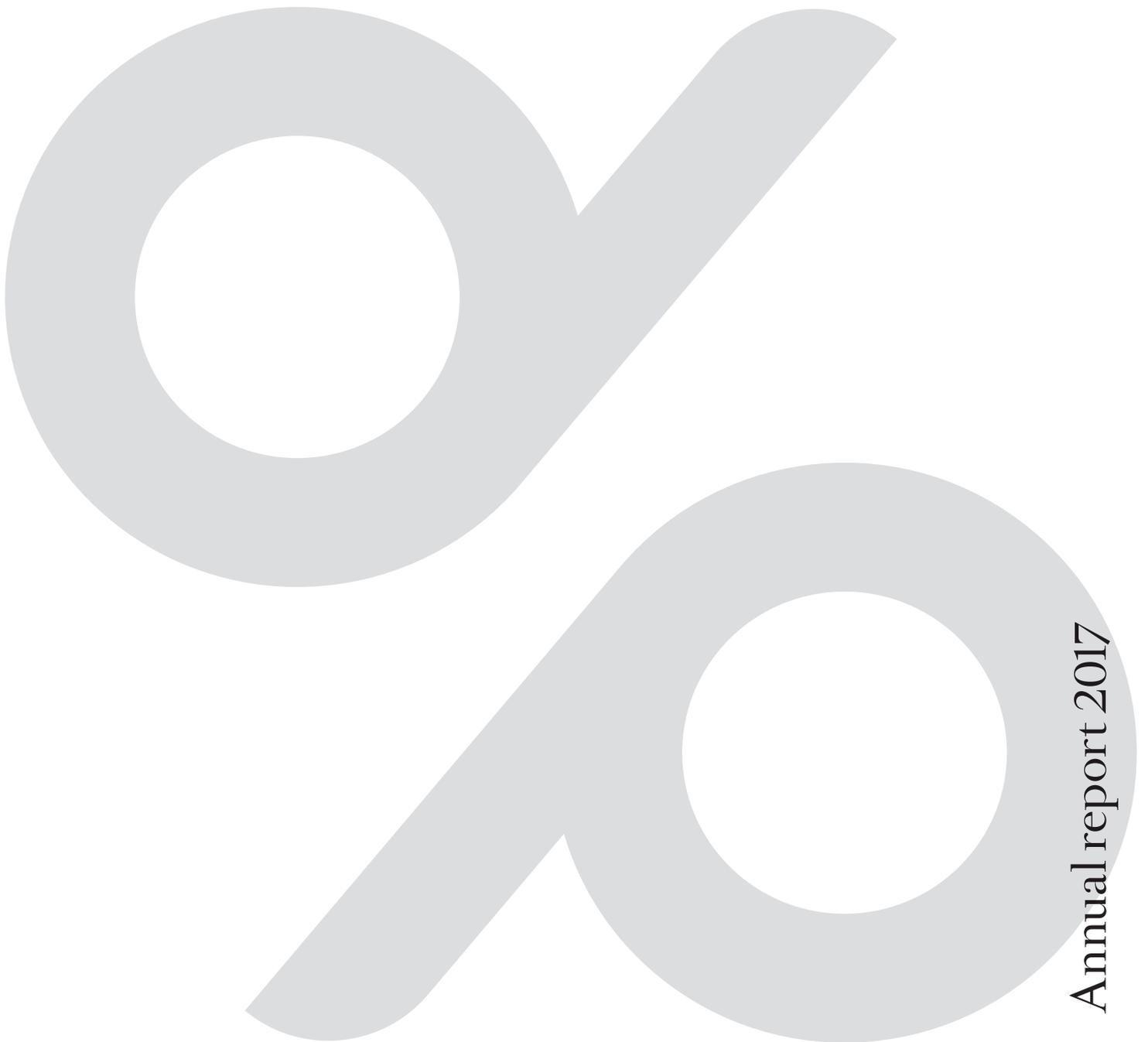


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# Management report



Annual report 2017

The consolidated financial statements have been drawn up in accordance with IFRS.

## 1 General remarks

The financial results achieved by the Bank in 2017 benefited from an improvement in the economic situation and stock markets. The slope of the yield curve rose slightly, whereas short-term interest rates remained negative.

These results reflect the good performance of fee-generating businesses, in particular institutional management, private banking, investment banking and asset services, even though the interest margin continued to be affected by negative short-term rates.

At 31 December 2017, assets under management totaled EUR 54.8 billion, compared to EUR 52.3 billion at the end of 2016. This increase is mainly due to market effects and the inflow of new capital particularly following the distribution of our funds to third parties. The yearly evolution in asset under management has however been negatively impacted by the implementation of fiscal measures at the end of the year.

At 31 December 2017, private client assets under management totaled EUR 34.9 billion, which means a relatively stable performance compared to 31 December 2016.

Institutional asset management grew from EUR 37.2 billion gross assets under management to EUR 41.9 billion (including private assets invested in group funds). The commercial network outside Belgium continued to expand, particularly in France, Italy, Germany and Spain.

At 31 December 2017, the Asset Services discipline had EUR 38 billion in assets under management and/or in custody, EUR 8.8 billion of which was held in investment funds for third parties.

The total amount of credits used by Bank Degroof Petercam clients at 31 December 2017 totaled EUR 1.9 billion, compared to the balance sheet total of EUR 8.3 billion and cash deposits of EUR 6.7 billion.

In France, corporate finance recorded a solid increase in its activities. Our subsidiary in Spain initiated a network of independent private bankers and credit activity increased in Switzerland.

## 2 Discussion of the financial statements

The consolidated net profit (group share) amounted to EUR 86 459 998 compared to EUR 57 876 665 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 EUR 88 228 590 at 31 December 2017, compared to EUR 56 336 622 for the previous year.

The net interest margin, for all activities, was slightly lower than the previous financial year. 2017 was strongly marked by the continued negative short-term rates which were partially offset by the continued narrowing of credit spreads. Income from credits rose following the increase in volumes and widening of margins in Luxembourg.

The accounting result from the sale of the bond portfolio was significantly lower than in 2016.

The Financial Markets activities were stable compared to the previous financial year, particularly for intermediation activity (bond desk and equity and index derivatives). The exchange desk also boosts 2016 figures, with higher fees in the Luxembourg entity. Moreover, Private Equity activity saw a notable rise in 2017 with a significant number of new deals concluded. The selling of stock option plans continued to increase in 2017 with the signing of new client contracts.

Net commission income saw a double-digit increase (of around 13%) compared to the previous financial year. At the end of the period, capital under management increased overall by 4.7% compared to 2016.

Fees for the management and administration of assets were sustained by the positive effect of markets, the revision of the house funds' rate structure and the net inflows of capital from the distribution of funds and international private clients activity. Corporate finance revenue figures saw a very significant rise in France, but also in Belgium, supported by a high level of transactions over the last months of the year.

Only brokerage fees did not follow the general upward trend, remaining at a similar level to that of the previous year.

Consolidated results from the available for sale (AFS) equity portfolio, which were up compared to 2016, were influenced by capital gains on securities investment operations managed by our trading room, and structured in advance by the Corporate Finance teams.

While the net operating result for the financial year under review was, on the whole, stable, it was affected by significant offsetting movements; mainly the recognition of the positive effects of the change in the conditions of post-employment benefits (as part of HR harmonization), which was offset by the negative trends of the main provisions items.

Personnel expenses increased compared to the previous year. This was attributable to indexation and the increase in the number of staff. At the end of the period, the number of FTE for the whole group increased sharply compared to the end of 2016. In addition, variable remuneration provisions, as well as IAS19 costs associated with future pensions were up compared to 2016.

Other general expenses decreased significantly. While current operating expenses were up slightly, integration and transformation costs were significantly lower than in 2016.

Depreciation and amortization during the financial year was stable. The net impairment of assets was similar to that in 2016; however, while that of the previous year was largely relating to certain credits and also financial instruments, the impairment losses in 2017 apply above all to the value of certain business activities in private banking.

The estimated tax liabilities at year-end were slightly lower than those of the previous financial year. The increase in the current taxes of certain subsidiaries (of which the Belgian and Luxembourg UCI management companies) was fully offset by the positive impact of the revision of deferred tax reserves on certain balance sheet assets and liabilities (following the tax reform at the end of the financial year lowering effective taxes to 29.58% in 2018 and 25% in 2020). The reserve of cumulative tax losses of some of the group's entities was slightly lower during the financial year ended.

The increase in total comprehensive income arose following an increase of the revaluation reserves on equity portfolios and other support SICAVS, as well as an increase of revaluation effects of financial projections and others on pension plans.

## 2.1 Appropriation of statutory profit

At 31 December 2017, the statutory net profit of Bank Degroof Petercam nv | sa totaled EUR 70 144 212. Adding the profit brought forward from last year (EUR 195 186 507), the profit to be appropriated totals EUR 265 330 719.

The board of directors proposes to the general shareholders' meeting that the profit for the financial year be appropriated as follows:

	(in EUR)
Profit for the period	70 144 212
+ Profit brought forward	195 186 507
<b>= Profit to be appropriated</b>	<b>265 330 719</b>
- Allocation to other reserves	0
- Directors' fees	795 000
- Dividends	65 053 254
- Profit shares	345 957
<b>= Profit to be carried forward</b>	<b>199 136 508</b>

The gross dividend to be proposed to the general meeting for distribution amounts to EUR 6.00 per share.

## 2.2 Consolidated shareholders' equity

Consolidated shareholders' equity, including minority interests, amounted to EUR 939.8 million at the end of the financial year, an increase of EUR 40.9 million compared to the previous year.

The increase of EUR 40.9 million resulted from the combined effects of the distribution relating to the previous financial year (EUR -47.3 million), the profit (including profit attributable to non-controlling interests) for the financial year (EUR 86.5 million), the revaluation of financial assets at fair value (EUR 4 million), the IAS 19 revaluation of post-employment benefit conditions (EUR 1 million), and the foreign currency translation difference (EUR -3.3 million).

At EUR 519.1 million, 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 2017.

## 2.3 Assets under custody

At the end of the financial year 2017, the combined consolidated assets under custody amounted to EUR 80.9 billion.

# 3 Changes in capital

At 31 December 2017, share capital amounted to EUR 34 211 634 comprising 10 842 209 shares without par value. All shares are fully subscribed and paid-up. The accounting par value per share is EUR 3.1554.

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

Bank Degroof Petercam nv|sa does not hold treasury shares.

At 31 December 2017, BD Square Invest nv|sa, Degroof Finance nv | sa, Industrie Invest nv | sa, Industrie Invest 2 nv|sa and Investment Company of Luxembourg sa held a total of 327 879 Bank Degroof Petercam nv|sa shares, representing 3.02% of the share capital.

The consolidated carrying amount of all treasury shares held by subsidiaries amounted to EUR 47 604 007 at 31 December 2017.

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 decreased by four shares.

## 5 Circumstances that could significantly influence the development of the group

In the context of the implementation of the integration projects over the period 2016-18, 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 continues its Research and development activities through the progressive implementation of its transformation programme of the operational and support applications.

## 7 Remuneration policy

The remuneration 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 remuneration 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 remuneration does not limit the Bank's capacity to increase its equity;
- variable remuneration 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 remuneration 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 remuneration, with systems to defer payment of variable remuneration, whether in cash or financial instruments, as provided for by the regulatory authorities;

- the remuneration of non-executive board members consists solely of fixed remuneration based on market benchmarks. These members do not receive variable remuneration 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 (asset & liability management);
- 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 using 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, cybercrime, etc.), custodian services (loss of assets) or fund management (non-compliance with constraints).

## 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 (ALM), interest rate derivatives (mainly futures and interest rate swaps) are used 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 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 risk.

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.

It should be noted that this use of derivatives was stopped at the end of the year.

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 2017, the audit committee comprised the following persons:

Members	
Mr Ludwig Criel	
Mr Miguel del Marmol	
Mr Christian Jacobs	Chairman
Mr Jean-Marie Laurent Josi	
Mr Frank van Bellingen	

Of these:

- all are non-executive members of the board of directors;
- two independent directors are members 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 (until 31 July 2017).

## 10.2 Risk Committee

At 31 December 2017, the risk committee comprised the following persons:

Members	
Mr Jean-Baptiste Douville de Franssu	
Mr Christian Jacobs	
Mr Jacques-Martin Philippson	
Mr Frank van Bellingen	Chairman

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 2017, the appointments committee comprised the following persons:

Members	
Mr Ludwig Criel	
Mr Jean-Marie Laurent Josi	
Ms Véronique Peterbroeck	
Baron Philippson	Chairman
Mr Jacques-Martin Philippson	

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 2017, the remuneration committee comprised the following persons:

Members	
Mr Ludwig Criel	Chairman
Mr Christian Jacobs	
Mr Alain Schockert	

Of these:

- all are non-executive members of the board of directors;
- two of the committee members have experience gained from other remuneration committees;
- two independent directors are members 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 to 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 nv|sa with respect to the performance of their mandates during the past financial year.

## 12 List of mandates held by senior managers

In application of the Law 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

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](http://www.degroofpetercam.com).

Brussels, 26 April 2018.