



Argenta Spaarbank

Interim Financial Statements 1H 2018



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Condensed consolidated interim financial information of the Argenta Savings Bank for the first six months of the current financial year 2018, prepared in accordance with IAS34 as adopted by the European Union

Management certification of financial statements and quarterly report

'I, Geert Ameloot, Chief Financial Officer, certify on behalf of the Executive Committee that, to the best of my knowledge, the abbreviated financial statements included in the quarterly report are based on the relevant accounting standards and fairly present in all material respects the financial condition and results of Argenta Spaarbank nv (*) including its consolidated subsidiaries, and that the quarterly report provides a fair view of the main events, the main transactions with related parties in the period under review and their impact on the abbreviated financial statements, and an overview of the main risks and uncertainties for the remainder of the current year.'

(*) *Argenta Spaarbank nv (hereinafter the Company, abbreviated to Aspa) is registered in Belgium under Belgian law. Its legal form is that of a public limited liability company that has made a public appeal to the savings system (statutory Belgian credit institution).*

The Statutory Auditor's Report

Report on review of the consolidated interim financial information of Argenta Spaarbank NV for the six-month period ended 30 June 2018

To the board of directors

In the context of our appointment as the company's statutory auditor, we report to you on the consolidated interim financial information. This consolidated interim financial information comprises the condensed consolidated interim balance sheet as at 30 June 2018, the condensed consolidated statement of profit or loss, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim cash flow statement for the period of six months then ended, as well as selective notes 1 to 21.

Report on the consolidated interim financial information

We have reviewed the consolidated interim financial information of Argenta Spaarbank NV ("the company") and its subsidiaries (jointly "the group"), prepared in accordance with International Financial Reporting Standard IAS 34 – *Interim Financial Reporting as adopted by the European Union*.

The condensed consolidated interim balance sheet shows total assets of EUR 39,250,410 (000) and the condensed consolidated income statement shows a consolidated profit (group share) for the period then ended of EUR 46,060 (000).

The board of directors of the company is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with IAS 34 – *Interim Financial Reporting as adopted by the European Union*. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of review

We conducted our review of the consolidated interim financial information in accordance with International Standard on Review Engagements (ISRE) 2410 – *Review of interim financial information performed by the independent auditor of the entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit performed in accordance with the International Standards on Auditing (ISA) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the consolidated interim financial information.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial information of Argenta Spaarbank NV has not been prepared, in all material respects, in accordance with IAS 34 – *Interim Financial Reporting as adopted by the European Union*.

Zaventem, 28 August 2018

The statutory auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d'Entreprises
BV o.v.v.e. CVBA / SC s.f.d. SCRL
Represented by Dirk Vlamincx

Report on the first six months

In a context of low interest rates and continuing investments for a more digital future, the Company presents a consolidated result (including minority interests) of EUR 46,059,757 for the first six months of 2018 (EUR 54,063,779 for the first six months of 2017).

Evolution of the balance sheet

The balance sheet total grew by 4.32% (EUR 1.62 billion) to EUR 39.25 billion.

The presentation of the balance sheet of the company is affected by the first time application of IFRS 9. A different allocation of financial instruments and recognition of Expected Credit Loss (ECL) impairments decreased the financial assets with a limited amount of EUR 62 million. A detailed analysis of the impact on the financial assets and the opening balance under IFRS 9 is included in note 3 of the interim financial statements.

Cash and cash equivalents increased between December 31 and June 30 by 75.30% (EUR 0.80 billion) due to inflow of the cash proceeds from a securitisation transaction concluded per 26 June 2018.

The mortgage loan portfolio increased by 2.86% (EUR 0.77 billion), reflecting controlled growth of the mortgage portfolio in Belgium.

Investments in debt securities decreased by 1.47% (EUR 0.12 billion). This asset class is affected by the IFRS 9 implementation as the accounting treatment for approximately half the portfolio has changed from fair value through other comprehensive income (FVTOCI - AFS classification under IAS 39) to amortised cost.

Financial liabilities measured at amortized cost increased overall by 4.76% or EUR 1.67 billion. The main drivers for this increase are debt securities issued as part of the aforementioned securitisation transaction and growth of the demand and saving deposits.

Elements (drivers) of the result

The bank's profit (EUR 46,059,757 with the application of IFRIC 21 (levies) and EUR 70,924,641 without application of IFRIC 21) has decreased as a result of continued low interest rates.

Interest income remains the main revenue driver, stemming from a growing mortgage portfolio at lower yields and a smaller bank investment portfolio where yields have declined over the past years as a result of the maturity of securities at higher yields and short term rates entering negative levels.

Funding cost declined further driven by the maturing of older funding instruments which are being replaced by issuances of RMBS and deposits with at lower yield.

Non-interest revenue increased further as clients increased holdings in investment fund products. Income from commissions and fees increased from EUR 54 million to EUR 62 million.

Administration expenses further increased due to the evolution of staff and additional expenditures to comply with various regulatory requirements and the investments in digital projects. The net impairment release of EUR 1.3 million in the first half year of 2018 is among others the result of continued improvement in write-offs and positive development of economic indicators.

Solid capital and robust liquidity position

The Common Equity Tier 1 ratio (IRB approach and phased in) amounted to 24.20%.

Liquidity continues to be strong with an LCR ratio of 195% and a stable NSFR of 145%.

The Company comfortably meets all regulatory ratios.

Condensed consolidated financial statements according to IFRS

Condensed consolidated statement of financial position (in EUR)

Assets	Note	31/12/2017	1/01/2018	30/06/2018
		IAS 39	IFRS 9 pro forma	IFRS 9
Cash and cash equivalents with central banks	6	1,068,996,221	1,068,996,221	1,873,898,661
Financial assets held for trading	11	11,472,666	11,472,666	13,537,964
Available-for-sale financial assets	7	7,900,541,785	–	–
Loans and receivables	8	27,659,725,318	–	–
Loans and receivables from credit institutions		22,286,000	–	–
Loans and receivables from other clients		27,637,439,318	–	–
Financial assets held to maturity	8	462,780,202	–	–
Non-trading financial assets mandatorily measured at fair value through profit or loss	9	–	106,689,383	64,997,699
Financial assets measured at fair value through other comprehensive income	7	–	3,748,927,808	3,753,295,576
Financial assets measured at amortised cost	8	–	32,105,421,882	32,973,707,199
Derivatives: hedge accounting	11	102,427,643	102,427,643	90,982,074
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	11	122,822,732	122,822,732	149,695,217
Property, plant and equipment		13,712,694	13,712,694	15,532,150
Buildings, land, equipment		12,703,396	12,703,396	14,971,714
Investment properties		1,009,298	1,009,298	560,436
Goodwill and other intangible assets		63,464,300	63,464,300	64,586,039
Goodwill		0	0	0
Other intangible assets		63,464,300	63,464,300	64,586,039
Tax assets		5,040,583	5,040,583	35,764,626
Current tax assets		5,040,583	5,040,583	25,338,249
Deferred tax assets		0	0	10,426,377
Other assets		215,175,794	215,175,794	214,413,100
Non-current assets and disposal groups classified as held for sale		0	0	0
Total assets		37,626,159,937	37,564,151,705	39,250,410,306

Liabilities, equity and minority interest	Note	31/12/2017	1/01/2018	30/06/2018
		IAS 39	IFRS 9 pro forma	IFRS 9
Deposits from central banks	10	0	0	0
Financial liabilities held for trading	11	3,408,123	3,408,123	6,410,326
Financial liabilities measured at fair value through profit or loss		0	0	0
Financial liabilities measured at amortised cost	10	35,012,011,475	35,012,011,475	36,680,291,481
Deposits from credit institutions		76,393,437	76,393,437	54,955,107
Deposits from other than credit institutions		32,427,415,232	32,427,415,232	33,416,982,754
Debt certificates, including bonds	10	1,911,606,586	1,911,606,586	2,636,857,447
Subordinated liabilities		596,596,220	596,596,220	571,496,173
Other financial liabilities		0	0	0
Derivatives, hedge accounting	11	384,310,450	384,310,450	342,719,233
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	11	0	0	0
Provisions		4,607,191	5,106,206	5,047,410
Tax liabilities		32,757,280	16,615,477	10,585,772
Current tax liabilities		992,002	992,002	2,187,102
Deferred tax liabilities		31,765,278	15,623,475	8,398,670
Other liabilities	12	217,509,333	217,509,333	244,845,400
Total liabilities		35,654,603,852	35,638,961,064	37,289,899,622
Equity attributable to the shareholders	13	1,971,512,441	1,925,146,998	1,960,467,098
Equity attributable to the minority interests	13	43,643	43,643	43,586
Total equity and minority interests		1,971,556,084	1,925,190,642	1,960,510,684
Total liabilities, equity and minority interests		37,626,159,937	37,564,151,705	39,250,410,306

Condensed consolidated statement of profit or loss (in EUR)

	Note	30/06/2017	30/06/2018
		IAS 39	IFRS 9
Financial and operational income and expenses		264,757,092	274,728,388
Net interest income	14	253,682,966	264,749,856
Interest income		425,764,798	405,056,580
Interest expenses		-172,081,832	-140,306,724
Dividend income		111,090	135,587
Net income from commissions and fees	15	-26,174,484	-22,358,318
Income from commissions and fees		54,056,727	61,531,024
Expenses related to commissions and fees		-80,231,211	-83,889,342
Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss		17,454,941	2,231,236
Financial assets at fair value through other comprehensive income		17,454,941	999,512
Financial assets at amortised cost		0	1,231,723
Gains and losses on financial assets and liabilities held for trading		-312,474	-936,905
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	16	-	-193,447
Gains and losses from hedge accounting		1,128,517	1,318,117
Gains or losses on derecognition of non-financial assets		71,487	174,102
Other net operating income		18,795,049	29,608,161
Other operating income		23,046,760	36,964,510
Other operating expenses		-4,251,711	-7,356,349
Administration expenses	17	-184,215,280	-206,122,431
Employee expenses		-31,385,391	-35,281,814
General and administrative expenses		-152,829,890	-170,840,616
Depreciation		-11,569,127	-10,923,234
Property, plant and equipment		-2,513,321	-2,389,323
Investment properties		-21,154	-11,067
Intangible assets		-9,034,652	-8,522,844
Provisions		-187	58,797
Impairments	18	3,255,141	1,312,644
Available-for-sale financial assets		74,874	-
Financial assets at amortised cost		-	1,485,426
Loans and receivables		3,180,267	-
Debt instruments at fair value through other comprehensive income		-	-172,782
Goodwill		0	0
Result from non-current assets held for sale		0	0
Total profit before taxes		72,227,639	59,054,164
Income tax expenses	19	-18,163,860	-12,994,407
Net profit or loss		54,063,779	46,059,757
Net profit or loss attributable to shareholders		54,056,963	46,044,098
Net profit or loss attributable to minority interests		6,816	15,659

Condensed consolidated interim statement of comprehensive income (in EUR)

The presentation of the 'Statement of other comprehensive income' is affected by the first time adoption of IFRS 9.

For a holistic analysis of the impact of this change in accounting policy, we refer to note 2 of the disclosures to the financial statements.

Condensed consolidated interim statement of comprehensive income	Note	30/06/2017	30/06/2018
Net profit or loss		54,063,779	46,059,757
Net profit or loss attributable to shareholders		54,056,963	46,044,098
Net profit or loss attributable to minority interests		6,816	15,659
Other Comprehensive income as presented under IAS 39			
Net change in revaluation reserve of available-for-sale financial assets		-13,465,054	-
Available-for-sale financial assets (IAS 39)		-20,581,833	-
Deferred taxes		7,116,779	-
Net change in hedging reserve of cash flow hedge		2,029,684	-
Fair value hedged item		2,706,245	-
Deferred taxes		-676,561	-
Other Comprehensive income as presented under IFRS 9			
Items that will not be reclassified to profit or loss		-	107,474
Fair value changes of equity instruments measured at fair value through other comprehensive income		-	107,474
Movement in fair value			143,298
Deferred tax			-35,824
Actuarial gains or (-) losses on defined benefit pension plans		-	0
Items that may be reclassified to profit or loss		-	-10,831,474
Debt instruments measured at fair value through other comprehensive income	7	-	-12,489,524
Movement in fair value		-	-16,716,267
Deferred tax		-	4,226,743
Net change in hedging reserve of cash flow hedge		-	1,658,050
Movement in fair value	11	-	2,210,733
Deferred tax		-	-552,683
Total other comprehensive income for the period		-11,435,370	-10,724,000
Total comprehensive income		42,628,409	35,335,757
Total profit or loss attributable to shareholders		42,621,593	35,320,098
Total profit or loss attributable to minority interests		6,816	15,659

The movements of the components of OCI are split into two categories, namely 'Items that will not be recycled through profit or loss' and 'Items that may be recycled through profit or loss'.

'Items that will not be reclassified through profit or loss' include the movement in the revaluation reserve of equity instruments at FVTOCI and the net actuarial result on the defined benefit pension obligation (DBO).

'Items that may be reclassified to profit or loss' include the movement of the revaluation reserve for debt instruments at FVTOCI, the impairment of debt instruments at FVTOCI and the hedging reserve for effective cash flow hedges. These movements can be split into unrealised gains and losses arising during the period and reclassified realised gains and losses included in profit and losses. The breakdown of these elements is disclosed in the statement of changes in equity on the next page.

Other comprehensive income is negative per Q2FY18 amounting to EUR -10,724,000. This is mainly explained by the movement in fair value of debt instruments measured at FVTOCI partially offset by the positive revaluation of Cash Flow Hedge (CFH) derivatives and equity instruments at FVTOCI.

Consolidated interim statement of changes in equity (in EUR)

	Paid-in share capital	Share premiums	Revaluation reserve of available-for- sale financial assets (IAS 39)	Revaluation reserve debt instruments at fair value (FVTOCI) (IFRS 9)	Revaluation reserve equity instruments at fair value (IFRS 9)	Cash flow hedge reserves	Pension reserve	Retained earnings	Net profit (loss)	Share- holders' equity	Minority interests	Total Equity
Equity 31/12/2016	661,875,400	0	88,993,470	-	-	-13,979,775	0	914,300,339	190,010,420	1,841,199,853	60,525	1,841,260,378
- Capital increase	0	0	0	-	-	0	0	0	0	0	0	0
- Net profit (loss)	0	0	0	-	-	0	0	0	54,056,963	54,056,963	6,816	54,063,779
- Dividends	0	0	0	-	-	0	0	0	0	0	0	0
- Change in fair value	0	0	-13,465,054	-	-	2,029,684	0	0	0	-11,435,370	-15,714	-11,451,084
- Change in deferred tax	0	0	0	-	-	0	0	0	0	0	0	0
- Other changes	0	0	0	-	-	0	0	0	0	0	0	0
- Transfer to retained earnings	0	0	0	-	-	0	0	190,010,420	-190,010,420	0	0	0
Equity 30/06/2017	661,875,400	0	75,528,416	0	0	-11,950,091	0	1,104,310,759	54,056,963	1,883,821,446	51,626	1,883,873,073
Equity 31/12/2017	715,947,400	0	87,020,883	-	-	-10,941,067	-1,291,058	1,041,790,008	138,986,274	1,971,512,440	43,643	1,971,556,084
Impact IFRS 9 transition	0	0	-87,020,883	48,805,489	968,315	0	0	-9,118,362	0	-46,365,441	0	-46,365,441
Equity 01/01/2018	715,947,400	0	-	48,805,489	968,315	-10,941,067	-1,291,058	1,032,671,646	138,986,274	1,925,146,998	43,643	1,925,190,643
- Capital increase	0	0	-	0	0	0	0	0	0	0	0	0
- Net profit (loss)	0	0	-	0	0	0	0	0	46,044,098	46,044,098	15,659	46,059,757
- Dividends	0	0	-	0	0	0	0	0	0	0	0	0
- Fair value movement of investments in equity instruments designated as at FVTOCI	0	0	-	0	143,298	0	0	0	0	143,298	0	143,298
- Fair value movements of debt instruments at FVTOCI	0	0	-	-16,716,267	0	0	0	0	0	-16,716,267	0	-16,716,267
- Amounts reclassified to profit or loss for debt instruments at FVTOCI	0	0	-	0	0	0	0	0	0	0	0	0
- Cash flow hedge	0	0	-	0	0	2,210,733	0	0	0	2,210,733	0	2,210,733
- Change in deferred tax	0	0	-	4,226,743	-35,824	-552,683	0	0	0	3,638,236	0	3,638,236
- Other changes	0	0	-	0	0	0	0	-10	0	-10	-15,716	-15,726
- Transfer to retained earnings	0	0	-	0	0	0	0	138,986,283	-138,986,274	9	0	9
Equity 30/06/2018	715,947,400	0	-	36,315,965	1,075,789	-9,283,017	-1,291,058	1,171,657,919	46,044,098	1,960,467,096	43,586	1,960,510,682

Condensed consolidated interim cash flow statement (in EUR)

	30/06/2017	30/06/2018
Cash and cash equivalents at the start of the period	905,821,916	1,091,282,221
Operating activities		
Net profit	54,063,779	46,059,757
Payable and deferred tax expenses, recognised in the income statement	18,163,860	12,994,407
Depreciations	11,569,127	10,923,234
Net provisions (reversals)	187	-58,797
Net income (loss) on the sale of investments	-71,487	-174,102
Impairment losses	-3,255,141	-1,312,644
Changes assets/liabilities concerning hedge accounting	-39,455,509	-55,360,083
Other adjustments	11,785,878	8,952,887
Cash flows from operating profits before changes in operating assets and liabilities	52,800,694	22,024,659
Changes in operating assets (except cash and cash equivalents)		
Changes in financial assets held for trading	315,753	-2,065,298
Changes in loans and receivables	-728,179,116	-
Changes in available-for-sale assets	533,532,071	-
Changes in financial assets held to maturity	-35,664,574	-
Changes in financial assets at amortised cost	-	-866,799,891
Changes in financial assets at fair value through other comprehensive income	-	-16,922,601
Changes in financial assets at fair value through profit or loss	-	41,691,684
Changes in other assets	-22,081,715	-29,961,350
Changes in operating liabilities (except cash and cash equivalents)		
Changes in deposits from central banks	0	0
Changes in deposits from credit institutions	95,024,033	-21,438,330
Changes in deposits from other than credit institutions	670,994,349	989,567,521
Changes in debt certificates	-161,569,041	-203,563,934
Changes in financial liabilities held for trading	-3,279	3,002,203
Changes in other liabilities	87,068,805	21,306,363
Changes in working capital, net	439,437,286	-85,183,631
Cash flow from operational activities	52,800,694	22,024,659
(Paid) refunded income taxes	-59,185,685	-11,799,307
Net cash flow from operating activities	433,052,293	-74,958,279
Investing activities		
(Cash payments to acquire property, plant and equipment)	-1,209,276	-4,864,780
Cash proceeds from disposal of property, plant and equipment	273,229	851,503
Cash proceeds from disposal of non-current assets and disposal groups classified as held for sale	0	0
(Cash payments to acquire intangible assets)	-11,541,051	-9,643,726
Cash proceeds from disposal of intangible assets	141	187
Changes concerning consolidated companies	0	0
Net cash flow from investing activities	-12,476,958	-13,656,816

Financing activities		
(Paid dividends)	0	0
Cash proceeds from the issue of subordinated liabilities	0	0
(Cash payments of subordinated liabilities)	-59,633,680	-25,100,047
Cash proceeds from the issuing of bonds	0	1,134,100,000
(cash repayments of bonds)	0	-205,285,205
Interest paid	0	-10,305,213
Cash proceeds from a capital increase	0	0
Net cash flow from financing activities	-59,633,680	893,409,535
Total cash and cash equivalents at the end of the period	1,266,763,572	1,896,076,661
Components of cash and cash equivalents		
Cash in hand	46,411,867	57,825,670
Cash balances at agents	10,824,165	10,261,475
Cash balances with central banks	0	0
Central bank reserves	1,164,375,181	1,742,265,139
Cash balances with other financial institutions	30,792,359	63,546,377
Other advances	14,360,000	22,178,000
Total cash and cash equivalents at the end of the period	1,266,763,572	1,896,076,661
<i>Cash flow from operating activities</i>		
Received interest income	425,764,798	405,257,142
Dividends received	111,090	135,587
Paid interest expenses	-172,081,832	-140,306,724
<i>Cash flow from financing activities</i>		
Interest paid	-12,005,799	-10,305,213

For the preparation of the condensed consolidated cash flow statement above the indirect method is applied.

Components of cash and cash equivalents

The cash in hand, cash balances at authorised agents and cash balances with central banks can be found under the balance sheet item 'cash, cash balances at central banks and other demand deposits' (see Note 6).

The amount of 'other advances' can be found under the balance sheet item 'loans and receivables from credit institutions'. These are term accounts with other financial institutions and the associated pro rata interest amounts.

Notes to the condensed consolidated interim financial statements (in EUR)

Statement of compliance and changes in accounting policies

Note 1: Statement of compliance (Note 2 in the annual statements of 2017)

The consolidated financial statements of Argenta Spaarbank NV ('the Company') have been prepared in accordance with IAS 34 as adopted in the European Union ('endorsed IFRS'). The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the annual financial statements as of 31 December 2017.

Note 2: Summary of significant accounting policies (Note 2 in the annual statements of 2017)

A summary of the main accounting policies is provided in the annual financial statements as of 31 December 2017.

This is the first public reporting of the Group's financial statements where IFRS 9 has been applied. The company's accounting policy was adjusted due to the IFRS 9 implementation and approved by its Board of Directors.

For the transition disclosures related to IFRS 9, we refer to Note 3.

With respect to the application of hedge accounting the bank has opted to retain the IAS 39 requirements for portfolio fair value hedges of interest rate risk ("macro hedging") and the full IAS 39 hedge accounting requirements (including "micro" hedges).

An analysis has been made with regard to the impact of IFRS 15 on the financial statement of the company. It was concluded that there would be no material impact and consequently no changes have been made to the company's accounting policy for IFRS 15.

For IFRS 16 Leases, a project has been launched in 2017 to embed this in the Argenta Group. Contracts that potentially fall within the scope of IFRS 16 include for example leased buildings and car leasing contracts.

Amendments to the accounting policy

Paragraph 6 'Financial assets and liabilities' and paragraph 10 'Impairment losses' of the accounting policy were adjusted and they contain the following elements.

All **financial assets and liabilities** – including derivatives – are recognised according to the IFRS classification system. Each classification is subject to its own specific measurement rules. The IFRS 9 standard determines the valuation principles for financial instruments which depends on a number of elements, namely

- 1) Type of instrument (debt instrument, derivative, equity instrument)
- 2) Business model
- 3) Characteristics of the contractual cash flows underlying the instrument ('Solely payment of principal and interest')
- 4) Existence of options which can be executed

For debt instruments, the first step of the classification process is the business model test (BM test). The goal of this exercise is to allocate each instrument to one of following groups, namely

- Hold To Collect (HTC) business model: management's strategy for this portfolio is to focus on earning contractual interest revenue and collect principal payments
- Hold To Collect & Sell (HTC&S) business model: management's strategy for return on investment of this portfolio is through collection of contractual cash flows and sale of instruments
- All other business models including 'Financial assets held for trading'.

The financial instruments are allocated to internally defined portfolios which are designated to one of the above business models.

The second step in the classification process for debt instruments is the SPPI test to evaluate whether the cash flows underlying the financial instruments are solely payments of principal and interest. Instruments failing the SPPI test are mandatorily measured at fair value through profit or loss.

Instrument are measured at fair value through profit or loss if one of following conditions apply: (a) the instrument is not allocated to either the HTC and HTC&S business model, (b) upon failing the SPPI test and (c) in case the company opts to apply the fair value option in case this eliminates or significantly reduces an accounting mismatch. Derivatives are managed in a separate portfolio and are by definition measured at fair value through profit or loss.

The following categories exist for financial assets: (a) financial assets at amortised cost, (b) financial assets at fair value through other comprehensive income, (c) financial assets at fair value through profit or loss. The financial liabilities are classified as (a) financial liabilities at fair value through profit or loss, including (i) those designated as such upon initial recognition or subsequently in accordance with paragraph 6.7.1 of IFRS 9 and (ii) those that meet the definition of held for trading in IFRS 9 and (b) other financial liabilities at amortised cost.

The Company tests its assets at each balance sheet date for indications of impairment. The carrying amount of an impaired asset is reduced to its estimated recoverable value, and the amount of the change during the current reporting period is recognised in the income statement.

If, in a subsequent period, the amount of the impairment on assets other than goodwill or equity instruments is reduced owing to an event occurring after the write-down, the amount of the reduction is recognised in the income statement.

An impairment loss shall be recorded on an individual basis on any asset (or group of financial assets), if (1) there is objective evidence of impairment as a result of one or more events occurring after the initial recognition of the asset, and (2) the loss event or events have an impact on the estimated future cash flows from the financial asset which can be reliably estimated.

Assets go into 'default' status where the arrears (of interest and/or capital) have reached 90 days or repayment is unlikely. These instruments are transferred to stage 3 (non-performing) for the total exposure.

Whenever the status of an asset changes to default, an assessment is made on a case by case basis on whether or not an impairment is to be recorded. An impairment loss will be considered if the objective data show that one or more events are likely to affect negatively the future cash flows of a financial asset.

In addition to individual impairments, collective - portfolio-based - value adjustments are recorded in the form of stage 1 and stage 2 expected credit losses. It concerns the "forward looking expected loss model" as defined under IFRS 9. This model allocates instruments in impairment stages based on "significant increases in credit risk" (SICR) in comparison to initial recognition of the instrument.

IFRS 9 defines three stages of impairment:

- Stage 1 'performing': no significant increase in credit risk => Expected Credit Losses (ECL) based on 12 month probability of default (PD)
- Stage 2 'underperforming': significant increase => ECL based on life time PD
- Stage 3 'non-performing': significant increase => individual impairment

The individual impairments measurement method is described in paragraph loans and receivables of the accounting policy. The forward looking expected loss model includes projections of relevant macroeconomic indicators and a sensitivity analysis is performed based on an up, base and down scenario. The final ECL is the probability weighted average of these scenarios. The SICR assessment incorporates quantitative as well as qualitative triggers.

Note 3: Changes in significant accounting policies

This note contains the transition disclosures related to the first time application of IFRS 9, based on the requirements of IFRS 7.42I-S.

Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018.

The negative impact on retained earnings and other comprehensive income amounts to EUR 46 million after tax, which can be split into

- (a) a classification and measurement effect on OCI (EUR -37 million) and retained earnings (EUR – 1 million)
- (b) and an increase in impairments with effect in retained earnings (EUR -8 million after tax).

These elements are reflected and specified in the table below.

The company has taken the exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

Transition disclosures for financial assets

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- (a) The determination of the business model within which a financial asset is held.
- (b) The designation and revocation of previous designations of certain debt instruments and financial liabilities measured at Fair Value Through Profit & Loss (FVTPL).
- (c) The designation of certain investments in equity instruments not held for trading measured at Fair Value through Other Comprehensive Income (FVOCI).

In the context of the impairment calculation, Argenta has assumed that the credit risk on the asset had not increased significantly since its initial recognition when an investment in a debt security had low credit risk at the date of initial application of IFRS 9.

The impact of IFRS 9 is summarised in the following template.

	IAS 39 Classification									Impact IFRS 9 on equity per 01/01/2018					
	Debt instruments					Equity instruments			Provisions on loan commitments	Total	Retained earnings		OCI reserve		
	Loans and receivables	Held to maturity	Available-for-sale	Designated at fair value	Held for trading	Loans and receivables	Held to maturity	Available-for-sale			Pre-tax	Post-tax	Pre-tax	Post-tax	
Financial assets per 31/12/2017 (IAS 39)	27,659,725,318	462,780,202	7,893,583,281	0	0	6,958,504	0	0	0	36,023,047,305					
IFRS 9 reclassification- application as of 01/01/2018															
Financial assets at amortised cost	27,647,957,416	462,780,202	3,994,684,266	0	0	0	0	0	0	32,105,421,884					
Remeasurement	-3,088,555	0	-58,543,390	0	0	0	0	0	0	-61,631,945					
<i>Reclassification</i>	5,019,296	0	-56,761,111	0	0	0	0	0	0	-51,741,815			-51,741,815	-38,298,192	
<i>Impact Expected Credit Losses model</i>	-8,107,851	0	-1,782,279	0	0	0	0	0	0	-9,890,130	-9,890,130	-7,410,774			
<i>Reversal specific impairments</i>	0	0	5,363	0	0	0	0	0	0	5,363					
<i>Reversal of IBNR provision</i>	6,240,696	0		0	0	0	0	0	0	6,240,696					
<i>Recognition of ECL impairment</i>	-14,348,547	0	-1,787,642	0	0	0	0	0	0	-16,136,189					
Financial assets at fair value through other comprehensive income	0	0	3,741,969,304	0	0	6,958,504	0	0	0	3,748,927,808					
Remeasurement	0	0	0	0	0	0	0	0	0	0					
<i>Reclassification</i>	0	0	499,373	0	0	0	0	0	0	499,373			499,373	364,864	
<i>Impact Expected Credit Losses model</i>	0	0	-499,373	0	0	0	0	0	0	-499,373	-499,373	-364,864			
<i>Reversal specific impairments</i>	0	0	0	0	0	0	0	0	0	0					
<i>Reversal of IBNR provision</i>	0	0	0	0	0	0	0	0	0	0					
<i>Recognition of ECL impairment</i>	0	0	-499,373	0	0	0	0	0	0	-499,373					
Financial assets mandatorily at fair value through profit or loss	8,303,063	0	98,386,320	0	0	0	0	0	0	106,689,383					
Remeasurement	-376,285	0	0	0	0	0	0	0	0	-376,285					
<i>Fair value in revaluation reserves</i>	0	0	914,999	0	0	0	0	0	0	914,999			914,999	686,249	
<i>Fair value through profit or loss</i>	-376,285	0	-914,999	0	0	0	0	0	0	-1,291,284	-1,291,284	-968,463			
<i>Impact Expected Credit Losses model</i>	0	0	0	0	0	0	0	0	0	0	0	0			
Financial assets designated at fair value through profit or loss	0	0	0	0	0	0	0	0	0	0					
Remeasurement	0	0	0	0	0	0	0	0	0	0					
<i>Fair value in revaluation reserves</i>	0	0	0	0	0	0	0	0	0	0					
<i>Fair value through profit or loss</i>	0	0	0	0	0	0	0	0	0	0	0	0			
<i>Impact Expected Credit Losses model</i>	0	0	0	0	0	0	0	0	0	0	0	0			
Financial assets per 01/01/2018 (IFRS 9)	27,656,260,478	462,780,202	7,835,039,891	0	0	6,958,504	0	0	0	35.961.039,075					
Provisions per 01/01/2018 (IFRS 9)										499,015	499,015	-499,015	-374,261		
Impact on retained earnings												-11,680,787	-9,118,362		
Impact on revaluation reserves														-50,327,443	-37,247,079

Classification and measurement

- (a) 'Loans and receivables' are fully reclassified to 'financial assets at amortised cost' except for a limited number of loans to non-retail counterparties which do not meet the 'Solely payments of principal and interest' requirements and have therefore been included under 'financial assets at fair value through profit or loss'. The remeasurement of these loans impacts the opening balance of retained earnings for an amount of EUR 376k before tax.

'Loans and receivables' included a MBS portfolio historically reclassified from 'available-for-sale financial assets' to 'Loans and receivables'. The related negative revaluation reserve remained in OCI and was amortised to EUR 5,019k before tax per 31/12/2017. This reserve has been reversed due to application of IFRS 9 and as a result OCI reserves increased by EUR 3,764k (after tax).

- (b) The debt instruments included in held to maturity under IAS 39 are fully reclassified to 'financial instruments at amortised cost' with no impact on the opening balance of retained earnings.
- (c) The 'available-for-sale' debt instruments have been reclassified to 'financial assets at amortised cost' for EUR 3,995 million, 'financial assets at fair value through other comprehensive income' for EUR 3,742 million and 'financial assets at fair value through profit or loss' for EUR 98 million. The reclassification of the AFS portfolio to amortised cost decreases the revaluation reserves in equity by EUR 38,298k after tax.

The aforementioned reduction of OCI is partially offset by an increase of EUR 686k due to the (net) negative fair value of instruments now recorded in profit or loss instead of OCI and the first time recognition of an impairment on 'financial asset a fair value through other comprehensive income'.

- (d) The 'available-for-sale' equity instruments are fully reclassified to 'financial assets at fair value through other comprehensive income' with no impact on the opening balance of retained earnings.
- (e) There was no impact for the asset categories 'Financial assets held for trading', 'Derivatives: hedge accounting', 'Fair value changes of the hedged items in a portfolio hedge of interest rate risk' and 'Cash and cash equivalents'.

Impairment

- (a) The transition from an incurred losses model to ECL impacts the opening balance of retained earnings by EUR 8,150k (after tax) consisting of following elements:
- a. An additional impairment is recorded of EUR 9,890k (before tax) on debt instruments measured at amortised cost and EUR 499k (before tax) on financial assets at fair value through other comprehensive income.
 - b. The ECL impairments also apply to off-balance sheet exposures such as loan commitments and financial guarantees. Such provision was recorded for an amount of EUR 499k (before tax).
- (b) The impact is mainly due to stage 2 lifetime expected credit losses on retail loans.

Regulatory equity

Based on the above elements, there was a decrease in the Common Equity Tier 1 equity ratio mainly due to the decrease in the "Other Comprehensive Income" line (consisting of not realised capital gains or losses on available-for-sale assets) in the qualifying equity.

The impact on the retained earnings (of EUR 9.1 million) was offset by a decrease in the IRB deficit, because the additional impairments mainly related to loans that are processed in the equity calculation according to the IRB

method. This means that the so-called IRB deficit is decreased (because more impairments could be applied) and the impact of these impairments on the qualifying equity is limited.

For a further disclosure about the capital adequacy, we refer to note 20 of this the financial statements.

Transition disclosures for financial liabilities

There is no reclassification or remeasurement of financial liabilities as a consequence of the IFRS 9 implementation.

Transition disclosures on provisions

The IFRS 9 requirement to include off balance sheet commitments in the scope of the expected credit loss model gave rise to the recognition of a limited provision on commitments for mortgages.

Notes on segment reporting (in EUR)

Note 4: Segment reporting according to the management structure of the group (Note 10 in the annual statements of 2017)

The operational segmentation is based on geographical areas where the Bank Pool is active. The Bank Pool delivers services under the heading of 'retail banking' which until further notice is treated in internal reporting as a single operational segment. Retail banking provides retail financial services to individuals and self-employed persons. It provides advice on banking, saving, lending and investment.

The operational segmentation based on geographic regions reflects the Company's focus on the Benelux countries. The following geographical segmentation is specifically based on the location of the services provided, and provides an indication of the breakdown by geographical region.

Consolidated balance sheet 31/12/2017	Belgium	Netherlands and Luxembourg	Total
Total assets	21,856,006,585	15,770,153,352	37,626,159,937
Total liabilities	31,493,030,189	4,161,573,664	35,654,603,853

Consolidated income statement 30/06/2017	Belgium	Netherlands and Luxembourg	Total
Net Financial and operational income and expenses	136,466,722	128,290,370	264,757,092
Other items			-192,529,453
Tax on profits			-18,163,860
Total profit after taxes			54,063,779

Consolidated balance sheet 30/06/2018	Belgium	Netherlands and Luxembourg	Total
Total assets	23,192,502,634	16,057,907,672	39,250,410,305
Total liabilities	32,085,351,587	5,204,548,035	37,289,899,622

Consolidated income statement 30/06/2018	Belgium	Netherlands and Luxembourg	Total
Net Financial and operational income and expenses	140,144,425	134,583,963	274,728,388
Non-operational items			-215,674,224
Tax on profits			-12,994,407
Total profit after taxes			46,059,757

The non-operational items (in the consolidated income statement) consists of the administrative expenses, depreciation, provisions and impairments.

Notes on related party transactions (in EUR)

Argenta Spaarbank nv regularly conducts transactions with related parties as part of its operations. In the interim financial statements the transactions with the parent companies and the other group entities are listed below.

Note 5: Related party transactions (Note 9 in the annual statements of 2017)

Balance sheet	31/12/2017		30/06/2018	
	Parent companies	Other related group entities	Parent companies	Other related group entities
Loans and receivables from other clients		1,100,807		1,198,259
Other receivables	439,470	3,066,987	1,151,582	1,893,631
Total assets	439,470	4,167,794	1,151,582	3,091,890
Financial liabilities measured at amortised cost				
Deposits	77,015,927	408,205,901	63,349,214	438,990,590
Debt certificates	0	0	0	0
Other liabilities	1,064,578	24,916,457	1,175,052	23,520,052
Total liabilities	78,080,505	433,122,358	64,524,266	462,510,642
Guarantees issued by the group				
Guarantees received by the group				

Income statement	30/06/2017		30/06/2018	
	Parent companies	Other related group entities	Parent companies	Other related group entities
Interest expenses	21,222	4,472	22,059	409,481
Expenses related to commissions and fees	0	5,957,617	0	5,821,164
Other operating expenses	4,848,656	103,194	6,210,080	0
Total expenses	4,869,878	6,065,283	6,232,139	6,230,645
Interest income	310	142,606	4,673	121,159
Income from commissions and fees	0	57,990	0	0
Other operating income	289,277	16,270,060	222,462	16,515,834
Total income	289,587	16,470,656	227,135	16,636,993

Notes to the condensed consolidated statement of financial position (in EUR)

Note 6: Cash and cash equivalents (Note 11 in the annual statements of 2017)

	31/12/2017	30/06/2018
Cash	61,901,183	68,087,145
Cash balances with central banks	949,284,468	1,742,265,139
Cash balances with other financial institutions	57,810,570	63,546,377
Total	1,068,996,221	1,873,898,661

Monetary policy requires financial institutions to maintain deposits with central banks in the countries where the Company operates. For this reason, the Company maintains deposits at the NBB and the DNB. The minimum central bank reserves are determined on a monthly basis.

Per 30 June 2018, there is a larger cash balance outstanding due to the proceeds of the securitisation transaction completed per 26 June 2018.

Note 7: Financial assets measured at fair value through other comprehensive income (figures for 31/12/2017 correspond to note 13 in the annual statement of 2017)

	31/12/2017	30/06/2018
	IAS 39	IFRS 9
Available-for-sale financial assets (IAS 39)	7,900,541,785	-
Financial assets at fair value through other comprehensive income (IFRS 9)	-	3,753,295,576
of which hedged via micro-hedges (nominal value)	1,175,743,300	1,220,806,300
Breakdown by instrument type		
Equity instruments	6,958,504	7,436,000
Debts securities	7,893,583,281	3,745,859,576
Breakdown debt securities by interest rate type		
Variable	3,238,962,238	1,899,592,048
Fixed	4,654,621,042	1,846,267,528
Undefined	6,958,504	7,436,000
Breakdown by impairment stage (gross carrying amount)		
Debt securities		
Stage 1	0	3,746,531,732
Stage 2	0	0
Stage 3	0	0
Breakdown by impairment stage (impairment)		
Debt securities		
Stage 1	0	-672,155
Stage 2	0	0
Stage 3	0	0

The financial asset category 'Financial assets at fair value through other comprehensive' has been recognised for the first time due to the adoption of IFRS 9. For disclosures related to the first time application of this standard, we refer to note 3.

Under IAS 39, the 'Available-for-sale financial assets' were measured at fair value through other comprehensive income for a total of 7,901 million EUR. The strong decrease in the amount of debt instruments of which the fair value change is reflected in equity under IFRS 9 is explained by the altered classification criteria. The related impact for fair value gains and losses recognised in other comprehensive income is recognised in the reserves per 1 January 2018 (see statement of changes in equity).

The increase in impairments (see below) is explained by the expected losses credit model applicable for debt instruments measured at fair value through other comprehensive income.

The amortised cost, unrealised gains or losses and the fair value of instruments measured at fair value through other comprehensive income per 31 December 2017 and 30 June 2018 are as follows:

31/12/2017	Amortised cost value	Unrealised results	Impairments	Fair value
Fixed-income securities				
Public institutions	2,500,645,531	129,297,480	0	2,629,943,011
Credit institutions	1,828,031,866	19,671,920	0	1,847,703,786
Securities other counterparties	3,378,374,360	37,567,487	-5,363	3,415,936,485
Variable-yield securities				
Investment funds / other shares	5,666,661	1,291,843	0	6,958,504
Total	7,712,718,418	187,828,730	-5,363	7,900,541,785
30/06/2018	Amortised cost value	Unrealised results	Impairments	Fair value
Fixed-income securities				
Public institutions	1,201,296,275	96,679,564	-157,914	1,297,817,925
Credit institutions	1,241,222,516	8,455,439	-252,149	1,249,425,805
Securities other counterparties	1,194,474,455	4,403,483	-262,092	1,198,615,846
Variable-yield securities				
Investment funds / other shares	6,001,615	1,434,385	0	7,436,000
Total	3,642,994,861	110,972,871	-672,155	3,753,295,576

The breakdown by counter-party classes (e.g. public administrations, credit institutions, 'securities – other counter-parties' or investment funds/other shares) follows the breakdown that is applied for the Belgian prudential reporting at bank solo level. The fair value amounts that are applied are obtained from external sources such as Bloomberg and Euroclear (the Company's main clearing and custody counter-party). The same sources were used in previous years.

Note 8: Financial instruments measured at amortised cost (figures for 31/12/2017 correspond to note 14 and 15 in the annual statement of 2017)

	31/12/2017	30/06/2018
	IAS 39	IFRS 9
Financial assets at amortised cost (IFRS 9)	-	32,973,707,199,22
Loans and advances (IFRS 9)	-	28,551,542,665
Debt securities (IFRS 9)	-	4,422,164,534
Loans and receivables (IAS 39)	27,659,725,318	-
Held to maturity (IAS 39)	462,780,202	-
Breakdown by product type		
Consumer loans	114,057,678	141,098,452
Mortgage loans	26,957,897,483	27,729,624,138
Term loans	545,857,794	654,843,755
Deposits on demand	2,595,185	3,798,319
Other loans and receivables – MBS portfolio	17,031,178	-
Loans to credit institutions	22,286,000	22,178,000
Debt securities	462,780,202	4,422,164,534
Breakdown debt securities by interest rate type		
Variable	98,499,229	1,204,227,212
Fixed	364,280,973	3,217,937,322
Breakdown by impairment stage (gross carrying amount)		
Debt securities		
Stage 1	0	4,382,157,542.57
Stage 2	0	41,875,001.97
Stage 3	0	0
Loans and advances		
Stage 1	0	24,333,046,172.99
Stage 2	0	4,109,921,777.11
Stage 3	64,352,277	136,236,340.98
Breakdown by impairment stage (impairment)		
Debt securities		
Stage 1	0	-1,236,423
Stage 2	0	-631,587
Stage 3	0	0
Loans and advances		
Stage 1	0	-1,327,852
Stage 2	0	-9,849,713
Stage 3	-20,331,261	-16,484,061
Collective allowances	-6,240,696	0

The financial asset category 'Financial assets at amortised cost' has been recognised for the first time due to the adoption of IFRS 9. For disclosures related to the first time application of this standard, we refer to note 3.

Under IAS 39, the 'Loans and receivables' and 'Held to maturity financial assets' were measured at amortised cost. The strong increase in the amount of instruments measured at amortised cost under IFRS 9 is explained by the altered classification criteria and the allocation of more debt instruments. ECL stage 1 and 2 impairments were not recorded before IFRS 9, instead a collective allowance (IBNR) was booked.

The stage 3 impairments correspond to the individual allowances under IAS 39 and are included under this caption for 31/12/2017 for comparison purposes (i.e. individual impairment allowances on 'Held to maturity' and 'Loan and receivables' financial instruments).

Note 9: Financial assets measured at fair value through profit or loss

	31/12/2017	30/06/2018
Equity instruments	0	0
Debt securities	0	64,997,699
Loans and advances	0	0
Breakdown by interest rate type		
Variable	0	51,803,856
Fixed	0	13,193,843
Undefined	0	0

Financial assets measured at fair value through profit or loss are debt instrument purchased in the past which have failed the SPPI test. Argenta doesn't have a trading portfolio.

Note 10: Financial liabilities measured at amortised cost (figures for 31/12/2017 correspond to Note 21 in the annual statements of 2017)

	31/12/2017	30/06/2018
Deposits from credit institutions	76,393,437	54,955,107
Retail funding deposits	32,427,415,232	33,416,982,754
Retail funding - debt certificates - retail saving certificates	717,959,678	494,962,652
Debt certificates - bonds	1,193,646,908	2,141,894,795
Subordinated liabilities	596,596,220	571,496,173
Total	35,012,011,475	36,680,291,481

Deposits from credit institutions

The deposits from credit institutions are composed as follows:

	31/12/2017	30/06/2018
Deposits from credit institutions	76,393,437	54,955,107
Breakdown by type		
Deposits on demand	1,451,462	1,528,379
Repo's	0	0
Collateral with financial institutions	74,941,975	53,426,728

Retail funding deposits

Deposits from counterparties other than credit institutions – essentially deposits by retail customers – can be broken down as follows:

	31/12/2017	30/06/2018
Deposits from other than credit institutions	32,427,415,232	33,416,982,754
Breakdown by type		
Retail deposits on demand	4,074,884,558	4,572,524,755
Fixed-term retail deposits	2,907,221,165	2,583,259,011
Regulated retail saving deposits	23,075,556,453	23,737,265,531
Mortgage-linked retail deposits	441,035,930	453,530,320
Other retail deposits	1,928,717,126	2,070,403,137

Retail funding - debt certificates - retail saving certificates

The downward trend of recent years in the debt and retail savings certificate segment continues. The Company has ceased offering this product and is gradually replacing this funding source with term accounts.

Debt certificates – bonds

This section contains the A notes issued by SPV Green Apple 2017 I NHG and SPV Green Apple 2018 I NHG - in the context of a securitisation transaction.

	31/12/2017	30/06/2018
Debt certificates - Bonds	1,193,646,908	2,141,894,795
Green Apple 2017-I NHG	1,193,646,908	1,132,305,975
Green Apple 2018-I NHG	0	1,009,588,820

Green Apple 2017 I NHG

The notes were issued on 5 October 2017 for a notional amount of EUR 1.2 billion with an interest rate of Euribor 3 months plus 40 basis points and were placed with institutional investors. The principal is outstanding up to 2056 with a prepayment option from March 2024 onwards.

Green Apple 2018 I NHG

The notes were issued on 26 June 2018 for a notional amount of EUR 1.1 billion with an interest rate of Euribor 3 months plus 40 basis points and were placed with institutional investors.

Subordinated liabilities

In the past, the Company placed retail subordinated liabilities and Tier 2 corporate funding bonds, which are now gradually maturing. No new subordinated debt was taken on in the first half of 2018.

The subordinated liabilities are composed as follows:

	31/12/2017	30/06/2018
Total subordinated liabilities	596,596,220	571,496,173
Breakdown by type		
Subordinated loans (retail funding)	86,389,886	70,803,013
Tier 2 loan (corporate funding)	510,206,334	500,693,160

Note 11: Fair value of financial instruments (note 24 in the annual statements 2017)

Valuation methods and input

The Company defines the fair value as the price that would be received/paid on the sale of an asset or transfer of a liability in an 'orderly' transaction between market participants at the time of measurement. The definition used is in line with the IFRS 13 definition. The fair value is not the price that would be received on the basis of a forced transaction, a forced sale or mandatory liquidation.

The fair value is a market-based and not an entity-specific valuation. This means that assumptions are to be used that other market participants would use in the measurement of financial instruments, including assumptions about risks. Only the characteristics of the instrument itself are to be taken into consideration; characteristics arising from the entity holding the instrument, are therefore left out of account in the measurement. For determining the fair value of a financial instrument, the Company opts for measurement methods and techniques that are appropriate under the circumstances and for which sufficient data are available to calculate the fair value. The chosen technique must maximise the use of relevant observable inputs and minimise those of non-observable inputs.

The Company recognises value adjustments for counterparty risk on all assets and liabilities that are valued at fair value. CVA (Credit Valuation Adjustment) is an adjustment of the market value of derivative financial instruments to take into account the creditworthiness of the counterparty. This takes into account the current market value, expected future market value and creditworthiness (based on the counterparty's credit default swap spread). A DVA (Debt Valuation Adjustment) is recorded for derivative financial instruments where the counterparty has a risk on the Company.

The valuation methodologies, the valuation hierarchy and positions within the levels, and the fair value calculations of both financial instruments not recognised at fair value and of financial instruments recognised at fair value are explained and validated by the Asset and Liability committee on a quarterly basis.

The valuation hierarchy of the Company distinguishes between the levels below. The fair value level here depends on the type of input used for the valuation of financial instruments.

- For determining the fair value of financial instruments, the Company first uses the quoted (unadjusted) prices in an active market (externally available and observable fair values of financial instruments on liquid markets). When these are not available the Company uses valuation techniques. The definition of Level 1 inputs refers to the terminology "active market"; this is defined as a market in which transactions in the instrument take place with sufficient frequency and volume that the price information is available on a continuous basis. Whether the frequency and volume of transactions are sufficient to speak of an active market is a question of assessment and depends on the specific facts and circumstances of the market for the instrument. The Company uses several sources (Bloomberg and Euroclear, the Company's main clearing and holding counterparties) and assesses liquidity on the basis of price availability and price differences between the different sources. If deviations are determined based on analysis, an individual detailed analysis is carried out for the instrument in question.
- Where the fair value is not available based on quoted prices in an active market, the Company determines the fair value using a valuation technique based on observable or non-observable parameters. Level 2 inputs are observable inputs that are either direct or indirect. Direct Level 2 inputs are listed prices for similar instruments in active markets, quoted prices for identical or similar instruments in non-active markets and other inputs that are observable for the instrument (e.g. interest rate curves, implied volatility, credit spreads) that can be used as input for the valuation model. Indirect Level 2 inputs are inputs derived from observable market data (e.g. via extrapolations). The valuation techniques used on the basis of observable parameters are the discounting of future cash flows, and comparisons with the fair value of a similar instrument.

- Level 3 inputs are non-observable inputs. These are based on assumptions used by the Company in the valuation. Examples of non-observable inputs are the historical volatility of a quoted share, or non-observable interest rates derived from observable data, but which are not confirmed by observable data.

When the fair value measurement uses inputs that fall within different levels, it is classified actively or passively according to the lowest level of the inputs concerned.

Financial instruments not designated at fair value

Estimating the fair value of financial instruments measured at historical cost requires the use of techniques, models, hypotheses and assumptions.

The calculation of the fair value of financial instruments, where this is not obtained externally, can be summarised as follows:

- (1) The fair value of consumer credits, mortgage loans, forward loans and term financial liabilities (fixed-term deposits, retail savings certificates, bonds and subordinated loans and bonds) is determined by discounting contractual cash flows using the discounted cash flow method. The discount rate is based on the risk-free reference rate to which a market-based margin is applied. This includes, among other things, a capital cost and a credit cost. The interest rate curves are analogous to those used in the sensitivity analysis of interest rate risk (see risk section 5.1 of the fiscal year 2017 financial statements). The sensitivity of the market values of the Level 3 values is contained in the result of the 'economic values' calculation mentioned there (here with the impact of all levels).
- (2) The fair value of cash, sight deposits, regulated savings deposits, deposits of a special nature and deposits linked to mortgage loans is assumed to be equal to the book value, in view of their immediately retrievable or short-term nature.
- (3) The other credit receivables and held-to-maturity financial instruments relate to bonds in which the quoted (unadjusted) prices are used where these are traded on an active market. Where the instruments are deemed less liquid, valuation methods are used (theoretical or modelled prices with price control - Level 2, or pricing by third parties for which no benchmark is possible due to a lack of market data - Level 3).

Financial instruments designated at fair value

The following tables show the fair values of the financial instruments that are stated in the balance sheet at their fair value.

The table below provides an overview of the level hierarchy of financial assets and liabilities recognised at fair value.

For determining the fair value of the 'Available-for-sale financial assets' per 31/12/2017 under IAS 39 and the 'Financial assets at fair value through other comprehensive income' per 30/06/2018 under IFRS 9, the Company uses the quoted (unadjusted) prices in an active market.

For this, the Company uses the same external sources as in previous years, namely Bloomberg and Euroclear. Instruments are classified under Level 2 when theoretical or modelled prices are available that can be substantiated by/benchmarked against another source or pricing by third parties. For instruments included in Level 3, prices are received from third parties for which the Company does not have a benchmark.

The fair values of derivative instruments are calculated internally using a FINCAD application, with the market values calculated daily, in the context, among others, of the European Market Infrastructure Regulation (EMIR).

Collateral management (margin calls) takes place, depending on agreements, on a daily or weekly basis. The external market values obtained with the margin calls are systematically compared with the internally calculated fair values.

Vanilla derivatives (vanilla IRSs and caps) are measured on the basis of interest rate curves and implicit volatilities observable in the market (Level 2 inputs). The fair value of these transactions is therefore considered as Level 2.

The table below provides an overview of the level hierarchy of financial assets and liabilities recognised at fair value.

31/12/2017	level 1	level 2	level 3
Financial assets recognised at fair value			
Assets held for trading	0	11,472,666	0
Available-for-sale assets	5,887,268,279	1,992,503,191	20,770,315
Derivatives used for hedging purposes	0	102,427,643	0
Financial liabilities recognised at fair value			
Liabilities held for trading	0	3,408,123	0
Derivatives used for hedging purposes	0	384,310,450	0
30/06/2018	level 1	level 2	level 3
Financial assets recognised at fair value			
Assets held for trading	0	13,537,964	0
Assets at fair value through OCI	3,254,550,349	497,683,756	1,061,471
Assets at fair value through profit or loss	13,193,843	51,803,856	0
Derivatives used for hedging purposes	0	90,982,074	0
Financial liabilities recognised at fair value			
Liabilities held for trading	0	6,410,326	0
Derivatives used for hedging purposes	0	342,719,233	0

In the AFS/FVOCI portfolio, we encounter sporadic changes between Level 1 and Level 2 as a result of changes in the liquidity of the instruments (e.g. more providers). In 2017, EUR 10 million of bonds (2 securities) of financial institutions were reclassified from Level 2 to Level 1, due to an increase in liquidity. In the first half of 2018 there were no reclassification between Level 1 and Level 2.

The following table provides a reconciliation of Level 3 fair values between 1 January 2017 and 30 June 2018. It refers to the derivative instruments (under 'assets and liabilities held for trading' and under 'derivatives used for hedging') and to the securities held under AFS/FVOCI.

	Derivatives, asset side	Derivatives, liabilities side	AFS portfolio fixed- income securities	Fair value through OCI Fixed income securities	AFS portfolio shares	Fair value through OCI Shares	Assets at fair value through profit or loss
Opening total as of 1 January 2017	2,083,651	-21,112,190	20,149,935	-	61,452	-	0
Purchases/new contracts	0	0	0	-	681,008	-	0
Matured instruments	0	0	0	-	0	-	0
Repayments (partial)	0	0	0	-	0	-	0
Changes to other levels	0	0	0	-	0	-	0
Changes from other levels	0	0	0	-	0	-	0
Other changes (including value changes)	-155,842	4,840,246	-88,286	-	0	-	0
Closing total as of 30 June 2017	1,927,809	-16,271,944	20,061,649	-	742,460	-	0
Closing total as of 31 December 2017	0	0	20,027,855	-	742,460	-	0
IFRS 9 impact	0	0	-20,027,855	20,027,855	-742,460	742,460	0
Purchases/new contracts	0	0	-	0	-	0	0
Matured instruments	0	0	-	-20,027,855	-	0	0
Repayments (partial)	0	0	-	0	-	0	0
Changes to other levels	0	0	-	0	-	0	0
Changes from other levels	0	0	-	0	-	0	0
Other changes (including value changes)	0	0	-	0	-	319,011	0
Closing total as of 30 June 2018	0	0	-	0	-	1,061,471	0

As can be seen from the table, there is only a limited amount of level 3 fair values in the financial instruments involved.

The total of the fixed-income securities and equities valued at level 3 fair values is EUR 1,061,471 as of 30 June 2018 (compared to EUR 20,770,315 at end-2017). The significant decrease is mainly explained by the maturing of one bond in first semester of 2018.

Note on the credit risk in the fair value of derivatives

Since 2014 and in line with market practices, a CVA and a DVA have been taken into account in establishing the market value of derivatives. The combined impact of both elements was very limited, amounting to EUR 1 million in 2017. As of 30 June 2018 there was a positive net impact of EUR 2.2 million.

Note 12: Other Liabilities

Other liabilities increase with EUR 27,336k from 31/12/2017 to 30/06/2018.

This is mainly due to the accrual for tax levies under IFRIC 21 partially offset by an increase in suspense accounts for costs to be allocated related to credits and payment services (EUR -9,475k).

Note 13: Equity attributable to the shareholder (Note 3 in the annual accounts for 2017)

The Company is the consolidating company and 99.99% of its shares are owned by Argenta Bank- en Verzekeringsgroep nv (the holding company of the Argenta Group).

The IFRS equity attributable to the shareholders as of 30 June 2018 is EUR 1,960,467,098 compared with EUR 1,971,512,441 as of 31 December 2017.

The decrease in equity can mainly be explained by the reduction of revaluation reserves of financial instruments measured at fair value through other comprehensive income due to the first time application of IFRS 9. This movement is partially offset by the addition of the profit for the period.

The elements of the IFRS equity are further described in the text below.

	31/12/2017	30/06/2018
	IAS 39	IFRS 9
Share capital	715,947,400	715,947,400
Revaluation reserves available-for-sale financial assets (IAS 39)	87,020,883	-
Fair value changes in equity instruments (IFRS 9)	-	1,075,789
Fair value changes in debt instruments (IFRS 9)	-	36,315,966
Actuarial reserves on pension obligations	-1,291,058	-1,291,058
Retained earnings	1,041,790,009	1,171,657,919
Profit current period	138,986,274	46,044,098
Cash flow hedge reserves	-10,941,067	-9,283,016
Equity attributable to shareholders	1,971,512,441	1,960,467,098
Minority interests	43,643	43,586
Total equity	1,971,556,084	1,960,510,684

Share capital

The fully paid-in capital represented by 168,975 no par shares, is EUR 715,947,400.

Revaluation surplus on financial instruments at fair value through other comprehensive income

As stated above, the revaluation reserves recognised in equity are affected by the first time application of IFRS 9. For the impact analysis of this change in accounting policy, see note 3.

Cash flow hedging

The Company has concluded an interest rate swap in 2011 in the context of hedge accounting, which is treated as a cash flow hedge. The market value of the swap (net of tax) is shown in a separate line in equity.

Retained earnings

The retained earnings position (EUR 1,171,657,919 as of 30 June 2018) increases due to the appropriation of the profit for the financial year 2017 partially offset by the negative impact in the opening balance of ECL impairments determined in accordance with IFRS 9.

No dividend distribution has been paid in 2018 related to the profit for the financial year 2017.

Profit from the current year

The consolidated result (excluding minority interests) for the period ending on 30 June 2018 amounted to EUR 46,044,098.

Notes to the condensed consolidated statement of profit or loss (in EUR)

Note 14: Net interest income (Note 26 in the annual statements of 2017)

The breakdown of interest income and charges by type of financial instrument generating an interest margin is presented in the table below:

	30/06/2017	30/06/2018
	IAS 39	IFRS 9
Interest income	425,764,798	405,056,580
Available-for-sale financial assets (IAS 39)	37,931,916	-
Loans and receivables on credit institutions (IAS 39)	32,356	-
Loans and receivables on other customers (IAS 39)	381,626,956	-
Held-to-maturity investments (IAS 39)	4,563,383	-
Assets at fair value through profit or loss (IFRS 9)	-	342,879
Assets at fair value through other comprehensive income (IFRS 9)	-	18,642,835
Loans and advances at amortised cost (IFRS 9)	-	365,565,067
Debt securities at amortised cost (IFRS 9)	-	19,025,667
Derivatives - hedge accounting	1,610,187	1,480,132
Interest expenses	172,081,832	140,306,724
Deposits from credit institutions	1,710,492	1,108,272
Deposits from other than credit institutions	56,012,497	47,806,069
Debt certificates (including retail saving certificates)	15,405,316	7,380,899
Subordinated liabilities	12,005,799	10,305,213
Derivatives - hedge accounting	86,947,729	73,706,271
Net interest income	253,682,966	264,749,856

The breakdown of 'Interest income' is impacted by the first time application of IFRS 9 to reflect the altered financial asset categories.

Net interest income is up by 4% compared to June 2017 which is driven by the relative stronger decrease of interest expenses on liabilities compared to interest income on assets.

Interest income

Interest income on bonds and other debt securities has decreased driven by a lower average yield on the outstanding portfolio due to maturing bonds at higher returns and repricing of floating rate bonds.

The interest income from loans and receivables has also decreased (but slower) due to the lower interest rate for new granted mortgage loans and the repricing of existing mortgages. It is nevertheless the main source of the interest margin due to the relative higher interest rates then on new bonds.

Interest expenses

The decrease in interest expenses on deposits from credit institutions is mainly the result of the negative short-term interest rates.

The decrease in interest expense on deposits from other than credit institutions is the result of a further decline in yields on retail deposits.

The decrease in interest expenses on debt certificates is driven by the decline in interest paid on debt securities issued due to maturing of retail saving certificates with higher yield and lower interest due on issued mortgage-backed securities linked to negative Euribor rates.

The decrease in interest expenses on subordinated liabilities is mainly the result of the lower outstanding amount.

The decrease in interest expenses on derivatives is mainly the result of maturing of long-term swaps with higher hedging interest rates.

Note 15: Net income from commissions and fees (Note 28 in the annual statements of 2017)

The net income from commissions and fees can be summarised as follows:

	30/06/2017	30/06/2018
Income from commissions and fees	54,056,727	61,531,024
Securities: buy and sell order and other	9,616,381	8,231,064
Management fees received	33,596,014	40,730,517
Payment services	6,218,136	6,886,924
Other items	4,626,197	5,682,518
Expenses relating to commissions and fees	-80,231,211	-83,889,342
Acquisition costs (commissions and/or transaction costs)	-68,269,960	-71,044,736
Custody	-767,960	-980,521
Payment services	-9,974,787	-10,640,999
Other items	-1,218,503	-1,223,085
Net commission result	-26,174,483	-22,358,318

The most important increase of the income from commissions and fees came from the fees received from mutual funds.

Note 16: Realised gains and losses on financial instruments not measured at fair value in the income statement

The result on sale of securities amounted to 2,231,236 EUR in the first six months of 2018 (17,454,941 EUR in the first six months of 2017). It concerns in 2018 mainly sales of securities that reach maturity within 6 months.

The larger amount in 2017 was however mainly the result of securities which would have expired on maturity date in the second half of 2017. It has resulted in 2017 in a shift from interest income to realised gains with an additional estimated net realised gain of 4.8 million EUR in 2017.

Note 17: Administrative expenses (Note 34 in the annual statements for 2017)

Employee expenses consist of the following components:

	30/06/2017	30/06/2018
Employee expenses	31,385,391	35,281,814
Wages and salaries	20,514,591	23,455,874
Social security charges	5,559,898	6,317,672
Pension expenses	2,997,780	2,736,888
Share-based payments	0	0
Other	2,313,122	2,771,380

The increase in employee expenses is mainly the result of increase in staff.

There are no 'share-based payments' at present.

General and administrative expenses can be summarised as follows:

	30/06/2017	30/06/2018
General and administrative expenses	152,829,890	170,840,616
Marketing expenses	1,473,632	1,761,467
Professional fees	26,670,451	30,091,907
IT expenses	23,683,579	28,442,157
Rental expenses	4,255,455	5,593,382
Other taxes and bank levies	67,909,520	70,635,317
Other	28,837,252	34,316,385

The heading 'other' includes expenses for telephone, postage, office supplies, professional contributions and travel expenses.

Due to the application of IFRIC 21 (Levies), levies are recognised upfront. The line 'other taxes and bank levies' includes the total for the year, whereas on a pro-rata basis EUR 35,193,433 would have been recognised in the second half of 2018.

The increase in "wages and salaries" and 'general and administrative expenses' is the result of the continuing investments for a more digital future, investments in its ICT platform and in meeting (and reporting on) constantly increasing regulatory requirements.

Note 18: Impairments

There was a positive impact of 1.3 million in the first half year of 2018.

	30/06/2017	30/06/2018
	IAS 39	IFRS 9
Impairments	3,255,141	1,312,644
Available-for-sale financial assets	74,874	-
Loans and receivables	3,180,267	-
Debt instruments at amortised cost	-	-189,350
Loans and advances at amortised cost	-	1,674,776
Financial assets at fair value through other comprehensive income	-	-172,782

The breakdown of 'Impairments' is impacted by the first time application of IFRS 9 to reflect the altered financial asset categories. The negative impact ECL impairments is included in the opening balance of FY18.

The net impairment release of EUR 1.7 million for the loans and receivables in the first half year of 2018 is among others the result of continued improvement in write-offs due to a positive development of economic indicators.

Note 19: Income tax expenses (Note 36 in the annual accounts for 2017)

The details of current and deferred taxes are shown below:

	30/06/2016	30/06/2017
Current tax expense on result of current year	28,003,535	27,609,319
Current tax expense on result of previous year	-96,452	-601,963
Deferred tax expenses (income)	-9,743,223	-14,012,949
Total taxes	18,163,860	12,994,407
Effective tax rate	25.15%	22.00%

Note on capital adequacy (in EUR)

Note 20: Solvency and capital management (note 6 in the annual accounts for 2017)

Capital risk or solvency risk is the risk of available capital falling short of the capital required by the activities and size of the company, and being unable to obtain the necessary additional capital at short notice and at a reasonable cost. To monitor this risk, systematic comparisons are made with the regulatory requirements and internal objectives.

Capital management

The goal of the Company's risk management is to achieve the best possible capital structure, while continuing to meet the statutory and internally-set capital objectives. The Company has implemented adequate procedures and systems to guarantee its long-term capital adequacy, while taking into account all material risks.

The Company has traditionally pursued a policy of self-financing. To retain a level of capital that provides sufficient scope for growth and to be able to carry the financial and operational risks, the Company aims to meet the potential capital requirements by (a) retained earnings, (b) capital increases and (c) subordinated loans.

Regulations

The Company is subject to the CRR and CRD IV legislation. Information on pillar 1 (minimum capital requirements) and pillar 2 (SREP process, including details of interest rate, liquidity and concentration risk) is included in the fiscal year 2017 financial statements. The pillar 3 disclosures for 2017 of the Bank Pool are published separately on the Company's website.

The Company uses the (F)IRB method for the retail mortgage portfolios (but no longer for the run-off CHBK portfolio), the MBS portfolio and the 'corporates and banks' portfolio, and the standard (STA) method for the remaining exposures.

Legal capital requirements

The Pillar I requirements impose a minimum solvency ratio of 4.5% of the Common Equity Tier 1 (CET1), of 6% for the total Tier 1 ratio, and of 8% for the total capital ratio. The regulators have the possibility to impose a series of additional buffers. The CET1 (Common Equity Tier 1) requirement under IRB for 2018 amounts to 10.375%, including 1.5% Alternative Tier 1 substitution.

Internal capital requirements

In the internal process of assessment of capital adequacy (ICAAP - Internal Capital Adequacy Assessment Process for the Bank Pool) all material risk factors are modelled. In this way, a more complete picture is obtained of the economic capital requirement. The ICAAP process aims to identify and quantify all material risks, so that the adequacy of the available capital can be assessed and the required capital can be allocated to the business and product lines.

Pillar 1 key figures

The table below (with the standard KM1 template as the basic layout) gives an overview of the relevant figures and ratios for the Company. It also includes the internally established Risk Appetite Framework (RAF) targets that the management has set for the ratios in question.

		RAF norm	31/12/2017	30/06/2018
Available capital				
1	Common Equity Tier 1 (CET1)		1,895,235,880	1,889,571,709
2	Tier 1 capital (TI)		1,895,235,880	1,889,571,709
3	Total capital (TC)		2,392,184,698	2,386,997,453
Risk-weighted items				
4	Total risk-weighted items		7,382,269,776	7,807,759,558
Risk-based capital ratios as a percentage of RWA (risk-weighted assets)				
5	Common Equity Tier 1 ratio (CET1)	15%	25.67%	24.20%
6	Tier 1 capital ratio		25.67%	24.20%
7	Total Capital Ratio (TCR)	17%	32.40%	30.57%
Additional CET1 buffer requirements as a percentage of RWA				
8	Capital Conservation Buffer requirements		1.25%	1.25%
9	Anti-cyclical capital buffer requirements		0.064%	0.040%
10	O-SII (Other Systemically Important Institution) capital buffer requirements		0.50%	0.50%
11	Total CET1 specific buffer requirements		1,814%	1,790%
12	% CET1 available to meet buffers after meeting minimum capital requirements (after 4.5% basic requirement)		21.17%	19,70%
Leverage ratio				
13	Baseline total exposure figure for calculating the leverage ratio		39,028,136,237	40,387,670,830
14	Leverage ratio	4%	4.90%	4.68%
Liquidity Coverage Ratio (LCR)				
15	Total high-quality liquid assets (HQLA)		4,263,345,504	5,274,324,918
16	Total net cash outflow		2,635,902,500	2,707,279,530
17	LCR Liquidity Coverage Ratio.	125%	162%	195%
Net Stable Funding Ratio (NSFR)				
18	NSFR ratio	120%	143%	145%

The Common Equity Tier 1 (CET) ratio amounts to 24.20% as of 30 June 2018. The decrease of the CET1 ratio is the result of a decline in equity combined with an increase in risk exposure amount.

Main changes in equity

As of 31 December 2017 an amount of EUR 69,616,706 (80% of EUR 87,020,883 unrealized capital gains or losses value of the AFS portfolio) could be recognised in the Tier 1 capital.

As a result of the IFRS 9 implementation the amount of EUR 87,020,883 decreased on 1 January 2018 with EUR 37,247,079 to EUR 49,773,804. As of 30/06/2018 the unrealised capital gains or losses decreased and amounted EUR 37,391,755 (which could be used for 100% in the Tier 1 capital).

On the other hand (after receiving the approval of the supervisor) EUR 29 million of the interim profits of 30 June could be recognised in the Tier 1 capital.

Main changes in risk exposure amount

The increase in risk exposure was the result of the increase of the add-on for Belgian mortgages (extra add-on of 33%). The measurement has led to an additional risk exposure amount of 195 million.

The risk exposure amount for the Dutch mortgages increased as a result of a growing mortgage portfolio and granting more mortgages without a NHG guaranty. At the same time less bullet loans are used in the Dutch mortgage market which will result in a decrease in risk during the life time of the mortgages.

Liquidity risk

The Bank Pool's liquidity risk appetite is monitored on the basis of the LCR and NSFR ratios. The LCR compares the liquidity buffer against a defined outflow of previously incoming funds over a 30-day period. The NSFR compares available liquidity against the liquidity required over a period of at least one year.

The above table includes the internally established Risk Appetite Framework (RAF) targets that Company management has set for the ratios in question.

The Risk Appetite Framework (RAF) is strongly embedded in the business plan process cycle: filling in the risk appetite matrix, translation into proactive RAF targets, testing against the business plan iterations and, finally, risk assessment.

Note on subsequent events

Note 21: Post-balance sheet events (note 42 in the annual accounts for 2017)

On 30 July a new company Arvestar was established in the Argenta Group. It's a management company under Belgian law and is a joint venture between Argenta Asset Management and Degroof Petercam Asset Management.

Argenta has previously outsourced the management of its pension savings funds Arpe and Arpe Defensive to Degroof Petercam Asset Management ('DPAM'). In view of the substantial volume of these funds the partners found it was necessary to create a separate control structure.

Arvestar is founded as a subsidiary of Argenta Asset Management, where the asset management within Argenta is centralized. Argenta Asset Management itself remains responsible for the management of the Argenta-Funds and the Argenta Fund of Funds. Arvestar has its headquarters at Guimardstraat 19 in Brussels.

No material events have occurred since the balance sheet date that require an adjustment of the Company's consolidated financial statements as of 30 June 2018.