asset is the greater of its fair value less costs to sell, and its value in use. The fair value less costs to sell corresponds to the amount that can be realized from the sale of an asset under normal market conditions between informed and consenting parties, after deduction of the disposal costs. The value in use of an asset is the net present value of the future cash flows expected to be derived from this asset.

When it is not possible to estimate the recoverable value of an individual asset, the asset is attached to a cash generating unit (CGU) to determine any impairment losses at this level of aggregation.

An impairment loss is recorded directly in the income statement under ‘impairments’. When an asset has been revalued, the impairment loss is recorded as a reduction of the revaluation. The impairment loss of a CGU is allocated so as to reduce the carrying value of the assets of this unit in the following order:

- firstly, to the goodwill associated with the CGU;
- subsequently, to the other assets of the CGU pro rata to the carrying amount of each of the CGU’s assets

An impairment loss recognized during a previous financial period is reversed whenever there has been a favorable change in the estimates used for determining the recoverable value of the asset since an impairment loss was last recognized. In such cases, the carrying amount of the asset needs to be increased to its recoverable value, without exceeding the carrying amount of the asset prior to the impairment loss, i.e. after the application of normal depreciation/amortization rates.

An impairment loss on goodwill cannot be subsequently reversed.

COLLECTIVE PROVISIONING

In respect of those loans that have not been individually impaired, a general provision for losses that have been incurred but not reported (IBNR) is foreseen and recorded. The objective of this general provision, which amounts to EUR 3.8 million at 31 December 2016, is to cover a possible increase in credit risk relating to the loan portfolio (but which has not yet become apparent as a result of a default). This provision is calculated by grouping the Bank’s loans in homogenous portfolios and using historic data on defaults and losses for each of the portfolios. The methodology used by the Bank is based on an approach that combines the probability of default with the probability of losses (in case of default), by portfolio. The methodology and the related assumptions are reviewed on a regular basis in order to reduce possible differences between the estimates of losses and actual losses.

Counterparty Credit Risk and Credit Risk Mitigation Techniques

Methodology for counterparty credit risk consumption of shareholders equity and credit limits definition and setting

Credit limits are managed through two committees

a. The credit committee is responsible for granting new credit lines and new limits (for market operations) to non-banking counterparties. It also reviews existing credit lines and limits;

b. The limits committee is responsible for granting new limits for all products for banking and brokerage counterparties of the group. It also reviews existing limits on a regular basis.

Policy description as to the grant of security and reserving methodology

To reduce our credit exposure on derivatives, we may enter into master netting agreement or similar agreements (typically ISDA master netting agreement) with counterparties that permit us to offset receivables and payables with such counterparties.

We may also reduce credit risk with counterparties by entering into agreements that enable us to receive and post cash & securities collateral with respect to our derivatives, subject to the terms of the related credit support agreement or similar arrangements (typically ISDA CSA).

In exceptional circumstances, we may obtain third party guarantees on the counterparties obligations.

Measurement used for valuing the counterparty credit risk

In respect of counterparty limits, exposures are calculated as a function of changes in market value, to which a coefficient (“add-on”) is added which reflects the risk represented by future movements in this exposure. These exposures are compared with the limits set out by the limits committee and the credit committee.

Use of credit risk mitigation techniques

To mitigate its risk exposure, the Bank enters into ISDA Master Agreement and ISDA CSA agreements with its counterparties.

Countercyclical Capital Buffers

- The percentage of countercyclical capital buffer on the basis of reference indicators established by the National Bank of Belgium for the exposures to credit risk to the counterparties established on the Belgian territory is 0 %.

  Almost all of the exposures of the group are located in countries where the percentage of the countercyclical capital buffer for the exposure to credit risk is 0 %.

  Only 3 countries, in which the group has exposures, have a percentage of countercyclical capital buffers exceeding 0 % (Hong-Kong, Sweden and Norway). The exposures of the group in these countries amount to 0,3 % of the balance sheet total.

  The impact on calculations is therefore negligible.

Equity Exposures in the Banking Book

The Bank has currently no intention to take exposures on equities in the banking book. The banking book objectives include limited equity investments in the context of the commercial activities of the Bank. The holding period of the portfolio is long-term.

Securitization Exposures in the Banking Book

The Bank owns a portfolio of floating-rate European securitizations. This portfolio is being run-off (the Bank no longer makes new purchases). The portfolio is depreciating rapidly, due both to the arrival at maturity of a series of positions, but also due to the depreciable nature of the large majority of the securities included in the portfolio.

The current exposures can be described as follows:

					Senior	Mezzanine	Provisions	
Securitisation	Investor	Residential mortgages	ES	20%	6,877.91			1,375.58
Securitisation	Investor	Residential mortgages	ES	100%	3,016.86			3,016.86
Securitisation	Investor	Loans to corporates or SMEs	ES	20%	5.00			1.00
Re-securitisation	Investor	Other assets	CY	1250%		2,855.14	-2,846.04	113.74
Securitisation	Investor	Residential mortgages	PT	50%	309.85			154.93
Securitisation	Investor	Residential mortgages	GR	1250%	2,475.70			30,946.22
Securitisation	Investor	Residential mortgages	PT	100%	2,304.84			2,304.84
					14,990.15	2,855.14	-2,846.04	37,913.15
							14,999.24	

5. MARKET RISK

Policy

Market risks are the risks of unfavorable trends in market factors (interest rates, equity prices, exchange rates, etc.) that impact on the positions that the Bank takes for its own account. Treasury, foreign exchange, providing liquidity for securities, and option brokerage activities are monitored on a daily basis using indicators such as Value-at-Risk (VAR), interest rate sensitivity, scenario analyses, option sensitivity (delta, gamma, vega, etc.) and, more simply, nominal volumes. These activities are compared to limits set by the executive committee. Open positions are characteristically low compared to our own funds.

Short-term market risk

Interest rate risk

The Bank's main method of managing short-term interest rates is by managing its treasury. In addition there is a reduced level of bond brokerage.

On a daily basis, risk management monitors the interest rate risk using two indicators:

a. The Basis Point Value ('BPV') in respect of the limits allotted to the treasury activity by the ALM committee;
b. Historical VAR.

Foreign exchange risk

This mainly involves hedging the foreign exchange risk generated by all departments of the Bank and brokerage for institutional investors, principally collective investment funds.

The indicators used to monitor the daily foreign exchange risk are:

a. Limits set in terms of nominal amounts;
b. Historical VAR.

Equity & options risk

The indicators used to monitor the daily equity risk are:

a. Limits set in terms of nominal amounts;
b. Historical VAR.

The risks attached to options are monitored using various indicators, mainly involving sensitivity to movements of the main underlying factors (delta, gamma and vega) and the Value-at-Risk.

2016		31.12.2016	Average	Minimum	Maximum
Interest rate risk	BPV	-112.5	-105.8	-88.3	-127.3
Foreign exchange risk	Nominal	1 621.00	1 251.00	311	3 645.00
	VAR 99%	49.34	50.53	8.08	256.34
Equity risk	Nominal	2 600.00	1 826.00	700	2 800.00
	VAR 99%	194.25	120.95	22.74	202.88
Option risk	Delta equivalent	0	0	0	0
	VAR 99%	0	0	0	0

Long term market risk

Interest rate risk

This is the financial risk caused by the impact of a change in interest rates on the interest margin and on the fair values of interest rate instruments.

This risk is managed on a monthly basis by the almac committee using a standard defined in terms of duration gap. This standard has been developed based on the maximum loss that is deemed to be acceptable in the event that interest rates rise by 1%, as allocated by the executive committee to the group's transformation activity. This includes all balance sheet items1 and, accordingly, also the treasury positions.

Furthermore, in accordance with Basel II, a stress test compares the loss which would be recorded if there was a parallel increase in interest rates of 2%, to the Bank's shareholders' equity. The result of this test was 9% of regulatory own funds at 31 December 2016.

This analysis is supplemented by Basis Point Value monitoring, which only takes account of items that are sensitive to interest rates, all maturities combined.

The loss in the event of a 1% rise in interest rates amounted to:

	2016
On 31.12.2016	20 763
Average for the period	23 206
Maximum for the period	25 706
Minimum for the period	19 254

Equity risk

Long-term equity risk is the risk that the value of the Bank's own funds declines as a result of a fall in the price of the shares included in the Bank's proprietary share portfolio.

This risk has declined significantly during the past two financial periods as a result of the sale a significant part (approximately 90%) of the portfolio of shares.

Market value of the Bank's proprietary share portfolio:

Position	
31.12.2016	32 897
31.12.2015	50 958
30.09.2014	312 450

The impact on the Bank's own funds of a movement in the price of equities held by the Bank is as follows (all other factors being equal):

Relevant markets or indices	Bel 20	Other Belgian securities	Other European securities	The rest of the world
Movement	10%	0	0	1,145
31.12.2016	10%	0	758	12,301
31.12.2015	10%	0	588	9,032
30.09.2014	10%	3,290	3,750	8 768

6. LIQUIDITY RISK

Liquidity risk is the risk of Bank Degroof Petercam being unable to meet its financial commitments at their due dates at a reasonable cost.

The principal objective of liquidity management is to ensure that the group has sufficient financing, even during very unfavorable conditions. The liquidity strategy is managed at a consolidated level by the ALM committee on a monthly basis, with day-to-day management being delegated to the treasury departments of the Brussels and Luxembourg dealing rooms, under the supervision of risk management.

Risk management ensures that Bank Degroof Petercam is able to ensure its liquidity in all crisis scenarios, whether it is a liquidity crisis on the market or a liquidity crisis specific to Bank Degroof Petercam. The assumptions underlying these scenarios are reviewed regularly. Treasury flows must remain positive under each of the scenarios, which are monitored on a daily basis. The internal stress test scenarios are supplemented by the regulatory stress tests of Basel III (LCR and NSFR).

The liquidity strategy of Bank Degroof Petercam can be summarized as follows:

a. A large base of customer deposits, sourced from several group entities. In this respect, the merger of Bank Degroof and Petercam has reinforced the already significant stable deposit base of Bank Degroof through the addition of Petercam's client deposits;

b. A complete independence from interbank funding: the Bank does not need to have recourse to inter-bank funding to finance itself;

c. A low 'loan to deposit ratio', which indicates that the amount of credits granted is substantially lower than the total of customers' deposits;

d. Portfolios which are liquid and which, for the most part, can rapidly be mobilized through repo operations with the European Central Bank.

The table below sets out the maturities of our assets and liabilities1. The liquidity gap is based on contractual maturities. The calculation of the corrected liquidity gap takes into account the capacity to mobilize the bond portfolios:

31.12.2016	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Financial assets					
Loans and advances to credit institutions	1 789 612	159 781	0	0	0
Loans and advances to customers	162 778	235 347	297 651	931 999	61 406
Bonds and other fixed income securities	0	89 533	839 487	1 797 439	544 161
Derivatives	0	3 564 222	567 451	54 038	10 303
Interest rate derivatives	0	3 447	14 189	54 038	10 303
IRS	0	3 447	14 189	54 038	10 303
Other interest rate derivatives	0	0	0	6	0
Exchange rate derivatives	0	3560775	533 262	0	0
Total assets	1 952 390	4 048 883	1 704 589	2 783 476	615 870
Financial liabilities					
Deposits from credit institutions	105 537	11 525	35	0	0
Deposits from customers	5 889 766	281 427	41 685	8 972	0
Subordinated liabilities	0	0	0	0	0
Derivatives	0	3 570 137	571 972	56 861	7 573
Interest rate derivatives	0	9826	19411	56861	7573
IRS	0	9827	19411	56861	7573
Other interest rate derivatives	0	-1	0	0	0
Exchange rate derivatives	0	3 560 311	552 561	0	0
Financial guarantees issued	0	114 666	0	0	0
Credit lines confirmed	0	338 272	0	0	0
Total liabilities	5 995 303	4 316 027	613 692	65 833	7 573
Liquidity gap	(4 042 913)	(267 144)	1 090 897	2 717 643	608 297
Impact of repo capacity of bond portfolio	2 496 514	(59 154)	0	(1 891 125)	(546 235)
Corrected liquidity gap	(1 546 399)	(326 300)	1 090 897	826 518	62 062

Encumbered assets

The encumbered assets of the Degroof Petercam group amounted to EUR 673 million as at 31 December 2016 and represented 9.2% of Total Balance Sheet.

In accordance with the circular of the National Bank of Belgium of 12 January 2015, the median values relating to the preceding twelve months are presented for the 2016 financial data.
The encumbered assets of the Bank relate only to amounts provided as guarantees in the context of operations involving derivatives.

	Accounting value of encumbered assets	Fair value of encumbered assets	Accounting value of unencumbered assets	Fair value of unencumbered assets
Assets of the Degroof Petercam group	**672,659**	**N.A.**	**7,315,150**	**N.A.**
Equity instruments	0	0	91,229	91,229
Debt instruments	537,057	537,665	3,020,227	2,887,075
Other assets	0	N.A.	730,688	N.A.

Guarantees received

	Fair value of encumbered guarantees received or encumbered own equity instruments issued	Fair value of guarantees received or encumbered own debt instruments issued susceptible to being encumbered
Guarantees received by the Degroof Petercam group	**0**	**572,566**
Equity instruments	0	0
Debt instruments	0	516,997
Other assets	0	51,813

Uncumbered Assets / Guarantees received and related financial liabilities

	Corresponding liabilities, possible liabilities or loaned securities	Assets, guarantees received and own debt instruments issued, other than guaranteed debt and securities linked to encumbered assets
Accounting value of the financial liabilities selected	**613,521**	**672,849**

It should be noted that the Bank has no covered bond program. The principal source of encumbered assets is related to the Bank's activities on the repo market, securities lending, or to collateral exchanged in order to cover exposures on derivative instruments.

7. OPERATIONAL RISK

The principal objective of the 'Operational Risk Management' team is to identify the various operational risks that the Bank faces and to ensure that these risks are adequately managed.

Operational incidents are reported and inventorized in databases which allow the team to derive statistics as well as conclusions in respect of operational incidents and their possible causes. Furthermore, the team implements long-lasting solutions with the various operational departments, when required.

Parallel with its monitoring of risks, the department is also required to provide its advice and recommendations to the Bank and its various activities in respect of the setting up of internal controls, and the analysis of various strategic and/or operational projects (new products, new procedures, etc.).

8. APPENDIX 1 – SUBSIDIARIES

Own funds according to the CRD

	Banque Degroof Petercam Lux	Banque Degroof Petercam France	Bank Degroof Petercam Spain
CET1 Own funds	**135,211**	**20,415**	**19,479**
of which Tier I	**135,211**	**20,415**	**19,479**
Capital instruments eligible as CET 1 Capital	77,356	46,954	20,795
Retained earnings	103,895	-4,101	-923
Accumulated other comprehensive income	486	-12,880	0
Other reserves	-33,189	-5,613	-15
Funds for general banking risk	0	0	0
Adjustments to CET1 due to prudential filters	-1,265	-280	0
Goodwill and other intangible assets	-9,677	-3,665	-378
Other transitional adjustments to CET1 Capital	-930	0	0
CET 1 capital elements or deductions	-1,465	0	0
of which Tier II	**0**	**0**	**0**

Risk-weigthed assets for Credit Risk by exposure class

	Banque Degroof Petercam Lux	Banque Degroof Petercam France	Bank Degroof Petercam Spain
Public sector entities	0	0	0
Institutions	77,760	26,844	5,492
Corporates	208,610	50,683	63,991
Retail	0	16,705	19,179
Secured by mortgages on immovable property	46,095	0	1,725
Exposures in default	16,324	118	0
Items associated with particular high risk	0	0	0
Covered bonds	28,831	0	0
Collective Investments undertakings (CIU)	222	4	2,944
Equity	33,628	0	4,396
Other items	42,107	6,931	5,637
Securisation positions	0	0	0
Total	453,577	101,285	103,364

Risk-weighted assets by exposure category

	Banque Degroof Petercam Lux	Banque Degroof Petercam France	Bank Degroof Petercam Spain
Total Risk exposure amount	681,328	149,489	117,352
1. Total Risk exposure amounts for credit risk	453,577	101,285	103,364
2. Total Settlement/Delivery Risk exposure amount	0	0	0
3. Total Risk exposure amounts for operational risk	212,863	48,204	13,988
4. Total Risk exposure amount for credit valuation adjustment	13,171	0	0
5. Total Risk exposure amount for position, foreign exchange and commodities risks	1,717	0	0
a. Traded debt instruments	1,717	0	0
b. Equity	0	0	0
c. Foreign exchange	0	0	0
T1 Capital ratio	19.85%	13.66%	16.60%

9. APPENDIX 2 - GLOSSARY

AFS (Available for Sale)

Non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

ALM (Asset and Liability Management)

The ongoing process of formulating, implementing, monitoring and revising strategies for both on-balance-sheet and off-balance-sheet items, in order to achieve an organization’s financial objectives, given the organization’s risk tolerance and other constraints.

Asset Encumbrance

An asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralize or credit enhance any transaction from which it cannot be freely withdrawn.

Asset quality review (AQR)

The asset quality review is part of the ECB’s comprehensive assessment, an exercise to deliver greater transparency on bank’s balance sheets, to prompt the repair of impaired balance sheets and to rebuild confidence in banks. It took place for the first time in 2014. The asset quality review was based on balance sheets at year-end 2013, the assessment covered credit and market, on- and off-balance-sheet, domestic and non-domestic exposures.

Basel III

Basel III is a global regulatory standard on bank capital adequacy, stress testing and market liquidity risk agreed upon by the members of the Basel Committee on Banking Supervision in 2010. Basel III was developed in response to the deficiencies in financial regulation revealed by the late-2000s financial crisis.

CRD (Capital Requirements Directive)

The Capital Requirement Directive (CRD) for the financial services industry introduces a supervisory framework in the EU which reflects the Basel III rules on capital measurement and capital standards.

Credit risk

The potential for loss or negative deviation from the expected value due to the default or deterioration in credit quality of a counterparty (e.g., an OTC derivatives counterparty or a borrower) or an issuer of securities or other instruments we hold or due to events or measures taken by the political or monetary authority of a particular country.

Impairment on financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cashflows of the financial asset or group of financial assets that can be reliably estimated. If any such evidence exists, the entity applies the appropriate impairment methodology to the financial asset concerned. Losses expected as a result of future events, no matter how likely, are not recognized.

Interest rate risk

The potential negative deviation from the expected value of a financial instrument or portfolio thereof due to changes in the level or in the volatility of interest rates.

LCR (Liquidity Coverage Ratio)

'Stock of high-quality liquid assets minus Total net cash outflows over the next 30 calendar day'. A result of 100% (or more) indicates that a bank is maintaining a sufficient stock of 'high-quality liquid assets' to cover net cash outflows for a 30-day period under a stress scenario. The parameters of the stress scenario are defined under Basel III.

Leverage Ratio

The Leverage Ratio is a new supplementary non-risk based measure to contain the build-up of leverage (i.e. a backstop as regards the degree to which a bank can leverage its capital base). It is calculated as a percentage of tier-1 capital relative to the total on and off balance sheet exposure (non-risk weighted).

Liquidity risk

Liquidity risk is the risk that an organization will be unable to meet its payment obligations as they come due because of the inability to liquidate assets or obtain adequate funding (liability liquidity risk) or the risk that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or marked disruptions (asset liquidity risk).

Market risk

The potential negative deviation from the expected value of a financial instrument (or portfolio thereof) due to changes in the level or volatility of market prices.

NBB (National Bank of Belgium)

One of the tasks of the NBB is financial supervision, which is the instrument for ensuring financial stability, and the second key function of a central bank, alongside monetary stability. Financial supervision covers the:

1. Prudential supervision of financial institutions from both the micro-prudential and macro-prudential angle, and the prompt detection of systemic risk;
2. Supervision of information, the functioning of the financial markets and respect for the appropriate code of conduct, together with consumer protection.

Netting

An agreed offsetting of positions or obligations by trading partners or participants to an agreement. Netting reduces the number of individual positions or obligations subject to an agreement to a single obligation or position.

NSFR (Net Stable Funding Ratio)

'Available Stable Funding/Required Stable Funding', where available stable funding is derived from different components on the liabilities side of the balance sheet (required funding = assets side). Basel III defined weightings for determining stability are assigned to the different components (both assets and liabilities). An NSFR of 100% means that the funding situation is stable.

Operational risk

The risk of loss or potential deviation from the expected value of the organization resulting from inadequate or failed internal processes, people and systems or from external events.

RWA (Risk-Weighted Asset)

An exposure weighted according to the 'riskiness' of the asset concerned. 'Riskiness' depends on factors such as the probability of default by the obligor, the amount of collateral or guarantees and the maturity of the exposure.

Tier-1 ratio

[Tier-1 capital] / [total weighted risks]. The calculation of the core tier-1 ratio does not include hybrid instruments (but does include the core-capital securities sold to the Belgian and Flemish governments).

VaR (Value at Risk)

VaR represents an investor's maximum potential loss on the value of an asset or a portfolio of financial assets and liabilities, based on the investments timeframe and a confidence interval. This potential loss is calculated on the basis of historical data or deduced from normal statistical laws.