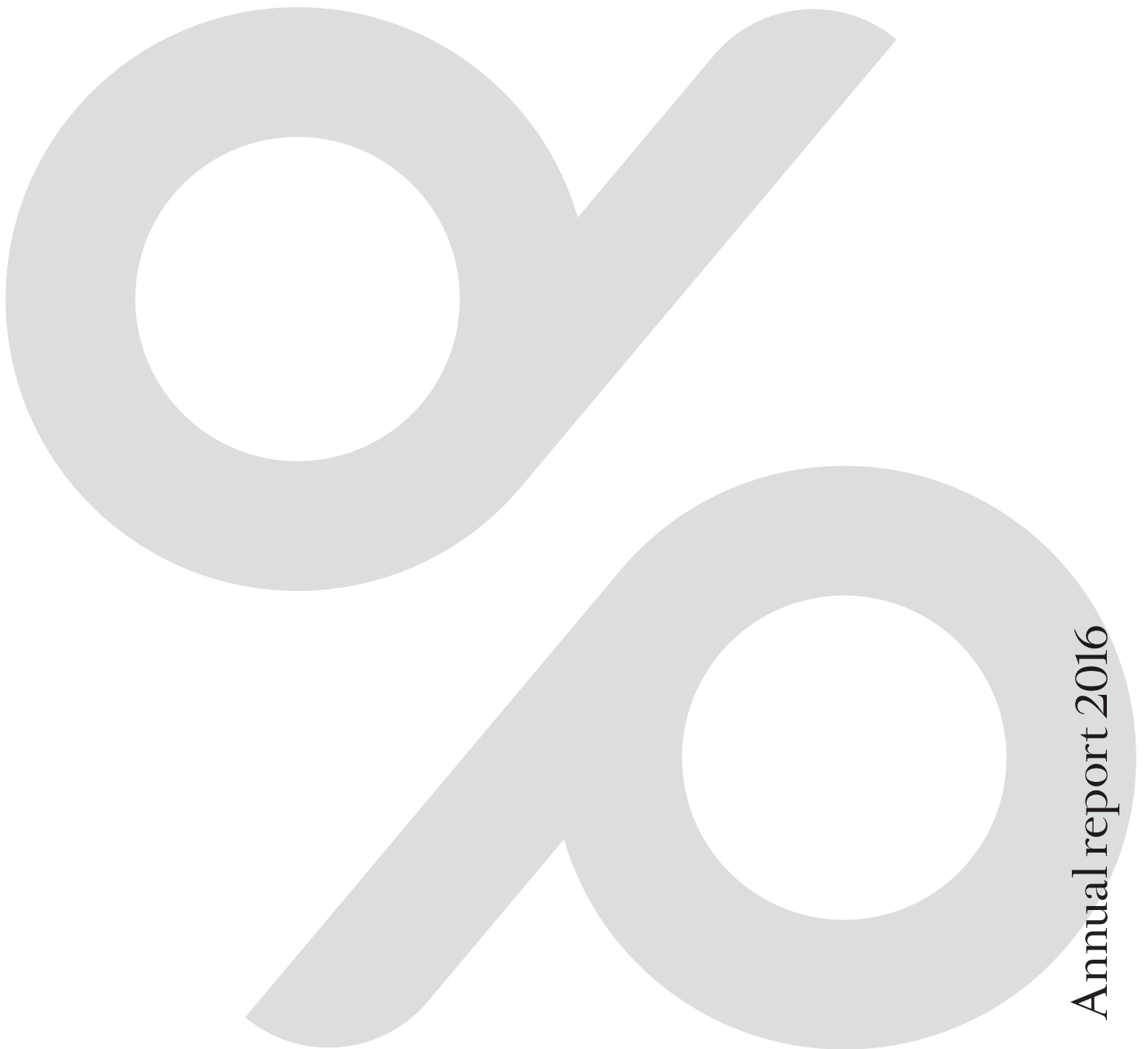

Management report



Annual report 2016

The consolidated financial statements have been prepared in accordance with IFRS.

1 General remarks

The financial results achieved by the Bank in 2016 should be viewed with reference to the volatile market conditions (a significant fall in January followed by recovery and growth at the end of the year).

The results were characterized by pressure on margins resulting from persistent negative short-term interest rates, changes to our commercial offering, lower transaction volumes and higher bank charges for deposits.

At 31 December 2016, assets under management totaled 52.3 billion euro, compared to 50 billion euro at the end of 2015. This increase is mainly due to market effects and the inflow of new capital following the distribution of our funds to third parties.

At 31 December 2016, private client assets under management totaled 35.1 billion euro. The portfolios under management achieved above-average returns in 2016 (first quartile). Moreover, 2016 saw a significant expansion of the services offered to private clients in such areas as responsible investment and also those relating to the family office.

Institutional asset management grew from 34.1 billion euro gross assets under management to 37.2 billion euro (including private assets invested in group funds). The commercial network outside Belgium continued to expand, particularly in the Netherlands and Switzerland, where sales teams were strengthened. Half of the net capital inflows from institutional investors in 2016 originated outside Belgium.

At 31 December 2016, the asset services discipline had 29 billion euro in assets under management and/or in custody, 8.1 billion euro of which was held in investment funds for third parties. Another noteworthy development was the migration of three investment funds totaling 150 million euro from the former Petercam Luxembourg to the group platform.

The total amount of credits used by Bank Degroef Petercam clients at 31 December 2016 totaled 1.7 billion euro, compared to the balance sheet total of 7.7 billion euro and cash deposits of 6.2 billion euro.

The international merger of the legal entities for the subsidiaries was also completed in 2016. This gave rise to significant benefits, most significantly collaborative advantages within the group and a stronger commercial momentum.

In France, corporate finance recorded a solid increase in its activities. Our subsidiary in Spain initiated a network of independent private bankers and established a corporate finance department. Finally, new commercial momentum emerged in Switzerland following the recruitment of four new private bankers and a unique offering in the field of international mortgage credit.

2 Discussion of the financial statements

Following the merger between Bank Degroef SA | NV and Petercam SA | NV, the change to the financial year-end date and, in accordance with the IFRS, 2015 includes three months activity of the new entity Bank Degroef Petercam and twelve months of Bank Degroef.

The consolidated net profit (group share) amounted to 57 876 665 euro compared to 107 642 846 euro in the previous financial year. The total comprehensive income (group share) is obtained by adding the unrealized profits and losses recorded directly in shareholders' equity (revaluation reserves) to the consolidated net profit and totaled 56 336 622 euro at 31 December 2016, compared to 51 604 924 euro for the previous year.

The amounts shown in the income statement for 2015 are not directly comparable with those of the current financial year. Accordingly, the results for 2015 are based on pro forma figures combining the two entities over twelve months of the calendar year. Therefore figures from 2015 mentioned hereafter are presented on this pro forma basis. The underlying data are set out under point 6.5 of the notes to the consolidated financial statements.

The consolidated net profit (group share) amounted to 57 876 665 euro compared to 96 127 216 euro¹ for the previous financial year. The total comprehensive income (group share) amounted to 56 336 622 euro compared to 42 082 095 euro in the previous financial year. As mentioned above, this figure includes the variations in the revaluation reserves on the securities portfolio. In 2015, these variations were largely offset by the gains and losses realized (included in the consolidated net profit) following the disposals of securities.

The net (accounting) interest margin across all businesses increased compared to 2015. This increase is due to the positive effects of the accounting result from the sale of the bond portfolio after the fall in interest rates related to credit spread tightening.

The financial markets activities performed less favourably compared to the previous financial year, mainly due to a drop in the intermediation activity (equity desk and derivatives on equities and indices).

With the economic climate and market environment both uncertain, net fee and commission income fell more than 10% compared to the previous financial year. This negatively impacted fee and commission income for the management and administration of assets, the corporate finance revenue figures and brokerage fees. This was further exacerbated by less attractive markets leading to limited transaction volumes, while the portfolios saw a shift to safer, more liquid assets. Despite these conditions, the average assets under management increased during the 2016 financial year.

Consolidated results from the available for sale (AFS) equity portfolio cannot be compared to those of the previous year, as this was influenced by the partial demerger in 2015, in which Bank Degroof transferred or sold the main positions in the long-term equity portfolio. The increase of the disposal gains in the previous financial year should be compared with the reduction in the revaluation reserves recorded in other comprehensive income. Please note that equity holding is no longer one of the core activities of the Bank.

Last year provisions were made for restructuring activities resulting from the merger between the Degroof and Petercam groups and the provision for litigation was increased, this year the net operating result was positively affected by the release of litigation provisions.

Personnel expenses fell compared to the previous year. This was attributable to one-off expenses incurred in 2015 which were not repeated in 2016 (social security contributions relating to previous years and the one-off payment of individual end-of-contract indemnities). The downward revision of the closing provisions and the decrease in costs relating to profit-sharing plans also played a part. Disregarding these items, personnel expenses overall remained stable.

Other general expenses were higher than those in 2015; this increase is mostly due to the new bank tax.

Depreciation, amortization and other impairment losses during the financial year were impacted by the capitalization of goodwill linked to the merger. Depreciation recorded during the previous financial year only relates to the last quarter of 2015. Conversely, the other impairments for the financial year are lower in 2016.

The estimated tax liabilities at year-end are higher than those of the previous financial year. This increase is a result of the lower tax level in 2015, particularly in relation to the two most important entities in the group. Less tax was due in 2015 as income was subject to a relatively lower tax rate (e.g. equity portfolio income/disposal).

The increase in total comprehensive income arose following a major decrease of the revaluation reserves on equity portfolios (referred to above) in 2015, which did not occur in 2016. However, there have been unfavorable developments regarding the revised estimates of the pension and medical plans.

¹ Pro forma IFRS data – 12 months for Bank Degroof / 12 months for Petercam in 2015.

2.1 Appropriation of statutory profit

At 31 December 2016 the statutory net profit of Bank Degroof Petercam SA | NV totaled 137 261 410 euro. Adding the profit brought forward from last year (107 654 608 euro), the profit to be appropriated totals 244 916 018 euro.

We propose to the general shareholders' meeting that the profit for the financial year be appropriated as follows:

	(in EUR)
Profit for the period	137 261 410
+ Profit brought forward	107 654 608
= Profit to be appropriated	244 916 018
- Allocation to other reserves	0
- Directors' fees	672 000
- Dividends	48 789 940
- Profit shares	267 570
= Profit to be carried forward	195 186 508

The gross dividend to be proposed to the general meeting for distribution amounts to 4.50 euro per share.

2.2 Consolidated shareholders' equity

Consolidated shareholders' equity, including minority interests, amounted to 898.9 million euro at the end of the financial year, a decrease of 3.6 million euro compared to the previous year.

The decrease of 3.6 million euro resulted from the combined effects of the distribution relating to the previous financial year (- 57.9 million euro), transactions on the Bank's own shares (- 2.1 million euro), the profit, including profit attributable to non-controlling interests, for the financial year (57.9 million euro), and the counterpart entry of positive foreign currency translation differences (- 1.5 million euro) due to the sale of our stake in Landolt.

At 483.6 million euro, the equity ratio used to calculate the Basel III regulatory ratios is well in excess of that required by prudential standards. The Tier 1 (core equity capital) and Tier 2 (broad equity capital) solvency ratios were 17.1% at 31 December 2016.

2.3 Assets under custody

At the end of the financial year 2016, the combined consolidated assets under custody amounted to 74.0 billion euro.

3 Changes in capital

At 31 December 2016 share capital amounted to 34 211 634 euro, comprising 10 842 209 shares without par value. All shares are fully subscribed and paid-up. The accounting par value per share is 3.1554 euro.

4 Treasury shares held by the group (Art. 624 of the Belgian Company Code)

Bank Degroof Petercam SA | NV does not hold treasury shares.

At 31 December 2016, BD Square Invest SA | NV, Degroof Finance SA | NV, Industrie Invest SA | NV, Industrie Invest 2 SA | NV and Investment Company of Luxembourg SA held a total of 327 883 Bank Degroof Petercam SA | NV shares, representing 3.02% of the share capital.

The consolidated carrying amount of all treasury shares held by subsidiaries amounted to 47 604 568 euro at 31 December 2016.

Treasury shares held by the group are intended to cover employee profit-sharing plans. During the past financial year, the total number of treasury shares increased by 14 768.

5 Circumstances that could significantly influence the development of the group

In the context of the implementation of the integration projects over the period 2016-2018, significant IT investments will be made with a view to gradually equipping the main activities of the Bank with first class technology, most notably in the digital field.

Following the merger and gradual deployment of new information technologies, the group will continue to benefit from synergies and will be equipped with a modern platform promoting the growth of the segments of activity.

In general, the growth and profitability of the group are also influenced by:

- the continuing effort to grow the business as and when opportunities arise, as demonstrated by past acquisitions and commercial investments;
- changes in assets under management and stock markets;
- corporate finance assignments;
- the macroeconomic environment.

6 Research and development activities

The group has undertaken no further direct research and development activities since the sale of its IT subsidiary Finance Technology Systems SA | NV in 2005 (settled at the end of 2016).

7 Remuneration policy

The new compensation policy, which is an integral part of the governance memorandum, came into effect on 24 September 2014. The policy was defined by the executive committee in consultation with the board of directors, the appointments and remuneration committee and the control functions.

This compensation policy seeks to encourage sound and effective risk management, discouraging any risk-taking exceeding the level tolerated by the Bank, whilst promoting the objectives and long-term interests of the Bank and avoiding conflicts of interest.

In accordance with prevailing legislation, the policy has been published on the Bank's website.

The general principles are:

- the total volume of variable compensation should not limit the ability of the Bank to strengthen its capital base;
- variable compensation is never guaranteed, except in exceptional cases of newly recruited employees, and only for the first year of employment;
- the executive committee has designated a number of 'Identified Staff' and drawn up a compensation policy for them. This was done in line with the selection methodology and criteria set by the board of directors and based on the impact of these persons on the risk profile of the Bank. The policy also provides for a maximum ratio between the amounts of fixed and variable compensation, with systems to defer payment of variable compensation, whether in cash or financial instruments, as provided for by the regulatory authorities;
- the compensation of non-executive board members consists solely of fixed compensation based on market benchmarks. These members do not receive variable compensation of any kind.

8 Main risks to which the Bank is exposed

By the nature of its activities, Bank Degroof Petercam is exposed to certain risks, principally:

- market risks, essentially linked to investment activities in securities portfolios (equities and bonds) and to interest rate transformation activity (ALM¹);
- liquidity risk, resulting from differences in maturities between financing resources (generally short-term) and the use thereof;
- counterparty risk, linked to credit activities (a risk largely covered by utilizing securities portfolios as collateral) and intermediation operations in derivative instruments;
- asset management risk (the possibility of legal action by clients if mandates are not respected, commercial risk of loss of dissatisfied customers, and reputational damage);
- operational risk resulting from its activities, including banking activities (error in order execution, fraud, cyber-crime, etc.), custodian services (loss of assets) or fund management (non-compliance with constraints).

¹ Asset and liability management.

9 Policy concerning the use of financial instruments

Group companies use derivatives for their own account as follows:

In the context of asset and liability management, interest rate derivatives (mainly futures and interest rate swaps) are utilized to hedge the long-term interest rate risk of the group.

Interest rate swaps are used to hedge a portfolio of sovereign and State-guaranteed bank bonds from a micro-hedging perspective (the portfolio is recognized at fair value through profit or loss, the hedges are undertaken position by position) but also overall, from a macro-hedging perspective. This use of derivatives is supervised by the asset and liability management committee (Almac committee).

Similarly, the Bank's treasury department (interest rate risks of less than two years) uses interest rate derivatives and treasury swaps to manage the group's interest rate and treasury positions.

Managing the group's foreign exchange position also involves the use of derivatives (forward foreign exchange contracts and currency swaps) to cover both commitments towards clients and the financing of subsidiaries in their operating currencies.

Derivatives (purchase of put options with sale of call options) are used to hedge certain investment portfolio positions and to steer their returns.

Derivatives in respect of equity positions that are hedging operations from an economic perspective are recognized as financial assets designated at fair value through profit or loss.

The Bank also engages in mediation in derivatives, notably stock options, on behalf of its clients.

10 Committees within the board of directors

Pursuant to Article 56 §4 of the Banking Act, the board of directors is required to state in its annual report the individual and collective expertise of the members of the audit, risk, remuneration and appointments committees.

The board considers that the members of the four committees mentioned herein possess the required expertise and professional integrity to carry out their assignments.

10.1 Audit committee

At 31 December 2016, the audit committee comprised the following persons:

Members	
Mr. Christian Jacobs	Chairman
Mr. Jean-Marie Laurent Josi	
Mr. Miguel del Marmol	
Mr. Frank van Bellinghen	
Mr. Ludwig Criel	Observer
Mr. Jacques-Martin Philippson	Observer

Of these:

- all are non-executive members of the board of directors;
- one independent director is a member and chairman of the audit committee;
- all of the audit committee members have professional experience in financial management, financial reporting, accounting and auditing;
- all of the audit committee members have professional experience as directors exercising executive functions;
- all of the audit committee members have complementary professional experience in a variety of sectors;
- the audit committee members have collective expertise in the activities of the Bank.

The chairman of the committee also sits on the board of directors of the subsidiary in Luxembourg, where he is a member of the audit committee, and on the board of directors of the subsidiary Degroof Petercam Asset Management.

10.2 Risk committee

At 31 December 2016, the risk committee comprised the following persons:

Members	
Mr. Frank van Bellingen	Chairman
Mr. Jacques-Martin Philippson	
Mr. Jean-Baptiste Douville de Franssu	
Mr. Ludwig Criel	
Mr. Christian Jacobs	Observer
Mr. Jean-Marie Laurent Josi	Observer

Of these:

- all are non-executive members of the board of directors;
- one independent director is a member of the risk committee;
- all of the risk committee members have professional experience as directors exercising executive functions;
- all of the members possess the required knowledge, expertise, experience and aptitudes to enable them to understand the strategy and risk tolerance level of the Bank;
- all of the risk committee members have complementary professional experience in a variety of sectors.

10.3 Appointments committee

At 31 December 2016, the appointments committee comprised the following persons:

Members	
Baron Philippson	Chairman
Mr. Jean-Marie Laurent Josi	
Mm. Véronique Peterbroeck	
Mr. Jacques-Martin Philippson	
Mr. Ludwig Criel	
Mr. Alain Schockert	Observer

Of these:

- all are non-executive members of the board of directors;
- two of the committee members have experience gained from other similar committees;
- one independent director is a member of the appointments committee;
- all of the appointments committee members have complementary professional experience in a variety of sectors;
- the committee members collectively possess the necessary expertise to enable the committee to exercise relevant, independent judgement concerning the composition and functioning of the management and administrative bodies of the Bank.

10.4 Remuneration committee

At 31 December 2016, the remuneration committee comprised the following persons:

Members	
Ludwig Criel	Chairman
Mr. Christian Jacobs	
Mr. Alain Schockert	
Mm. Véronique Peterbroeck	Observer
Baron Philippson	Observer
Mr. Jean-Marie Laurent Josi	Observer
Mr. Jacques-Martin Philippson	Observer

Of these:

- all are non-executive members of the board of directors;
- two of the committee members have experience gained from other remuneration committees;
- one independent director is a member of the remuneration committee;
- all of the committee members have professional experience as directors exercising executive functions;
- all of the remuneration committee members possess the required expertise for the purposes of exercising competent, independent judgement on the remuneration policies and incentives created for the management of risks, equity and liquidity.

11 Discharge of directors and auditors

Pursuant to the law and the articles of association, the general meeting is requested to grant discharge to the directors and the auditor of Bank Degroof Petercam SA | NV with respect to the performance of their mandates during the past financial year.

12 Application of the Act of 3 May 2002 amending the rules on the incompatibility of mandates applicable to directors of credit institutions and investment companies and the Banking, Finance and Insurance Commission Regulation of 9 July 2002 implementing this Act

The list of external mandates held by senior managers of Bank Degroof Petercam and which are subject to publication, is available at www.degroofpetercam.com.

Brussels, 16 March 2017.