European Markets in Financial Instruments Directive (MiFID II)

MiFID II

Information for **professional clients** of Banque Degroof Petercam, Luxembourg, January 2021

Table of contents

Introduction

In 2004, the European Union took the initiative of issuing a set of rules with the aim of ensuring the integrity and transparency of financial markets and protecting investors. In force since November 2007, MiFID became the cornerstone of the European Union's regulation of investment services in financial instruments and the operation of traditional stock exchanges and alternative trading venues. Furthermore, it helped increase competitiveness by creating a single market. MiFID also ensured a high degree of harmonised protection for investors in financial instruments.

To address the shortcomings observed during the 2008 financial crisis, the European Commission overhauled European regulations on financial markets and investment products. Accordingly, the Commission has adopted a new Directive called MiFID II and a new MiFIR Regulation (EU Regulation No. 600/2014), in addition to all European and national laws and regulations, including the related implementing measures.

MiFID II aims to reinforce the European rules by:

For investors, by increasing investor protection through stricter rules on conflicts of interest and by improving the transparency of information provided by financial actors in investment services.

On the stock markets:

- by enhancing investor protection and improving conduct of business rules and the level playing field in the trading and settlement of financial instruments;
- by improving the transparency and oversight of financial markets - including derivatives markets - and by addressing some shortcomings in commodity derivatives markets.

MiFID II entered into force on 3 January 2018.

The purpose of this brochure is to inform you of the main provisions of the MIFID II directive affecting your relations with the Bank. The topics addressed are as follows:

- classification of clients;
- the Personal and Financial Stocktaking, your investment profile;
- the investment services offered by the Bank;
- information provided by the Bank in the context of MiFID II;
- the nature and specific risks of the financial instruments offered by the Bank;
- summary of the order execution policy for financial instruments;
- information on the protection of clients' financial instruments and funds
- information on inducements received or paid by the Bank
- summary of the conflict of interest policy of the Bank.

1 Classification of Clients

The Bank has always been committed to providing a personalised service to its clients, tailored to their particular situation. This strategy is in line with the philosophy of the MiFID II regulation, which obliges financial institutions to treat their clients in a manner appropriate to their situation and their experience and knowledge of financial matters.

In practice, the MiFID II regulation obliges financial institutions to classify their clients into three categories, namely retail (non-professional) clients, professional clients and eligible counterparties, and to apply to these clients a protection regime adapted to their category. The distinction among these categories is based on the client's experience and knowledge of financial matters: the professional clients and eligible counterparties categories are reserved to clients with experience and in-depth knowledge of financial matters, requiring a lower level of information and protection in the context of their financial transactions.

The retail clients category is reserved to clients with more limited experience and knowledge of financial matters requiring a higher level of information and protection.

MiFID II obliges financial institutions to inform their clients of the category in which they have been placed (retail or professional client, or eligible counterparty).

You qualify as a professional client, but you have the right to request a different classification, i.e. “non-professional client” or “eligible counterparty”, if you meet certain criteria defined by law.

This change is subject to the prior written approval of the Bank. In addition, a change to eligible counterparty automatically implies a loss of the benefit of the protections reserved by the MIFID II regulation to the category of non-professional and professional clients.

Please contact your relationship manager if you wish to proceed in this way.

2 Personal and Financial Stocktaking

Depending on the investment services you wish to obtain, the Bank will be required to obtain a certain amount of data in order to verify that the transactions you wish to carry out with respect to a financial instrument are appropriate and/or adequate. We have developed a questionnaire known as "Personal and Financial Stocktaking" (PFS) in order to collect this data.

If you wish to **receive advice from the Bank** or take advantage of our **discretionary management service,** the PFS collects information on **your financial situation**, including your capacity to incur losses, and your **investment objectives**, including your risk tolerance.

We use these questions to establish your investment profile.

The investment profile is determined on the basis of the combination of your level of knowledge and experience in the various categories of financial instruments and the risk profile that is attributed to you using this questionnaire.

Your risk profile depends on your risk appetite and your financial capacity to absorb potential losses. **The Bank has defined 5 risk profiles: Low, Medium-Low, Medium, Medium-High and High.**

By determining your investment profile, we can provide you with discretionary management or investment advisory services that take into account your risk profile and your knowledge and experience of financial instruments. Nevertheless, when the Bank provides investment advice or portfolio management services to a professional client, it is entitled to assume that the client has the necessary experience and knowledge to understand the risks inherent in the transactions, financial instruments and services concerned.

[1] The MiFID II Directive defines non-complex financial instruments to include equities and bonds listed on a regulated market, money market instruments and units of UCITS. All other instruments, such as non-UCITS funds, trackers, unlisted bonds, convertible bonds, subordinated bonds, structured products and/or funds with or without capital protection, unlisted shares, options, futures and private equity funds must therefore be considered to be complex financial instruments.

When the Bank provides investment advice to a professional client, it may also assume that this client is in a position to financially bear the investment risks associated with the transactions, financial instruments or services concerned, unless this client is treated as a professional client due to its decision to change categorisation (from the status of non-professional client).

The Bank will obtain information from the professional client about his investment objectives for a given transaction.

If the Bank receives an order on financial instruments from a professional client, the Bank is entitled to assume that the client has the necessary experience and knowledge with regard to the investment concerned. Consequently, the Bank does not verify the appropriateness of the order or the investment service with regard to the experience and knowledge of the client.

Notwithstanding the conditions of signature that the account holders have agreed to on the account opening application, the account holders authorise the “designated person” in the PFS questionnaire to alone issue any order to buy/subscribe or sell financial instruments and to receive investment advice.

Should the financial situation and objectives change, you must inform the Bank without delay and a new PFS questionnaire must be completed.

If you do not complete the PFS, you will not be able to execute any purchase/subscription orders on financial instruments and will not have access to any investment service offered by the Bank.

3 Investment services offered to the client

The Bank offers three types of investment services:

1. Investment advice;
2. Discretionary management;
3. The reception, transmission and execution of orders without the advice of the Bank.

The Bank offers a range of different services within these three types of services:

Investment advice

Investment advice means providing **personal recommendations** to a client, either upon the client's request or on the initiative of the Bank, with respect to one or more transactions relating to financial instruments. In other words, the client must **give his express consent for every trade** and can refuse to execute a transaction recommended by the Bank or, conversely, may request the execution of a transaction not recommended by the Bank. In other words, **the final decision rests with the client.**
This is the main difference with portfolio management, where the Bank is responsible for the final investment decision.

Before providing investment advice, the Bank will determine whether the financial instruments concerned are appropriate for the client.

The agreement signed between the Bank and its clients describes, at a minimum:

- the rights and obligations of the client and of the Bank and shall include a description of the services, including the types of financial instruments that may be purchased and sold and the types of transactions that may be undertaken on behalf of the client.

MiFID II distinguishes between two types of investment advice: “independent” investment advice and “non-independent” investment advice.

The investment advice provided by the Bank is “non-independent” within the meaning of MiFID II. Certain financial instruments for which the Bank may provide investment advice (such as structured products, investment funds, etc.) may be issued by entities with which the Bank has signed collaboration or distribution agreements that enable it to receive monetary or non-monetary remuneration.

The Bank is fully transparent about the remuneration it receives. In particular, such remuneration is described in the document sent to the client before the order is placed (see Information provided by the Bank in the context of MiFID II).

The Bank offers different types of investment advice:

INVESTMENT ADVICE “PORTFOLIO ADVICE”:

In the case of Portfolio Advice, the Bank takes a portfolio approach. This means that, in order to provide its advice, the Bank will evaluate the entire portfolio of the client and, in accordance with the client’s investment profile and the contractually agreed strategy, will offer **advice on a wide range of financial instruments.**

Furthermore, the Bank will actively monitor the portfolio. Hence, the Bank will regularly monitor whether the portfolio is still in line with the predetermined investment strategy and the client’s investment profile. In the event that is no longer the case, the Bank will contact the client and give advice on how to rectify the situation.

During the relationship, the client can also propose certain transactions on his own initiative. The Bank will inform the client whether the suggested transaction is in line with the client’s investment profile and the agreed investment strategy.

INVESTMENT ADVICE
"AD HOC ADVICE":

Ad hoc investment advice is based on a profile approach. This means that the Bank does not monitor the entire portfolio of the client and, when advising the client, limits itself **to ensuring that the product corresponds to the client's investment profile.**
As part of this service, the Bank will occasionally and only at the request of the client provide investment advice which the client is free to follow or not.

Portfolio management

Portfolio management is a discretionary and personalised portfolio management service involving one or more financial instruments within the framework of a mandate given to the Bank by the client.
The agreement signed between the Bank and its clients describes:

- the rules and the investment strategy that the Bank will follow. The investment strategy to be applied is based on the investment profile defined using the PFS;
- the rights and obligations of the client and of the Bank and shall include a description of the services, including the types of financial instruments that may be purchased and sold and the types of transactions that may be undertaken on behalf of the client.

Prior to any investment on behalf of the client within the framework of its discretionary management mandate, **the Bank will assess whether the financial instruments under consideration are suitable** for the client and are in line with the agreed investment strategy.

Receipt, transmission and execution of orders

The Bank offers order receipt, transmission and execution services to clients who have opted not to receive investment advisory or discretionary management services. These services enable clients, on their own initiative, to transmit buy and sell orders for all the financial products included in the Bank's range of products.

If the Bank receives an order to buy and sell financial instruments from a professional client, the Bank is entitled to assume that the client has the necessary experience and knowledge with regard to the investment concerned. Consequently, the Bank does not verify the appropriateness of the order or the investment service with regard to the experience and knowledge of the client.

The obligations of the Bank with respect to the type of investment service

The obligations of the Bank towards the client vary depending on whether the client has received advice from the Bank or not.

DISCRETIONARY MANAGEMENT OR INVESTMENT ADVICE

If the client is receiving discretionary management services or advice, the Bank will carry out a suitability test for any order relating to a financial instrument. It will use the information obtained through the PFS questionnaire to carry out this assessment. More specifically, an investment product will be deemed suitable if the test indicates that:

- the proposed transaction is consistent with the client's risk profile;
- the client's level of knowledge of and experience with the product(s) concerned is sufficient.

Under no circumstances may the Bank give unsuitable investment advice or execute an unsuitable transaction on behalf of the client in the context of discretionary management. A transaction is deemed to be unsuitable if it is not consistent with the client's investment objectives, financial situation and knowledge and experience of financial instruments.

RECEIPT, TRANSMISSION AND EXECUTION OF ORDERS

With regard to services related to the receipt, transmission and execution of orders, only the suitability of the financial instrument concerned needs to be tested, provided that the instrument is classified as complex by MiFID II. More specifically, the Bank must examine whether the client has sufficient knowledge and experience relating to the complex financial instrument concerned when making a purchase/subscription.
If the Bank receives an order to buy and sell financial instruments from a professional client, the Bank is entitled to assume that the client has the necessary experience and knowledge with regard to the investment concerned. Consequently, the Bank does not verify the appropriateness of the order or the investment service with regard to the experience and knowledge of the client.

4 Information provided by the Bank in the context of MiFID II

MiFID II regulates the information that the Bank must provide to the client so that the client is sufficiently informed before an investment service is provided.

Information that the Bank must provide to the client upon initiation of the banking relationship

When the banking relationship is initiated, the Bank must provide the client, on a durable medium[2], various contractual documents including, inter alia, the Bank's General Terms and Conditions, the Bank's fee schedule, a summary of the Order Execution policy for financial instruments and a copy of this MiFID Brochure.

The client must also expressly agree that:

- the Bank is allowed to execute orders outside of a regulated market or multilateral trading facility, which may in particular be the case for orders relating to bonds, units/shares in investment funds and structured products.
- the Bank has the option not to disclose to the market any limit orders which it was not possible to execute immediately. This allows the Bank to execute an order by tranche depending on how the market evolves.

This express agreement is given by signing the "MiFID II Consent" section of the PFS.

Information prior to an investment decision

Before taking a decision to invest in a particular financial product, the Bank shall inform the client of the following:

- information relating to the product concerned, including the risks associated with it;
- the legal documentation relating to the product, including the prospectus for structured products, as well as the general terms and conditions, if any;
- information relating to costs and charges which are not caused by the existence of a market risk underlying the product concerned:
  - which are recorded when the financial instrument is purchased, held or sold;
  - that the Bank receives or pays to a third party in connection with the planned transaction involving the financial instrument, including the nature and scope of monetary benefits or the right, commission or non-monetary benefit.

[2] Durable medium: any tool that makes it possible for the client to keep information that is personally addressed to him in such a way that this information is easily accessible for future use for an appropriate period of time and allows the reproduction of the unaltered stored data.

These costs and charges are totalled in order to allow the client to enter the total cost, as well as the cumulative effect on the return on investment of the product under consideration.

Information relating to order execution

For clients receiving investment services other than portfolio management, a confirmation is sent to the client without delay after the execution of an order on a financial instrument in order to inform the client that its order(s) has (have) been executed. This confirmation also includes detailed information about the transaction.

Periodic Reports

Different types of periodic report are available, depending on the type of investment service the client is receiving.

TYPE OF REPORT

A. Valuation Reports

A portfolio valuation report is sent to the client at least quarterly. In particular, it lists the following:

- the amount of liquid assets and the most recent value of the client's financial instruments, on the basis of the last average indicative price for currencies and on the basis of the last stock exchange price or the last known price for securities;
- an overview of the breakdown of the client's portfolio risk;
- the performance of the client's portfolio;
- a statement of all fees and commissions collected or received by the Bank.

B. Suitability Reports

A suitability report is sent to the client (except **the receipt, transmission and execution of orders**) at least annually. It focuses on the appropriateness of the client's portfolio to its profile and investment strategy.

C. Special Reports

- **10% decrease in the total value of the portfolio**

If necessary, the Bank will inform the client if the total value of the portfolio as valued in a valuation report has decreased by 10%, and for each multiple of 10% thereafter. This 10% decrease is calculated based on the value of the most recent valuation report.

REPORTS BY TYPE OF SERVICE

The Bank addresses to the client:

- discretionary management
  - a valuation report
  - the special report on the 10% decrease in the total value of the portfolio

- Portfolio Advice and Ad Hoc Advice investment advisory services
  - a valuation report
  - a suitability report

- on the receipt, transmission and execution of orders
  - a valuation report

5 The nature and specific risks of the instruments offered by the Bank

This section, in accordance with the MiFID Directive, provides you with general information about the characteristics of the main financial instruments part of the investment universe of the Bank and their inherent risks.

5.1. Bonds

CONVENTIONAL BONDS

DEFINITION

A bond is a debt security issued by a legal person (government, company, etc.), also known as the issuer, in respect of a loan of a specific term (more than one year) and a specific amount, for which the holder generally receives periodic interest (the coupon).

The bonds are offered to the public during a subscription period (primary market). During this period, investors can obtain the bond at the issue price. After the issue period, the bonds may be bought or sold on the secondary market at a price which will vary depending, among other factors, on the development of interest rates (the price will in principle be lower than the issue price if interest rates have risen since the issue; it will in principle be higher if they have not), and on any changes in the issuer's creditworthiness since the time of issue.

At maturity, the bond is redeemed at the price generally set at par (100% of the nominal value), unless the issuer is no longer in a position to redeem it, for example in the event of the issuer's bankruptcy.

The main characteristics of a conventional bond are the issuer; the currency of issue; the interest rate; the maturity (and term); the price (and yield); the amount of the issue; the place of listing (listed or unlisted bond).
Issuers can be classified on the basis of two criteria:

- type of issuer (public authorities, supranational bodies, companies);
- the issuer's rating. The rating gives an indication of the creditworthiness of the issuer or the issue at the time it is assigned. The rating is assigned on the basis of an in-depth analysis of the issuer or issue by an external party; the best-known rating agencies are Standard & Poor's, Moody's and Fitch.

Conventional bonds belong to the following categories defined by the Bank:

- **Non-complex listed bond.** Non-complex bonds are bonds without embedded derivatives or structures that make it difficult for the client to understand the risk involved. These bonds are also listed, i.e. they are officially listed on a regulated market or an MTF[3];
- **Bond not listed on a regulated market or MTF,** and other bonds. Unlisted bonds are bonds that have not been issued on the public market but on the private market. In particular, they may only be subscribed by the Bank within the framework of a discretionary management mandate or by clients over a certain threshold. The characteristics of these bonds are set out in the issue contract or subscription contract. These bonds are traded over-the-counter.

The concept of "other bonds" in the category "Bonds not listed on a regulated market or on an MTF, and other bonds" refers mainly to callable bonds as defined below. This concept does not refer to perpetual bonds that are not part of the Bank's investment universe or to convertible or subordinated bonds that represent specific categories and are presented below.

RISKS

Credit risk (insolvency risk): credit risk is the risk that the issuer of the bond may default and be unable to honour its commitments (interest and/or principal). The quality of the issuer is important, as the issuer is responsible for the return of the invested capital. The worse the financial situation of the issuer, the higher the risk of default (partial or not) (hence the importance of the rating).

Interest rate risk: interest rate risk is the risk of capital loss if the bond is sold on the secondary market before its maturity because the risk of a decrease in the value of an investment is caused, among other things, by an increase in market rates.

Exchange risk: Exchange risk exists for bonds denominated in foreign currencies.

Liquidity risk: liquidity risk may exist if the secondary market for the bonds concerned is a narrow one[4].

[3] An MTF (abbreviation for Multilateral Trading Facility) is an unregulated market for trading in financial instruments.

[4] A narrow market refers to a place where there are few buyers, few sellers, or both. As a result, transaction volumes are very low, which is not conducive to the optimal determination of the transaction price.

CALLABLE BONDS

DEFINITION

Callable bonds are bonds **redeemable prior to maturity at the option of the issuer** under the terms and conditions stated at the time of issue.

An issuer may redeem its bonds because of falling interest rates. A company that issues a call is therefore a company that wishes to refinance its debts at a more advantageous rate. To compensate for the risk to the client of early redemption of the bond, the issuer will offer an interest rate that is higher than the rate offered by a conventional bond.

RISKS

In addition to the risks associated with conventional bonds, there is a **reinvestment risk.** The client may find himself obliged to reinvest the amounts repaid to it at a lower rate.

CONVERTIBLE BONDS

DEFINITION

Like conventional bonds, convertible bonds have a fixed interest rate and a fixed term. The difference lies in the fact that **the bondholder has the right** (and not the obligation) **to request,** during one or more given periods and under conditions fixed in advance, **that the bond be converted into existing or** new shares of the issuer or, on an exceptional basis, **of another company.**

RISKS

In addition to the risks associated with conventional bonds, there is the following risk:

Volatility risk[5] : the volatility risk of the price of a convertible bond is higher than for a conventional bond because the price of the convertible bond may, in some cases, follow the share price quite closely. After conversion, the risks are the same as the risks of the share.

[5] Volatility indicates the degree of fluctuation in the price of the financial instrument (price fluctuation) without indicating direction. This is a measure of the price fluctuation (standard deviation) in relation to its longer-term average value. High volatility means that the value is subject to large fluctuations, both positive and negative.

REVERSE CONVERTIBLE BONDS

DEFINITION

A reverse convertible bond is a variant of the convertible bond, since the conversion of this type of debt into shares is determined at the discretion of the issuer. These securities are thus redeemed based on the issuer's decision.

RISKS

In addition to the risks associated with conventional bonds, there are the following risks:

Liquidity risk: The liquidity risk is greater for this type of investment than for conventional bonds because the secondary market is very often narrower.

Volatility risk: The volatility risk of the price of a convertible bond is higher than for a conventional bond because the price of the convertible bond may, in some cases, follow the share price quite closely. After conversion, the risks are the same as the risks of the share.

BONDS WITH WARRANTS

DEFINITION

Bonds with warrants entitling their holders to subscribe to or acquire one or more shares or bonds: bonds carrying a right (warrant) entitling their holder to acquire or subscribe, during a specified period, a share or bond of the issuer of the warrant or of another company, at a price generally set in advance. The prices of the bond and of the attached warrant are often listed separately.

RISKS

In addition to the risks associated with conventional bonds, there are the following risks:

Liquidity risk: The liquidity risk is greater for this type of investment than for conventional bonds because the secondary market is very often narrower.

Volatility risk: The volatility risk of the price of a convertible bond is higher than for a conventional bond because the price of the convertible bond may, in some cases, follow the share price quite closely. After conversion, the risks are the same as the risks of the share.

PREFERRED BONDS

DEFINITION

A preferred bond has a lower risk than a conventional bond because, in the event of the issuer's bankruptcy, priority is given to the redemption of the preferred bond.

RISKS

The risks are the same as for a conventional bond except that the holder has additional protection, with repayment of the principal guaranteed by certain assets of the issuer.

SUBORDINATED BONDS

DEFINITION

A subordinated bond is riskier than a non-subordinated bond because, **in the event of the issuer's bankruptcy, the subordinated bond will be repaid after all other creditors have been repaid** and just before the shareholders.

The additional risk incurred by the investor can be assessed on the basis of the rating of the bond, which takes into account the subordination of the bond. The client will be offered a higher rate than for a conventional bond in order to compensate for the additional risk involved.

RISKS

The risks associated with subordinated and conventional bonds are in principle the same, but the capital risk may be higher for a subordinated bond because it will be repaid after all other creditors in the event of bankruptcy.

INDEXED BONDS

DEFINITION

An indexed bond is a bond where the principal and/or the interest is linked to the development of a benchmark (inflation, stock exchange index, for example).

RISKS

The risks are the same as a conventional bond with the difference that the bond may be more volatile depending on the underlying benchmark index.

COVERED BONDS

DEFINITION

A covered bond is secured by mortgages or public sector debt.

RISKS

The risks are the same as a conventional bond, with the difference that the covered bond allows recourse to a pool of assets that covers all or part of the issuer's default.

STRIP BONDS

DEFINITION

A strip is a bond subject to a stripping process in which the capital (nominal), called the principal, has been separated from the interest (coupon). Both the capital and the interest are the subject of certificates that are created (certificate of coupon and certificate of principal), which are quoted at a discount that can be traded individually on the bond market.

RISKS

In addition to the risks associated with conventional bonds, there is the following risk:

Liquidity risk: The liquidity risk is greater for this type of investment than for conventional bonds because the secondary market is very narrow with few market makers.

5.2. Listed shares

DEFINITION

A share is a co-ownership security representing **a certain share in the capital** of a Belgian or foreign company and entitling its holder, in proportion to its shareholding, to receive any dividends distributed by the company and, unless otherwise stipulated in the Articles of Association, to **vote at the general meetings of shareholders,** often in proportion to its shareholding in the company. In addition, investors benefit from the potential capital gain through the price **performance** created by the company.

RISKS

Capital risk: there is a significant capital risk associated with an investment in shares, as there is no capital protection mechanism.
Risk of absence of income: the risk of absence of income is clear because dividends are variable income. A company may decide, for various reasons (weak results, lack of dividend strategy, self-financing of investments, etc.), not to distribute a dividend in certain years.

Liquidity risk: liquidity risk is a function of the volume of share transactions and the free float[6]. The higher the company's market capitalisation[7], the broader and therefore more liquid the market for its shares. However, the shares may experience an illiquid market.

Exchange risk: the exchange risk may be significant for shares that are denominated in other currencies, such as the US dollar. However, the company's activity also plays a role in this respect, depending on whether its results are more or less dependent on activity in markets outside the eurozone.

Volatility risk: the price volatility risk is significant. It depends as much on the management of the company as on the economic, microeconomic and financial context.

[6] The free float of a listed company corresponds to the proportion of its shares that can actually be traded on the stock market. It may be expressed as a value or, more frequently, as a percentage of the capitalisation.

[7] Market capitalisation is the total value of a company based on the share price and the number of shares in issue.

5.3. Investment funds

An investment fund, hereinafter referred to as a fund, is an entity that **collects financial resources** from various investors and invests this **capital collectively in a set of diversified financial instruments** based on the principle of risk diversification.

The investment policy describes how the investment objectives will be pursued: the asset classes in which the fund will be invested, such as equities or bonds, regions, currencies, the minimum and maximum allocation in certain asset classes and whether the fund is actively or passively managed.

One category of funds found in many portfolios managed by the Bank is treasury funds. These funds mainly invest in short-term (generally less than 12 months) and very short-term (from a few days to 3 months) monetary instruments, such as fixed-term deposits in euro and foreign currencies, treasury certificates[8], and commercial paper[9].

Depending on the intended allocation of their income, **the funds are either distribution or accumulation funds.** In accumulation funds, the fund's income from coupons and dividends is reinvested in the fund, while in distribution funds, part of the income acquired may be distributed but without any guarantee.

The three main categories of funds distributed by the Bank are as follows:
- UCITS funds
- Non-UCITS funds
- Private equity funds

[8] A Treasury certificate is a short-term (three months, six months or one year) negotiable debt instrument issued by the Belgian State.
[9] Commercial paper is an unsecured debt security issued by a company on a short-term basis (typically a few weeks to a year).

UCITS FUNDS

DEFINITION

UCITS (Undertakings for Collective Investment in Transferable Securities) are **funds regulated by European directives.** These directives impose, among other measures, investment restrictions based on a list of authorised financial instruments, reporting obligations, organisational requirements and diversification rules.

In addition, a UCITS admitted in its country of establishment may also offer its units in the other Member States of the European Union (subject to compliance with notification requirements).

Within the Bank, the UCITS funds distributed are almost exclusively SICAVs (société d'investissement à capital variable). These funds sometimes take the form of ETFs[10] (Exchange Traded Funds).

RISKS

The risks of UCITS are in principle identical to those of the assets in which UCITS invest. Where appropriate, we therefore refer to the risks described in this brochure for each asset class. In principle, investment diversification mitigates the risk incurred by investing in each asset class individually.

NON-UCITS FUNDS

DEFINITION

Unlike UCITS funds, non-UCITS funds or funds also known as AIFs (Alternative Investment Funds) have **no restrictions on the financial instruments in which they can invest.** They also have no diversification rules, so they may invest in a limited number of positions.

An AIF can be distributed to a Belgian private client but it must first meet the conditions set by the FSMA, the Belgian regulatory authority.

RISKS

In addition to the identical risks faced by non-UCITS funds compared to UCITS funds, non-UCITS funds have additional risks related to the characteristics indicated above.

Concentration risk: concentration risk is the risk that arises from a lack of diversification of investments in a sufficient number of assets, asset classes, markets, or with a sufficient number of counterparties. The greater the diversification, the lower the concentration risk.

Volatility risk: non-UCITS funds may have a higher risk of volatility as these funds can potentially invest in underlying financial instruments which themselves have significant volatility.

[10] ETFs are funds traded on regulated markets like equities.

PRIVATE EQUITY FUNDS

DEFINITION

The term private equity covers a variety of types of investment, the point in common being the fact that they are private. These funds invest in unlisted companies that are therefore not very liquid or not liquid at all before maturity. **The investment horizon is long term** (seven to ten years or more). The purpose of this type of investment is generally to obtain high returns, but the risk of loss is also high, with losses sometimes as high as 100% of amounts invested.

Typically, **private equity funds invest in a series of unlisted companies, pursuing a predetermined investment strategy** in accordance with a number of predefined parameters. Investors in such a fund commit to contribute capital up to a certain amount specific to them which they will be called upon to pay in by the manager as and when it makes the investments.
Distributions to investors are also spread over time in accordance with the sales carried out by the fund. A private equity fund generally benefits from a degree of diversification within any given strategy, since the manager deploys the capital through a portfolio comprising several investments.

RISKS

Underlying risk (capital loss, volatility, etc.) making up the product.

Liquidity risk: in the absence of an organised market, the investor cannot sell its units except with the agreement of a buyer and the fund manager.

HEDGE FUNDS

DEFINITION

The Bank also deals with hedge funds on behalf of sophisticated clients. The term "hedge fund" covers a variety of investment vehicles that have in common their pursuit of non-traditional investment strategies aimed at achieving an absolute performance, i.e. independent of the general economic climate or trends in the underlying sector. Depending on its management strategy, a hedge fund can invest in equities, bonds, commodities, liquid assets, as well as leverage instruments such as futures options and short selling of assets.

RISKS

Volatility risk associated with the underlying assets and the management techniques used (short selling, leverage etc.).

Risk of capital losses associated with the way in which the hedge fund is managed. The diversification inherent in funds of hedge funds mitigates this risk in principle.

Liquidity risk: generally these funds can be redeemed only at fixed intervals (minimum one month), sometimes subject to prior notice or "gates" (barriers to exit if too many assets are required for reimbursement at the same time).

Counterparty risk: a hedge fund may fall victim to the failure of other parties with which it has entered into commitments.

5.4. Structured products and/or structured funds

A structured product is **a combination of different financial instruments,** including options and interest rate instruments, whose purpose is to create **a particular relationship between risk and a certain return model.** Options are generally used to earn a return and rate products are used to guarantee the principal, if any, at final maturity.

In some cases, the principal is protected at maturity without any legal guarantee of capital preservation. These products make it possible to benefit from the upside potential of the financial markets with capital protection at maturity. However, there are also structured products that provide no capital protection at all or only partial capital protection at maturity.

STRUCTURED PRODUCTS AND/OR STRUCTURED FUNDS WITH CAPITAL PROTECTION

DEFINITION

By investing in a capital protection product and/or fund, investors benefit at maturity from full protection[11] of the initially invested capital (after deduction of fees). **However, capital protection only applies at maturity:** investors who wish to sell their product and/or structured fund before the maturity date are not entitled to protection of the initially invested capital.

RISKS

Underlying risk (capital loss, volatility, currency, etc.) making up the product.

Capital risk: in the event of bankruptcy of an issuer guaranteeing the repayment of capital, there is a risk of non-repayment of the capital.

Liquidity risk: if the secondary market for the product concerned is narrow.

[11] Except in the event of the default of the issuer.

STRUCTURED PRODUCTS AND/OR STRUCTURED FUNDS WITHOUT CAPITAL PROTECTION

DEFINITION

An investment in a structured product and/or structured fund generally seeks to gain exposure to an underlying security with the aim of either benefiting from a potential leverage effect on the favourable performance of this security (upwards or downwards), or of offering higher (potential or guaranteed) coupons while accepting a capital risk linked to the performance of the underlying security.

The Bank may distribute this type of product and/or structured fund in the form of ETFs or ETCs[12].

RISKS

Underlying risk (capital loss, volatility, etc.) making up the product.

Liquidity risk: if the secondary market for the product concerned is narrow.

[12] An ETC (short for Exchange Traded Commodities) is a product traded on a regulated market (such as a share) that tracks the price of one or more commodities. They are also called commodity trackers (see Gold tracker below).

5.5 . Unlisted shares

DEFINITION

An unlisted share cannot be traded on the stock market because the company has not made a public offering. It has placed its shares directly with investors who provided the funds in exchange.

The price of these shares is therefore not published and they are difficult to acquire because the holders of this type of shares are generally not known or simply do not wish to sell them.

These shares are generally issued by small or medium-sized companies and are often held by the owner-managers or their families, who do not wish to open up their company's capital to outside investors.

They are not listed on the stock market.

RISKS

Price risk: Since there is no listing, it is difficult to know how much a share in an unlisted company is actually worth. To determine the actual value, specialists are required who will be able to propose a price range based on the company's accounts and all the available financial and strategic information.

Liquidity risk: Find a buyer for the seller, or find a seller for the buyer. The purchase of shares in an unlisted company is mainly carried out over the counter between two parties.

Capital risk: there is a significant capital risk associated with an investment in unlisted shares, as there is no capital protection mechanism.

5.6 . Derivative products

Derivatives are financial instruments whose characteristics and value depend on the characteristics and value of an underlying asset, usually **a commodity, bond, equity, currency or index.**

The main forms of derivatives include options, futures and warrants. In the section below, we will only discuss **options and futures** because they are the only derivatives that are included in the Bank's investment universe.

OPTIONS

DEFINITION

The option is an investment instrument that can be used for various purposes, in particular to insure against a risk, to achieve additional returns or to speculate on the upward or downward trends of assets as varied as commodities (oil, wheat, metals, gold, etc.), interest rates, exchange rates, and shares or indices. An option is a **contract between a buyer** (also referred to as the holder) **and a seller** (also referred to as the writer).

This includes:

- a **call** option that gives its holder, the buyer, the right to **buy** until a specified date a certain quantity (the size of the contract) of an asset (the underlying) at a specified price (the strike price). The counterparty, the seller of the call, undertakes to deliver the agreed quantity of the asset at the strike price if the holder of the call wants to exercise its right.
- A **put** option gives its holder the right **to sell** until a specified date or at a specified time (expiration) a certain quantity (the size of the contract) of an asset (the underlying) at a specified price (the strike price). The counterparty, the seller of the put, undertakes to buy the agreed quantity of the asset at the strike price if the holder of the put wants to exercise its right.

The option therefore gives its purchaser, who pays a premium, a right. On the other hand, it implies an obligation for the seller who, in exchange, receives a premium. The obligation lapses if the buyer does not exercise its right on the expiry of the contract or, obviously, after the right has been exercised.

Thanks to the leverage effect, the options allow, with a relatively small amount invested, investors to take full advantage of:

- the increase in the price of the underlying (call purchase);
- the decrease in the price of the underlying (put purchase);

The buyer of a call may record a potentially unlimited profit.

The maximum potential profit for the buyer of a put is limited to the difference between the strike price and zero.

The potential loss is, for both the buyer of a call and the buyer of a put, **limited to the amount of the premium paid.**
The seller of an option (call and put) receives a premium in exchange for a possible obligation (to sell if the call is exercised, to buy if the put is exercised).

An option has an expiry date. If the holder of the option has not exercised its right by that date at the latest, the option becomes worthless and the seller is released from its obligation.

The Bank requires all clients entering into OTC contracts[13] to provide a margin in cash or securities to cover the risk of the position. The amount of this margin is calculated by the risk management of the Bank at the time the option is issued.

Options can be used for a number of purposes:

- in the context of non-speculative management, options allow an investor to hedge a portfolio against possible fluctuations, limiting the risk of loss strictly to the price paid for the option;
- they can also be used for more speculative purposes, to profit, for a small investment, from fluctuations in the underlying asset.
  In this case, because of the leverage effect, options can give rise to larger risks than those associated with equities or bonds. The risks associated with short selling options (transactions in which the underlying asset is not held) are in theory limitless.

[13] An OTC contract is an over-the-counter contract. It refers to a transaction carried out directly between a buyer and a seller, outside of a regulated market.

RISKS

Volatility risk: the volatility risk is significant. This risk is amplified by the leverage associated with derivatives.

Liquidity risk: the liquidity risk is low for standardised derivatives, as these products are traded on organised secondary markets. The impact on price will therefore also be small. It is much more important for products that are traded OTC, where the market is restricted.

Capital risk: the buyer of an option (call and put) may lose its entire stake (the premium paid) if the market price of the underlying asset develops differently from what is expected (decrease in the market value of the asset in the case of the purchase of a call, increase in the market value of the asset in the case of the purchase of a put).

Risk of loss linked to how and for what purpose the option is used (see above). The leverage effect can multiply the losses when the fluctuations in the price of the underlying asset go against the expectations of the investor.

FUTURES

DEFINITION

A future is **a contract to buy or sell an underlying asset** (shares, bonds, foreign currencies, commodities, indexes, etc.) at a date and price specified when entering into the contract. The underlying assets are paid for only upon delivery.

For a small investment, futures allow you to take substantial positions. This leverage effect explains why a relatively small market movement will have a proportionally larger impact on the investor's portfolio. This leverage effect can multiply the investor's gains, but it can also multiply losses when the market fluctuates in the direction opposite to the investor's expectations.

A margin system is imposed on the buyer and the seller of futures on the majority of the organised markets (margin call). For any transaction (purchase or sale), the parties must make a margin deposit, in cash or in securities, representing a percentage of the value of the contracts bought or sold. At the end of each day's trading, contracts are revalued, giving rise to additional margin calls or margin refunds depending on the movements in the price of the future in question. If the investor does not pay the additional margins required of him, the intermediary may close its position.

Futures can be used for a number of purposes:
- within the scope of a non-speculative management strategy, they can be used, with limited risk, to hedge a portfolio against possible fluctuations;
- they can also be used, however, for more speculative purposes, to take advantage, for a small investment, of fluctuations in the underlying asset. In this case, because of the leverage effect (see above), futures can give rise to larger risks than those associated with equities or bonds. The risks associated with short selling of futures are in theory limitless.

RISKS

Risk of price volatility, the future being a speculative investment instrument.

Risk of loss linked to how and for what purpose the future is used (see above).

Liquidity risk is low given the high negotiability of futures on organised markets.

FORWARD

DEFINITION

Forward contracts are structures similar to futures but are not listed and are traded over-the-counter. The object of the contract and the purchase or sale at a future date at a price fixed at the conclusion of the contract. Payment is made upon delivery of the asset (currency or securities). In the context of non-speculative management, forward foreign exchange contracts make it possible to hedge an investor's portfolio against the depreciation of the asset purchased or sold.

RISKS

Risk of loss linked to how and for what purpose the future is used (see above).

Liquidity risk is a function of the asset purchased or sold.

Replacement risk in the event of default by the counterparty to the contract (the forward being an over-the-counter contract).

EXCHANGE RATE SWAPS AND INTEREST RATE SWAPS

DEFINITION

The currency swap is a contract whereby two parties agree to exchange principal amounts denominated in different currencies at maturities determined at the time of signing the contract.

An interest rate swap is a contract whereby two parties agree to pay, at due dates fixed at the time of signing the contract, interest calculated differently on the same amount "notional amount".
The swap relates generally to amounts of interest calculated on the basis of a fixed rate and a floating benchmark rate.

RISKS

Risk of loss linked to how and for what purpose the future is used (see above).

Replacement risk in the event of default by the counterparty to the contract (the forward being an over-the-counter contract).

WARRANTS

DEFINITION

Warrants are securities giving the holder the right to buy or subscribe to a specified number of shares or bonds of a particular company, at a date and price generally set in advance. The characteristics of warrants are very similar to those of options.

RISKS

Risk of volatility in the price of the warrant since it is a speculative investment instrument.

Risk of loss identical to that of an option, except that in the case of a warrant the risk of loss is always limited to the amount of capital invested.

Liquidity risk if the secondary market for the warrant concerned is narrow.

5.7. Trackers or

MONEY MARKET SECURITIES

DEFINITION

The objective of gold ETCs (Exchange Traded Commodities), known within the Bank as "Gold Trackers", is **to replicate the variation in commodity prices,** in this case gold.

These investment vehicles are traded on the stock exchange like stocks and are sometimes backed by physical gold. The title holder does not have a direct ownership interest in bullion.

RISKS

Volatility risk: the price of a gold ETC will track the price of gold, which is linked to macroeconomic, financial and geopolitical developments. As a result, you are likely to lose some of your investment.

Exchange risk: since the reference currency for gold is the US dollar, there is therefore a risk related to the uncertainty of the exchange rate applied against the euro.

DEFINITION

Commercial paper consists of debt securities issued by companies and certain Luxembourg or foreign public authorities (State, Communities, Regions, provinces, etc.).

Certificates of deposit are debt securities issued by Luxembourg or foreign credit institutions.

Commercial paper is short-term securities issued by Luxembourg or foreign companies.

RISKS

Exchange risk for treasury notes, certificates of deposit and commercial paper denominated in foreign currency (movement in exchange rates relative to the reference currency) which will influence the return on the investment.

Risk of capital losses in the event of the disposal of the security on the secondary market before it matures.

Risk of bankruptcy of the issuer in the case of commercial paper and certificates of deposit (non-payment of interest and non-repayment of the capital invested).

Liquidity risk, especially for commercial paper and certificates of deposit, if the secondary market for the securities concerned is narrow.

REAL ESTATE CERTIFICATES

DEFINITION

A real estate certificate is a transferable security giving its holder a claim on the income generated by a real estate investment (income from the letting of the building and any capital gain on its sale).

Without being sensu stricto a legal co-owner of the building, the certificate holder is effectively an economic co-owner.

RISKS

Risk of unpredictable capital gain or reimbursement by reason of the lack of guarantee as to the maturity date and the net sales proceeds of the property right(s) underlying the real estate certificate.

Risk of fall in income in the event that the asset underlying the real estate certificate cannot be let and/or in the case of an increase in the costs (property or financial) borne by the company issuing the certificate.

Liquidity risk if there is no secondary market or if such market is narrow.

Interest rate risk if rates are higher than the current yield on the certificate (coupon).

6 Order execution policy for financial instruments

Introduction

MiFID II requires financial institutions to take all sufficient steps when executing transactions involving financial instruments on behalf of their clients to **obtain the best possible result for their clients** taking into account a number of factors such as price, cost, speed and likelihood of execution, size and nature of the order.

It also requires financial institutions, before executing orders involving financial instruments, **to establish an order execution policy** in which they explain how they intend to fulfil their obligations in this respect, in accordance with the provisions of MiFID II and more particularly Article 27.

The full execution policy of the Bank is available on its website.

At the initiation of the banking relationship, the client explicitly agrees to the full execution policy published on the Bank's website. The execution policy will also be deemed to have been accepted by the client when the client gives the Bank an order for execution. In addition, the client has given its express consent to the fact that the Bank may execute orders outside a regulated market or a multilateral trading facility via its Personal and Financial Stocktaking (PFS).

Any client not wishing to accept this policy must without fail, at the same time of the order, give a written **instruction not to apply the policy** to the point(s) specified by the client. Unless otherwise instructed, a specific instruction (e.g.: order limit, specific place of execution) given for a particular transaction will apply only to that transaction, the client's other orders being deemed to have been transmitted for execution in accordance with the execution policy.

The acceptance and execution of orders relating to financial instruments may be subject to conditions imposed by the Bank. Where relevant, the execution conditions of certain particular transactions may be established within the scope of specific agreements.

Best Execution Policy

One of the basic principles of MiFID is the "best execution" principle. This implies that financial intermediaries must take all reasonable steps to execute client orders in financial instruments in such a way as to enable them **to obtain on a regular basis the best result** taking into account price, cost, speed and likelihood of execution and settlement, size, nature of the order or any other consideration relevant to the execution of the order.

The Bank draws the attention of its clients to the fact that best execution involves an obligation of means. In other words, the Bank is not obliged t**o obtain the best possible result for each order, but to apply its best execution policy for each order.**

Execution quality criteria

As set out in its execution policy, the Bank determines the criteria it deems most appropriate to be taken into consideration in order to obtain the best execution of its clients' orders.

For professional clients, the best possible result may depend on parameters other than the total price and may take into account parameters other than those generally used for non-professional clients. The Bank is authorised not to consider the total price of the transaction as the main criterion for obtaining the best possible result. This depends on the assessment of the above parameters in light of market circumstances.

The Bank makes sure of the quality of execution obtained for its clients by means of various controls and reports.

Intermediaries

The Bank is not obligated to execute the transactions entrusted to it by its clients itself.
It may call on one or more intermediaries of its choosing whenever it considers this useful or necessary.
Based on its experience, **the Bank will select such intermediaries on a best quality of service basis and its order execution policy;** it is not liable for the misconduct of these intermediaries.

A list of intermediaries that the Bank may use is published on our website.
This list is not exhaustive, and the Bank reserves the right to choose other intermediaries whenever it sees fit, in accordance with the order execution policy and in the best interests of its clients.

Execution venues

The Bank regularly re-evaluates its order execution policy.

It evaluates its selection of intermediaries and execution venues at least once a year and whenever there is a significant change requiring either of these lists to be altered.

A list of the Bank's five largest execution venues (in terms of transaction volume) is published annually on the Bank's website. This document provides detailed execution information for each class of financial instruments.
Its objective is to provide investors with a clear understanding of the practical aspects of executing orders through the Bank.

The complete version of the Bank's order execution policy for financial instruments and the lists of intermediaries and execution venues are available on our website or on request from your usual contact person at the Bank.

Review and update

The Bank regularly re-evaluates its order execution policy.

It evaluates its selection of intermediaries and execution venues at least once a year and whenever there is a significant change requiring either of these lists to be altered.

A list of the Bank's five largest execution venues (in terms of transaction volume) is published annually on the Bank's website. This document provides detailed execution information for each class of financial instruments.
Its objective is to provide investors with a clear understanding of the practical aspects of executing orders through the Bank.

The complete version of the Bank's order execution policy for financial instruments and the lists of intermediaries and execution venues are available on our website or on request from your usual contact person at the Bank.

7 Information on the protection of clients' financial instruments and funds

The Bank respects the following principles with regard to **the protection of clients' financial instruments and funds:**

- the Bank shall take the necessary steps in the context of its activities involving the deposit of financial instruments to distinguish at all times the assets held by any given client from those held by other clients and from the Bank's own assets. It complies in particular in this context with the applicable legal provisions regarding **the segregation of own and clients' assets;**
- when depositing Clients' financial instruments with a third-party intermediary, the Bank ensures that **this third-party intermediary separately identifies the clients' financial instruments** from both those of the Bank and those of the third-party intermediary;
- the Bank acts with **prudence, care and diligence** in selecting, appointing and periodically examining these third-party intermediaries with which it deposits its clients' financial instruments and as regards the legal and contractual provisions governing the holding and safekeeping of these financial instruments;
- if the Bank deposits its clients' **financial instruments with third-party intermediaries,** it does **so only through intermediaries subject to the law of a Member State of the European Union** or of a state with regulations covering the holding of financial instruments on behalf of third parties, unless the nature of the financial instruments is such as to require their being deposited in a state that does not have such regulations. The clients' financial instruments may be deposited in a global account (omnibus account) with a third-party intermediary, without their being segregated in this intermediary's books, unless the country's regulations require that this be done.

Except in the event of gross negligence or wilful misconduct on its part, the Bank may not be held liable for damages resulting from the total or partial loss of the financial instruments deposited in the event of the negligence of the third-party intermediary selected by it or the occurrence of insolvency proceedings against it.

The Bank does not engage in securities financing transactions using the financial instruments it holds on behalf of a client, nor does it use these financial instruments unless the following two conditions are met:

- the client has previously given its express consent to such use;
- the Bank's us e of financial instruments is limited to the specific terms and conditions agreed to by the client.

8 Inducements received or paid by the Bank

Within the framework of its investment services, the Bank grants/receives certain remuneration to/from third parties provided that the payment or inducement:

- is designed **to enhance the quality of the relevant service** provided to the client;
- does not impair compliance with the Bank's duty to act **honestly, fairly and professionally** in accordance with the best interest of its clients;
- is clearly **disclosed to clients** (existence, nature and amount).

These inducements may consist of monetary benefits, such as a retrocession of management fees from an investment fund, or non-monetary benefits, such as media, for example.

Before a transaction involving a financial instrument is executed, **the Bank shall inform the client of the extent and nature of the remuneration** it receives/grants in connection with the planned transaction in the financial product concerned via order reports and other specific reports set up by the Bank.

For discretionary portfolio management services, the Bank may receive acceptable minor non-monetary benefits from third parties as described in the MiFID II regulations. In addition, it can use investment funds and clean share classes.

If the Bank receives remuneration in connection with the advisory service or the reception, transmission and execution service, the Bank retains the amounts received and informs the client accordingly.

In accordance with MiFID II, **the amounts retained are used to increase the quality of client services.** The ancillary services provided by the Bank and warranting the remuneration and monetary or non-monetary benefits received may include the provision of the suitability report. The client is informed of the amount collected and retained or collected and paid via the valuation report sent at least quarterly.

The Bank receives information and research analyses from external analysts, which it pays for out of its own funds through direct or indirect invoicing.

9 The conflict of interest policy of the Bank

This section is a summary of our conflict of interest policy. The full version can be obtained on request from your contact person at the Bank.

The Bank establishes and develops a business relationship with its clients by acting **honestly, fairly and professionally.**
The Bank is guided by the objective of serving the best interests of its clients. To this end, it pays constant attention to potential conflicts of interest that could affect the Bank's efforts to provide optimal services to its clients.

A conflict of interest is a conflict that arises when two or more natural or legal persons have **opposing interests that could result in a potential loss or disadvantage to the client.** Conflicting interests could arise:

- between the Bank and the client;
- between different clients;
- within the Bank (e.g. between departments or business lines/units);
- between other entities of the group to which the Bank belongs.

The Bank undertakes all necessary administrative, organisational and supervisory measures to identify, prevent and manage conflicts of interest.

Identification of potential conflicts of interest

To detect conflicts of interest that may arise in the provision of investment services, the Bank takes into account situations in which it, or one of its employees or a person directly or indirectly linked to the Bank by a control relationship:

- is likely to **make a financial gain or avoid a financial loss at the expense of the client;**
- has an **interest** in the result of a service provided to the client or a transaction carried out by the client that is **different from that of the client;**
- is **encouraged** for financial or other reasons **to give priority to the interests of another client or group of clients;**
- has the **same professional activity as the client;**
- receives or will receive from a person other than the client an **inducement in relation to a service provided to the client,** in the form of monies, goods or services, other than the standard commission or fee for that service.

Consequently, the Bank has set up an **inventory of potential conflicts of interest by investment activity or service.**

The situations described below, which are not exhaustive, may give rise to a conflict of interest when the Bank acts on behalf of its clients (list of potential conflicts of interest):

- accepting **gifts** from a client or intermediary (including gifts of a non-financial nature);
- selling complex products **without sufficient explanation** to clients, against the interest of a specific client;
- using **confidential information** obtained from a client to take advantage of it for the Bank's account or for the personal account of an employee;
- conducting **personal transactions** by an employee of the Bank when one or more clients have opposing or competing interests (e.g. causing the client to suffer losses as a result of price movements);
- incentive-based product placement;
- providing similar advice to multiple clients with **competing interests;**
- **favouring one client** (or a group of clients) over another (who will be disadvantaged) when multiple clients put the same securities up for purchase or sale by not respecting the order of receipt of the orders;
- **favouring one category of client** over another by giving some clients the benefit of more relevant advice for any reason whatsoever;
- **favouring a supplier** with no basis in relation to the services rendered.

Prevention and management of conflicts of interest

For each situation, activity and service identified, the Bank determines the conflicts that could occur, the organisational measures for avoiding or managing conflicts, the residual risk and the communications to be given to the client.

To prevent and avoid conflicts of interest, the Bank may, among other measures:

- **monitor or prohibit the flow of information** between data subjects who are engaged in activities involving a risk of conflict of interest (Chinese walls);
- **prevent any direct link** between the remuneration of relevant persons engaged in a particular activity and the remuneration of different relevant persons engaged in another activity, where a conflict of interest may arise in relation to those activities;
- **monitor relevant persons** whose activities could give rise to conflicts between the interests of clients and the interests of the Bank;
- **prevent or control the simultaneous or consecutive participation** of a person involved in two or more investment or ancillary services, where such participation is likely to impair the proper management of conflicts of interest;
- ensure an **appropriate degree of independence** of persons engaged in the various activities involving a conflict of interest;

- require its employees to obtain **the Bank's prior approval** before accepting external mandates;
- put in place **internal measures** forthe acceptance of inducements (monetary and non-monetary);
- ensure the **confidentiality of information** communicated by clients to the Bank's employees.

Additional measures are applied in the departments concerned to avoid specific conflicts of interest.

Procedure to be followed if a conflict of interest arises

If a conflict of interest arises, any person who notices it **must immediately notify** his/her direct superiors and the Compliance Department, which will inform the Executive Committee. The member of the Executive Committee, acting on the advice of the Compliance Department, will decide by mutual agreement on the measures to be taken.

Following a conflict of interest, the Bank may take the following measures:

- **carry out the transaction** giving rise to a conflict of interest while taking the necessary measures **to manage the conflict of interest without prejudicing the interests** of the client concerned;
- **not carrying out the transaction** involving a conflict of interest.

The Bank undertakes to keep and regularly update a register recording the types of investment or ancillary services or specific activities for which a conflict of interest involving the risk of harming the interests of one or more clients has occurred.

Information provided to the client in the event of an insoluble conflict of interest

It is possible that the organisational or administrative measures taken by the Bank to prevent conflicts of interest from affecting the interests of its clients may not be sufficient to ensure, with reasonable certainty, that the risks of affecting the interests of clients will be avoided. In such a situation, the Bank shall clearly inform clients before acting on their behalf and/or for their account of the general nature and/or source of such conflicts of interest, as well as the **measures taken to mitigate such risks,** on a durable medium.

Managing conflicts of interest relating to inducements

In the context of receiving incentives, the Bank must comply with the obligation to act honestly, fairly and professionally in the best interests of its clients. MIFID II strengthens requirements and **imposes restrictions** on fees, commissions and non-monetary inducements paid or provided by the Bank or received by it from a third party in connection with the provision of investment services or related services.

The Bank complies with this obligation as follows:

- the Bank has put in place **procedures** to manage conflicts of interest related to product incentives;
- in certain cases, the Bank may receive **retrocessions** for investments in investment funds and incentives for investments in other products in its range. **All investment funds will be treated in the same way** and there will no longer be any financial incentive to sell one investment fund (with retrocessions) compared to another (without retrocessions), and the same rules apply for other types of products;
- in the context of providing investment advisory services and discretionary management services, the Bank **compares** the product recommended and used with equivalent products, taking into account fees;
- the Bank **trains its employees** on conflicts of interest and on the adequacy element (in particular on the fact that advice must be given in the client's interest).

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