“Pillar 3” Report

Risk management framework – Financial years 2015/2016

Exane Group

Contents

1. Introduction – Scope of this document

1.1. The Exane Group

Founded in 1990, the Exane Group has three business lines:

- Equity brokerage: under the Exane BNP Paribas brand, the Exane Group offers institutional investors services including research, sales and corporate broking, execution and ECM.
- Derivatives: Exane Derivatives, a subsidiary of Exane, specialises in (i) research, (ii) the sale and market-making of options on equity and index underlyings as well as certain convertible bonds and credit products, (iii) the issue, placement and management of structured products, (iv) and the brokering of listed derivatives.
- Asset management: asset management at the Exane Group is conducted by its two management companies, Exane Asset Management, which specialises in the management of equity underlyings on behalf of third parties, and Ellipsis AM, which provides management of convertible, credit and diversified funds on behalf of third parties.

1.2. Prudential supervision

The Exane Group is supervised on a consolidated basis by the French Prudential Control and Resolution Authority (ACPR), and in this regard, is subject to Basel II/Basel III solvency and liquidity requirements. The parent company and consolidating entity Exane SA is certified by the ACPR as an investment company.

UK subsidiary Exane Ltd is supervised in the UK on an individual basis by the FCA (Financial Conduct Authority).

The US entity Exane Inc. is supervised by FINRA in the US.

1.3. Basel III regulatory framework

Basel III prudential regulation, applicable to the Exane Group, consists of three pillars:

- Pillar 1 defines the minimum capital requirement to cover risks associated with the business and the balance sheet (solvency ratios) and short- and long-term liquidity (liquidity ratios). Exane regularly calculates these various ratios at a consolidated level and reports them to the ACPR.

- Pillar 2 concerns the discretionary supervision exercised by the national regulatory authorities, and implements a structured dialogue between the banking supervisors and the financial institutions placed under their control. In this regard, banks must implement internal monitoring measures and risk calculation processes (including those of Pillar 1) and associated capital requirements, including the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP). Supervisors are then responsible for comparing their analysis of the institution's risk profile with that which is conducted by the bank, and depending on their conclusions, taking action. Specifically, they can ask the institution to strengthen its capital above the minimum capital ratio required.

- Pillar 3 promotes market discipline through the required disclosure of information that enables the market to assess the level of risk borne by the institution, as well as the risk management framework it has put in place.

  The underlying objective is to standardise banking practice in financial disclosure and thereby facilitate the interpretation of accounting and financial information of banks from one country to another.

  This document, which supplements the financial statements published elsewhere by the Group, is intended to meet these requirements.

2. General presentation of activities

The activities of the Exane Group, which specialises in European equities and derivatives on European equities, are organised into four business lines:

- Equities (research, sales and corporate broking, execution and ECM),
- Derivatives (research, sales, structuring, trading),
- Asset management with subsidiaries Exane AM and Ellipsis AM,
- Holding activities (investments in funds, treasury management and liquidity buffer management).

2.1. Equities

The Equities business line, which targets institutional clients, is conducted under the Exane BNP Paribas brand, and consists of the European equities franchise of the BNPP Group.

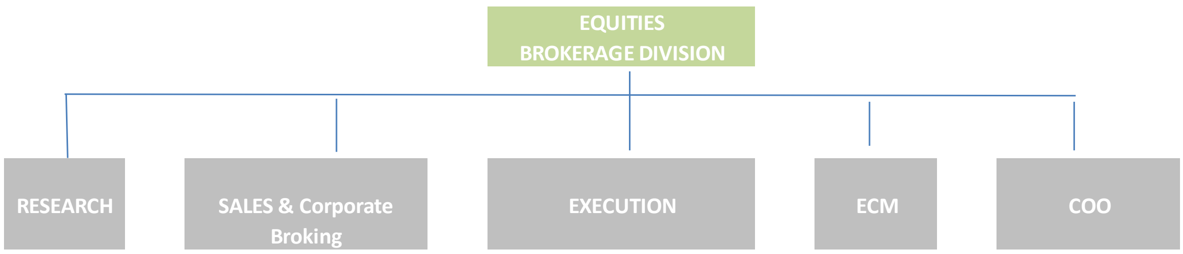
It is organised into five areas:

- Research,
- Sales and corporate broking,
- Execution,
- Equity Capital Markets (ECM)
- and the support functions (including the COO team)

Within the business line's support teams, the COO teams ensure operations run smoothly, particularly in regard to compliance with the general policy defined by the management bodies of the Group and the business line.

The business line is organised schematically as follows:

Equities brokerage business line – simplified organisation



<u>Research</u> covers the main European equities, organised by sector of activity, and in certain cases, by capitalisation (specialised mid-cap teams).

<u>The sales teams</u> are supported by the expertise of research in offering clients investment solutions.

<u>Execution</u> may take place via various channels:

1. High touch: in this case, the client's order is collected by the sales teams, who define the execution strategy for it, and manually direct it to the most appropriate execution channel: manual execution or via an algorithm (*DMA, DSA*).

   In certain cases, execution may be carried out with Exane taking on the risk within the framework of the Facilitation Internal Unit (equities and ETFs). The latter consists of providing clients with fixed prices, acting as the counterparty of client orders and unwinding the resulting positions in the market.

2. Low touch: activity based on a dedicated execution platform. The platform electronically collects client orders for automatic execution, directly or via trading algorithms.

The business line also includes a programme trading activity: the execution of baskets of shares via the electronic platform.

The Corporate Broking activity supports Exane's corporate clients in strategic transactions and operations managing their financial structure (for example, share buyback programmes, management of liquidity agreements on listed securities, etc.). .

The ECM activity provides a research and distribution service for investment operations originated by BNP Paribas, for which Exane provides expertise in research, its distribution capacity and a partial investment guarantee.

2.2. Derivatives

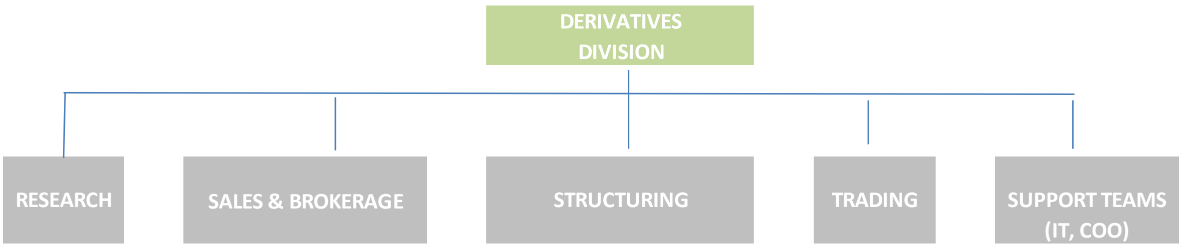
The Derivatives business line is managed by Exane Derivatives. It is divided into several areas:

- research,
- the sale and brokering of financial products,
- structuring,
- trading.
- and the support functions (including the COO team)

Within the business line's support teams, the COO teams ensure Exane Derivatives operations run smoothly, particularly in regard to compliance with the general policy defined by the management bodies of the Group and the business line.

The business line is organised schematically as follows:

Derivatives business line – simplified organisation



Research is conducted by a team grouping strategists and financial analysts.

Sales covers the following activities:

- final sale of options and convertibles, mainly to fund or UCITS managers;
- bond sales, operating on the financial and non-financial corporate bonds market;

- structured sales, mainly to private managers, offering investment solutions based on a range of structured products (securities issued by Exane or other external issuers, OTC, funds).

The Structuring team supports sales activity by interacting with the research, sales and trading teams in designing structured products for all asset classes as well as by presenting these products at client meetings.

Trading is organised into four Internal Units based in Paris:

- Structured products,
- Options,
- Convertibles,
- Equity Finance.

1. The Structured Products Internal Unit prices, on the primary and secondary markets, for Exane Derivatives clients, structured products on equities, equity indices, funds, rates, credit, commodities and all hybrid products combining these asset classes. This line of activity also prices structured products on proprietary indices; these indices may first be tested internally in a nursing portfolio, over a maximum of 12 months.

   In addition, this activity concentrates most of the risks not directly hedged by the Derivatives activity, and, in this regard, manages the Group's macro-hedging within a prudent risk management framework.

2. The Options Internal Unit conducts market-making on optional products on European equity and index underlyings (options, swaps, dispersion packages, products resulting from a securities transaction with an optional component, or a combination of these products).

3. The Convertibles Internal Unit conducts market-making on certain bonds and credit products, particularly: simple bonds, convertibles and similar, mandatory convertibles, inflation-linked bonds and hybrid products.

4. The Equity Finance Internal Unit groups two sub-activities.

   The first is market-making on Delta One derivative products (products without convexity).

   The second sub-activity is the securities lending-borrowing service for all Exane activities.

2.3. Asset management

The asset management business line is conducted by Exane Asset Management (Exane AM), a subsidiary of Exane SA, and Ellipsis Asset Management (Ellipsis AM), a subsidiary of Exane Derivatives.

Exane AM specialises in the direct management of long/short equity strategy funds. The funds range is made up of simple funds and of funds of funds of these simple funds. Exane AM has also developed an offer of long-only funds through the "Select" fund.

Ellipsis AM conducts asset management activity on the following types of funds: convertible funds, credit funds, index funds and derivative funds.

2.4. Holding activities

Holding activities include investments in funds, treasury management and liquidity buffer management.

These three activities are subject to specific governance at the level of the holding and have dedicated mandates.

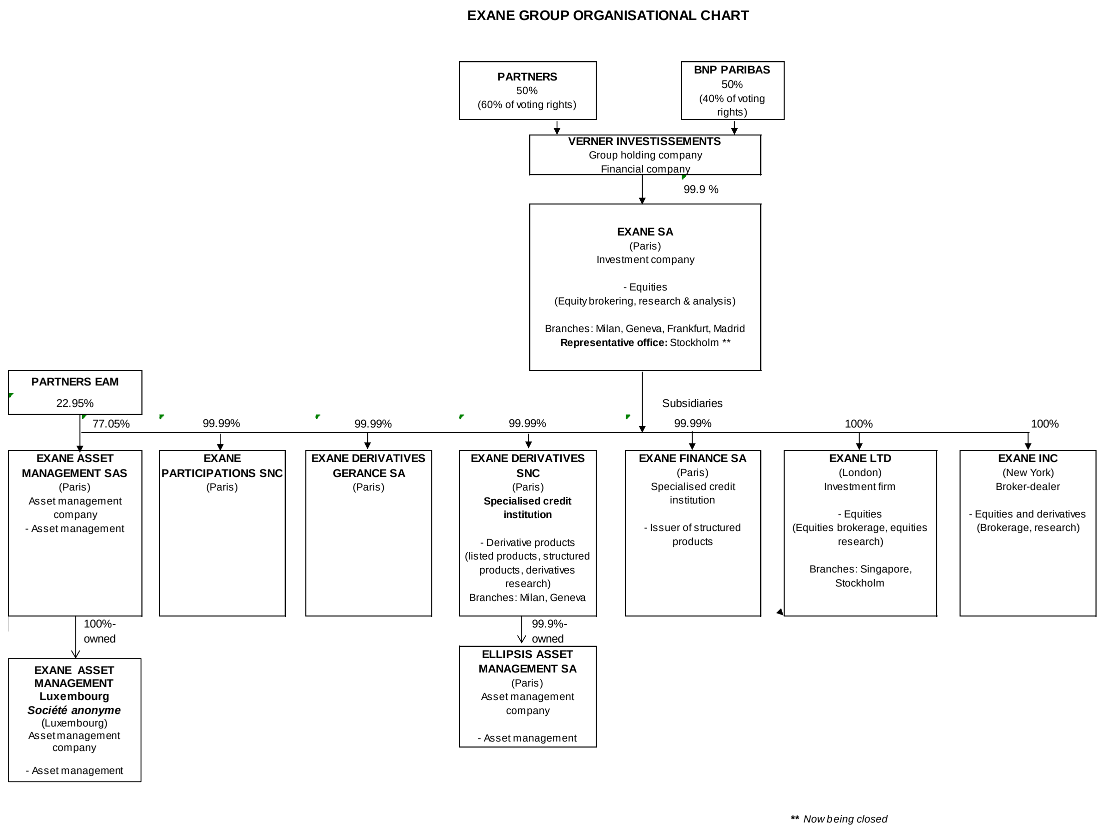
In the investment in funds business, Exane SA and Exane Derivatives mainly invest in the funds managed by the Group's two asset management companies (Exane AM and Ellipsis AM). This system enables them to support growth of the offer and assets, and facilitates the creation of a performance record in the early days of the fund before it is sold. It also illustrates Exane's confidence in the performance of the funds developed by its subsidiaries.

With regard to treasury management, Exane monitors the funding needs of the business lines on a daily basis, and manages demand deposit bank accounts and the use of the BNP Paribas liquidity line.

With regard to the management of the liquidity buffer, Exane has established, in accordance with the requirements of CRD 4 regulation, a portfolio of liquid assets to cover its net cash outflows over a month.

3. Organisation of the Group

3.1. Simplified group organisation chart



The Exane Group consists of the company Exane SA and its subsidiaries:

- Exane Derivatives SNC, a wholly-owned subsidiary of Exane SA, which conducts research, sales and brokerage, structuring and trading activities on derivative products;
- Exane Finance, a wholly-owned subsidiary of Exane SA, the issuance structure for Exane Derivatives structured products;
- Exane Derivatives Gérance, a wholly-owned subsidiary of Exane SA, manages Exane Derivatives SNC and Exane Participations SNC;
- Exane AM, a portfolio management company authorised by the AMF;
- Ellipsis AM, a portfolio management company authorised by the AMF and a wholly-owned subsidiary of Exane Derivatives;
- Exane Limited, the wholly-owned London-based subsidiary, regulated by the FCA;
- Exane Inc., the wholly-owned New York-based subsidiary, regulated by FINRA;
- Exane Participations SNC.

Exane Participations (a wholly-owned subsidiary of Exane SA) is not active.

Exane Options' sales trading activities were stopped at the beginning of 2015 and all assets were transferred to Exane Derivatives at the end of 2015. Exane Options Inc., a wholly-owned subsidiary of Exane Options, was merged with Exane Inc. at the end of 2015.

Exane SA conducts equity brokerage activities in France and continental Europe, makes investments in internal and external funds, and groups a significant portion of the Group's central services.

Central control services operate over the whole scope of the Group. One employee of Permanent Control & Operational Risk (CPRO), five employees of the Compliance division and three quarters of the staff of the Risk Control department are more specifically dedicated to Exane Derivatives and its subsidiaries.

3.2. Risk monitoring governance framework

3.2.1. Overall structure

The Exane Group's risk management framework includes a control system with three lines of defence:

- a first level of control exercised at the operational level, by the line managers and/or the COO teams of the business lines, with appropriate segregation of duties.
- a second level exercised by the permanent control functions, which is intended, independently from operational teams, to ensure on a continuous basis the existence, appropriateness and smooth operation of the first-level system, but also to work on continuously improving the system, by putting in place second-level controls and the appropriate actions.
- the third level is that of periodic control, a function exercised by Exane's General Inspection department.

To sum up, this system includes:

- clear principles regarding the governance, control and organisation of risks
- the definition and formalisation of the Group's risk appetite
- effective risk control tools
- a developed risk culture in place at each level of the Group

3.2.2. Exane Group control functions

Each of Exane's main control functions reports either to the CEO or the Deputy CEO responsible for the Group's central functions:

- The Risk Management Department, which monitors financial risks, reports to the CEO. The Director of the Risk Management Department is the head of the risk management function pursuant to France's 3 November 2014 Decree;

- Compliance, the IT Security and Business Continuity Plan Manager (RSSI/RCA) and the Permanent Control and Operational Risk department (CPRO) report to the Deputy CEO responsible for central functions, who coordinates the overall monitoring of non-financial risks, among other things in order to ensure consistency.

The Risk Management Department

The Risk Management Department is responsible for putting in place systems to measure, control and monitor market risks (including aspects relating to the parameters used for the daily production of results from market activities), as well as liquidity, credit and counterparty risks (duties set out under headings IV and V of the 3 November 2014 Decree). In application of the 3 November 2014 Decree, it is responsible for the monitoring of core risk, settlement-delivery risk, risk of excessive leverage as well as systemic risks and model-related risks.
The Risk Management Department is also responsible for the process of authorising new activities/new products, and is in particular responsible for defining the procedure that governs this process, ensuring it is exhaustive and coordinating its roll-out.

Compliance

Compliance conducts the duties set out in chapters 2 and 3 of heading II of the 3 November 2014 Decree with regard to compliance checks and anti-money laundering and combating the financing of terrorism. It also conducts the compliance checks set out in the General Regulation of the AMF.

Within this framework, the scope of Compliance covers both first- and second-level controls, and works on the following areas, in order to cover all the regulatory requirements relating to the Group's activities:

- The professional ethics of employees,
- Protecting clients' interests,
- Financial security and combating money laundering,
- Market integrity,
- Cross-sector issues and specific local risks

The IT Security and Business Continuity Plan Manager

The IT Security and Business Continuity Plan Manager conducts second-level controls on:

- All risks relating to the security of information (i.e. data availability, integrity, confidentiality and traceability) and business continuity for all Group entities, business lines and functions;
- Operational risks and the business scope of the production (Operations division, research) development teams reporting to the business lines and functions of the Procurement and Property division (for issues relating to access to, and the security of, premises).

He ensures the definition and introduction of a security level appropriate to the whole Group IT system, especially as concerns IT back-up procedures and the integrity, confidentiality and safeguarding of data (articles 88 to 90 of the 3 November 2014 Decree). He is also responsible for coordinating Group contingency and business continuity plans (article 215 of the same Decree).

Within this framework, his main duties are:

- to identify and assess risks over its scope;
- to ensure the appropriateness of the IT security and control system;
- to ensure the deployment of the security system;
- to check the application of the IT security and control system;
- to monitor security incidents relating to the IT system;
- to define and maintain the Business Continuity Plan (BCP).

More generally, the IT Security and Business Continuity Plan Manager provides advice, assistance, information, training and alerts.

He also conducts controls and the necessary administrative formalities for the implementation of any processing of personal data in accordance with Law 78-17 of 6 January 1978 or any other equivalent foreign regulation, and in particular, signs any normal or simplified declaration, and any authorisation request sent to the French data protection authority (CNIL).

Permanent Control and Operational Risk department (CPRO)

The CPRO's duties are to:

- ensure the first-level control system is effective for the scope not covered by Compliance, the IT Security and Business Plan Manager or the Risk Management Department;
- manage the operational risk control system for the whole Group;
- coordinate the monitoring of Essential Outsourced Service Providers;
- support the operational coordinator of permanent control in fulfilling his duties.

With regard to the management of the Group's operational risk control system, the department exercises these duties by:

- defining the methodologies, specifically concerning the mapping of processes, risks and controls;
- supporting the network of operational risk correspondents (ORC), in close cooperation with the COOs for the business lines;
- managing reporting and analysing incidents reported by the business lines, functions and international entities;
- validating, monitoring and closing associated action plans.

The head of the Permanent Control and Operational Risk department is also the operational coordinator for permanent controls, and is responsible for assisting the Deputy CEO in charge of control functions with the responsibility of ensuring the coherence and effectiveness of all permanent controls on non-financial risks.

3.3. Oversight and management bodies

3.3.1 The Board of Directors and its committees

The Board of Directors exercises certain powers in risk management.

In this regard, it:

- examines and approves the Group strategy,
- is informed of the appointment of heads of control functions,
- examines and approves the organisation of the Group's permanent and periodic control system, as well as the quarterly reports of control functions,
- examines and approves the system in place to ensure the business continuity of the Group and its business lines (BCP),
- approves the report on the internal control and supervision of risks intended for the ACPR,
- examines and approves the system of limits, and reviews the conditions in which they are monitored and respected,
- examines and approves the thresholds for significant incidents pursuant to the 3 November 2014 Decree,
- reviews the status of relations with supervisory authorities,
- examines and approves the Group's policy of managing rare resources (capital, liquidity),

- Control the information process or the constitution of elements relating to compensation and remuneration (including reports relating to supervisory authorities after prior approval by the Compensation Committee).

Finally, it examines and approves the Group's compensation policy and variable compensation packages.

It meets eight to ten times a year.

3.3.1.1 The Risks Committee

The **Risks Committee (in place since mid-2016)** consists of three independent directors in accordance with the provisions of CRD IV. This Committee is mainly responsible for:

- examining the risk appetite expressed by the institution, internal capital and overall risk limits proposed within the breakdown of this risk appetite and the system in place to ensure compliance with limits;

- assessing the effectiveness of the risk management and control system put in place to comply with the provisions of the Order and the corrective measures made in the case of breaches; it determines the methods of communicating information sent to it in this regard, including beyond that specifically provided for by the Order of 3 November 2014, specifically their nature, frequency and volume;

- examining on a regular basis the activity and results of permanent and periodic control, as well as the associated corrective measures, including through feedback from control service managers (including the head of risk management); it ensures that the procedures of Exane SA and the Exane Group enable (i) the head of risk management and the permanent control coordinator to alert it directly in the event that risks develop - and (ii) the periodic control manager to inform it directly if the corrective measures decided are not implemented;

- specifically concerning liquidity risk, regularly conducting an examination of strategies, policies, procedures, systems, tools and limits that enable it to be detected, measured, managed and monitored;

- examining if the indications set out by the compensation policy and practices are compatible with the situation of Exane SA and the Exane Group with regard to the risks involved, its capital, its liquidity as well as the probability and the staggering over time of the expected benefits.

3.3.1.2 The Compensation Committee

A **Compensation Committee**, set up in application of the provisions of article 95 of CRD IV, consists of three independent directors. In accordance with the applicable regulations, this Committee is responsible for:

- reviewing at least on an annual basis the Group's Compensation Policy;

- ensuring that the Compensation Policy is competitive on the labour markets in which Exane operates;

- ensuring compliance with the legal and regulatory constraints of the Compensation Policy;

- reviewing overall, annual variable compensation packages;

- confirming the identification of “at risk” populations;
- approving the regulatory reports for supervisory authorities;
- approving the compensation, allowances and benefits of any kind granted to executive officers;
- reviewing and approving the individual compensation of members of the Group Executive Committee and control functions (particularly of the head of the risk management function, as mentioned in article L. 511 – 64 of the French Monetary and Financial Code);
- reviewing the overall compensation of members of the business line Executive Committees, the highest individual compensation and specific individual cases reported by the Control/Compensation Committees.

3.3.1.3 The Appointments Committee

An **Appointments Committee**, set up in application of the provisions of article 88 of CRD IV, consists of three independent directors. The powers and functions of the Appointments Committee are defined in accordance with article 88 of the CRD IV, the French Monetary and Financial Code and the Order. In particular, they include:

- identification and recommendation to the Board of Directors of suitable candidates for the position of director, with a view to proposing their candidacy at the General Shareholders’ Meeting,
- the setting of an objective as regards balanced gender representation on the Board of Directors,
- the regular and at least annual assessment of the balance and diversity of knowledge, expertise and experience of members of the Board of Directors, both collectively and individually,
- assurance that the Board of Directors is not dominated by a person or a small group of persons under conditions that are prejudicial to the Company’s interests. The Committee has the necessary means to conduct its duties, and may make use of external advisors;
- the regular examination of the policies of the Board of Directors, in the selection and appointment of effective directors and the head of risk management, and issuing recommendations in this regard.

3.3.2 The Management Committees

The main Management Committees are:

- The Executive Committee;
- The Financial Management Committee;
- The Executive Management Risk Committee; and
- The Permanent Control Committee.

The Committees exercise their prerogatives in accordance with their internal regulation, within the framework of the delegations put in place and without prejudice to the responsibilities held by the executive officers of the legal entities.

3.3.2.1 The Executive Committee

With regard to the monitoring and management of controls, the Executive Committee is responsible for:

- examining the quarterly report of the financial risk control system prior to its presentation to the Board of Directors' Risk Committee.
- examining the quarterly report of the various components of the non-financial risks control system (Coordination and Permanent Control and Operational Risk, Compliance, ITS/BCP) prior to its presentation to the Board of Directors' Risk Committee.
- contributing to the preparation of the periodic control plan and examining the quarterly report of the General Inspection department prior to its presentation to the Board of Directors.
- keeping itself regularly informed of the status of relations with the supervisory authorities.

It meets every two weeks.

3.3.2.2 The Financial Management Committee

The Financial Management Committee is the body that deals with all issues concerning the Group' financial structure. This Committee is thus responsible for:

- the supervision of the Group's capital,
- the structure and level of the Group's debt,
- the supervision of the Group's liquidity,
- investments in Group funds,
- the hedging of the Group's structural foreign exchange and operational risk,
- the recovery system, the monitoring of associated indicators and thresholds as well as action plans in the event of excesses.

This Committee meets every two weeks.

3.3.2.3 The Executive Management Risk Committee

The Executive Management Risk Committee is in particular responsible for:

- reviewing all the financial risks of the activity: market risk, credit and counterparty (including settlement) risk, and liquidity risk;
- authorising or rejecting limit excesses. Authorisation is given with the allocation of a temporary limit;
- resetting limits upwards or downwards on a permanent basis;
- approving the parameters used for the daily production of results for the activity;
- checking compliance of the mandates regulating the activity and especially compliance with the law on segregating banking activities;

- validating investment and disinvestment projects in the funds of the Investments Internal Unit;
- checking compliance with regulatory ratios (solvency and liquidity);
- validating significant changes made to valuation models and risk indicators.

This Committee meets every week.

3.3.2.4 The Permanent Control Committee (PCC)

This Committee is the body responsible for coordinating the supervision of the Group's non-financial risks. It is specifically responsible for:

- defining the general architecture for permanent controls: organisation, standards and methodologies, tools;
- reviewing control and operational incident reports on a monthly basis;
- determining the changes to be made to the control system, particularly in accordance with the provisions of the supervisory authorities, the periodic control and reporting recommendations of the Operational Coordinator and/or individual components of the second-level control system, and monitoring the implementation of corrective action plans;
- organising as necessary the coordination of controls and their reporting, and ensuring the circulation of information among the various players involved in second-level permanent controls;
- taking certain collective decisions in corresponding procedures, particularly concerning action plans, essential outsourced services and the identification of potential individual breaches;
- organising the regulatory oversight and general monitoring of procedures for new activities (particularly the monitoring of the removal of any reservations expressed within the framework of each of these cases);
- regularly reviewing the status of relations with the prudential supervision authorities; keeping themselves updated on the status of relations with other regulators;
- organising the preparation of reports on the internal control and supervision of risks intended for the ACPR.

It meets twice a month.

4. Composition of the Group's equity

4.1. Composition of consolidated equity

At 31/12/2015 and 31/12/2016, consolidated equity broke down as follows:

4.2. Transition of consolidated equity to prudential capital

At 31/12/2015 and 31/12/2016, Core Tier 1 (Common Equity) broke down as follows:

	31/12/2015	31/12/2016
Consolidated equity capital	330,4	330
Minority interests	8	6,9
Unrealised gains/losses	-0,3	-0,4
Intangible assets	-8,7	-11
Prudent valuation/CVA	-11	-9
Deferred tax assets	-	-1,7
Prudential capital (Core Tier 1)	318,4	314,9
Minority interests	-8	-6,9
Prudential capital "full Basel 3"	310,4	308

5. Evaluation of Group weighted risks – Pillar 1

5.1. Credit and counterparty risk

Credit risk corresponds to the risk associated with a counterparty default, resulting in a failure to meet payment obligations.

Credit risks by counterparty are calculated on a daily basis by the Risk Control department, based on the Basel II standard method. The results of these calculations are used to supply COREP reports on a quarterly basis.

Within the framework of its risk monitoring system, Exane assesses this requirement on a daily basis.

In order to monitor and control this risk, each counterparty must be allocated:
- an internal rating depending on its nature (sovereign/corporate/financial counterparty), its external rating and the analysis of its financial data and the nature of the transactions conducted with Exane;
- a maximum exposure limit allocated according to its internal rating. This limit is monitored on a daily basis.

Taking into account Exane's activities, Pillar 1 capital requirements for credit risk are calculated as follows:
- with regard to counterparty risk for OTC transactions and lending-borrowing and repo transactions: the calculation of exposure corresponds to the replacement cost of the operation taking into account collateral, to which the regulatory calculation of the potential future risk of OTC transactions is added,
- with regard to financing risk (internally known as the "solvency risk"), the exposure considered is the recorded outstanding amount of net receivables due from the counterparty,
- with regard to settlement-delivery risk in the scope of securities purchases/sales: the marked-to-market exposure on the security ("equity exposure") is used as a basis to calculate the risk of free or DvP settlement-delivery operations,
- with regard to the issuer risk, no exposure calculation is made in Pillar 1.

5.2. Market risk

Market risk relates to the change in the prices of assets held by Exane (including aspects relating to the parameters used for the daily production of results for market activities). It includes the following four components: risk on proprietary securities (or "equity" risk), interest rate risk, exchange rate risk, commodity risk.

Exposure to market risks, as well as the associated capital requirements, is calculated on a daily basis by the Risk Control department, based on the Basel II standard method. The results of these calculations are used to supply COREP reports.

Market risk is borne by all Exane activities, with the exception of research, sales, brokering and asset management. It is managed by a complete system of limits based on exposures and Pillar 1 capital requirements, as well as indicators generated by internal models (particularly VaR) and various market scenarios.

5.3. Operational risks

Operational risk and the risk of losses resulting from the unsuitability of, or failure due to, procedures, personnel and internal systems, or external events, including low-probability events, but with a high risk of loss. Thus defined, operational risk includes legal risk.

Since 2012, Exane has calculated its capital requirement in terms of operational risk according to the standard approach, through a differentiated weighting (between 12% and 18%) of the average of the last three years of the result by business line.

A weight of 18% is applied to the equities and derivatives brokering business lines as well as derivative trading activities, and a weight of 12% to the asset management activity.

5.4. Liquidity risk

Liquidity risk is defined as the risk of not being able to cover net cash outflows including those relating to collateral requirements, over the short and long term.

This risk may come from a drop in financing sources, drawdowns on funding commitments, the reduction in liquidity on certain assets, or the increase in margin calls in cash or collateral. It may be linked to the institution itself (reputation risk) or external factors (risks on certain markets).

The Group's liquidity and refinancing risk is monitored using a policy formalised within the framework of the ILAAP (Internal Liquidity Adequacy Assessment Process). Its objective is to maintain sufficient available resources, particularly through the available portion of the funding line, in order to cover the needs of activities and to deal with any crisis situations. The Group's liquidity situation is monitored using internal indicators and regulatory ratios.

5.5. Other types of risk

5.5.1. Credit concentration risk – Large Exposures

From an operational viewpoint, the concentration risk on a third party is managed by a set of limits defined by counterparty and monitored on a daily basis.

In accordance with the Large Exposures regulation, Exane must hold supplementary regulatory capital once the exposure to a counterparty exceeds the threshold of 25% of eligible capital (or EUR 150 million in the case of credit institutions) for an extended period.

At 31/12/2015, the regulatory calculation showed a supplementary capital requirement of zero. At 31/12/2016, the regulatory calculation showed a supplementary capital requirement of EUR 1.3 million.

5.5.2. Interest rate risk in the banking portfolio

Exane's banking portfolio primarily consists of units of funds of "equity" underlyings, held with a long-term investment objective (Fund Investment activity). Exane invests to a marginal extent in funds with bond underlyings, generating an exchange rate risk.

Consequently, exposures to the banking portfolio may generate an interest rate risk, although interest rate risk remains at insignificant levels.

5.6. Summary of regulatory capital requirements and presentation of regulatory ratios

5.6.1. Regulatory RWA and EFP

Weighted assets and capital requirements by risk type are as follows:

Composition of capital requirements	EFP		RWA	
In k EUR	31/12/15	31/12/16	31/12/15	31/12/16
Credit and counterparty risk	56 067	66 834	700 836	835 425
Market risk	69 292	60 277	866 147	753 457
Settlement/delivery risk	62	88	771	1 095
Large exposures	-	1 278	-	15 970
Credit valuation adjustment risk	5 513	5 553	68 912	69 416
Operational risk	72 613	74 264	907 663	928 305
Total Pillar 1 capital requirement	**203 546**	**208 293**	**2 544 328**	**2 603 667**

5.6.2. *Regulatory capital ratios*

Capital ratios are as follows:

Capital

In EUR million	31/12/15	31/12/16
Common Equity Tier 1 capital	**318.4**	**314.8**
Tier 1 capital	**353.4**	**344.8**
Weighted assets	**2,544.3**	**2,603.7**

Ratios

CET1	**12.52%**	**12.09%**
CET1+AT1	**13.89%**	**13.24%**

The Group complies with the regulatory requirements set at these dates.

5.6.3. *Regulatory liquidity ratios*

The Risk Management Department measures the LCR: The ratio of the liquid asset buffer (after haircut) to expected net cash outflows over the coming month. The liquidity buffer is segregated. It is only comprised of eligible assets for the LCR. This ratio is governed by an alert threshold. It is produced on a daily basis and communicated to the members of the Executive Management and Derivatives Risk Committees.

The Group's LCR at 31 December 2016 was 176%, and liquid assets were EUR 299 million. At 31 December 2015, the LCR stood at 132%, and liquid assets were EUR 456 million.

Exane has set a target to maintain its LCR at 100%. The liquidity buffer is managed by a dedicated Internal Unit.

The NSFR is calculated every quarter by the Administration and Finance division.

6. Control of adequate resources – Pillar 2

In accordance with the requirements of Pillar 2 of the Basel agreement, Exane conducts an internal calculation of its capital (ICAAP) and liquidity (ILAAP) needs. This exercise, reviewed annually, is conducted by Risk Control in cooperation with the Administration and Finance division. It is managed by the head of Risk Control, the head of the risk management function pursuant to the Order of 3 November 2014.

6.1. Internal capital adequacy assessment (ICAAP)

The internal capital adequacy assessment takes into account both the minimum threshold imposed on Exane by the ACPR, and a target level of internal capital defined as the capacity to absorb expected and unexpected losses over one year, within a 99.9% confidence interval.

6.1.1. Internal assessment of the capital base

For the definition of eligible internal capital within the ICAAP framework, Exane considers as criteria the economic capacity of capital instruments to cover losses from the occurrence of risks inherent in its activities.

Category 1 core capital, consisting of ordinary shares and reserves, have this capacity by definition.

Tier 1 subordinated debt does not meet the definition of regulatory capital pursuant to Basel 3. Nevertheless, economically, taking into account the express subordination and loss absorption clauses contained in the issue prospectus, the capacity of the bonds concerned to cover losses is proven. This is why this line is considered in the definition of capital intended to cover risks.

The Tier 2 subordinated debt, maturing in 2016, is not considered.

6.1.2. Internal assessment of capital needs

The calculation takes into account both the internal measures on risks covered by Pillar 1 and a quantification of the risks not covered by Pillar 1, namely:

- DvP settlement/delivery risk;
- issuer risk;
- specific risk related to the ECM (Equity Capital Markets) investment guarantee;
- intraday risk of Facilitation activities.

Internal estimates are based on the concepts, tools and internal measurements consistent with Exane's risk monitoring and management system, particularly:

- for credit risk: measure based on the internal ratings of our counterparties;
- for market risk: measure based on the use of a one-year internal VaR model, with a confidence interval of 99.9%.

These measures include a one-year coverage horizon ("through the cycle" view), as opposed to a regulatory measure based on the view on the calculation date of 31 December 2016 ("point in time" view).

Finally, Exane considers the impact of various specific and macro-economic stress scenarios.

Based on its calculations, Exane considers that it holds sufficient capital to absorb unexpected losses resulting from the various types of risk mentioned.

The Pillar 2 exercise is updated once a year and discussed with the heads of each business line. It is presented by the Board of Directors' Risks Committee, then approved by the Board of Directors.

Summary table of calculation methods used:

	Credit risk		Market risk	Operational risks	Other risks and stress scenarios
	of which counterparty and settlement risk	*of which concentration risk*			
Pillar 1	Standard method	"Large Risks" standard	Standard method	Standard method	-
Pillar 2	"F-IRB" Internal Method (1)	Internal estimate	Internal model VaR at 99.9%	Standard method	Internal assessments

(1) internal method based on the F-IRB regulatory approach

6.2. Internal liquidity adequacy assessment (ILAAP)

Exane has formalised its liquidity risk tolerance, as well as its liquidity risk governance and control system. This system is reviewed every year, in accordance with regulatory provisions.

With regard to this system, the Group monitors and manages the net cash consumption of its various activities on a permanent basis, and identifies, for each entity, the factors that burn or generate cash. It also ensures that its funding sources are adequate and sufficiently diversified to protect the Group from any situation of insufficient liquidity, including in crisis situations.

Every year, the Group also reviews its billing guidelines in terms of liquidity, and ensures they are consistent with its maximum cash burn objectives.

Finally, current and projected cash consumption of activities is managed by a system of limits monitored on a daily basis.

7. Remuneration policy

The Remuneration Policy has been drawn up in line with all applicable regulations, especially European Directive 2013/36/EU of 26 June 2013 (the CRD IV Directive), as clarified by the French and the British transposition rules. This Policy is designed to achieve three main goals:

- guarantee the ongoing competitiveness of the Group within its markets;
- ensure the long-term growth of the company and its businesses;
- take into account not only compliance risks but also financial and other types of operating risk.

The Remuneration Policy is applied for all Group employees, except for those of Exane AM and Ellipsis AM which have their own Remuneration Policy. This Policy states that the remuneration awarded to each Exane employee shall comprise a fixed salary, an individual bonus and additional elements set either by the law or a collective agreement (e.g. payments under a profit-sharing scheme/salary and benefits aggregation scheme).

The balance sheet of the Exane group falls under the €10 billion threshold, which means that it can apply the principle of proportionality and be exempt from certain provisions of the French Monetary and Financial Code. Nevertheless, the Group wishes to operate in accordance with a strict and exacting framework and conduct a comprehensive review of all "Code Staff", by implementing deferral rules for the variable portion of every employee's salary above a certain variable limit (including those who are not classed as "Code Staff") and by introducing procedures that include clawback clauses for "Code Staff".

The Compensation Policy is managed by the Compensation Committee. This committee has three members, none of whom holds any managerial position within the Exane group. The role of the committee is to assist both the *Conseil d'Administration* and the Exane Limited Board of Directors with all aspects of the Remuneration Policy. In particular, it assesses whether the Policy is written and implemented in compliance with applicable statutory and regulatory provisions, and with the company's risk management goals. The committee also ratifies the list of "Code Staff", the individual remuneration of each member of the Group Executive Committee and the remuneration of the heads of the Group's control functions. It reviews the total amounts to be allocated as annual bonus pools and prepares the resolutions of the *Conseil d'Administration* and the Exane Limited Board of Directors concerning compensation.

In terms of compensation, the general principles of the Exane Group are:

- The bonus pools are calculated using iterations between the estimated individual remuneration (bottom-up analysis) and a framework analysis at company and business level (top-down analysis). The final amounts allocated to each business line are determined by the Managing Director, with input from Finance and Human Resources, then ratified by the Compensation Committee/*Conseil d'Administration*.

- The total bonus amount is calculated according to criteria that are documented in the procedure, in conjunction with the annual individual performance reviews (measured using qualitative and quantitative, financial and non-financial criteria).

- The bonus pool allocated to the control functions and the individual bonus of their employees are calculated using specific targets, and are in no way directly based on the performance of the employees or of any activities whose operations they either ratify or control.

- There is a Control/Compensation Committee for each business line. This reflects the Exane group's wish to instil the risk and compliance culture into the daily performance of each employee, by making compliance with the rules a factor in the calculation of their bonus.

- The individual bonus of Exane employees is paid as a cash lump sum up to a certain level; any amount above that level, which is determined by the internal governance, is then deferred over 3 years.

This deferral principle applies to all employees; however, the way in which their bonuses are paid depends on their employee category ("Code Staff" or otherwise) and on the Business Line where they work.
Therefore, the share of the bonus which is deferred is greater for "Code Staff" (at least 40% of the variable salary, or 60% for particularly high amounts), and the value of the deferred amounts may get reduced based on performance during the year preceding each payment (malus mechanism) in order to maximise the adjustment margin, in the event of poor performance, for employees from Business Lines who contribute more to the Group's risk profile.