



Argenta Spaarbank

IFRS Annual Financial Statements

2018



argenta.be



ARGENTA

Financial statements for the 2018 financial year (1 January 2018 to 31 December 2018) of Argenta Spaarbank nv, prepared in accordance with the *International Financial Reporting Standards* (IFRS)

The IFRS financial statements and tables are in euros, unless otherwise explicitly stated in the table in question.

Table of Contents

Management Report	5
The Statutory Auditor’s report	8
Consolidated balance sheet statement (before profit distribution)	15
Consolidated statement of profit or loss	17
Consolidated statement of comprehensive income	19
Consolidated statement of changes in equity	20
Consolidated cash flow statement	21
Notes	24
1. General information	24
2. Financial reporting principles.....	27
2.1. Changes in accounting policies	27
2.2. Implementation of IFRS 9	28
2.3. Accounting policies – accounting rules	30
3. Equity attributable to shareholders of the company	41
4. Non-controlling interests	43
5. Risk management	44
5.1. Market risk	48
5.2. Liquidity risk	51
5.3. Credit risk	54
5.4. Non-financial risks	65
6. Solvency and capital management.....	67
6.1. Capital management	67
6.2. Regulatory matters	67
6.3. Solvency.....	69
7. Remuneration of directors	70
7.1. Composition of the Boards of Directors	70
7.2. Remuneration of senior management	71
8. Remuneration of the statutory auditor	73
9. Related party transactions.....	73
10. Operating segments.....	76
Notes to the consolidated balance sheet	81
11. Cash, cash balances and deposits with (central) banks	81
12. Financial assets and liabilities held for trading	81
13. Assets not held for trading, mandatorily measured at fair value through profit and loss	82
14. Financial assets at fair value through other comprehensive income.....	83
15. Financial assets at amortised cost	85
16. Derivatives used for hedging	88
17. Property, plant and equipment.....	91

18. Goodwill and other intangible assets	92
19. Tax assets and liabilities	93
20. Other assets	95
21. Financial liabilities measured at amortised cost	95
21.1. Deposits from credit institutions	96
21.2. Retail funding – deposits	96
21.3. Retail funding - debt certificates - retail savings certificates	97
21.4. Debt certificates – bonds	97
21.5. Subordinated liabilities	98
22. Provisions	99
23. Other liabilities	102
24. Fair value of financial instruments	103
24.1. Valuation methods and input	103
24.2. Financial instruments not recognised at fair value	104
24.3. Financial instruments stated at fair value	106
25. Derivatives	110
Notes to the consolidated income statement	113
26. Net interest income	113
27. Dividend income	114
28. Net commission and fee income	114
29. Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss	115
30. Gains and losses on financial assets and liabilities held for trading	116
31. Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	116
32. Gains (and losses) from hedge accounting	116
33. Gains and losses on derecognition of non-financial assets	117
34. Other net operating income	118
35. Administrative expenses	118
36. Impairments.....	119
37. Income tax expense.....	122
Other notes.....	123
38. Lease contracts	123
39. Encumbered assets	124
40. Securitisation policy	125
41. Off-balance sheet liabilities	125
42. Contingent liabilities	126
43. Events after the balance sheet date	126

Management Report

Developments in 2018

Argenta Spaarbank nv, in abbreviated form Aspa (hereinafter the Company), achieved a net result (including minority interests) of EUR 129,974,751 for the year ending on 31 December 2018 compared to EUR 138,778,172 for the year ending on 31 December 2017, in the context of permanently low interest rates and major investments for a more digital future.

EUR 5.0 billion of mortgage loans were granted to customers, compared to EUR 4.1 billion in 2017. The credit portfolio savings increased to EUR 29.8 billion.

The proprietary investment portfolio amounted to EUR 8.1 billion, slightly lower than at the end of 2017.

The Company pursues a prudent investment policy in its granting of loans and in the management of its investment portfolio, which is also apparent from the low level of impairment provisions it has set up. In the investment portfolio, the diversification into lending to local governments and real estate investments continued.

The growth in traditional savings products increased, while the outstanding assets under management related to investment funds decreased due to an increased volume of redemptions and the negative evolution of the stock market.

All this leads to the following general observations:

- The reported profit has decreased but remains healthy, bearing in mind the low interest rates and the increased investment in digitisation. The cost of risk has fallen and fee income is rising.
- With the allocation of the a significant part of the profit of the year to retained earnings, equity continues to rise, and the capital ratios remain very healthy.
- The liquidity ratios remain comfortable.

Key figures

The table below gives the Company's key figures.

	31/12/2017	31/12/2018
Return on equity	7.5%	6.8%
Return on total assets	0.37%	0.33%
Cost-income ratio (excluding bank levies)	51%	56%
Tier 1-capital ratio	25.7%	23.1%
Total rapital ratio	32.4%	29.0%
Leverage ratio	4.9%	4.7%
Liquidity Coverage ratio	162%	170%
Net Stable Funding ratio	143%	141%

Evolution of the balance sheet

The IFRS balance sheet total of the Bank Pool has risen by 5.14% from EUR 37,626,159,938 at 31 December 2017 to EUR 39,560,648,522 at the end of 2018.

With the implementation of a new IFRS standard, certain assets had to be classified and measured differently in the balance sheet. This is clearly visible for the securities portfolio.

The securities portfolio of EUR 8,363,321,987 at the end of 2017 consisted of EUR 7,900,541,785 “available-for-sale financial assets” (which are measured at fair value through other comprehensive income) and of EUR 462,780,202 of “held-to-maturity financial assets”.

	31/12/2017	31/12/2018
Available-for-sale financial assets	7,900,541,785	0
Held-to-maturity financial assets	462,780,202	0
Non-trading financial assets mandatorily at fair value through profit or loss	0	64,562,150
Financial assets at fair value through other comprehensive income	0	3,810,957,321
Financial assets at amortized cost (debt securities)	0	4,187,946,872
Totaal investment portfolio	8,363,321,987	8,063,466,343

At the end of 2018, the value on the balance sheet of the securities portfolio amounted to EUR 8,063,466,343. This securities portfolio consisted of a i) limited portfolio of bonds that have to be measured mandatorily at fair value through profit or loss (EUR 64,562,150), ii) a portfolio measured at fair value through other comprehensive income (EUR 3,810,957,321), and iii) a portfolio that is measured at amortised cost (EUR 4,187,946,872). The intention with this latter portfolio is to keep it until maturity.

The portfolio of loans and receivables increased from EUR 27,659,725,318 to EUR 29,800,400,936, reflecting the production of new loans in both the Netherlands and Belgium. Securitisation transactions were carried out in 2017 and 2018 to raise the funding needed in particular to finance lending in the Netherlands.

	31/12/2017	31/12/2018
Loans and receivables	27,659,725,318	0
Financial assets at amortized cost (loans and advances)	0	29,800,400,936

Financial liabilities measured at amortised cost increased by 5.56%, or EUR 1,948,411,058 to EUR 36,960,422,533.

	31/12/2017	31/12/2018
Financial liabilities at amortised cost	35,012,011,475	36,960,422,533
Deposits from credit institutions	76,393,437	4,930,530
Deposits from other than credit institutions	32,427,415,232	33,916,930,075
Debt securities issued, including retail saving certificates	1,911,606,586	2,463,167,692
Subordinated liabilities	596,596,220	575,394,236

The increase in “Debt securities issued, including retail savings certificates” is the result of the securitisation transaction carried out in 2018. The A-notes issued were placed with institutional investors, taking the outstanding exposure at year-end from EUR 1,193,646,908 to EUR 2,047,236,993.

Result drivers

The net interest result increased due to the combination of a limited overall decrease in interest income on assets (of which the outstanding portfolio of assets has risen) with a decrease in interest expenses due to the issuing of notes at relatively lower interest rates and the maturing of high cost legace hedging derivatives.

Gains on the derecognition of financial assets (not measured at fair value through profit or loss) fell from EUR 18.8 million to 5.1 million, the 2017 figure having been boosted by sales of debt securities maturing later in that same financial year. In 2018 there were limited sales for the purpose of managing liquidity risk, and credit risks within the investment portfolio.

Staff expenses include salaries, social security and pensions and amounted to EUR 67.4 million for the year to 31 December 2018, compared to EUR 61.5 million for the previous year. This heading contains the personnel costs of the persons on the payroll register of the Company. Staff expenses and other administrative expenses are allocated between Aspa, Aras and BVg via a cost-sharing arrangement. This cost-sharing mechanism needs to be taken into account in order to interpret the level of staff and other administrative expenses.

Other administrative expenses increased from EUR 252.0 million to 281.7 million. The further increase reflects investments in digitisation, projects to renew the application and data infrastructure, and compliance and regulatory supervision charges. Depreciation has fallen but remains at a high level due to the investments in 2018 and previous years.

Provisions of EUR 2.8 million have been set aside. Impairments have been positively impacted by EUR 2.8 million, mainly related to reversals of the stage 1 and stage 2 impairments set up with the first implementation of IFRS 9 at the start of 2018.

Income tax expense was EUR 40.5 million. Deferred taxes are also included under this heading. The final average tax rate for 2018 was 23.76%.

Solid capital base and liquidity position

With the allocation of the entire profit of the year to retained earnings, equity continues to grow. In this way the Company amply meets all regulatory ratios.

The Common equity tier 1 (CET1) amounted to 23.1% at the end of 2018 compared with 25.7% at the end of 2017. This decrease is mainly the result of an increase in risk-weighted assets due to a larger outstanding portfolio of loans (with a higher weighting percentage) and a switch in the securities portfolio to securities with higher weightings (central and local government counterparties to corporate counterparties). Detailed disclosures on solvency and capital management can be found in Chapter 6.

Liquidity remains strong with an Liquidity coverage ratio (LCR) of 170% versus 162% at end 2017 and an Net stable funding ratio (NSFR) of 141% versus 143% at end 2017. These last two ratios are further explained in Chapter 5.2.

The Statutory Auditor's report

Statutory auditor's report to the shareholders' meeting of Argenta Spaarbank NV for the year ended 31 December 2018 - Consolidated financial statements

In the context of the statutory audit of the consolidated financial statements of Argenta Spaarbank NV ("the company") and its subsidiaries (jointly "the group"), we hereby submit our statutory audit report to you. This report includes our report on the consolidated financial statements together with our report on other legal, regulatory and professional requirements. These reports are one and indivisible.

We were appointed in our capacity as statutory auditor by the shareholders' meeting of 29 April 2016, in accordance with the proposal of the board of directors issued upon recommendation of the audit committee and presentation of the works council. Our mandate will expire on the date of the shareholders' meeting deliberating on the financial statements for the year ending 31 December 2018. Due to a lack of online archives dating back prior to 1997, we have not been able to determine exactly the first year of our appointment. We have performed the statutory audit of the consolidated financial statements of Argenta Spaarbank NV for at least 20 consecutive periods.

Report on the audit of the consolidated financial statements

Unqualified opinion

We have audited the consolidated financial statements of the group, which comprise the consolidated balance sheet (before result appropriation) as at 31 December 2018, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The consolidated balance sheet (before result appropriation) shows total assets of 39 560 649 (000) EUR and the consolidated income statement shows a consolidated net profit for the year then ended of 129 975 (000) EUR.

In our opinion, the consolidated financial statements of Argenta Spaarbank NV give a true and fair view of the group's net equity and financial position as of 31 December 2018 and of its consolidated results and its consolidated cash flow for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium.

Basis for the unqualified opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the "Responsibilities of the statutory auditor for the audit of the consolidated financial statements" section of our report. We have complied with all ethical requirements relevant to the statutory audit of consolidated financial statements in Belgium, including those regarding independence.

We have obtained from the board of directors and the company's officials the explanations and information necessary for performing our audit.

We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matters
Impairments on mortgage loans	
<p>The mortgage loan portfolio of Argenta Spaarbank amounts to 28,833 mio EUR (we refer to the disclosure '15.2 Loans to and receivables from other customers' in the consolidated annual accounts) as per 31 December 2018.</p>	<p>Our audit approach included testing both the design and implementation of internal controls for determining impairments on mortgage loans as well as substantive audit procedures.</p>
<p>The determination of the IFRS 9 split within Stages 1, 2 or 3 of mortgage loans contains subjective elements and requires judgement from management, mainly related to the definition of 'significant increase in credit risk' which determines the scope of stage 1 and 2.</p>	<p>Our audit procedures related to internal controls, consists of, among others:</p> <ul style="list-style-type: none"> ■ the assessment of the design and implementation of the relevant internal control measures; ■ obtaining audit evidence in respect of key controls, showing the review and approval process that management has in place for: <ul style="list-style-type: none"> - the identification of events leading to the determination and measurement of impairments ; as well as - the management judgments.
<p>The measurement of the IFRS 9 expected credit loss on a 12 month and full life time basis contains subjective elements and requires judgement from management, for example related to forward looking elements, economic scenarios, loss given defaults and probability of default.</p>	
<p>Given the significance of impairments on mortgage loans and the related estimation uncertainty, we consider the determination and measurement of impairments on mortgage loans as a key audit matter.</p>	<p>Our substantive audit procedures consist of, among others:</p>
<p>Impairments on mortgage loans consist of:</p> <ul style="list-style-type: none"> ■ Stage 1: performing credit exposures, for which there was no significant increase of credit risk since origination; ■ Stage 2: under-performing credit exposures, for which there has been a significant increase in credit risk between origination or purchase of the financial asset and reporting date ■ Stage 3: non-performing credit exposures, for which there is an objective evidence that the financial asset is impaired. 	<ul style="list-style-type: none"> ■ reading the minutes of Risk Committees and Default Committees; ■ challenging the completeness and accuracy of data included in credit impairment models; ■ challenging the methodologies and assumptions applied for determining impairments by using our industry knowledge and experience, focusing on potential changes since 1st January 2018; ■ obtaining audit evidence of management judgments, especially focusing on the reasonableness of the approach; ■ testing a sample size of mortgage loans to ensure timely determination and measurement of the impairment charge: <ul style="list-style-type: none"> - for impairments in stage 3, we have performed, for a sample basis, detailed credit file reviews thereby challenging the assumptions taken in the context of the impairment. - for impairments in stage 1 and 2, we assessed the model used and tested the completeness and the accuracy of the input parameters.
<p>Wij verwijzen naar de volgende toelichtingen bij de geconsolideerde jaarrekening:</p> <ul style="list-style-type: none"> ■ '2.3 Grondslagen voor financiële verslaggeving – waarderingsregels'; ■ '15. Financiële activa aan geamortiseerde kostprijs'. 	

Key audit matters	How our audit addressed the key audit matters
Financial instruments at fair value for which no quoted prices on active markets are available	
<ul style="list-style-type: none"> ■ Financial instruments defined as Level 2 and Level 3 within the bank's IFRS 13 fair value hierarchy disclosure present a higher exposure to the risk of incorrect valuation as the valuation is highly dependent upon the market data used and / or the models used. ■ We consider the fair value measurement of the financial instruments of Level 2 and Level 3 as key audit matter in our procedures: <ul style="list-style-type: none"> - Financial instruments classified as held for trading (10 mio EUR assets and 4 mio EUR liabilities); - Financial assets at fair value through Other Comprehensive Income (600 mio EUR); - Financial assets at fair value through Profit and Loss (52 mio EUR); - Hedging derivatives (74 mio EUR assets and 351 mio EUR liabilities). 	<p>Our audit procedures include, getting an insight in the group and its environment, including the internal control and governance that are relevant for the valuation of financial instruments, as well as the testing of parameters, valuation model setup and disclosures.</p>
<p>Valuation of complex financial instruments requires important efforts from the bank in terms of resources and governance. Our assessment is driven by multiple factors, including:</p>	<p>The assessment and control of valuation models involve an extensive participation of our valuation experts.</p>
<ul style="list-style-type: none"> ■ the complexity of valuation models; ■ the lack of adequacy of available market data for the purpose of valuing specific financial instruments; ■ the necessity to use non-observable market data; and ■ the high degree of judgement required. 	<p>Our audit procedures related to internal controls, consists of, among others:</p>
<p>The use of different valuation techniques and/or assumptions could produce significantly different fair values. Those factors concern amongst others the following components:</p>	<ul style="list-style-type: none"> ■ performing trade life-cycle product walkthrough to confirm our understanding of the bank's processes and controls in the area of concluding and recording financial instrument transactions; ■ getting an understanding of the control framework (including monitoring procedures) with regard to the valuation process of financial instruments; ■ follow-up the proper and timely documentation of models and parameter choices and the formal approval thereof by competent committees; ■ reading of model validation reports from the independent validation function.
<ul style="list-style-type: none"> ■ the use of models for the valuation of complex Level 2 and Level 3 financial instruments; ■ the fair value adjustments made to derivatives to reflect the counterparty credit risk (CVA/DVA) and funding risk (FVA); ■ the necessity of using derived and/or illiquid pricing parameters as input for valuations of Level 2 and Level 3 financial instruments. 	<p>Our substantive audit procedures consist of, among others:</p>
<p>We refer to disclosure '2.3. Accounting policies – accounting rules: Fair value of financial instruments' in the consolidated financial statements; and disclosure '24.3. Financial instruments designated at fair value' in the consolidated financial statements.</p>	<ul style="list-style-type: none"> ■ the assessment of market parameters and key assumptions used in the models on a sample basis; ■ assessment whether valuation methodologies are based on market practices, on experts' experience, market knowledge and are in line with IFRS 13; ■ identification of high judgmental areas by assessment of management impact analysis and notes of valuation specialists; ■ independent revaluation of financial instruments on a sample basis by our valuation experts; ■ reading of the disclosures in the financial statements on valuation to ensure compliance with IFRS requirements.

Key audit matters	How our audit addressed the key audit matters
<p>IT Continuity and Integrity</p> <p>The IT systems of Argenta Spaarbank are crucial for the activities of the entity. The entity is therefore highly dependent on these IT systems to ensure the continuity and integrity of its operational, financial and regulatory processes.</p> <p>An adequate financial reporting towards the internal and external stakeholders (including the regulator) of Argenta Spaarbank, together with the increasing data granularity in the financial reporting, require high data quality.</p> <p>In the financial process we further note that a correct and complete data flow from the different IT applications, used for operational purposes, to the accounting applications and finally to the financial reporting is of great importance to ensure the quality of the financial reporting.</p> <p>In the context of our audit procedures, we therefore consider that data integrity and the data flow across the various applications are of crucial importance in the financial reporting process, and consequently we consider the integrity and continuity of the IT systems to be a key audit matter.</p>	<p>Our audit procedures related to the IT systems consist mainly of the following procedures:</p> <ul style="list-style-type: none"> ■ the review of the data flows from the various operational IT applications towards the accounting application; ■ conformity checks, on a sample basis, on the operational applications; ■ the assessment of the adequacy of the internal controls implemented by the financial and IT department with regard to the data integrity and the dataflow towards the accounting application; ■ the assessment on the adequacy of the internal controls processes implemented at the external service providers based on the ISAE 3402 reports.

Responsibilities of the board of directors for the consolidated financial statements

The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with the legal and regulatory requirements applicable in Belgium and for such internal control as the board of directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements the board of directors is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters to be considered for going concern and using the going concern basis of accounting unless the board of directors either intends to liquidate the group or to cease operations, or has no other realistic alternative but to do so.

Responsibilities of the statutory auditor for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from an error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and we communicate with them about all relationships and other matters that may reasonably be thought to bear our independence, and where applicable, related safeguards.

From the matters communicated to the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes any public disclosure about the matter.

Report on other legal, regulatory and professional requirements

Responsibilities of the board of directors

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated financial statements.

Responsibilities of the statutory auditor

As part of our mandate and in accordance with the Belgian standard complementary (Revised in 2018) to the International Standards on Auditing (ISA), our responsibility is to verify, in all material respects, the director's report on the consolidated financial statements, as well as to report on these matters.

Aspects regarding the directors' report on the consolidated financial statements

In our opinion, after performing the specific procedures on the directors' report on the consolidated financial statements, this report is consistent with the consolidated financial statements for the period ended

31 December 2018 and it has been established in accordance with the requirements of article 119 of the Companies Code. In the context of our statutory audit of the consolidated financial statements we are also responsible to consider, in particular based on information that we became aware of during the audit, if the directors' report on the consolidated financial statements is free of material misstatement, either by information that is incorrectly stated or otherwise misleading. In the context of the procedures performed, we are not aware of such material misstatement. We do not express any kind of assurance on the directors' report on the consolidated financial statements.

Argenta Spaarbank NV has opted for the exemption, as described in article 119, § 2 of the Companies Code, to include the non-financial information, as required by article 119, §2 of the Companies Code, in the directors' report on the consolidated financial statements. The parent company, Argenta Bank-en Verzekeringsgroep NV includes the required information in a separate report, attached to the directors' report on the consolidated financial statements.

Statements regarding independence

- Our audit firm and our network have not performed any prohibited services and our audit firm has remained independent from the company during the performance of our mandate.
- The fees for the additional non-audit services compatible with the statutory audit of the consolidated financial statements, as defined in article 134 of the Companies Code, have been properly disclosed and disaggregated in the notes to the consolidated financial statements.

Other statements

This report is consistent with our additional report to the audit committee referred to in article 11 of Regulation (EU) No 537/2014.

Zaventem, 5 April 2019

The statutory auditor

DELOITTE Bedrijfsrevisoren / Réviseurs d'Entreprises

BV o.v.v.e. CVBA / SC s.f.d. SCRL

Represented by Dirk Vlaminckx

Consolidated balance sheet statement (before profit distribution)

Assets	Disclosure	31/12/2017	1/01/2018	31/12/2018
		IAS 39	IFRS 9 proforma	IFRS 9
Cash, cash balances at central banks and other demand deposits	11	1,068,996,221	1,068,996,221	1,140,140,077
Financial assets held for trading	12	11,472,666	11,472,666	10,028,698
Available-for-sale financial assets	14	7,900,541,785	0	0
Loans and receivables	15	27,659,725,318	0	0
Loans and receivables from credit institutions		22,286,000	0	0
Loans and receivables from other customers		27,637,439,318	0	0
Held-to-maturity financial assets	15	462,780,202	0	0
Non-trading financial assets mandatorily at fair value through profit or loss	13	0	106,689,383	64,562,150
Financial assets at fair value through other comprehensive income	14	0	3,748,927,808	3,810,957,321
Financial assets at amortised cost	15	0	32,105,421,882	33,988,347,808
Derivatives used for hedge accounting	16	102,427,643	102,427,643	73,711,127
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	16	122,822,732	122,822,732	193,568,240
Investments in subsidiaries, joint ventures and associates		0	0	0
Tangible assets	17	13,712,694	13,712,694	15,004,974
Property, plant and equipment		12,703,396	12,703,396	14,452,502
Investment property		1,009,298	1,009,298	552,472
Goodwill and other intangible assets	18	63,464,300	63,464,300	63,130,436
Goodwill		0	0	0
Other intangible assets		63,464,300	63,464,300	63,130,436
Tax assets	19	5,040,583	5,040,583	19,092,647
Current tax assets		5,040,583	5,040,583	694,713
Deferred tax assets		0	0	18,397,934
Other assets	20	215,175,794	215,175,794	182,105,043
Non-current assets classified as held for sale		0	0	0
Total assets		37,626,159,937	37,564,151,705	39,560,648,522

Liabilities and equity	Disclosure	31/12/2017	1/01/2018	31/12/2018
		IAS 39	IFRS 9 proforma	IFRS 9
Deposits from central banks	11	0	0	0
Financial liabilities held for trading	12	3,408,123	3,408,123	4,073,472
Financial liabilities designated at fair value through profit or loss		0	0	0
Financial liabilities at amortised cost	21	35,012,011,475	35,012,011,475	36,960,422,533
Deposits from credit institutions		76,393,437	76,393,437	4,930,530
Deposits from other than credit institutions		32,427,415,232	32,427,415,232	33,916,930,075
Debt securities issued, including retail saving certificates		1,911,606,586	1,911,606,586	2,463,167,692
Subordinated liabilities		596,596,220	596,596,220	575,394,236
Other financial liabilities		0	0	0
Derivatives used for hedge accounting	12	384,310,450	384,310,450	350,669,050
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	12	0	0	0
Provisions	22	4,607,191	5,106,206	6,067,641
Tax liabilities	19	32,757,280	16,615,477	12,434,938
Current tax liabilities		992,002	992,002	4,466,426
Deferred tax liabilities		31,765,278	15,623,475	7,968,512
Other liabilities	23	217,509,333	217,509,333	211,717,320
Total liabilities		35,654,603,852	35,638,961,064	37,545,384,955
Equity attributable to owners of the parent	3	1,971,512,441	1,925,146,998	2,015,156,419
Equity attributable to minority interest	3	43,643	43,643	107,148
Total equity		1,971,556,084	1,925,190,641	2,015,263,567
Total liabilities and equity		37,626,159,937	37,564,151,705	39,560,648,522

Consolidated income statement

	Disclosure	31/12/2017	31/12/2018
		IAS 39	IFRS 9
Total operating income		508,648,234	543,138,649
Net interest income	26	494,450,389	530,751,515
Interest income		837,526,294	812,427,411
Interest expenses		-343,075,905	-281,675,896
Dividend income	27	153,513	184,317
Net fee and commission income	28	-49,344,748	-46,497,082
Fee and commission income		111,887,107	122,861,718
Fee and commission expenses		-161,231,855	-169,358,800
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	29	18,810,068	5,156,520
Financial assets at fair value through other comprehensive income		18,810,068	3,763,157
Financial assets at amortised cost		0	1,393,362
Gains or losses on financial assets and liabilities held for trading	30	-1,253,896	-1,977,633
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	31	0	35,704
Gains or losses from hedge accounting	32	2,873,055	1,190,649
Gains and losses on derecognition of non-financial assets	33	43,023	189,783
Net other operating income	34	42,916,830	54,104,876
Other operating income		51,231,525	66,496,921
Other operating expenses		-8,314,695	-12,392,044
Administrative expenses	35	-313,575,786	-349,166,775
Staff expenses		-61,564,459	-67,459,323
Other administrative expenses		-252,011,328	-281,707,452
Depreciation	17	-23,726,415	-23,567,422
Property, plant and equipment	17	-5,222,925	-4,400,392
Investment properties	17	-35,783	-19,031
Other intangible assets	18	-18,467,707	-19,147,999
Provisions or reversal of provisions		9,337,951	-2,800,470
Impairments or reversal of impairments	36	6,533,616	2,884,708
Available-for-sale financial assets		163,237	0
Financial assets at amortised cost		0	2,971,796
Loans and receivables		6,370,380	0

	Disclosure	31/12/2017	31/12/2018
		IAS 39	IFRS 9
Financial assets (debt securities) at fair value through other comprehensive income		0	-87,089
Goodwill		0	0
Profit or loss from non-current assets classified as held for sale		565,005	0
Profit or loss before tax		187,782,605	170,488,690
Tax expense	37	-48,779,498	-40,513,939
Profit or loss after tax		139,003,107	129,974,751
Profit or loss attributable to owners of the parent		138,986,274	129,933,047
Profit or loss attributable to minority interests		16,832	41,704

Consolidated statement of comprehensive income

Overview of the total result	Disclosure	31/12/2017	31/12/2018
Profit or loss		139,003,107	129,974,751
Profit or loss attributable to owners of the parent		138,986,274	129,933,047
Profit or loss attributable to minority interests		16,832	41,704
Other comprehensive income (IAS 39)			
Items that will not be reclassified to profit or loss		-1,291,058	0
Actuarial gains or losses on defined benefit pension plans		-1,291,058	0
Items that may be reclassified to profit or loss		1,066,123	0
Available-for-sale financial assets		-1,972,585	0
Valuation gains or losses taken to equity		-17,434,281	0
Deferred taxes		15,461,696	0
Cash flow hedges		3,038,708	0
Valuation gains or losses taken to equity		4,051,611	0
Deferred taxes		-1,012,903	0
Other comprehensive income (IFRS 9)			
Items that will not be reclassified to profit or loss		0	1,580,244
Equity instruments at fair value through other comprehensive income		0	268,110
Valuation gains or losses taken to equity		0	357,480
Deferred taxes		0	-89,370
Actuarial results on liabilities under the defined benefits pension scheme		0	1,312,134
Items that may be reclassified to profit or loss		0	-33,055,125
Debt instruments at fair value through other comprehensive income	7	0	-35,845,686
Valuation gains or losses taken to equity		0	-44,526,062
Transferred to profit or loss		0	-3,763,157
Deferred taxes		0	12,443,533
Netto wijzigingen in kasstroomafdekkingsreserve		0	2,790,561
Valuation gains or losses taken to equity	11	0	4,335,880
Deferred taxes		0	-1,545,319
Total other comprehensive income		-224,935	-31,474,881
Total comprehensive income		138,778,172	98,499,870
Attributable to owners of the parent		138,761,340	98,458,166
Attributable to minority interests		16,832	41,704

Consolidated statement of changes in equity

	Accumulated other comprehensive income											
	Paid up capital	Share premium	Fair value changes of available-for-sale financial assets (IAS 39)	Fair value changes of debt instruments measured at fair value through other comprehensive income (IFRS 9)	Fair value changes of equity instruments measured at fair value through other comprehensive income (IFRS 9)	Cash flow hedges reserve	Actuarial gains or losses on defined benefit pension plans	Retained earnings	Profit or loss attributable to owners of the parent	Equity attributable to owners of the parent	Minority interests	Total equity
Equity position 31/12/2016	661,875,400	0	88,993,468	0	0	-13,979,775	0	914,300,338	190,010,420	1,841,199,851	60,527	1,841,260,378
- Capital increase	54,072,000	0	0	0	0	0	0	0	0	54,072,000	0	54,072,000
- Profit or loss of the year	0	0	0	0	0	0	0	138,986,274	138,986,274	138,986,274	16,832	139,003,106
- Dividends	0	0	0	0	0	0	0	-62,520,750	0	-62,520,750	0	-62,520,750
- Valuation gains or losses	0	0	-17,434,281	0	0	4,051,611	0	0	0	-13,382,670	0	-13,382,670
- Deferred taxes on valuation gains or losses	0	0	15,461,696	0	0	-1,012,903	0	0	0	14,448,793	0	14,448,793
- Other changes	0	0	0	0	0	0	-1,291,058	0	0	-1,291,058	-33,716	-1,324,774
- Transfer to retained earnings	0	0	0	0	0	0	0	190,010,420	-190,010,420	0	0	0
Equity position 31/12/2017	715,947,400	0	87,020,883	0	0	-10,941,067	-1,291,058	1,041,790,008	138,986,274	1,971,512,439	43,643	1,971,556,083
Impact first application IFRS 9	0	0	-87,020,883	48,805,489	968,315	0	0	-9,118,362	0	-46,365,441	0	-46,365,441
Equity position 01/01/2018	715,947,400	0	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	1,925,190,642
- Capital increase	54,072,000	0	0	0	0	0	0	0	0	54,072,000	0	54,072,000
- Profit or loss of the year	0	0	0	0	0	0	0	129,933,047	129,933,047	0	41,704	129,974,751
- Dividends	0	0	0	0	0	0	0	-62,520,750	0	-62,520,750	0	-62,520,750
- Valuation gains or losses	0	0	0	-44,526,062	357,480	4,335,880	0	0	0	-39,832,702	0	-39,832,702
- Transferred to profit or loss	0	0	0	-3,763,157	0	0	0	0	0	-3,763,157	0	-3,763,157
- Deferred taxes on valuation gains or losses	0	0	0	12,443,593	-89,370	-1,545,319	-437,378	0	0	10,371,466	0	10,371,466
- Other changes	0	0	0	0	0	0	1,749,512	4	0	1,749,516	21,801	1,771,317
- Transfer to retained earnings	0	0	0	0	0	0	0	138,986,274	-138,986,274	0	0	0
Equity position 31/12/2018	770,019,400	0	0	12,959,803	1,236,425	-8,150,506	21,076	1,109,137,174	129,933,047	2,015,156,418	107,148	2,015,263,566

Chapter 3, 4 and 29 provide further information on all changes to the various equity positions in the above table.

Consolidated cash flow statement

	31/12/2017	31/12/2018
Cash and cash equivalents at the start of the period	905,821,916	1,091,282,221
Operating activities		
Profit or loss of the year	139,003,107	129,974,751
Current and deferred tax expenses	48,779,498	40,513,939
Depreciation	23,726,415	23,567,422
Provisions or reversal of provisions	-9,337,951	2,800,470
Gains and losses on derecognition of non-financial assets	-43,023	-189,783
Impairments or reversal of impairments	-7,098,622	-2,884,708
Changes in assets and liabilities concerning hedge accounting	-35,853,022	-72,879,832
Other adjustments (including interest expenses financing activities)	23,131,423	23,844,692
Cash flows from operating profits before changes in operating assets and liabilities	182,307,826	144,746,951
Changes in operating assets (except cash and cash equivalents)		
Changes in financial assets held for trading	-2,149,797	1,443,969
Changes in loans and receivables	-1,109,462,382	0
Changes in available-for-sale financial assets	-223,310,918	0
Changes in held-to-maturity financial assets	-37,138,410	0
Changes in financial assets at amortised cost	0	-1,868,753,061
Changes in financial assets at fair value through other comprehensive income	0	-93,931,022
Changes in financial assets at fair value through profit or loss	0	42,127,233
Changes in other assets	-53,388,544	19,018,686
Changes in operating liabilities (except cash and cash equivalents)		
Changes in deposits from central banks	0	0
Changes in deposits from credit institutions	75,003,608	-71,462,907
Changes in deposits from other than credit institutions	812,132,274	1,489,514,842
Changes in debt securities issued, including retail saving certificates	-492,524,358	-282,595,887
Changes in financial liabilities held for trading	3,403,689	665,349
Changes in other liabilities	8,971,465	-9,972,551
Changes in working capital, net	-1,018,463,373	-773,945,349
Cash flow from operational activities	182,307,826	144,746,951
(Paid) Refunded income taxes	-65,284,823	-44,694,478
Net cash flow from operating activities	-901,440,370	-673,892,875

	31/12/2017	31/12/2018
Investing activities		
(Cash payments to acquire property, plant and equipment)	-6,040,854	-6,641,691
Cash proceeds from disposal of property, plant and equipment	1,057,913	932,410
Cash proceeds for sale of available-for-sale financial assets	18,810,300	0
(Cash payments to acquire intangible assets)	-25,141,246	-18,814,526
Cash proceeds from disposal of intangible assets	199	442
Changes concerning consolidated companies	0	0
Net cash flow from operating activities	-11,313,688	-24,523,365
Financing activities		
(Paid dividends)	-62,520,750	-62,520,750
Cash proceeds from the issuing of subordinated liabilities	0	0
(Cash repayments of subordinated liabilities)	-63,867,780	-21,201,984
Cash proceeds from the issuing of debt securities	1,213,080,000	1,134,100,000
(Cash repayments of issued debt securities)	-19,433,092	-299,943,007
Interest paid	-23,116,015	-23,745,095
Cash proceeds from a capital increase	54,072,000	54,072,000
Net cash flow from financing activities	1,098,214,363	780,761,164
Cash and cash equivalents at the end of the period	1,091,282,221	1,173,627,145
Components of cash and cash equivalents		
Cash in hand	49,278,157	57,705,277
Cash balances at authorised agents	12,623,026	12,519,129
Cash balances with central banks	0	30,000,000
Central bank reserves	949,284,468	935,710,220
Current accounts at other financial institutions	57,810,570	104,205,452
Other advances	22,286,000	33,487,068
Total cash and cash equivalents at the end of the period	1,091,282,221	1,173,627,145
Cash flow from operating activities		
Received interest income	837,526,294	812,427,411
Dividends received	153,513	184,317
Paid interest expenses	-319,959,890	-281,675,896
Cash flow from financing activities		
Paid interest expenses	-23,116,015	-23,745,095

For the preparation of the 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, central banks reserves and cash balances at central banks can be found under the balance sheet item 'cash, cash balances at central banks and other demand deposits'.

The amount of the 'other advances' can be found in the balance sheet item 'loans and receivables from credit institutions' as at 31/12/2017 and is included under 'financial assets at amortised cost' as at 31/12/2018. This relates to paid (collateral) advances to financial institutions.

Cash flows from operating and financing activities

Further interpretation can be found in Chapter 26 on interest amounts received and paid, and in Chapter 27 on dividends received.

Notes

1. General information

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 having made a public call for savings. The Company has been established for an unlimited term.

The Company's registered office is at Belgiëlei 49-53, 2018 Antwerp.

The Company has the status of a Belgian credit institution. The Company's core activities consist of attracting funds, offering housing loans to individuals and providing means of payment. In addition, the Company offers units of Argenta funds and of other local and foreign undertakings for collective investment and structured notes of third parties.

Argenta Bank- en Verzekeringsgroep nv (hereafter referred to as *BVg*) is the holding company of the Argenta Group. Its operations consist of Internal Audit, Compliance, Risk & Validation, Legal Affairs, Organisation & Talent, Non-Financial Risk Management & Supervisory Office and Procurement & Facilities. These activities are organised centrally for all Argenta Group companies.

The four independent control functions Internal Audit, Compliance, Risk Management and Actuarial (externally outsourced) are managed by BVg.

BVg has the status of a mixed financial holding company, a parent company which is not a regulated company and which is at the head of a financial conglomerate pursuant to Art. 3, 39° of the Banking Act. BVg consolidates and is responsible for the joint control of its subsidiaries Argenta Spaarbank, a Belgian credit institution, and Argenta Assuranties, a Belgian insurance company (together with its subsidiaries and branches referred to below as *Argenta* or *Argenta Group*).

The Company, together with its branch office in the Netherlands and its subsidiaries Argenta Asset Management (hereinafter *AAM*) and Arvestar Asset Management, forms the BVg group bankpool. The Company offers banking products tailored to individuals and families.

On 30 July 2018, a new entity, Arvestar, was established in the Argenta Group. This is a management company under Belgian law and a joint venture between Argenta Asset Management and Degroof Petercam Asset Management. Arvestar is established as a subsidiary of AAM, where the asset management activities within Argenta are centralised. For years, Argenta has outsourced the management of its Arpe and Arpe Defensive pension savings funds to Degroof Petercam Asset Management ("DPAM"). Given the now substantial volume of these funds, the partners felt it was necessary to set up a separate control structure.

Argenta Assuranties has a branch office in the Netherlands and together with it, it forms the insurance pool of the BVg group.

The bankpool mainly focuses on the following activities: attracting funds in the retail market in the form of savings and term accounts, offering investment funds, attracting funds in the wholesale market in the form of debt securities, offering payment transactions via current accounts and reinvesting the collected funds in mortgage loans. In addition, lending to local governments has also been developed. This activity helps anchor the Company's local presence. It also represents a diversification of assets. A second core activity is offering units in undertakings for collective investment (UCIs).

All shareholdings in Argenta are (quasi) 100% shareholdings, so that no (other than purely formal) minority interests are reported. The only exception to this is the management company Arvestar, in which AAM holds a majority stake of 74.99%.

The subsidiaries and branch offices of the Company

Argenta Asset Management (AAM) is a management company that specialises in the management of the collective investment funds of the Argenta Group. AAM itself also has a subsidiary, namely Arvestar.

The Company’s banking activities in the Netherlands are organised in a branch office of the Company, rather than in a subsidiary. This has since April 2006 been responsible for mortgage production in the Netherlands. This branch office offers its mortgages through independent consultants and, since 2017, online. The branch office also offers savings and term accounts online.

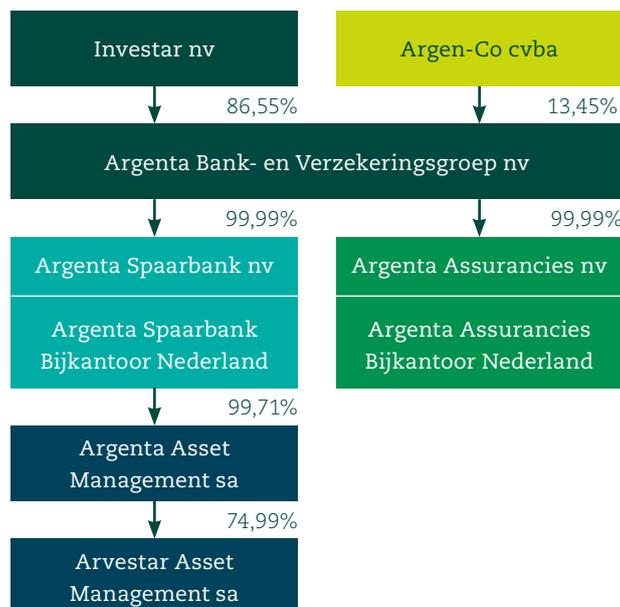
In order to increase control of the mortgage portfolio and to make the ICT infrastructure less complex, management has been centralised at service provider Quion.

Securitisation transactions were carried out in October 2017 and June 2018. In these transactions, Dutch loans were sold to separate SPV Green Apple entities, which then issued notes to finance these purchases.

Although there is no capital link with the Company, the SPV Green Apple entities are consolidated because not all risks and income of the assets have been transferred. In this way, the loans transferred are reflected in the balance sheet of the bankpool.

The insurance activities in the Netherlands are organised in a branch office of the Company, rather than in a subsidiary. In 2018, the active sale of ORV (simple term life insurance) and SHV (savings mortgage insurance) was stopped.

The presentation below gives an overview of the global structure of the Argenta Group and operational bankpool and insurance pool.



In accordance with IFRS, the entities below are included in the consolidated Bank Pool.

	%	31/12/2017	31/12/2018
Argenta Spaarbank nv		consolidating entity	consolidating entity
Argenta Asset Management (AAM)	99.71%	full consolidation	full consolidation
Arvestar	74.99%	-	full consolidation
Green Apple 2017 bv (SPV)	0.00%	full consolidation	full consolidation
Green Apple 2018 bv (SPV)	0.00%	-	full consolidation

Note on the number of personnel

In financial year 2018, the average number of employees in the bankpool as a whole amounted to 824.6 (774.6 in 2017). The above figures give the average number of employees. Service agreements exist between the companies in the group. Most of these services are mainly supplied from the bankpool.

The numbers of staff members given are those who are effectively on the payroll registers of the companies concerned.

A breakdown of personnel expenses for the year can be found in the notes on the income statement.

2. Financial reporting principles

The Belgian Royal Decree of 5 December 2004, amending the Royal Decree of 23 September on the consolidated financial statements of credit institutions (hereinafter referred to as the Royal Decree of 5 December 2004), introduced the requirement for credit institutions to prepare their consolidated financial statements in accordance with IFRS with effect from 1 January 2006.

General

In accordance with the stipulations of the Royal Decree, the Company's consolidated financial statements are prepared in accordance with the IFRS standards - including the International Accounting Standards (IAS) and interpretations - as of 31 December 2018, as accepted by the European Union.

Accounting principles that are not mentioned specifically in these financial statements correspond with IFRS as accepted by the European Union.

Estimates and key sources of estimation uncertainty

The preparation of financial statements on the basis of IFRS requires a number of accounting estimates. Furthermore, management was asked to provide its assessment during the process of applying these accounting principles. Actual results may differ from these accounting estimates and assumptions.

Accounting estimates are made principally in the following areas:

- accounting estimate of the recoverable amount of impairments;
- assessment of the fair value of unlisted financial instruments;
- assessment of the expected useful life of tangible and intangible assets;
- accounting estimate of the existing liabilities resulting from past events in the recognition of provisions.

Assumptions are made principally in the following areas:

- classification of financial instruments;
- level of hierarchical attribution of financial instruments;
- existence of active markets for financial instruments;
- existence of loss events and impairment triggers;
- existence of obligations resulting from past events (provisions);
- existence of control over companies.

Management considers the likelihood of having to make material adjustments to the assets and liabilities as a result of the estimates and assessments to be small.

2.1. Changes in accounting policies

The accounting policies used for preparing these 2018 consolidated financial statements are consistent with those applied as of 31 December 2017.

The following standards and interpretations came into application during 2018:

- Amendment of IAS 40 Transfer of investment properties;
- Amendment of IFRS 2 Classification and measurement of share-based payments;
- Amendment to IFRS 4 Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- Annual improvements to IFRS, 2014-2016 cycle: Amendments to IFRS 1, IFRS 12 and IAS 28;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRS 9 Financial instruments and subsequent adjustments;
- IFRS 15 Revenue from contracts with customers.

The application of the new IFRS 9 standard had an impact on the opening balance sheet (reserves and therefore equity) and the presentation of the financial statements. This is explained in the section “Implementation and impact of the IFRS 9 standard”. The other new provisions had no material impact on the Company’s final results for the 2018 financial year or on its equity or on the presentation of its financial statements.

Standards and Interpretations published but not yet effective for the annual period commencing on 01 January 2018:

- Amendments to IAS 1 and IAS 8: Definition of Material (effective for annual periods commencing on or after 1 January 2020, but not yet adopted in the European Union)
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective for annual periods commencing on or after 1 January 2019, but not yet adopted in the European Union)
- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures (applicable for annual periods beginning on or after 1 January 2019)
- Amendments to IFRS 3 Business Combinations (effective for annual periods beginning on or after 1 January 2020, but not yet approved by the European Union)
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation (effective for annual periods commencing on or after 1 January 2019)
- Amendments to IFRS 10 and IAS 28 - Sale or transfer of assets between an investor and the associated participation or joint venture (effective date postponed for an indefinite period, and for this reason also not yet adopted in the European Union)
- Amendments to the references to the IASB’s Conceptual Framework for Financial Reporting (effective for annual periods commencing on or after 1 January 2020, but not yet adopted in the European Union)
- Annual improvements to IFRS (2015-2017) (effective for annual periods beginning on or after 01 January 2019, but not yet approved by the European Union)
- IFRIC 23 Uncertainty over Income Tax Treatments (applicable to annual accounting periods beginning on or after 1 January 2019);
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods commencing on or after 1 January 2016, but not yet adopted in the European Union)
- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)
- IFRS 17 Insurance Contracts (effective for annual periods commencing on or after 1 January 2021, but not yet adopted in the European Union)

The Company will implement all the aforementioned standards, amendments and interpretations when they come into force. It does not expect them to have a material impact.

For IFRS 16 Leases, a project was completed in 2018 to embed the standard in the Argenta Group. The Company only acts as a lessee in lease agreements that qualify as operational leasing. The material lease agreements concern the office buildings for own use, buildings that are rented by the Company and sublet to the tied agents (branch managers), and company cars.

The application of IFRS 16 will give rise to the recognition of a lease obligation and a right-to-use asset of EUR 24.3 million (according to the modified retrospective approach for operational leasing). The non-material lease agreements have a lease term of 12 months or less, or concern an underlying asset with a low value (less than EUR 5,000) for which the Company applies the exemption provided for in IFRS 16. In this way there is no accounting impact for these lease agreements.

2.2. Implementation and impact of IFRS 9

IFRS 9 ‘Financial Instruments’ replaces IAS 39 and imposes new obligations for (a) the classification and measurement of financial instruments and (b) risk estimation and the creation of impairments and (c) adjustments in hedge accounting. The IFRS standard applies as from 1 January 2018 and the adjustments are incorporated into the opening balance sheet and equity on 1 January 2018 (without the compilation of comparative figures).

	IAS 39 classification										Impact IFRS 9 on equity as at 01/01/2018			
	Debt securities					Equity instruments					Retained earnings		Accumulated other comprehensive income	
	Loans and receivables	Held-to-maturity financial assets	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss	Financial assets held for trading	Available-for-sale financial assets	Financial assets designated at fair value through profit or loss	Financial assets held for trading	Provisions on commitments and guarantees given	Total	Gross	Net	Gross	Net
Financial assets 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 application as at 01/01/2018														
Financial assets at amortised cost	27,647,852,641	462,718,329	3,994,850,914	0	0	0	0	0	0	32,105,421,884				
Allocated from IAS 39	27,653,419,775	462,780,202	4,053,227,658	0	0	0	0	0	0	32,169,427,635				
Reclassification fair value changes	2,645,491	0	-56,761,111	0	0	0	0	0	0	-54,115,620				
Impact ECL impairment model	-8,212,626	-61,873	-1,615,633	0	0	0	0	0	0	-9,890,131	-9,890,131	-7,410,775	-54,115,620	-40,078,546
<i>Reversal specific impairments</i>	0	0	0	0	0	0	0	0	0	0				
<i>Reversal collective (IBNR) impairments</i>	6,240,696	0	0	0	0	0	0	0	0	6,240,696				
<i>Inclusion ECL impairments</i>	-14,453,322	-61,873	-1,615,633	0	0	0	0	0	0	-16,130,827				
Financial assets at fair value through other comprehensive income	0	0	3,741,969,303	0	0	6,958,504	0	0	0	3,748,927,807				
Allocated from IAS 39	0	0	3,741,969,303	0	0	6,958,504	0	0	0	3,748,927,807				
Reclassification fair value changes	0	0	499,373	0	0	0	0	0	0	499,373	499,373	-364,864	499,373	364,864
Impact ECL impairment model	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 collective (IBNR) impairments</i>	0	0	0	0	0	0	0	0	0	0				
<i>Inclusion ECL impairments</i>	0	0	-499,373	0	0	0	0	0	0	-499,373				
Non-trading 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				
Allocated from IAS 39	6,305,543	0	98,386,320	0	0	0	0	0	0	104,691,863				
Reclassification fair value changes	2,373,804	0	914,999	0	0	0	0	0	0	3,288,804	3,288,804		3,288,804	2,466,603
Fair value through profit or loss	-376,285	0	-920,362	0	0	0	0	0	0	-1,296,647	-1,296,647	-972,485		
Reversal specific impairments	0	0	5,363	0	0	0	0	0	0	5,363	5,363	4,022		
Financial assets designated at fair value through profit or loss	0	0	0	0	0	0	0	0	0	0				
Allocated from IAS 39	0	0	0	0	0	0	0	0	0	0				
Reclassification fair value changes	0	0	0	0	0	0	0	0	0	0				
Fair value through profit or loss	0	0	0	0	0	0	0	0	0	0				
Reversal specific impairments	0	0	0	0	0	0	0	0	0	0				
Financial assets 01/01/2018 (IFRS 9)	27,656,155,703	462,718,329	7,835,206,537	0	0	6,958,504	0	0	0	35,961,039,074				
Provisions 01/01/2018 (IFRS 9)	0	0	0	0	0	0	0	0	0	-499,015	-499,015	-374,261		
Impact on retained earnings													-12,179,803	-9,118,363
Impact on accumulated other comprehensive income													-50,327,443	-37,247,079

Classification and valuation

In order to arrive at a correct classification and measurement of financial instruments, the prescribed two steps are applied here:

1. The BM (Business Model) test was used to determine how a portfolio of financial instruments is managed in its entirety.
2. The SPPI (Solely Payments of Principal and Interest) tests were performed to determine the characteristics of the contractual cash flows of financial instruments.

This entire process for arriving at a correct classification and measurement was described in the applicable policy documents.

Impairments

The most important amendment to the IFRS 9 standard relates to the creation of impairments. Each entity is now required to record impairments for ECL (Expected Credit Losses) based on a three-stage approach, whereas IAS 39 still used an incurred loss model.

The ECL model applies to financial assets recognised at amortised cost or to debt instruments recognised at Fair Value through Other Comprehensive Income ("FVOCI").

The definition of ECL depends on, among other things, the size of the 'significant increase' of the credit risk since initial recognition. During the implementation process, the concepts and assumptions essential for the new impairment model, such as a definition of 'significant deterioration', were determined and then applied in a consistent manner.

Hedge accounting

With regard to hedge accounting, the Company continued (in conformity with the accounting policy option that exists in IFRS 9) to apply the IAS 39 principles for the "portfolio fair value hedge of interest rate risk" (macro hedge) and the IAS 39 principles for the micro hedges.

Impact of IFRS 9 on the Company

The impact of the IFRS 9 standard can be found in the opening balance sheet for 2018. The "Other Comprehensive Income (OCI)" in shareholders' equity has decreased by EUR 37,247,079 owing to the transfer of part of the AFS (available-for-sale) portfolio to an "amortised cost" classification.

In addition, there was a EUR 9,118,362 decrease in reserves consisting of (a) the impact of the stage 1/stage 2 impairments amounting to EUR 8,149,900 and (b) the impact of the recognition of EUR 968,462 of financial instruments at market value.

The table below provides an overview of the transition from IAS 39 to IFRS 9. The Company did not, at 31/12/2017, hold any instruments under IAS 39 that were measured at fair value through the income statement.

2.3. Accounting policies – accounting rules

The Company has not produced any comparative figures under IFRS 9 for 31/12/2017. For the valuation rules used for 31/12/2017 we refer to the 2017 annual report under Chapter 2.2. 'Accounting Policies - Valuation rules'.

Consolidation principles

The consolidated financial statements include those of the Company and its subsidiaries. Subsidiaries are those companies in which the Company, directly or indirectly, has the power to govern the entity's financial and operational policies in order to obtain benefits from these activities (hereinafter referred to as Control).

Subsidiaries are consolidated from the date on which effective control is transferred to the Company and are no longer consolidated from the date on which that control ceases.

The subsidiaries are consolidated using the full consolidation method.

This method implies the subsidiary's shares held by the Company being replaced in the Company's balance sheet by this subsidiary's assets and liabilities.

Intercompany transactions, balances and results on transactions between Argenta Group companies are eliminated.

Minority interests in the net assets and net results of consolidated subsidiaries are shown separately in the balance sheet and income statement.

These non-controlling interests are measured at the fair value of the net asset on the date of acquisition. Subsequent to the date of acquisition, non-controlling interests comprise the amount calculated at the date of acquisition and the non-controlling interest's share of changes in equity since the date of acquisition.

Before proceeding with the consolidation of the individual financial statements, the rules applying to the measurement of the assets and liabilities components were harmonised on the basis of the accounting rules applicable to the Company.

Because all companies recognised in the Company's consolidated financial statements close their financial years on 31 December this date is also taken as the year-end closing date for the consolidation.

Operating segments

Operating segments are identified on the basis of existing reporting structures. This segmentation corresponds to the internal reporting and the segmentation used in the past.

Foreign currencies

The consolidated financial statements are stated in euros, which is the functional currency of all Argenta Group entities. Foreign currency transactions are stated at the exchange rate applicable on the date of the transaction.

On the balance sheet date, outstanding balances in foreign currencies, are translated at the year-end closing exchange rates for monetary items.

Non-monetary items, that are carried at historical cost, are translated using the historical exchange rate that applied at the date of the transaction.

Non-monetary items that are carried at fair value are translated using the exchange rate on the date that the fair values were determined.

Transaction date and settlement date accounting

Financial assets and liabilities are recognised on the balance sheet at the time the Company becomes a party to the contractual provisions of the instruments.

Purchases and sales of financial assets settled by cash transactions according to standard market convention, are taken into the Company's balance sheet on the settlement date.

Netting

Financial assets and liabilities are netted and the net amount is recognised on the balance sheet when (a) there is a legally enforceable right to net the recognised amounts and (b) there is an intention to settle the obligation on a net basis, or realise the asset and settle the liability simultaneously.

Assets are recognised after deduction of any impairments.

Financial assets and liabilities

All financial assets and liabilities – including derivatives – are recognised according to the IFRS classification system.

For financial assets, the IFRS 9 standard determines how the financial instruments should be measured. The valuation of financial instruments depends on a number of factors, namely

- 1) type of financial instrument (debt securities, derivatives, equity instruments)
- 2) the Business Model (BM test)
- 3) the characteristics of the contractual cash flows (SPPI test)
- 4) options that can be applied.

The classification and measurement of the financial instruments is then determined on the basis of the combination of these factors.

Business Models (BM)

In the first instance, the intended BM for the debt instruments had to be determined. For this there are two broad categories, namely:

- the Hold To Collect (HTC) at 31/12/2017, where financial instruments are held with a view to receiving the cash flows.
- the Hold To Collect & Sell (HTC&S), where financial instruments are held both with a view to receiving the cash flows and to (sporadically) selling them.

The financial instruments were allocated internally at Argenta to specific portfolios, each falling under one of the two business models (BM). Any purchased financial instruments not falling under either BM must be measured at FVTPL (Fair Value through P&L).

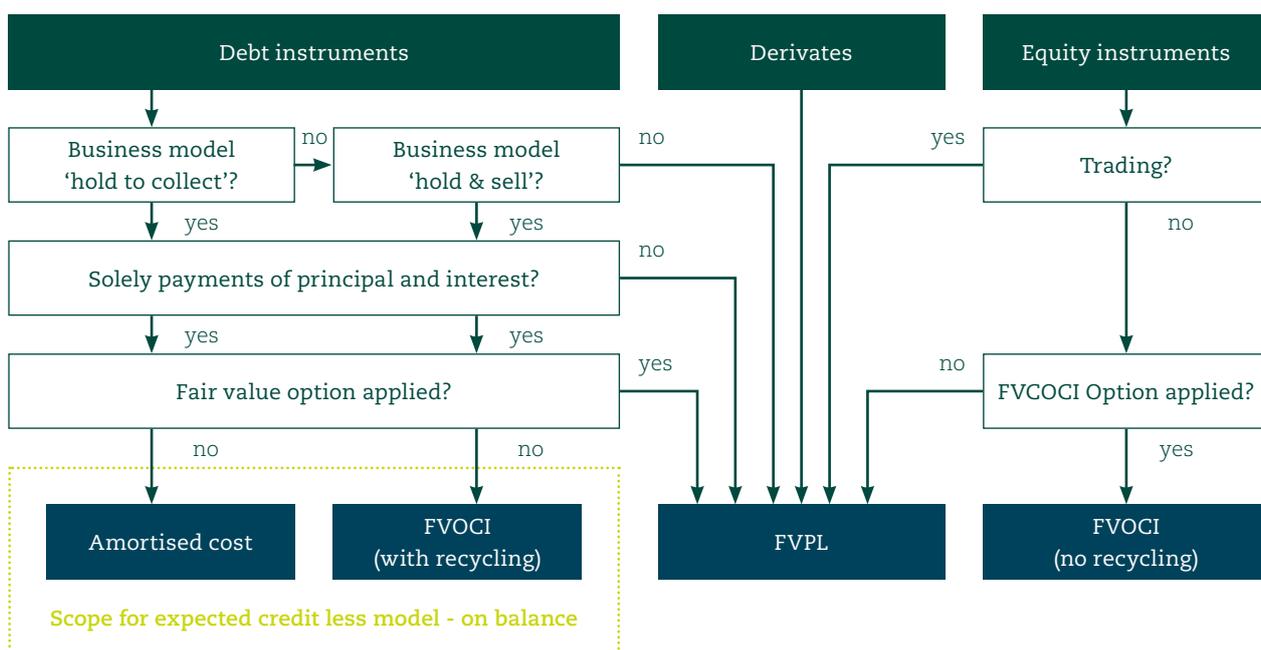
Solely Payments of Principal and Interest (SPPI)

Afterwards - for determining of the classification and valuation - an SPPI test is performed to determine whether only ordinary interest and capital repayments are made on a financial instrument. Where this is not the case, the effect will have to be measured at FVTPL (Fair Value through P&L).

Fair value option

In this way, instruments that fail to fulfil the BM test and the SPPI test are measured at FVTPL. In the other cases, Argenta may opt to designate certain financial assets as stated at fair value through profit and loss (FVTPL) where there is an accounting mismatch. The derivatives do not meet the SPPI test and are always measured according to FVTPL.

In the overview below, the combination of the “instrument type” factors (debt securities, derivatives and equity instruments), BM test, SPPI test and “possible options” is presented in a schematic fashion.



The following classifications exist for financial assets: (a) financial assets at amortised cost (b) financial assets at fair value through other comprehensive income and (c) financial assets at fair value through profit or loss.

(a) Financial assets at amortised cost (AC)

The financial instruments (excluding derivatives instruments and equity instruments) that belong to a portfolio with a BM HTC and pass the SPPI test are measured at amortised cost.

These are measured on acquisition at fair value, including transaction costs, and subsequently measured at amortised cost using the effective interest method, with the regular amortisation recognised in the income statement.

Where necessary, impairments are recorded for these instruments (see Chapter 10).

(b) Financial assets at fair value through other comprehensive income (FVTOCI)

The financial instruments (excluding derivatives instruments and equity instruments) that belong to a portfolio with a BM HTC&S and pass the SPPI test are measured at FVTOCI.

These assets are measured at fair value, with all fair value changes being recognised on a separate line in equity until the assets are sold.

For the investments in instruments other than equity instruments, the difference between the acquisition price and the redemption value based on the effective interest method is taken into the income statement pro rata temporis over the securities' residual term to maturity as a component of the interest income from these securities.

The variations in fair value of these securities, which are recognised on a separate line in equity, are obtained by calculating the changes between (a) their acquisition price, plus or minus the portion of the above difference mentioned that is taken into income, and (b) the fair value.

Where necessary, impairments are recorded for these instruments (see Chapter 10).

Shares that do not belong to a trading portfolio and for which the FVTOCI option is exercised are also measured at FVTOCI. The difference with respect to the previous category is that there is "no recycling" of the realised values. Realised gains and losses are recognised from OCI transferred to retained earnings.

No impairments need to be recognised for these shares, but at the same time realised capital gains and capital gains can no longer be processed through the P&L. These are processed directly through equity.

(c) Financial assets designated at fair value through profit or loss (FVPL) include:

- financial assets held for trading, including derivative instruments that are not designated as effective hedging instruments;
- financial assets that are designated on acquisition or first-time adoption of IFRS as held at fair value through profit or loss.

There is a further distinction here between the "Non-trading Financial assets mandatorily at fair value through profit or loss" and the "Financial assets designated at fair value through profit or loss".

These are measured on acquisition at fair value, excluding transaction costs, and subsequently at fair value through profit or loss.

All derivatives with a positive fair value are considered by Aspa as assets held for trading unless designated as effective hedging instruments.

Financial liabilities are classified as either (a) financial liabilities designated at fair value through profit or loss or (b) other financial liabilities at amortised cost.

This IFRS classification determines the measurement and recognition in the income statement as follows:

(a) Financial liabilities designated at fair value through profit or loss include:

- financial liabilities held for trading, including derivative instruments that are not designated as effective hedging instruments;
- financial liabilities that are designated at initial recognition or first-time adoption of IFRS as held at fair value through profit or loss.

These are measured on acquisition at fair value, excluding transaction costs, and subsequently at fair value through profit or loss.

All derivatives with a negative fair value are considered by Aspa as liabilities held for trading, unless designated as effective hedging instruments.

(b) Other financial liabilities: these are all other non-derivative financial liabilities that did not fall under the previous category.

These are measured on acquisition at fair value, including transaction costs, and subsequently measured at amortised cost using the effective interest method, with the regular amortisation recognised in the income statement.

Income and expenses arising from financial instruments measured at amortised cost and from fixed income securities classified in the financial assets at fair value through Other Comprehensive Income (FVTOCI) are recognised in the income statement using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash flows (including paid and received commissions and fees that are an integral part of the effective interest rate, along with transaction costs and all other premiums or discounts) over the expected life of the debt instrument, or, if more appropriate, a shorter period, in order to arrive at the net carrying amount of the asset or liability in the balance sheet.

The method used to recognise service-related commission income and expenses depends on the nature of the service. Commissions which are treated as an additional component of interest are included in the effective interest rate and recognised under net interest income. Paid and received commissions for which the underlying transaction is completed, are recognised in the commission income and expenses.

Cash and cash equivalents

'Cash', as used in the cash flow statement, includes cash and demand deposits. 'Cash equivalents' are short-term, highly liquid investments that can be immediately converted into cash in a known amount and that do not involve a material risk of a change in value.

Tangible assets

Property, plant and equipment

All property, plant and equipment is recorded at cost (i.e. acquisition value including directly allocable acquisition costs), less accumulated depreciation and any impairments.

The depreciation rates are determined on the basis of the anticipated useful life of the assets and are applied according to the straight-line method from when the assets are available for use.

When property, plant or equipment is sold, the realised gains or losses are recognised immediately in the result for the financial year.

Land and buildings

The purchase price and purchase costs of land are not depreciated, regardless of whether the site has been developed or not. Upon purchase of a developed site, the values of the land and of the building are calculated, and the transaction costs divided on a pro rata basis between the land and the building.

The building is depreciated over its estimated useful life, i.e. at a rate of 3% per annum on a monthly basis.

The purchase price and purchase costs of renovations are depreciated at 10% per annum on a monthly basis.

The purchase price and purchase costs of the interior finishings of rented buildings are depreciated over the term of the rental contract.

IT

The purchase price and purchase costs of hardware are depreciated at 33.33% per annum on a monthly basis.

Other equipment (including vehicles)

The purchase price and purchase costs of furnishings and equipment are depreciated at 10% per annum on a pro rata basis.

The purchase price and purchase costs of vehicles are depreciated at 25% per annum on a pro rata basis.

Investment properties

Investment properties are those properties held to earn rental income or for capital appreciation or for both. The accounting rules outlined for property, plant and equipment apply also to investment property (application of the cost price model).

Goodwill and intangible assets

Goodwill

Goodwill is defined as the portion of the cost of the acquisition of a business combination that exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired. It is calculated as of the date of acquisition.

It is recognised as a non-current intangible asset and is carried at acquisition cost less any impairment. Goodwill is not amortised, but is tested at least once a year for impairment.

Intangible assets

An intangible asset is an identifiable non-monetary asset with no physical form. It is recognised at cost if and only if it will generate future economic benefits and if the cost of the asset can be measured reliably.

If the capitalisation criteria are met, acquired software is recognised at acquisition cost under intangible assets. The acquisition price and acquisition cost are amortised according to the straight-line method from the moment that the software is available for use.

The purchase price and purchase costs of acquired software are amortised at 20% per annum on a pro rata basis.

Other intangible assets are amortised at 10% per annum.

Impairments

The Company tests all its assets, except for assets recognised at fair value through profit and loss, 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 recorded impairments on assets has decreased owing to an event occurring after the recognition of the impairment, the amount in question is reversed via profit or loss except for impairments recorded on goodwill or equity instruments at fair value through other comprehensive income which are not reversed.

Financial assets

An impairment loss for a financial asset will be recognised when the asset is more than 90 days past due (in interest and/or capital), or where repayment is unlikely. These assets are transferred directly to stage 3 (non-performing) and receive a "default" status. The impairment takes into account the expected recoverable amount.

Depending on the type of financial asset, the recoverable amount can be estimated as follows:

- the fair value using an observable market price;
- the present value of expected future cash flows discounted at the financial asset's original effective interest rate; or
- on the basis of the fair value of the collateral obtained.

Objective indicators used by the Company for consider setting up an impairment include (i) significant financial difficulties of the issuer/debtor, (ii) payment arrears, (iii) the likelihood that the issuer/debtor could be declared bankrupt or be subject to financial restructuring, (iv) renegotiation of the terms of the asset due to financial difficulties of the issuer/debtor including any concessions, (v) the disappearance of an active market for a financial asset as a result of financial difficulties, (vi) changes in the credit rating, and (vii) observable events that will negatively affect the future cash flows of a financial asset.

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 has to be recorded. An impairment loss will be considered if the objective data show that one or more events are likely to negatively affect the future cash flows of a financial asset.

Also taken into account, in addition to the above indicators, are other market information about the liquidity and solvency of the issuer/debtor, the trends for similar financial assets, and local economic trends and conditions.

Specific measurement rules for mortgage loans, investment loans, and consumer loans

The asset is deemed to be in default if either the payment arrears are greater than the sum of three monthly instalments or, where another repayment frequency applies, when the payment arrears amount to more than three months, both in capital and in interest. This also applies to an outstanding claim at maturity exceeding EUR 25, or if available indicators show the claim to be possibly wholly or partially irrecoverable ('unlikely to pay').

The list of mortgage loans, investment loans, consumer loans in default status is produced on a monthly basis.

For all mortgage loans, investment loans, and consumer loans in default status, the necessary information is collected for measurement. The outstanding portion is reduced, in the case of mortgage loans, by the forced sale value of the mortgage property, and/or the forced sale value of the movable assets, including including pledged securities, accounts, life insurance (Branch 23) and funds.

For mortgage loans granted in the Netherlands the following elements are taken into account in calculating the valuation: the forced sale value of the mortgage property; the surrender value of life insurance; the value of the investment account; the total value at the end of the month of the building deposit; the total value at the end of the month of the savings deposit.

If a mortgage loan granted in the Netherlands has been concluded with an NHG guarantee, the calculation of the value for this loan takes into account the annuity decrease in the NHG guarantee, and with a 10% own loss for loans concluded as from 2014 onwards. Where the measurement as described above leads to a residual debt, an impairment loss will be recognised to the extent of the remaining debt.

If, however, the mortgage loan granted in the Netherlands is covered by an NHG guarantee, the impairment will not exceed the amount of the annuity reduction in the guarantee amounts, taking into account, where appropriate, the 10% own loss.

For all mortgage loans, investment loans and consumer loans in default status, the monthly measurements take place fully automatically. This can give rise to an upward or downward value adjustment.

All imputed interest, penalties and costs are taken through the income statement, given that the individual value adjustment takes this into account.

Where it is determined that the mortgage loan, investment loan or consumer loan is uncollectible, the impairment amount is applied against it.

A loan is uncollectible where the following conditions are met: (a) all possible procedures have been conducted and/or the necessary legal costs outweigh the possible recoverable benefits, all guarantees have been applied and/or legal costs of exercising the guarantee are disproportionate to the potential benefits; (b) based on the available data, no further remedies exist against the borrowers and no recovery of any size is expected in the future, (c) after the calling of the guarantees, the incoming payments (both payment settlements and/or payments of salary or other attachments) do not guarantee the full repayment of the debt in the short term (<1 year).

The above rules do not have to be cumulatively fulfilled, but may each on its own be reason to deem the loan to be uncollectible.

Specific measurement rules for non-mortgage credit lines and overdrafts on giro, golden, internet and brokers accounts.

Non-mortgage credit lines and giro, golden, internet and brokers' accounts are in default when scheduled (re)payments are more than 3 months in arrears or the account has been overdrawn continuously for more than 3 months or where other indicators point to an 'unlikely to pay' situation.

The indicators that can give rise to a default status are the same as for mortgage loans, investment loans, instalment sales and instalment loans.

The provisions relating to measurement, the charging of impairment losses, periodicity, taking through the income statement of interest, penalties and costs, and writing off are the same as for mortgage loans, investment loans, instalment sales and instalment loans.

Loans and receivables - expected credit losses

In addition to the individual impairments, expected credit losses are also recognised in the form of stage 1 and stage 2 impairment amounts.

The stage 1 and stage 2 impairments are recorded for all investment portfolios and credit portfolios that are not recognised at market value through the income statement.

This is a "forward-looking expected loss model" (IFRS 9) with a stage allocation based on a "significant increase" in credit risk (SICR) compared to the initial recognition of the financial instrument.

There are three stages of impairments:

- stage 1 'performing': no significant increase => Expected Credit Loss (ECL) based on 12 month PD (probability of default)
- stage 2 'underperforming': significant increase => ECL based on LT (life time) PD
- stage 3 'non-performing': significant increase => individual calculation (as included under item 10.1.2)

The individual impairments correspond to the IFRS 9 stage 3 calculations.

The forward-looking expected credit loss determination includes the projections of the most relevant macroeconomic variables. Both quantitative and qualitative triggers are included in determining the significant increase in credit risk. Further information can be found in Chapter 5.3.

Commitments and guarantees given - expected credit losses

For commitments and guarantees given, expected credit losses are also recognised in the form of stage 1 and stage 2 impairments. The methodology used is similar to that for Loans and Receivables. Further information can be found in Chapter 5.3.

Other assets

For non-financial assets, the recoverable amount is defined as the higher of fair value less cost to sell and value in use.

Fair value less cost to sell is the amount obtainable from the sale of an asset in an at arm's-length transaction between knowledgeable, willing parties, after deduction of selling costs.

The value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Annual goodwill impairment test

Goodwill is tested at least annually for impairment. Impairment losses are recognised if the carrying amount of the cash generating unit to which the goodwill belongs exceeds its realisable value. Impairment losses on goodwill cannot be reversed.

Derivatives

Derivatives are financial instruments such as swaps, forwards and options. Such financial instruments have values that change in response to changes in various underlying variables, require little or no net initial investment, and are settled at a future date. They are classified as held-for-trading derivatives, unless designated as effective hedging instruments.

The Company applies hedge accounting (effective hedging instruments) if all the required conditions have been met (according to the requirements of hedging transactions of IAS 39 as approved by the EU).

These conditions are: the hedge relationship must be formally documented at the inception of the hedge; the expectation that the hedge will be effective; the ability to measure reliably the effectiveness of the hedge, and continuous measurement during the reporting period in which the hedge can be considered as effective.

For **fair value hedges**, the derivatives hedging the risks are measured at fair value, the hedged positions are adapted for changes in the fair value of the hedged item, with all these fluctuations in fair value recognised in the income statement. The pro-rated interest of interest rate swaps is included in the interest income or expense of the hedged positions. Hedge accounting is discontinued once the hedge accounting requirements are no longer met or if the hedging instrument expires or is sold.

In this case the revaluation gain or loss on the hedged position (for fixed-income financial instruments) will be taken to the profit or loss of the financial year until final maturity, based on the effective interest rate at the time of disposal of the hedged position.

Fair value hedges covering the interest rate risk of a portfolio are applied by the Company in order to hedge the interest rate risk of a portfolio of loans by means of interest rate swaps. The interest rate swaps are measured at fair value, with fluctuations in the fair value recognised in the income statement. The changes in the fair value of the hedged amount are presented as a separate assets line on the balance sheet.

The Company applies the carve-out version of IAS 39. In this way no ineffectiveness arises owing to unexpected levels of prepayments, as long as underhedging exists. In case of hedge ineffectiveness, the cumulative fluctuation in the fair value of the hedged amount will be amortised through profit or loss over the remaining lifetime of the hedged assets or immediately removed from the balance sheet if the ineffectiveness is due to the derecognition of the corresponding loans.

For **cash flow hedges**, the derivatives hedging the risks are measured at fair value, with the fluctuations in fair value attributable to the effective part of the hedge being recognised in a separate equity item. The pro-rated interest of interest rate swaps is included in the interest income or expenses of the hedged positions. The ineffective portion of the hedge is recognised in income for the financial year. Hedge accounting is discontinued once the hedge accounting criteria are no longer met. In this case, the derivatives are treated as held-for-trading derivatives and measured accordingly.

Held-for-trading derivatives are recognised on the balance sheet at fair value on the transaction date. Subsequently, they are measured at fair value, with fluctuations in the fair value recognised in the profit or loss for the financial year. Held-for-trading derivatives with a positive fair value are recorded on the asset side of the balance sheet, and those with a negative fair value on the liabilities side.

Fair value of financial instruments

The fair value is 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 reporting date.

The Company uses the following hierarchy of tests in determining the fair value of financial instruments: first, the quoted price in an active market and then valuation techniques.

The fair value of a financial instrument is measured on the basis of quoted prices in active markets. Where there is no active market available for the financial instrument, the fair value is measured using valuation techniques.

These valuation techniques make maximum possible use of market inputs, but are affected by the assumptions used, such as risk spreads and accounting estimates of future cash flows.

The fair value of the loans and receivables in particular are obtained using the discounted value technique, in which the future cash flows are discounted at the swap curve, plus a spread, which is systematically re-examined.

In the rare case where it is not possible to determine the fair value of an unlisted equity instrument, it is recognised at cost.

On initial recognition, the fair value of a financial instrument is the transaction price, unless the fair value is evidenced by recent market transactions in the same instrument, the variable elements of which consist only of data from observable markets.

Lease contracts

The Company enters into operating leases only for the renting of equipment, cars and buildings. Payments made under such leases are recognised in the income statement on a straight-line basis.

Commissions and fees

Commissions received and paid are recognised in the income statement in accordance with the accrual basis of accounting.

Repurchase agreements

Securities subject to a repurchase agreement (repo) remain on the balance sheet. The debt resulting from the obligation to repurchase the assets is included in liabilities to banks or liabilities to customers, depending on the counterparty.

Securitisation

Securitisations can take the form of a sale of the assets involved to a special purpose vehicle (SPV), or a transfer of the credit risk by means of credit derivatives. An SPV issues tranches of securities to fund the purchase of the assets.

The financial assets involved in a securitisation are no longer (fully or partially) accounted in the financial statements whenever the Company transfers virtually all the risks and income from the assets (or parts thereof).

Employee benefits

Pension obligations

The Company has mainly pension obligations based on defined contribution schemes.

The Company's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate.

Employee entitlements

Employee entitlements to annual leave and long-service leave are accounted for in the year on which these days are based.

Provisions

Provisions are recognised on the balance sheet if (1) an obligation exists on the balance sheet date that is based on a past event, and (2) it is probable that an outflow of funds will be required to settle the obligation, and (3) if the amount of the obligation can be estimated reliably.

The amount of the provision is the best possible accounting estimate at balance sheet date of the outflow of funds that will be required to settle the existing obligation, taking into account the probability of the event occurring and its possible result.

Income taxes

Income taxes on the result of the financial year include both the current and deferred taxes. These taxes are calculated in accordance with the tax laws that apply in each country where the group operates.

Current taxes consist of those that are payable on the taxable income of the year, on the basis of the applicable tax rates at balance sheet date, as well as each revision of the taxes payable or refundable for previous years.

Deferred taxes are calculated for all taxable temporary differences arising between the taxable value of assets and liabilities and their carrying amounts in the financial statements.

These taxes are measured using the tax rates expected to be in effect at the time of the realisation of the assets or settlement of the liabilities to which they relate.

Deferred tax assets are only recognised to the extent that it is probable that sufficient future taxable profit will be available from which the temporary differences can be deducted.

Deferred tax assets and liabilities are compensated and presented netted solely and exclusively if they are taxes levied by the same tax authorities on the same taxable entity.

Equity attributable to the shareholders*Share capital*

No shares have been repurchased by the Company.

Compound financial instruments

Components of compound financial instruments (liability and equity portions) are recognised in their respective classifications on the balance sheet.

Other equity components

Other elements in shareholders' equity relate, among other things, to the instruments measured at fair value, with the changes in value recognised in the other components of the comprehensive income.

3. Equity attributable to shareholders of the company

The Company is the consolidating company and 99.99% of its shares are owned by BVg (the holding company of the Argenta Group).

The IFRS equity attributable to the shareholders as of 31 December 2018 was EUR 2,015,156,419, compared to EUR 1,971,512,441 as of 31 December 2017.

	31/12/2017	31/12/2018
Paid up capital	715,947,400	770,019,400
Accumulated other comprehensive income		
Fair value changes of available-for-sale financial assets	87,020,883	0
Fair value changes of debt instruments measured at fair value through other comprehensive income	0	12,959,803
Fair value changes of equity instruments measured at fair value through other comprehensive income	0	1,236,425
Actuarial gains or losses on defined benefit pension plans	-1,291,058	21,076
Cash flow hedges	-10,941,067	-8,150,506
Retained earnings	1,041,790,008	1,109,137,174
Profit or loss attributable to owners of the parent	138,986,275	129,933,047
Equity attributable to owners of the parent	1,971,512,441	2,015,156,419
Minority interests	43,643	107,148
Total equity	1,971,556,084	2,015,263,567

After applying IFRS 9, the IFRS equity decreased as of 01/01/2018 to EUR 1,925,190,642. The EUR 43.7 million increase in equity in 2018 versus the closing equity at 31/12/2017 (IAS 39) is the combined result of the addition of the profit for the year of EUR 129.9 million, a cash out of EUR 8.4 million for the interim dividend, a change in the reserve for the group insurance (EUR 1.3 million), a change in the cash flow hedge (EUR 2.8 million less negative) and a EUR 72.8 million decrease in the revaluation surplus on financial instruments at market value.

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

Paid-in capital

The fully paid-in capital, represented by 168,975 no par shares, is EUR 770,019,400 (EUR 715,947,400 as of 31 December 2017).

The increase is the result of a capital increase of EUR 54,072,000, which took place at the end of November 2018. This capital increase involved no issue of new shares and was subscribed by existing shareholders. In 2017, there was a similar capital increase of EUR 54,072,000.

Accumulated fair value changes of instruments measured at fair value through other comprehensive income

With the the IFRS 9 standard, a new classification was introduced with respect to financial instruments. The classification 'available-for-sale assets' has been replaced by other classifications. The 'available-for-sale financial assets' and from 1 January 2018 the 'financial instruments at fair value through other comprehensive income' are measured at fair value with all fluctuations in the fair value recognised in a separate line in equity until realisation of the assets or until an impairment occurs, with the exception of equity instruments at fair value through other comprehensive income for which no impairment losses are recognised and realised results are transferred directly to retained earnings.

The reported fluctuations in fair value are recorded in shareholders' equity under 'accumulated other comprehensive income'. This reserve (which arises after offsetting deferred taxes and the transfer of the unrealised value in the context of micro hedges) evolved from EUR 87,020,883 at 31 December 2017 to 14,196,229 at 31 December 2018.

	31/12/2017	IFRS 9 impact	01/01/2018	Transferred to profit or loss	Valuation gains or losses taken to equity	Deferred taxes	31/12/2018
Accumulated fair value changes of debt instruments measured at fair value through other comprehensive income	186,536,889	-55,358,544	131,178,345	-3,763,157	-50,162,822	0	77,252,366
Accumulated fair value changes of the hedged items in micro hedge	-65,571,900	0	-65,571,900	0	5,636,760	0	-59,935,140
Deferred taxes on accumulated fair value changes of debt instruments	-31,139,095	14,338,140	-16,800,955	0	0	12,443,533	-4,357,422
Accumulated fair value changes of equity instruments measured at fair value through other comprehensive income	1,279,282	11,805	1,291,087	0	357,480	0	1,648,567
Deferred taxes on accumulated fair value changes of equity instruments	-319,822	-2,950	-322,772	0	0	-89,370	-412,142
Accumulated fair value changes of reclassified instruments previously measured at fair value through other comprehensive income	-5,019,296	5,019,296	0	0	0	0	0
Deferred taxes on accumulated fair value changes of reclassified instruments	1,254,824	-1,254,824	0	0	0	0	0
Total	87,020,883	-37,247,078	49,773,805	-3,763,157	-44,168,582	12,354,163	14,196,229

With the implementation of the IFRS 9 standard (see 'IFRS 9 impact' column), the revaluation surpluses decreased by 37,247,078 euros. This fall was included in the opening balance of 1 January 2018.

A total profit of EUR 3,763,157 was realised in FY 2018 on the latent values of the financial assets at market value in equity.

Chapter 16 gives further information on the processing of the latent value recognised on micro hedges. These are the cumulative value adjustments in connection with fair value hedges.

Cash flow hedging

The Company has concluded a single interest rate swap in the context of hedge accounting, which is treated as a cash flow hedge. In this way the effective portion of the changes in market value of the swap (net of tax) is shown in a separate line in equity. The clean price, the deferred tax asset and the total can be found below in the OCI component of equity.

	31/12/2017	Valuation gains or losses taken to equity	31/12/2018
Clean price swap cash flow hedge	-14,588,089	4,335,880	-10,252,209
Deferred taxes	3,647,022	-1,545,319	2,101,703
Total	-10,941,067	2,790,561	-8,150,506

This cash flow hedge is described in greater detail in the note on derivatives.

Retained earnings (reserves)

The retained earnings position (EUR 1,109,137,174 as of 31 December 2018) contains the statutory reserves of the parent company of the Bank Pool, i.e. the Company.

Profit or loss attributable to owners of the parent

The consolidated result (excluding minority interests) for the year ending on 31 December 2018 was EUR 129,933,047, compared with EUR 138,986,275 for the year ending on 31 December 2017.

Dividend proposal for the financial year

In the fourth quarter of 2018, an interim dividend of EUR 62,520,750 (EUR 370 per share) was paid to shareholders. Subsequently a capital increase of EUR 54,072,000 in the Company took place, subscribed by the two shareholders.

The Company's Board of Directors will submit a proposal to the general meeting of shareholders to distribute an additional dividend of EUR 16,052,625 (being EUR 95 per share) in respect of the 2018 financial year.

4. Non-controlling interests

The Company's minority interests relate to those shares of its subsidiary AAM and to the Arvestar shares that are not held by the Company.

These remaining AAM shares are directly held by the umbrella policy holding company of BVg, those of Arvestar are owned by Degroof Petercam.

In 2017 and 2018 two securitization SPVs were established, named Green Apple 2017 and Green Apple 2018. These entities have no starting capital and therefore there is no minority interest for this at the end of 2018.

Based on the relevant IFRS standards, management decided to consolidate these SPV Green Apple entities. The Company has purchased the B and C notes of the securitisation transactions that these entities have issued, in order to keep the primary credit risk in the Company. Additionally, for both transactions, a cap structure has been set up whereby the interest rate risk also remains with the Company.

In 2018, there was a profit attributable to the minority interests of EUR 41,704, compared to EUR 16,832 in 2017.

The revaluation surplus on debt instruments and on equity instruments at fair value attributable to minority interests amounted to EUR 0 at the end of 2018, as the Company's subsidiaries no longer had their own securities portfolios.

There are also no minority interests in the 'other elements of comprehensive income', as AAM and Arvestar have no securities portfolios and no derivatives.

5. Risk management

Introduction

The Company is active as a bank and asset manager and is therefore exposed to various risks. The Company's risk management distinguishes here between credit risk, market risk, liquidity risk, and non-financial risks.

The Company's risk management policy and attendant organisational structuring are designed to ensure that the identified risks are always properly identified, analysed, measured, monitored and managed. The risk management framework is constantly being updated and adapted to reflect new regulations, daily experience and changes in the Company's activities.

Professional, comprehensive risk management is an essential prerequisite for achieving sustainable growth. Demonstrating that adequate risk management procedures are in place is a key condition for acquiring and retaining the trust of all stakeholders: customers, investors, branch managers, supervisory authorities and rating agencies, as well as directors, management and employees.

The risk management system

The Company's risk management system is based on:

- A risk management strategy that is consistent with the overall corporate strategy of the Company. The objectives and fundamentals of that strategy, the approved risk tolerance limits and the division of responsibilities between all the activities of the Company are laid down in policy documents.
- Rules for the decision-making process and risk policy.
- Policies that effectively describe and classify by category the material risks to which the Company is exposed, and which specify the approved risk tolerance limits for each risk category. These policies implement the risk strategy of the Company, provide for control mechanisms and take into account the nature and scope of the business activities, as well as the associated risks.
- Reporting procedures and processes that ensure that the information on the material risks to which the Company is exposed is actively monitored and analysed, and that appropriate changes are made to the system if necessary.
- Coordination between the independent control functions Compliance, Risk Management, Actuarial Function and Internal Audit.

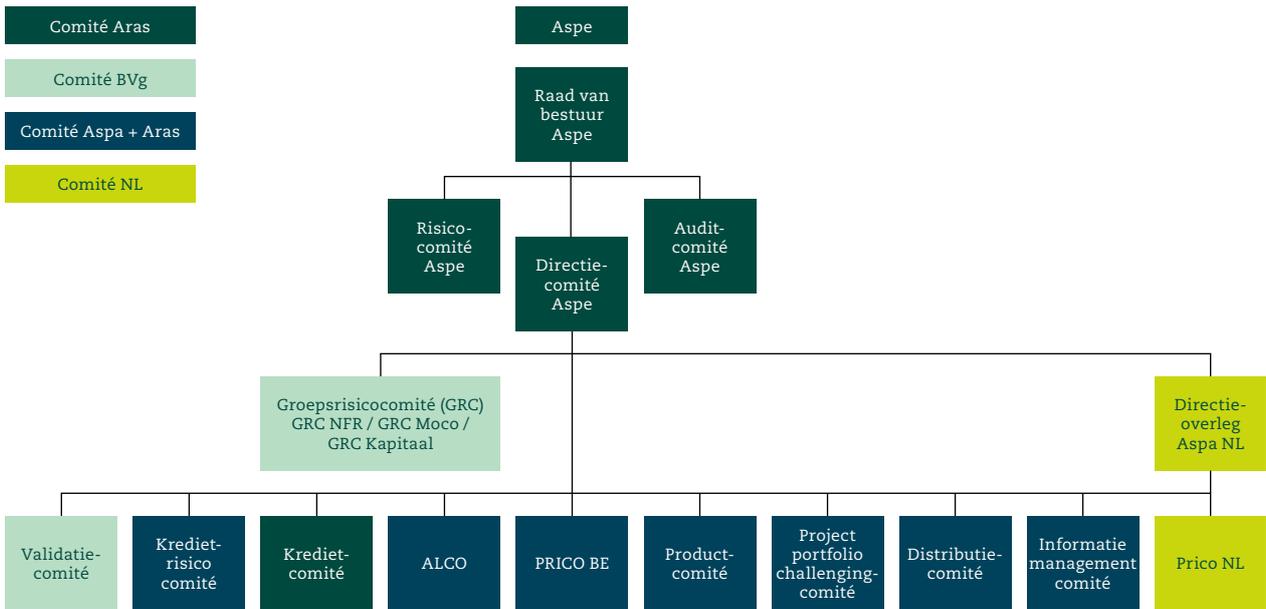
Risk policy

The main components of our risk policy model are:

- The Board of Directors that, with the support of the Group Risk Committee, establishes and oversees the risk appetite and general risk tolerance of the Company. The Board of Directors also approves the main risk management strategies and policies.
- The Risk Committee of the Board of Directors, which supervises the adequacy of the risk management system and advises the Board of Directors on this.
- The Executive Committee, that implements the risk management system and links together the risk appetite, strategy and definition of the company purpose. In its decision-making process, the Executive Committee takes into account the information reported in the context of the risk management system.

- The Group Risk Committee and the activity-related Risk Committees in which the discussion, follow-up and management of the various risks take place.
- The 1st line employees who bear the final responsibility and consequences of the risks specific to the processes, supported by expertise from 1st line risk support.
- The 2nd line independent control functions that monitor the embedding of risk awareness in the 1st line and which control the risk management by the 1st line.
- The 3rd line independent control function that oversees the quality and effectiveness of internal control, risk management and the governance systems and processes.

The diagram below shows the committee and consultation structure competent for risk management within the Company.



Governance of risk management

The Group Risk Committee and the Validation Committee are organised at Argenta Bank- en Verzekeringsgroep level. The other committees are organised within Argenta Spaarbank.

Relevant risk management bodies and control functions:

- The Group Risk Committee (“GRC”) is responsible for discussing, monitoring and managing the various identified risks. The Group Risk Committee deals monthly with a number of themes to achieve better coordination, monitoring, follow-up, awareness-raising, adjustment and policy preparation at the various risk levels. The Group Risk Committee has the following tasks:
 - consolidated reporting of risks;
 - defining the risk strategy for approval by the Board of Directors;
 - defining the risk appetite (after advice from the Executive Committee and the Board of Directors);
 - annual review of the resulation and recovery plan;
 - controlling the management of key risks (together with the Executive Committees);
 - taking decisions on ways of going about certain risk assessment and control processes;

The GRC meets monthly every month with, every three months, a specific focus on economic capital management, model overview and operational risk.

- The GRC/Capital Management covers the management of all aspects of Pillar 2 capital management.
- The GRC/Model Overview Committee is responsible for managing the methodology, development and follow-up of all models in the model management framework in order to maintain a central overview and make consistent model choices across all model types within the Company.

- The GRC/Non-financial Risk Committee is responsible for monitoring the non-financial risks including compliance risks and advises the Executive Committee on non-financial risk management.
- The Validation Committee discusses and validates the work of the validation cell with regard to the internal models for mortgages, banks, companies and governments and the models assigned to the validation cell within the model governance framework. The Validation Committee is organised ad hoc on the initiative of the validation cell.
- The Asset & Liability Committee (“Alco”) is responsible for:
 - the optimal balance sheet equilibrium by evaluating, following up and proposing actions aimed at minimising the value and result shocks caused by assets and liabilities mismatches;
 - the liquidity position, the interest rate risk and the solvency position;
 - the diversification and the risk profile of the investment portfolio;
 - providing information on risks that impact the current and future profits and capital position of the Company, with the exception of the insurance risks that are monitored in the Insurance Risk Committee.
 Alco is organised on a monthly basis or on demand, if required. Alco is assisted in its work by the Investment Consultation (“IO”) and the Rating Consultation (“RO”).
- The Credit Risk Committee (“Kreco”) is a committee with decision-making authority on all aspects of credit risk policy with regard to retail loans, viz. credit risk analysis & steering, quantification and reporting on this. More specifically, the following themes are discussed:
 - the key figures for the credit portfolios;
 - monitoring the credit risk related to the retail portfolios under management via the monitoring and discussion of limits, flashing lights and key performance indicators, concentration risks
 - evolutions in the business and macroeconomic environment, and their potential impact on credit risks;
 - proposing and deciding on action to mitigate credit risks;
 - The functional environment with regard to the acceptance framework and operational processes.
 Kreco consults monthly with an alternating focus on the Belgium and the Netherlands sub-portfolios. Both portfolios are discussed on a quarterly basis.
- The Pricing Committee (“Prico”) is tasked with monitoring:
 - monitoring the tariff-setting, the product range and the evolution of commercial margins and deciding on any requisite adjustments;
 - the diversification of the product range.
 Prico is organised on a fortnightly basis or on demand, if required.
- The Product Committee (“Proco”) monitors the implementation of the PARP (Product Approval and Review Process) with the aim of:
 - validating each new and updated product based on a check on whether the product meets the company’s requirements in terms of risk, strategy, profitability and legal obligations and a follow-up review within six months of launch;
 - Annual review of every active product and triennial for every non-active product.
 Proco meets monthly or on an ad hoc basis.

Risk appetite

The Company has formalised its risk appetite in a risk appetite framework (“RAF”). All significant risks to which the Company is exposed are included in the risk mapping and tested against the risk appetite.

The RAF has evolved as an important part of management and provides a connection between the business strategies (commercial and financial) and risk appetite. The RAF is embedded as an active steering tool in the organisation and:

- forms the core of the risk monitoring and the escalation framework;
- translates the risk appetite into measurable criteria and objectives (indicators);
- provides senior management and Board members/the Risk Committee with a very practical tool for communicating, measuring and monitoring the risk targets;

- is embedded in the multi-year business cycle;
- is further translated into operational policies that include a broad set of operational limits/flashing lights.

The RAF indicators themselves are assessed annually as to their appropriateness and replaced/adjusted if necessary, with discussion at the Risk Committees and approval by the Boards of Directors. The quantitative and qualitative RAF on financial and non-financial risks is reported on a quarterly basis to the Risk Committees, with feedback to the Boards.

RAF provides the basis for the risk-escalation framework. It forms the set of highest limits and indicators, which are further translated into the policy lines, with the setting of operational limits, operational flashing lights and early warning indicators.

Type of limit	Decision-making authority	Description
RAF limits	Board of Directors	<ul style="list-style-type: none"> ■ RAF limits are highest in the limit hierarchy and set the risk appetite and business development objectives at the level of capital adequacy, asset and liability quality, income and value stability, and liquidity and interest matching. ■ RAF limits are limited in number and are defined only for core indicators. ■ RAF limits are strictly normative. Excesses must be reported and decided on according to a fixed escalation framework.
RAF flashing lights	Board of Directors	<ul style="list-style-type: none"> ■ RAF flashing lights are indicators on a sub-portfolio or component of the RAF limit that can have a material impact on the development of the RAF limit. ■ RAF indicators are more informative than normative, indicating a deterioration of a specific indicator.
Operational limits	Board of Directors	<ul style="list-style-type: none"> ■ RAF limits are translated into and supplemented by operational limits in the policy. These are complementary to the RAF limits and are major factors in determining the permitted risk appetite. ■ These limits have a steering and normative character and must be strictly adhered to.
Operational flashing lights	Alco, Kreco	<ul style="list-style-type: none"> ■ RAF and operational limits are supplemented by operational flashing lights. These are derived from and complementary to the RAF and operational limits and provide additional information and steering.
Early Warning Indicators	Alco, Kreco	<ul style="list-style-type: none"> ■ Early Warning Indicators are operational flashing lights. ■ Operational flashing lights are more informative than normative, indicating a deterioration of a specific indicator.

Reporting and business plan process

The risk profile of the Bank Pool and the Insurance Pool is mapped out at every quarter/year-end. The risk profile is determined by assigning a colour to each risk indicator and by calculating an average risk score. A limitative number of RAF limits are linked to these risk parameters:

The quantitative indicators are subdivided into 7 categories/risks:

- Capital adequacy;
- Asset quality;
- Liabilities quality;
- Liquidity and interest matching;
- Income and value stability;
- Strategic risk.

The qualitative indicators are subdivided into 4 categories/risks:

- Reputational risk;
- Regulatory (compliance) risk;
- Operational risk and internal control;
- Market indicator.

In addition, a pro-active (in preparation for the business plan) and a budgeted RAF (for evaluating the business plan) are drawn up. In this way the RAF is reported from 3 perspectives and is strongly embedded within the business plan.

Interaction with ICAAP¹, ILAAP² and Recovery Plan

The risk mapping as identified in the RAF therefore provides an overview of the risks identified within the Company together with a uniform definition of these risks.

In the ICAAP and ILAAP under Pillar 2, the Company evaluates its capital and liquidity adequacy in various base case and adverse scenarios, taking into account all risks identified by the Company. ICAAP analyzes are calculated from a normative perspective and from an economic perspective, which are complementary to each other. The normative perspective evaluates the ability to continue to comply with the legal and prudential requirements in a crisis scenario. The economic scenario evaluates whether the Company has sufficient qualitative internal capital to cover the material economic risks present. The RAF risk cartography forms the basis for this risk assessment.

This shows, among other things, that the Company is subject to a number of financial and non-financial risks that are not included in Pillar I. For these risks, either additional capital is provided in Pillar 2 or no additional capital is provided because these risks are already implicitly included in the Pillar I risks or because there are processes in place that strongly mitigate these risks.

Calculating the recovery plan examines whether the Company can recover from a near-to-default scenario by activating feasible and effective recovery options. It is important that the risk monitoring framework be able to detect a deterioration of the risk and financial situation sufficiently in time to ensure that recovery options can be successfully activated.

The above scenario and stress test analyses performed making maximum use of consistent processes, models and tools. In this way the conclusions are robust and consistent and can be included in the steering of capital and liquidity planning and in calibrating the RAF limits.

5.1. Market risk

Market risk is the risk of a negative change in financial situation caused by the volatility of market prices of financial instruments. Within this market risk the following four risks are relevant: interest rate risk, spread-widening risk, equities risk and real estate risk. The Company does not hold assets and liabilities for its own risk in other currencies than the euro. The Company has no trading portfolio (trading book) activities.

5.1.1. Interest rate risk

Exposure

The single largest market risk to which the activities of the Company are exposed is the interest rate risk of the banking portfolio (banking book). This risk arises from changes in market interest rates and their impact on interest-bearing assets and liabilities products.

The Company's results and equity position are sensitive to interest rate changes because the business strategy is to raise funds in the short to medium term (mainly from private individuals through savings and term deposits and to a limited extent also wholesale financing by institutional investors) and to reinvest these funds in the form of longer-term loans and investments. The interest rate differences between the various maturities give rise to the formation of a result from this interest rate transformation and the concomitant interest rate risk.

Risk management

Alco is responsible for monitoring the interest rate and liquidity risk. It carries specific responsibilities for monitoring the targeted financial positions, on which it reports to the Executive Committee. Its remit includes optimising both the sensitivity of the net interest income and the sensitivity of equity within set limits.

¹ICAAP : Internal Capital Adequacy Assessment Process

²ILAAP : Internal Liquidity Adequacy Assessment Process

In its risk measurement and management, Alco takes into account the various components of the interest rate risk contained in the Company's balance sheet. These include the gap risk (risk from interest rate mismatch between assets and liabilities), the option risk (risk from the embedded options in the products) and the basic risk (risk arising from the use of various reference indexes as the basis for repricing the asset and liabilities products). Business risk (the risk of changes in the expected price elasticity of products without changes in the contractual interest due date) is also monitored and managed.

The option risk includes both the risk deriving from explicit options (interest rate caps and interest rate swaptions to hedge the interest rate risk) and implicit options (related to the residential loan portfolio). In the ALM department these risks are monitored and managed by means of scenario analysis.

In order to keep the relevant risks within the risk appetite determined by the Board of Directors as well as within legal limits, the balance sheet is managed in both endogenous and exogenous ways. Endogenous management involves management using of assets and liabilities products. Exogenous hedges involve the taking out of interest rate derivatives. The combination of endogenous and exogenous ALM hedges, with the former preferred to the latter, even though the process is more gradual, keeps the Company's commercial strategy in line with the RAF.

Sensitivity analysis – interest rate risk

The following table shows the interest rate sensitivity of the results over 12 months and of the equity of the Company in the event of a parallel interest rate shock of 100 bp.

In the absence of a trading book, the interest rate risk in the banking book therefore represents Argenta Spaarbank's entire interest rate risk.

	31/12/2017		31/12/2018	
	+100bp	-100bp	+100bp	-100bp
Impact on the result (over 12 months)	64,240,297	212,248	49,725,582	-1,840,344
Impact on equity	-61,664,447	261,401,753	-116,732,325	-7,108,179

These sensitivity analyses are measured by the following method:

- Re-pricing of the interest on savings accounts is determined on the basis of business replication models that model the expected re-pricing behaviour of these savings accounts;
- Sensitivity is calculated on the assumption of a static balance sheet (constant balance sheet total and mix);
- The interest rate shock takes place in four stages of 25bp (immediately, after 3 months, after 6 months, and after 9 months).
- Early credit prerepayments and refinancings are taken into account based on (dynamic) constant Conditional Prepayment Rate (CPR) models;
- Expected draw-downs of approved, but not yet fully drawn-down credit facilities at position date are calculated in;
- Interest rate caps and floors on loans with revisable interest rates are taken into account;
- Call options in the securities portfolio are taken into account based on weighted average duration;
- A floor of 0 % or the current interest rate if negative is used in sensitivity analyses at -100 bp.

The models used to estimate the expected early repayments on mortgage loans were reviewed and recalibrated at the end of 2018. These adjustments increase the predictive power of the models used in the current and changed market conditions.

The interest rate sensitivity of equity to an interest rate increase of 100bp rose in 2018 for the endogenous balance sheet, owing to:

- the increased portfolio of outstanding mortgages with new production, with longer fixed-interest periods;
- reinvestments in the investment portfolio at a fixed interest rate.

These risks were adjusted and kept within the desired risk appetite. Exogenously via plain vanilla interest rate hedges in the form of payer swaps and swaptions.

5.1.2. Spread widening risk

Exposure

The return on the investment portfolio is largely determined by the credit spread earned on the investments made. The evolution and fluctuations of the credit spread are often market driven and determined by other factors that can directly or indirectly influence the issuer's creditworthiness.

These market risk factors induce spread widening risk. Alongside the pure interest rate, they are the main driver of asset returns and the economic value of the investment portfolio.

Risk management

The pursuit of a cautious investment policy, frequent monitoring of the fluctuations in the economic value of the investment portfolio and measuring the sensitivity of changes in credit spreads are therefore important pillars of healthy portfolio management.

The investment policy is governed by a strict investment framework, as defined in the SAA (strategic asset allocation) included in the Company's financial policies, respectively, which determines the permitted investment envelope and maximum duration depending on the creditworthiness of the issuer. This investment policy is shaped by a thorough analysis of the credit sectors and investment files and an active screening of market opportunities.

The evolution of the market value of the investment portfolio is monitored in the Asset and Liability Committee and the Investment Consultation. Credit spread sensitivity is calculated and monitored in the ICAAP framework and is checked against the RAF.

Sensitivity analysis - spread widening risk

The company calculates the spread risk on the totality of the investment portfolio. The spread sensitivity is calculated according to a modified duration (no convexity).

As of 31/12/2017, the impact for Argenta Spaarbank of a 1 bp increase in the credit spread was EUR -3,205,420, as of 31/12/2018 it was EUR -3,511,018 per 1 bp increase. The increase in spread widening risk is mainly due to an expansion of the investment portfolio and more investments in bonds with long maturities. The majority of the investment portfolio is classified as financial assets at amortised cost (hold-to-collect business model), on which latent gains and losses on these investments are not recognised in equity.

5.1.3. Equity risk

Exposure

From a strategic allocation perspective, equities can complement the existing bond and loan portfolios and are intended to optimise the risk return profile of the portfolio. Within the investment framework and subject to compliance with strict investment criteria, the Company has the possibility to take equity positions into its investment portfolio.

Risk management

The portfolio of individual shares is very limited and is managed within a rigorous risk management framework, including limits on size, permitted sectors, market capitalisation and concentration.

The price risk is controlled by subjecting the equity investments to a thorough analysis of underlying fundamentals and by framing the investment policy within the approved risk appetite and assigned limits.

Sensitivity analysis - equity risk

The sensitivity analysis below shows the impact on the Company of a 10% fall in the market value of non-fixed income securities.

	31/12/2017	31/12/2018
	-10%	-10%
Impact on result	0	0
Impact on equity	-695,850	-765,018

The equity instruments at fair value through other comprehensive income amount to EUR 7,650,182 (market value) as of 31 December 2018, with the latent gains representing EUR 1,648,567 (21.6% of the total market value). These unrealised gains are recognised in equity under revaluation surplus. If the markets fall by 10%, the amount within equity will fall by EUR 765,018, and no impairments will be recorded in accordance with the valuation principles for equity instruments at fair value through other comprehensive income.

Further information on the individual write-downs on shares is included in the notes on credit risk (under variable interest securities).

5.1.3. Property risk

Exposure

The evolution of real estate prices has an influence on retail lending and also influences the credit risk through the giving of property as collateral. The Company has here a concentration in retail mortgage loans in Belgium and the Netherlands. This makes the company dependent on developments in the housing market. In the context of the foreclosure policy, in exceptional circumstances properties are temporarily purchased by the Company with a view to subsequent realisation.

At the same time, the investment framework allows a portfolio of indirect investment properties to be maintained. This takes the form, not of direct investments in real estate, but of credit to counterparties operating in real estate.

Risk management

The indirect real estate investments are managed within a rigorous risk management framework, including limits on investment type, geography and concentration.

The direct real estate investments in own office buildings and in properties purchased in the context of the foreclosure policy are accounted for using the cost price model.

The latent capital gains and gains on these direct real estate investments are not recognised in equity.

Sensitivity analysis - real estate risk

The fair value of the direct real estate investments is obtained based on the individual assessment reports of the respective investments. In 2017 this involved a limited portfolio of EUR 1,009,298 (market value: EUR 1,077,399). At the end of 2018, the portfolio amounted to EUR 552,472 (market value: EUR 532,094).

A decrease of 10% of the market value will - as long as there is no sustainable impairment - have no impact on the result.

5.2. Liquidity risk

Exposure

Liquidity risk is the risk of an adverse change in the financial situation, as a direct or indirect consequence of insufficient liquidity being available to meet financial obligations.

The Company's strategy is to raise funds in the short to medium term and to reinvest these through various forms of longer-term loans and investments. The current and savings accounts of private individuals are available on demand and as such represent sources of liquidity risk. Nonetheless, they also provide a stable long-term financing basis. This stability is determined by the customers' confidence in, among other things, the Company's solvency, profitability and risk management.

Sources of liquidity

The financing model and liquidity profile of Argenta Spaarbank is mainly characterised by:

- a substantial base of customer deposits;
- a spread over the Belgian and Dutch markets;
- limited diversification towards wholesale funding;
- a liquid securities portfolio.

Funding policy is directed at obtaining funding from retail customers through current and savings accounts and term deposits. Retail savings certificates and subordinated certificates are still part of funding, but are no longer offered to customers. Customer deposits constitute the most important primary funding source of the Bank Pool's banking activities.

In this way, Argenta Spaarbank also uses the interbank or professional market to fund itself. It had previously developed out the possibilities for doing this based on the desire to diversify funding sources (RMBS securitisation) and to meet new legal requirements (Tier 2 bail-inable issue). Repurchase agreements are concluded as and when appropriate, as part of liquidity management or to take advantage of investment opportunities in the financial market.

The readily available liquidity sources consist of high-quality assets. These are mainly central bank reserves, government bonds, securitisations and corporate bonds. These are diversified in terms of both counterparty type and individual counterparty. In addition to the liquid assets eligible for the LCR, Argenta Spaarbank also has a portfolio of ECB-eligible securities.

All liabilities and assets are denominated in euros, so that there is no currency mismatch between the liquidity and financing sources.

Argenta Spaarbank maintains a derivatives portfolio with a view to hedging the interest rate risk. The value of this portfolio is hedged with collateral. There are no other sources of collateral outflow. The assets used as collateral are excluded from the LCR liquid buffer. The LCR also takes into account potential collateral outflows due to fluctuations in the valuation of the portfolio and a negative rating evolution of Argenta Spaarbank.

Funding sources	31/12/2017	31/12/2018
Deposits from central banks	0.00%	0.00%
Deposits from credit institutions	0.21%	0.01%
Deposits from other than credit institutions	90.95%	90.34%
Saving certificates sold to retail customers	2.01%	1.11%
Other debt securities issued sold to retail customers	0.00%	0.00%
Other debt securities issued sold to institutional investors	3.35%	5.45%
Subordinated debt sold to retail customers	0.24%	0.17%
Subordinated debt sold to institutional investors	1.43%	1.36%
Other liabilities	1.81%	1.56%
Total liabilities	100.00%	100.00%
Total liabilities in EUR	35,654,603,852	37,545,384,955

Risk management

Alco systematically monitors the liquidity indicators. First line responsibility for the measuring, monitoring, checking and reporting of the liquidity risk lies with the ALM department. The liquidity risk is monitored both from a market liquidity risk perspective (liquidation value of assets) and from a refinancing risk perspective (stability of funding). The second-line responsibility lies with the Risk department. Management of the liquidity position falls under the authority of the Treasury and Investment Management department.

For measuring, monitoring, checking and reporting on the liquidity risk, the Company has a specially adapted management information system, including a contingency plan, in order to be able to adequately manage its liquidity in both normal and exceptional circumstances. In addition to the regulatory reporting, extensive internal reporting is also in place. In this way, management and stakeholders stay aware of the evolving situation.

The daily liquidity management, the definition of additional Early Warning Indicators (EWIs), operational limits or flashing lights, and the organisation of stress tests are included in the Liquidity Contingency Plan. Daily funding reports

are distributed to a broad target group within the Company. The liquidity risk appetite is managed in the Bank Pool's RAF by flashing light levels on three risk indicators, namely:

- The LCR (Liquidity Coverage Ratio) tests the liquidity buffer against a pre-defined outflow of financial liabilities over a 30 day period.
- The NSFR (Net Stable Funding Ratio) compares available liquidity against required liquidity over an at least one-year period, and
- The AER (Asset Encumbrance Ratio) compares the amount of unencumbered assets with the volume of protected deposits.

In addition to the aforementioned RAF indicators, further EWIs, operational limits and flashing lights have been defined internally.

An overview of the ratios and legal limits can be found in the following table:

	Legal limit	31/12/2017	31/12/2018
LCR	100%	162%	170%
NSFR	100%	143%	141%
AER strict (RAF limit)		106.4%	107.6%
AER wide (RAF flashing light)		110.5%	111.6%

For the AER limits, we also have to mention that, during 2017 the Company was 90% funded by 'eligible deposits as referred to in Article 389 of the Law of 25 April 2014'. In 2018 this percentage dropped below 90%. This gives an indication of the relationship of these ratios to the legal flashing light and recovery plan thresholds.

Maturity analysis

Sections 14, 15 and 16 contain additional information on the remaining terms of the financial assets recognised at fair value through other comprehensive income and the financial assets recognised at amortised cost. The table below shows a maturity analysis for the financial liabilities held for trading, the financial liabilities measured at amortised cost, derivatives used for hedging purposes and other liabilities.

31/12/2017	< 3 months	< 12 months	1-5 year	> 5 year
Deposits from central banks	0	0	0	0
Financial liabilities held for trading	0	0	0	0
Financial liabilities at amortised cost				
- Deposits from credit institutions	76,393,437	0	0	0
- Deposits from other than credit institutions – on demand	29,520,194,067	0	0	0
- Deposits from other than credit institutions – on term	462,787,457	474,801,928	1,619,373,584	350,258,196
- Debt securities issued- saving certificates	177,076,061	117,080,921	417,670,671	0
- Debt securities issued- other	23,655,174	66,098,131	311,031,029	798,994,599
- Subordinated loans	11,804,765	10,380,191	574,411,263	0
Derivatives used for hedge accounting	69,930,749	92,953,469	384,649,258	392,550,901
Other liabilities	54,377,333	163,131,999	0	0
Total	30,396,219,042	924,446,641	3,307,135,805	1,541,803,696

31/12/2018	< 3 months	< 12 months	1-5 year	> 5 year
Deposits from central banks	0	0	0	0
Financial liabilities held for trading	0	0	0	0
Financial liabilities at amortised cost				
- Deposits from credit institutions	4,930,530	0	0	0
- retailfunding - deposits without fixed terms	31,407,866,289	0	0	0
- retailfunding - deposits with fixed terms	401,311,354	491,276,156	1,317,184,875	299,291,400
- retailfunding – saving certificates	81,928,747	235,584,271	98,417,681	0
- in debt securities - bonds	63,622,961	175,645,653	757,031,323	1,050,937,057
- Subordinated loans	6,407,219	37,686,939	531,300,078	0
Derivatives used for hedge accounting	24,131,733	98,201,626	387,295,532	396,405,530
Other liabilities	52,929,330	158,787,990	0	0
Total	32,043,128,163	1,197,182,635	3,091,229,489	1,746,633,987

For 'derivatives for hedging purposes' the interest flows can be found in the interest rate hedges for the categories in question. The fixed and variable rates as of 31 December 2018 are used in calculating these interest amounts for the respective fixed and variable parts of the interest rate swaps concerned.

For this table, demand deposits, special deposits and regulated savings deposits have been classified in the < 3 months bracket.

The bulk of the 'subordinated liabilities' as of 31 December 2018 consists of the nominally EUR 500 million Tier 2 loan offered to institutional investors. The balance consists of subordinated certificates.

5.3. Credit risk

Exposure

Credit risk is the risk of an adverse change in the financial situation, as a direct or indirect result of a decline in the creditworthiness of issuers (or guarantors) of securities, of counterparties and of debtors.

For the Company, there are essentially two segments of importance for credit risk: (i) the retail market and in particular the retail mortgage lending market (in both Belgium and the Netherlands), and (ii) the investment portfolio together with the portfolio of loans to local and regional authorities and (selectively) to corporates. Credit risk management is therefore focused on these two segments.

Risk management

In the retail segment, Argenta's target group consists of individuals, families, self-employed persons and liberal professions having their usual place of residence in Belgium or the Netherlands and wishing to take out loans for mainly non-professional purposes. The financing may also be for professional purposes, in the case of Argenta's own branch managers.

As a general principle, the borrowers are natural persons. In certain cases, companies can act as borrowers, but then also with related natural persons as co-borrower(s).

The most important elements of risk management are the Acceptance and Authorisation Framework for the granting of loans, including set limits for creditworthiness, monitoring procedures and a monthly follow-up of the credit risk indicators.

This governance is supported through the operation of the Retail Credit Risk Committee with reporting to the Executive Committee and to the risk Committee of the Board of Directors.

The non-retail investment framework focuses on strong counterparty quality, with a focus on diversification into investments in companies, in indirect real estate and in securities issued by or loans granted to local authorities.

The application and practical implementation of the investment policy is also supported by the Investment Consultation, in which representatives of the Executive Committee (in the case of escalation), Treasury and Investment Management (TIM), Treasury and Investment Services (TIS) and the Credit Risk Analysis (CRA) department in the first line, and Risk in the second line, are represented.

The internal investment framework establishes positions which ratings may be considered for investment. The ratings of all fixed-income securities are then systematically monitored. If, after purchase, the rating of a bond drops below the set minimum rating requirement, the bonds concerned will be discussed again by ALCO and the Rating Consultation (RC).

Every year, credit analysis of the banking and corporate counterparties is carried out. The results of rating reviews are discussed in the monthly RC, which reports to Alco. This consultation ratifies proposed ratings or decides on the assignment of internal ratings, following a well-defined governance framework and with two separate decision levels. The internal ratings are relevant in the acceptance framework and are also used for monitoring, with the investment portfolios subjected to a thorough analysis on a quarterly basis. This analysis forms the basis of regular reporting to, and discussion within, Alco, the Executive Committee and the Risk Committee of the Board of Directors.

Internal models for credit risk

Argenta Spaarbank has opted, for its mortgage lending, subject to non-material exceptions, and for banking and corporate counterparties, to use internal ratings and to calculate its own capital requirements using the IRB(F) method. This means that a class is assigned to each loan when granted. The bank has developed models for this. A distinction is made between models for PD (probability of default) and LGD (loss given default). For the retail credit portfolios, for which an internal rating-based system has been selected, both a PD model and an LGD model have been developed. Every month, the PD and LGD models (AIRB - Advanced IRB - approach) are applied to the total mortgage loan portfolio in order to calculate the capital requirement for unforeseen losses. For banking and corporate counterparties, this is an FIRB approach, where only a PD model has been developed.

The internal rating models are subjected to appropriate internal review on an at least annual basis.

Maximum credit risk

The total credit risk exposure of the bank pool comprises the carrying value of financial assets on the balance sheet (the major part of the asset side of the balance sheet), the calculated exposure to financial derivatives, and specific off-balance-sheet items (including securities purchases in progress, credit commitments and financial loan commitments) as specified in the equity legislation (Basel). The table below shows the outstanding credit risk of the bank pool as reported in the prudential COREP (Common Reporting) tables. The Pillar 3 Disclosures give further information and interpretation of this total exposure.

	31/12/2017	31/12/2018
Total on-balance sheet	37,411,433,657	39,263,489,232
Total off-balance sheet	2,224,458,672	2,296,927,037
Total derivatives	287,056,458	279,761,920
Total exposure to credit risk	39,922,948,786	41,840,178,189

The exposure to credit risk in the bank pool is composed of the on-balance sheet positions and a limited number of off-balance sheet positions (securities purchases in progress and credit commitments) and derivatives positions.

Collateral and other forms of credit improvement

Personal guarantees or collateral are always required when granting retail mortgage loans. For such collateral (in this case, the properties on which a registration may be registered, in certain cases combined with a power of attorney),

individual expert valuations are periodically undertaken at different points in the credit cycle. Valuations can be made at the start of the credit cf. the rules defined in the acceptance framework. In addition, control estimates of collateral are performed on a random sample of collateral 1 year after the start of the credit, in cases where the collateral was not assessed by an expert at the start. During the further life of the loan, a statistical method is used to put together a set of sample collateral items for individual expert valuation. Individual estimates can also be performed at the start of a foreclosure procedure.

In addition, the values of the collateral in the portfolio are regularly indexed to ensure that there is always a current value on file.

If all other means have been exercised to settle a credit which is in default, a private or public sale of the property will be carried out, and any secondary securities will be enforced. Secondary collateral commonly exists in Dutch credit files. This relates to insurance policies pledged to Argenta and the National Mortgage Guarantee (NHG).

In the case of non-retail securities and loans, collateral or credit protection exists only to a limited extent. This mainly takes the form of guarantees from local, regional or central governments, or from the companies affiliated with the counterparty.

The collateral given does not give rise to the recognition of an asset on the Company's balance sheet. During 2018, no significant negative changes took place in the quality of the collateral present and no major changes were made to the collateral solicitation policy.

Concentration of credit risk

Concentration risk is the risk associated with having a large concentration of loans or securities to an individual counterparty or a group of related counterparties (counterparty concentration) or as a result of an uneven distribution across markets, sectors or countries/regions (sector concentration). The latter occurs when significant risk positions are taken on counterparties whose probability of default and/or loss in case of default are driven by common underlying factors.

The table below shows, for the retail portfolio, the percentage distribution of the different types of loans and receivables within the 'loans and receivables from other customers' heading.

	31/12/2017		31/12/2018	
	Carrying amount	%	Carrying amount	%
Advances and overdrafts	2,595,185	0.01%	11,994,154	0.04%
Consumer loans	114,057,678	0.42%	162,833,480	0.56%
Mortgage loans Belgium	11,344,586,055	41.64%	12,227,116,917	41.92%
Mortgage loans the Netherlands	15,613,311,428	57.31%	16,605,619,525	56.93%
Term loans	168,494,805	0.62%	163,246,502	0.56%
	27,243,045,151	100.00%	29,170,810,578	100.00%

Possible concentration risks resulting from being present in only two mortgage markets (Belgium and the Netherlands) are tempered by the granular nature of these portfolios consisting of a very large number of files, each individually carrying a very limited credit risk, by the day-to-day monitoring of the evolutions in the Dutch and Belgian mortgage and residential real estate markets, and by the diversification in the age of the credit, the demographic spread and the regional spread within Belgium and the Netherlands.

The non-retail portfolio of the Company consists of investments in fixed-income securities and lending to local and regional authorities and (selectively) to corporates. The majority of this portfolio is classified at amortised cost. The remaining portfolio is stated at fair value.

	31/12/2017		31/12/2018	
	Carrying amount	%	Carrying amount	%
Available-for-sale financial assets (IAS 39)	7,893,583,282	100.00%	0	-
Debt securities				
General governments	2,629,943,011	33.32%	0	-
Credit institutions	1,847,703,786	23.41%	0	-
Other financial corporations	1,674,382,188	21.21%	0	-
Non-financial corporations	1,741,554,297	22.06%	0	-
Held-to-maturity financial assets (IAS 39)	462,780,201	100.00%	0	-
Debt securities				
General governments	445,054,453	96.17%	0	-
Credit institutions	0	0.00%	0	-
Other financial corporations	14,693,537	3.18%	0	-
Non-financial corporations	3,032,211	0.66%	0	-
Loans and receivables (IAS 39)	394,394,167	100.00%	0	-
Term loans – non-retail	377,362,989	95.68%	0	-
Other loans and receivables	17,031,178	4.32%	0	-
Financial assets at fair value through other comprehensive income (IFRS 9)	0	-	3,803,307,139	100.00%
Debt securities				
General governments	0	-	1,330,239,055	34.98%
Credit institutions	0	-	1,241,041,733	32.63%
Other financial corporations	0	-	419,139,536	11.02%
Non-financial corporations	0	-	812,886,815	21.37%
Financial assets at amortised cost (IFRS 9)	0	-	4,784,050,164	100.00%
Debt securities				
General governments	0	-	1,228,110,654	25.67%
Credit institutions	0	-	638,838,526	13.35%
Other financial corporations	0	-	1,188,425,808	24.84%
Non-financial corporations	0	-	1,132,571,885	23.67%
Term loans – non-retail	0	-	596,103,291	12.46%

	31/12/2017		31/12/2018	
	Carrying amount	%	Carrying amount	%
Assets not held for trading, required to be measured at fair value through profit or loss (IFRS)	0	-	64,562,150	100.00%
Debt securities				
General governments	0	-	19,846,419	30.74%
Credit institutions	0	-	26,607,356	41.21%
Other financial corporations	0	-	18,108,375	28.05%

The following table shows the geographic breakdown (%) of the portfolio. It documents a large exposure to Belgium (Company head office location).

	31/12/2017	31/12/2018		31/12/2017	31/12/2018
Belgium	32.79%	35.34%	Iceland	0.76%	0.75%
The Netherlands	17.77%	16.43%	Finland	1.15%	0.74%
France	7.99%	12.31%	Slovenia	0.84%	0.74%
Spain	4.98%	5.04%	Czech Republic	1.46%	0.67%
Germany	2.79%	4.79%	Italy	0.48%	0.49%
Ireland	4.75%	4.59%	Romania	0.39%	0.45%
United Kingdom	3.36%	3.60%	Mexico	0.31%	0.41%
Luxembourg	3.40%	3.36%	Norway	0.65%	0.27%
Sweden	3.33%	2.82%	Indonesia	0.14%	0.21%
Poland	2.07%	2.23%	Hungary	0.06%	0.06%
Canada	2.91%	1.42%	Australia	0.04%	0%
Austria	1.21%	1.24%	Latvia	0.76%	0%
Danmark	0.79%	1.16%	Lithuania	0.63%	0%
United States of America	4.06%	0.88%	Slovakia	0.12%	0%
	Total			100.00%	100.00%

The Company applies concentration limits per counterparty expressed as % of CET1 regulatory core capital. The size of the limit is a function of the creditworthiness of the issue and of the type of counterparty. The diversification and internal ratings of all fixed-income securities are systematically reported and monitored, at individual and at portfolio level.

Expected credit losses (phase 1 and phase 2)

Inputs, assumptions and techniques

Write-downs on the financial instruments in the retail portfolio are determined on the basis of a scenario-weighted model that includes historical and forward-looking information. The expected credit losses ('Expected credit losses' - ECL) are calculated as the sum of the weighted credit losses under a baseline scenario, a moderate falling scenario and a moderate recovery scenario. Credit losses are calculated by applying the probability that a borrower defaults to the expected exposure in the event of default, taking into account the expected loss in the event of default, discounted at the effective interest rate of the instrument and adjusted for the survival chance of the credit, which is an estimate of

the probability of early repayment and write-offs due to default. The ECLs are calculated for the relevant period from the reporting date, being the entire remaining life of the contract.

- The probability of the borrower defaulting ('Probability of Default' - PD) is determined by a PD model that takes into account the individual characteristics of the instrument (internal rating class, historical performance) and based on a 'through-the-cycle' component (average macroeconomic conditions) and a 'point-in-time' component (forward-looking macroeconomic conditions).
- "Exposure at Default" (EAD) is calculated on the reporting date and over the life of the instrument and includes both on- and off-balance sheet exposures. The on-balance sheet exposure consists of the sum of the outstanding capital plus any arrears. The projection of the on-balance sheet exposures over the remaining term takes into account the contractual repayments. Off-balance sheet exposures (being the credit pipeline, unused credit lines and building deposits) are included based on the modelled expected conversion and take-down. The EAD is corrected for the likelihood of partial prepayment.
- 'Loss Given Default' (LGD) is a measure of the expected loss on a loan if this counterparty fails. This factors in the likelihood of the customer being to resume his payment obligations over time ('Cure rate'), the expected recovery and realisation value of the collateral involved and the costs related to default or curing.
- A credit's survival chances are defined as the probability that a credit will be removed from the books at the start of a specific period, either by full prepayment or by write-off due to the counterparty's bankruptcy.
- Effective interest is the return on the loan on an annual basis, taking into account all direct costs. Due to the limited impact of direct costs on the effective interest rate, the contractual interest rate is used as an approximation.

Impairments on the Company's non-retail portfolio are determined by mapping the current value of the cash flows that would be lost if a debtor defaulted at the effective interest rate of the instrument. To this is applied the probability of the debtor defaulting over a certain period.

- Cash flows from a financial instrument are determined based on the prospectus (or equivalent document) of the asset. Argenta does not estimate the probability of early repayments and projects cash flows until the first call date of the instrument, as historically these elements have been seen to have no significant impact.
- Effective interest is rate determined on initial recognition, at instrument level, as the annual interest over the life of the asset, taking into account coupon payments and any difference in the fair value of the instrument when recorded on the balance sheet and its nominal value.
- Probability of Default, (PD) is determined on the basis of external Standard & Poors (S&P) information due to the lack of this data at Argenta. This is because, to date, no defaults have occurred in Argenta's 'non-retail' portfolio. Various adjustments are made to the external PD data to determine an average long-term PD. The long-term PDs are then converted into 'Point-in-Time Probability of Default' (PIT PD).
- The loss given that a debtor remains in default ('Loss Given Default', LGD) is based on the standard Basel LGD percentages approach (covered: 11.25%; senior unsecured: 45%; subordinated: 75%).

Incorporation of forward-looking information

For the retail portfolio, macroeconomic forward-looking information is included both in the ECL calculations and in determining the PIT LT PD. For the ECL and PIT LT PD, 3 different scenarios (baseline, moderate downturn and moderate recovery scenario) are calculated based on macroeconomic expectations, with the scenarios used being the same as those used for the internal budgeting process. The relevant macroeconomic expectations relate to the expected evolution of the unemployment rate (for PD) and the house price index (for LGD). The ECL and PIT PD LT is the sum of the baseline, moderate downturn and moderate recovery scenarios weighted 50%, 20% and 30% respectively. The scenarios are reviewed annually in the internal budgeting process and the weightings assigned to the scenarios are reviewed periodically based on the observed evolutions of the underlying macroeconomic indicators and evolutions in long-term expectations.

The inclusion of forward-looking (FL) information in the non-retail portfolio is achieved by applying historical correlation factors of long-term PDs, default failure frequencies and macroeconomic factors to the long-term PD for future periods, taking into account current and future macroeconomic expectations. The long-term PDs are then converted into 'Point-in-Time Probability of Default' (PIT PD). The economic indicators included in this analysis are: the evolution of GDP growth, unemployment rates, S&P 500 index, World Bank Energy Index, World Bank Non-Energy Index and a measure of the proportion of negative credit-rating revisions. Due to the IFRS 9 requirement that the forward-looking information must be scenario-weighted, different scenarios (standard, better and worse) are taken into account per system factor per

year in calculating the PIT PDs. The scenarios and the weighting of these scenarios are determined internally based on Argenta's business plan. A revision of the final 'looking forward Point-in-Time Probability of Default' takes place at least annually.

Significant increase in credit risk and low risk exception

Within the retail portfolio, the Company identifies any significant increase in credit risk since initial recognition of the instrument through a quantitative analysis or based on qualitative indications. A number of safety net indicators have also been built in, which automatically lead to an instrument's migrating to stage 2. The 'staging' models have been adjusted to the specificity of the various Argenta retail portfolios.

The quantitative analysis is based on the evolution of the 'lifetime' PD using the so-called 'confidence interval' method. As per the reporting date, the remaining 'lifetime' PD (PD_{LT}) is compared with the upper limit of the remaining 'lifetime' PD, taking into account the characteristics of the instrument as they were present at the time of initial recording of the instrument (PD_{th}). The 'staging' model can be summarised as follows:

Stage 1 – 12-month ECL: $PD_{LT} < PD_{th}$;

Stage 2 – Lifetime ECL: $PD_{LT} > PD_{th}$.

The qualitative indications and safety net indicators include a number of criteria that were not included in the PD model. The following qualitative elements, among others, give rise to the inclusion of an instrument in stage 2:

- Attributing of a forbearance measure to an instrument
- Unlikelihood to pay (UTP) score on an instrument that did not lead to the inclusion of the instrument as non-performing
- Inclusion of the instrument as non-performing in the past 12 months

The Company does not use the 'Low credit risk' exemption for retail instruments. This means that on every reporting date an analysis of the increase in credit risk is done for all instruments. The assumption that a significant increase in credit risk has occurred with contractual payments that are more than 30 days in arrears is not refuted.

In the non-retail portfolio, the Company identifies a significant increase in credit risk since initial recognition of the instrument via a negative revision of the creditworthiness of the related counterparty or based on an ad hoc internal analysis. The Company uses the 'Low credit risk' exemption for non-retail instruments. The 'staging' of non-retail securities and loans is based on internal credit ratings, or, where these are not available, on external credit ratings, and can be summarised as follows:

- Stage 1: Contains instruments with investment grade counterparties and counterparties that, at the time of recognition, had a non-investment grade rating without negative revision;
- Stage 2: Counterparties with an investment grade or non-investment grade rating on initial recognition that have been negatively revised to non-investment grade or one credit score lower respectively. Deviations to this rule are permitted only if there is no significant credit deterioration and with the approval of the Rating Committee.

In addition to the policies listed above, there are a number of "triggers" that may require an ad hoc analysis of the counterparty's internal rating:

- When a rating agency negatively revises the creditworthiness of a counterparty: ad hoc analysis of the motivation for the negative revision and estimate whether it is relevant as a significant increase in credit risk;
- Regional crisis;
- Negative news about a counterparty;
- Mergers and acquisitions.

If the ad hoc analysis leads to a negative revision of the internal creditworthiness assessment of the counterparty (to non-investment grade or reduction by a grade for non-investment grade), the asset migrates from stage 1 to stage 2. Counterparties with neither an internal nor an external rating are assessed at instrument level on the basis of expert knowledge. The staging also takes into account overall country risks (e.g. Greek debt crisis) and/or sectoral risks (e.g. Dieselgate). All counterparties falling into such a category are then placed on a 'watch list' for closer monitoring, and migrate to stage 2 based on a decision of the Rating Committee.

The Company uses the 'Low credit risk' exemption for non-retail instruments, whereby an instrument is assumed to be low credit risk if the creditworthiness is investment grade. This corresponds to a minimum S&P credit rating of 'BBB-'. The assumption that a significant increase in credit risk has occurred with contractual payments that are more than 30 days in arrears is not refuted. On the basis of the ad hoc analysis system and the permanent watch list for counterparties with an increased risk, the Company expects migration to stage 2 to have taken place before the occurrence of default events.

Grouping of financial instruments

Argenta does not use grouping of instruments based on common credit risk characteristics for modelling parameters for expected credit losses.

Changes in inputs, assumptions and techniques

There are no changes in valuation techniques or significant assumptions underlying the models used during the reporting period.

Default, non-performing and credit-impaired (phase 3)

A loan receivable is considered to be in default as from 90 days in arrears for a material exposure (in practical terms, 3 monthly instalments for the retail credit portfolios), and also where there are a number of signals, other than arrears, that the borrower will be unable to meet his obligations. The Company has aligned default, non-performing and credit-impaired. Individual impairments are determined based on defaulted receivables based on the difference between the outstanding receivable and the expected recoveries.

The table below gives an overview of the phase 1, 2 and 3 receivables per class of financial instruments and the transfers between phases.

	31/12/2018		
	Stage 1	Stage 2	Stage 3
Financial assets at amortised cost	29,183,748,016	4,699,983,981	129,853,236
Debt securities	4,148,090,133	41,560,196	0
Loans and advances	25,035,657,883	4,658,423,784	129,853,236
of which leasing receivables	0	0	0
Financial assets at fair value through other comprehensive income	3,803,893,601	0	0
Debt securities	3,803,893,601	0	0
Equity instruments			
Total	32,987,641,617	4,699,983,981	129,853,236
of which purchased credit-impaired financial assets	0	0	0

	Transfers between Stage 1 and Stage 2		Transfers between Stage 2 and Stage 3		Transfers between Stage 1 and Stage 3	
	To Stage 2 from Stage 1	To Stage 1 from Stage 2	To Stage 3 from Stage 2	To Stage 2 from Stage 3	To Stage 3 from Stage 1	To Stage 1 from Stage 3
Financial assets at amortised cost	1,780,571,470	1,108,186,982	29,601,500	45,281,247	711,022	9,160,446
Debt securities	0	12,086,220	0	0	0	0
Loans and advances	1,780,571,470	1,096,100,761	29,601,500	45,281,247	711,022	9,160,446
Of which leasing receivables	0	0	0	0	0	0
Financial assets at fair value through other comprehensive income	0	0	0	0	0	0
Debt securities	0	0	0	0	0	0
Equity instruments						
Total	1,780,571,470	1,108,186,982	29,601,500	45,281,247	711,022	9,160,446

The table of changes below gives an overview of phase 1, 2 and 3 impairments.

	01/01/2018	origination and acquisition	derecognition	change in credit risk (net)	modifications without derecognition (net)	write-offs	Other	31/12/2018
Stage 1	-3,170,772	-1,362,428	780,548	809,973	602		-80,160	-3,022,237
Debt securities	-1,213,920	-520,201	294,754	-349,106	0		-15,407	-1,803,880
Loans and advances	-1,956,852	-842,227	485,794	1,159,079	602		-64,753	-1,218,357
Stage 2	-13,459,428	-874,622	1,558,582	3,503,310	30,677		-998,241	-10,239,722
Debt securities	-964,113	0	197,969	280,105	0		0	-486,039
Loans and advances	-12,495,315	-874,622	1,360,613	3,223,205	30,677		-998,241	-9,753,683
Stage 3	-20,331,261	-227,559	8,483,689	-10,842,227	257,861	10,097,573	0	-12,561,924
Debt securities	0	0	0	0	0	0	0	0
Loans and advances	-20,331,261	-227,559	8,483,689	-10,842,227	257,861	10,097,573	0	-12,561,924
Total provisions on commitments and financial guarantees given	-499,014	-2,528,826	1,862,993	-181,287	228,064	0	-18,741	-1,136,811
Stage 1	-439,619	-2,489,439	1,699,202	81,711	116,829		-7,146	-1,038,462
Stage 2	-59,395	-39,387	163,791	-262,998	111,235		-11,595	-98,349
Stage 3	0	0	0	0	0	0	0	0
Total	-37,460,475	-4,993,435	12,685,812	-6,710,231	517,204	10,097,573	-1,097,142	-26,960,694

For the receivables in stage 3 amounting to EUR 129,853,236, EUR 12,561,924 of impairments have been recorded. EUR 116,004,072 of collateral is available against these receivables.

Write-off method

Credit files are written off in the Belgian portfolio when they meet certain conditions. The following criteria are important for mortgages or mortgage receivables:

- The mortgage has been called (no way back) and the collateral security has already been sold. The proceeds from this sale have been collected for the most part or no proceeds have been collected from the sale because the Company's receivable is not classified as positive.
- A mortgage borrower is admitted to collective debt restructuring or is in a state of bankruptcy and the collateral that served as guarantee has already been sold.
- The procedural costs involved in enforcing the guarantee are out of proportion with the possible benefits, as a result of which the guarantee cannot be sold.

For the Dutch portfolio, receivables are written off if, after enforcement of all the guarantees present, a residual debt remains and no further recovery options are expected.

The following criteria play an important role in the writing off of instalment loans:

- The loan has called (no way back). No more than 2 years after this date the loan is considered irrecoverable.
- An instalment loan debtor has been admitted to collective debt restructuring procedures or is in a state of bankruptcy.

Where, for credits written off according to the above criteria, payments continue to come in, or where the Company still sees possibilities of recovery, such credits will continue to be monitored by the Lending Litigation department's credit specialists. Enforcement activities continue as long as the cost-benefit analysis remains positive. Limitation periods are tracked and interrupted where necessary.

Contract modification and Forbearance

Favourable measures (forbearance measures) may be authorised by the Company with a debtor who is unable or will soon be unable to meet his financial obligations. These favourable measures are agreed upon in direct consultation between the counterparty and the Company's Special Management department (for Dutch loans) and Pre-Litigation department (for Belgian loans). The following measures can be permitted:

- Payment agreements for counterparties that are more than three months in arrears;
- Cancellation of penalties (specifically for Dutch loans);
- Conversion of repayment form or interest (specifically for Dutch loans);
- Interest rate averaging (specifically for Dutch loans);
- Temporary postponement or reduction of capital repayments (specifically for Belgian loans);
- Extending of repayment period (specifically for Belgian loans);
- Internal refinancing (specifically for Belgian loans).

Internal refinancings give rise to the recognition of a credit receivable, and the repayment (and no longer recognising) of the refinanced credit claim. Any refinancing permitted under a forbearance measure is recorded in this way.

The application of a forbearance measure is a qualitative indicator for identifying a significant increase in credit risk, and automatically leads to migration to stage 2. Migration to stage 1 is possible when the forbearance measure has ended.

	31/12/2017	31/12/2018
Gross carrying amount of exposures with forbearance measures	75,814,277	73,166,987
Of which performing exposures with forbearance measures	38,094,870	35,551,436
Of which non-performing exposures with forbearance measures	37,719,407	37,615,552
Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	3,243,665	2,935,277
Collateral received and financial guarantees received	69,704,788	68,424,785

The forbearance files designated as non-performing are always subject to 'individual assessment'. This table includes, for all forbearance files, the amount of collateral received. This demonstrates the existence here of significant collateral back-up.

5.4. Non-financial risks

Exposure

The overarching definition for non-financial risks is the chance of negative consequences (both financial and/or reputational damage) directly or indirectly due to inadequate or failing internal processes, people or systems, or of external events. Non-financial risks include compliance risk, project risk, legal risk, business continuity risk, sourcing risk, data security and cyber risk, physical asset risk, image risk, process risk, human resources risk, internal change risk (includes strategic risk and contagion risk), external change risk (includes location risk and regulatory risk) and internal fraud risk.

All businesses carrying out activities of any kind have to contend with an operational risk. Argenta's activities depend on the ability to process a very large number of transactions efficiently, accurately and in accordance with internal policies and external legislation and regulations. Operational risks and losses result from inadequate or failed internal processes (such as processes not aligned with the legal requirements), human actions (including fraud and employee errors) and systems (such as system failure) or due to external events (such as natural disasters or malfunctions of external systems, including those of the Company's suppliers or counterparties).

Strategic risk is the likelihood of adverse consequences as a direct or indirect result of business decisions, implementation of decisions, or lack of responsiveness to changing market conditions (both commercial and financial). This risk is a function of the compatibility of the strategic goals, the business strategy to achieve those goals, the resources allocated to achieve those goals and the quality of the implementation of the business strategy. The resources available consist of communication channels, systems, human resources, networks, and manager time and skills. The strategic goals are defined by the Executive Committee, approved by the Board of Directors, and monitored on a regular basis.

Contagion risk is the likelihood of adverse consequences for a Company entity as a direct or indirect result of an economic change in another entity of the Company.

Location risk (formerly country risk) is the likelihood of adverse consequences as a direct or indirect consequence of changes in the political, social, economic or other situation in a particular region.

Image risk is the likelihood of adverse consequences as a direct or indirect result of a changed perception of the image of the Company with one or more stakeholders without any other risk being the cause thereof. Image damage can be caused by problems within the sectors in which the Company operates. More specifically, the Company may suffer damage due to image problems in the banking or insurance sector. In addition, the expectations of stakeholders with regard to the Company that determine the maintaining of the image may evolve.

Regulatory risk is the likelihood of adverse consequences as a direct or indirect result of changes in legislation or regulations. A legislative or regulatory change introduced by the legislator can increase the costs of running the business and can impact production and strategy.

Risk management

The risk mapping, containing the non-financial risks, is submitted annually to the Risk Committee of the Board of Directors. The risks were assessed during workshops with the Executive Committee and the management teams.

The Company determines the desired risk appetite for each of these types. This risk appetite and the RAF then form the reference point against which risks are assessed in the risk management cycle (identifying and assessing risks, defining responses, monitoring and reporting).

The roles and responsibilities with regard to risk management are defined in the structure of the '3 lines of defence' and are further translated, with respect to the non-financial risks, in the risk management policy for non-financial risks.

A conscious non-financial risk management within the Company consists of supporting the sustainable growth of the Company in a pragmatic way, through risk management anchored in the business, within the approved risk appetite.

Within the overall risk appetite framework, the non-financial risks are managed in a structured way. This includes both quantitative reporting (RAF reporting of non-financial risks, KRS branch risk score, etc.) and qualitative reporting (activities report, internal control annual report, action plan, etc.).

The periodical reporting on non-financial risks includes at least the following elements:

- Non-financial incidents occurring both at head office and in the branch network and producing financial and/or reputational loss are recorded in an incident & loss database, classified by department, sub-domain, activity, Basel risk category and cause. The measuring process, collection of loss data and reporting of operational losses is done in a uniform manner for the various Company entities.
- The non-financial risks are actively monitored on the basis of a set of Key Risk Indicators, which are assessed quarterly in the GRC/Non-financial Risk Committee. In this way they also form the basis for one of the qualitative RAF limits.
- The branch risk score, which gives an aggregated picture of the risk exposure of the office network. The branch risk score is also one of the qualitative RAF limits. The operational dashboard that gives the branch risk score has a company-wide set of KRIs.

At least once a year each department formally evaluates its internal control maturity ('COSO evaluation'). The maturity score is obtained by completing the COSO questionnaire (supported by requested supporting documents). The questionnaire is based on the international COSO framework and asks questions about the various COSO components, including control environment, risk management and control measures. This COSO maturity score also forms the basis for one of the qualitative RAF limits.

Risk management in the branch network is monitored, with a set of challenges and in-depth tests applied with a risk-based approach. The branches are managed in this area using standardised reports, covering their operational functioning, risk awareness and prevention, and incident management. The relevant business lines (such as the commercial departments) are informed about this on a quarterly basis.

In addition, every year a scenario analysis is done, where Executive Committee members define general business-wide scenarios that can have a major impact on Argenta. These scenarios are used for the calculation of capital under ICAAP.

6. Solvency and capital management

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.

6.1. 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 always pursued a policy of self-financing. To retain a level of capital that provides sufficient scope for growth and to be able to support the financial and non-financial risks, the Company aims to meet the potential capital requirements by (a) retained earnings, (b) capital increases and (c) loans qualifying as capital-strengthening within the capital and resolution rules.

6.2. Regulatory matters

Introduction

The Company is subject to the CRR and CRD IV legislation. The sister entity Argenta Assuranties is required to fulfil the Solvency legislation. Information about Pillar 1 (minimum capital requirements) and Pillar 2 (SREP process) is given below. The Pillar 3 disclosures of the Bank Pool are published separately on the Argenta website, with part of this information taken from the present financial statements.

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 number of additional buffers (combined buffer requirement):

- A capital conservation buffer: an additional CET1 requirement of 2.50% that will be phased in until 2019. For 2018 the buffer is 1.875% (2.50% in 2019).
- A countercyclical capital buffer: gives an additional CET1 requirement of 0.04% calculated as a weighted average of the requirement imposed per country and the exposure to that country present in the Company;
- A buffer for systemically important institutions: the Belgian regulator has designated the Company as O-SII or 'other system-relevant institution', as a result of which the Company is subject to an additional CET1 requirement of 0.75%.
- A Pillar 2 requirement (P2Requirement) and a Pillar 2 recommendation (P2Guidance).

In the framework of the SREP (Supervisory Review and Evaluation Process), the competent supervisor (in this case the ECB) can impose higher minimum ratios (Pillar 2 requirement) as a result of the assessment of the robustness of the business model, the adequacy of the risk governance and the adequacy of the capital and liquidity situation.

The ECB's SREP (Supervisory Review and Evaluation Process, annual global evaluation) resulted in 2018 in a capital decision imposing a P2R (pillar 2 capital requirement) of 1.75% CET1 requirement. In the SREP, the JST also pays attention to the internal monitoring of ICT risk control and operational risk management.

The minimum solvency ratios increased by the Pillar 2 recommendation (P2Guidance) define an early warning limit with an escalation obligation to the supervisor.

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 is intended 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.

The economic capital process consists of the following steps:

- identification and assessment of the material risks;
- calculation of the required economic capital;
- calculation of the available economic capital;
- calculation of the current and future capital adequacy;
- allocation of the capital requirements across the business lines and product groups.

This means that in all circumstances (stress scenarios) the capital requirements of the Company are satisfied with an adequate degree of certainty.

6.3. Solvency

The following table shows the most important capital requirements, calculated according to the applicable rules.

	RAF norm	31/12/2017	31/12/2018
Available capital			
1 Common Equity Tier 1 (CET1)		1,895,235,880	1,935,219,831
2 Tier 1-capital (T1)		1,895,235,880	1,935,219,831
3 Total capital		2,392,184,698	2,433,021,445
Risk weighted assets			
4 Total risk weighted assets (RWA)		7,382,269,776	8,381,681,014
Solvency ratio's			
5 Common Equity Tier 1 ratio (%)	15%	25.67%	23.09%
6 Tier 1-capital ratio (%)		25.67%	23.09%
7 Total capital ratio (%)	17%	32.40%	29.03%
Additional CET1 buffer requirement			
8 Capital conservation buffer requirement (2.5% from 2019) (%)		1.25%	1.88%
9 Contracyclical capital buffer requirement (%)		0.06%	0.04%
10 O-SII (Other Systemically Important Institution) buffer requirement (%)		0.50%	0.75%
11 Total of CET1 buffer requirements (%) (row 8 + row 9 + row 10)		1.81%	2.66%
12 % CET1 available to fulfil buffer requirement above the minimum capital requirement of 4.5%		21.17%	18.59%
Leverage ratio			
13 Leverage exposure		39,028,136,237	41,118,817,429
14 Leverage ratio (%) (row 2 / row 13)	4%	4.90%	4.71%
Liquidity coverage ratio (LCR)			
15 Total high quality liquid assets		4,263,345,504	4,654,335,242
16 Total net cashflow		2,635,902,500	2,732,178,355
17 LCR ratio (%)	125%	161.74%	170.35%
Net Stable Funding Ratio (NSFR)			
18 Total available stable funding		34,250,051,345	36,093,027,715
19 Totaal required stable funding		23,926,055,763	25,542,778,325
20 NSFR ratio	120%	143.15%	141.30%

The Bank Pool therefore amply meets all statutory capital requirements. A more detailed explanation of the Company's capital adequacy can be found in the Pillar 3 Disclosures which are posted on the Argenta website.

7. Remuneration of directors

The composition of the Boards of Directors and the remuneration paid to the directors concerned are given below.

7.1. Composition of the Boards of Directors

The Boards of Directors of Argenta Bank- en Verzekeringsgroep, the Company and Argenta Assuranties have similar structures. They include:

- the members of the Executive Committee of the company concerned (the executive directors);
- a number of independent directors;
- a number of directors representing the shareholders (together with the independent directors, the non-executive directors).

The Boards of Directors are composed in such a way that none of the three distinct groups in them (the directors representing the shareholders, the independent directors, and the directors on the Executive Committee) has a majority. The majorities in the Boards are always formed by non-executive directors.

The number of directors in each Board of Directors should preferably not exceed fifteen.

Members of the Board of Directors must be natural persons.

The following age limits apply to directors:

- executive directors are legally required to resign on reaching the age of 65;
- non-executive directors resign automatically on reaching the age of 70;
- directors reaching the age limit may continue to exercise their mandates until a successor has been appointed.

The Board of Directors may permit exceptions to these rules on a case-by-case basis.

Independent directors are appointed with a view to attracting competencies in the Argenta Group's core activities, namely banking and insurance. Independent directors need to demonstrate broad experience in at least one of these core fields on the basis of their former or current activity. They must meet all the requirements stipulated in Article 526ter of the Companies Code.

The Boards of Directors of Argenta Bank- en Verzekeringsgroep, the Company and Argenta Assuranties each have a number of independent directors, with at least one independent director of Argenta Spaarbank not sitting on the board of Argenta Assuranties, and vice versa. The independent directors of the Company and Argenta Assuranties may be, but are not necessarily, members of the Board of Directors of Argenta Bank- en Verzekeringsgroep.

The governance rules concerning independent directors seek to ensure an appropriate balance in the management of the various companies of the Argenta Group between the representation of the group's interest and the protection of the interests (of the stakeholders) of the individual companies making up the Group.

The division of tasks between the Boards of Directors and the interaction with the various committees are documented in the Internal Governance Memorandum.

The Company's Board of Directors met 11 times in the past year.

At the end of 2018, the Board of Directors of Argenta Spaarbank was composed as follows:

- Jan Cerfontaine, Chairman of the Board and member of the Risk Committee
- Geert Ameloot, executive director and CFO
- Inge Ampe, executive director and COO
- Ann Brands, executive director and COO

- Carlo Henriksen, non-executive and independent director, chairman of the Risk Committee
- Marc Lauwers, executive director and CEO
- Carlo Henriksen, non-executive and independent director, member of the Audit Committee, member of the Risk Committee
- Marc van Heel, non-executive director, member of the Risk Committee.
- Geert Van Hove, executive director and CIDO
- Cynthia Van Hulle, non-executive director
- Bart Van Rompuy, non-executive director, member of the Audit Committee.
- Raf Vanderstichele, non-executive and independent director, chairman of the Audit Committee, member of the Risk Committee
- Emiel Walkiers, non-executive director
- Gert Wauters, executive director and CRO

Separate audit and risk committees have been set up within the boards of directors of the Company and Argenta Assuranties. At the Company, both committees are chaired by an independent director not belonging to the Board of Directors of Argenta Assuranties. The (limited) specific activities of Argenta Bank- en Verzekeringsgroep are overseen by the Audit Committee and the Risk Committee set up within the Board of Directors of the Company.

The Audit Committee supports the Board of Directors in fulfilling its duty of oversight of the financial reporting process, the internal system, the audit process and the process for monitoring compliance with legislation and regulations.

In 2018 the Audit Committee met 6 times.

The Risk Committee assists the Board of Directors in monitoring the implementation of the strategy by the Executive Committee. In accordance with the Governance Memorandum this includes determining the nature, scope, form and frequency of the information on the risks that the Board of Directors wishes to receive.

In 2018 the Risk Committee met 6 times.

The 'Suitability of Key Executives' Charter produced for the Argenta Group, including the management companies Argenta Asset Management and Arvestar Asset Management and the Dutch branch offices, sets out the governance and structured framework that Argenta has put in place to ensure the suitability of its key executives.

'Suitability' means that the person in question has the expertise and professional integrity (fit proper), as specified in the "Manual on Assessment of Fitness and Propriety" (Annexe to NBB Circular NBB_2018_25), of executive committee members, directors, persons responsible for independent control functions and senior managers of financial institutions.

'Key executives' refers to directors or statutory auditors, executive committee members, senior managers, and heads of independent control functions (internal audit, risk management, compliance, and actuarial function), in accordance with the above NBB circular.

In addition to assessing the suitability of individual directors based on the stated eligibility criteria, the Board also periodically evaluates its operation, its performance and the performance of individual directors.

An assessment of the working and effectiveness of the Board of Directors took place at the end of 2018. The results will be presented early in 2019. In addition, an evaluation of the Executive Committee as a team was also carried out.

7.2. Remuneration of senior management

The remuneration of the executive and non-executive directors of the Argenta Group companies is established by the respective Boards of Directors following a proposal from the Remuneration Committee. This proposal is also presented to the general meetings of the respective companies for ratification.

Remuneration of the non-executive directors

The remuneration of the non-executive members of the Board of Directors of the Argenta Group companies consists solely of a fixed remuneration established by the respective general meetings. They do not receive variable remuneration of any kind. This remuneration is the same for all independent directors and directors representing the shareholders.

Non-executive directors receive an additional fee for each meeting attended when participating in special committees set up within the Board of Directors (Audit Committee, Risk Committee, Appointments Committee, Remuneration Committee). This fee is the same for all members of such a committee, but with the chair receiving a higher fee.

The chair of the respective Boards of Directors is a director representing the family shareholder. He receives a fixed remuneration which differs from that of the other non-executive directors. He receives no additional fees per attended meeting. Besides the fixed annual remuneration, the Chairman of the Board also enjoys the benefits of an IPT (Individual Retirement Commitment).

No severance pay exists for non-executive Board members.

Remuneration of executive directors

Executive directors receive a fixed annual remuneration. They do not receive variable remuneration of any kind. In this way their pay does not contain elements that could encourage the pursuit of short-term objectives that are inconsistent with the Argenta Group's long-term objectives.

The remuneration meets the provisions of the CBFA Regulation of 8 February 2011 concerning the remuneration policies of financial institutions, as well as the provisions of the Banking Act. The remuneration is the same for all members of the Executive Committees, with the exception of the Chairman.

In addition to the fixed annual remuneration, executive directors also benefit from three group policies (pension capital, disability, and hospitalization insurance).

The composition of, and the division of responsibilities within the Executive Committees of Argenta Group's three core companies (Argenta Bank- en Verzekeringsgroep, the Company, Argenta Spaarbank and Argenta Assuranties) are largely integrated.

The reporting below covers the remuneration of the executive directors of the Argenta Group, regardless of the company that actually paid the remuneration.

In 2018, the basic salary of Marc Lauwers (CEO of Argenta and chairman of the Executive Committees of Argenta Bank- en Verzekeringsgroep, the Company, and Argenta Assuranties) amounted to EUR 626,400. This is an increase of 2.15 % compared with 2017. Added to this in 2018 was a contribution to the supplementary pension and disability group policies amounting to EUR 113,087 (EUR 95,451 in 2017).

In 2018, the total direct remuneration of the executive directors/Executive Committee members of the Argenta Group (excluding that of the CEO), amounted to EUR 1,617,000 (EUR 1,562,543 in 2017). Contributions to the group supplementary pension and disability policies in respect of the Executive Committee members, excluding those of the CEO, amounted to EUR 278,518 (EUR 254,620 in 2017).

Severance pay

Executive directors are entitled to a severance payment which, except for withdrawal of the mandate due to serious misconduct, is equal to 18 months' remuneration. The amount of this remuneration is based on the annual gross remuneration, calculated over the 24 months prior to the decision to terminate the contract, or calculated over the entire period of the mandate if less than 24 months.

The 18-month period is reduced to (i) 12 months if the termination occurs after the director reaches age 58, but before age 61; (ii) 9 months if the termination occurs after the director reaches age 61, but before age 63, and (iii) six months if the termination occurs after the director reaches age 63, but before reaching age 65.

If the appointment as a director and the appointment to the Executive Committee is revoked by Argenta other than for serious misconduct or is renewed other than for serious misconduct, the Director is entitled to a severance payment equal to eighteen (18) months' remuneration. 'Serious misconduct' within the meaning of this provision is understood as a serious breach, shortcoming or negligence by the Director with regard to the obligations arising out of or relating to the mandate, or adversely affecting the same, with the result that the requisite confidence of Company in the Director for the exercise of the mandate can no longer be maintained.

In 2018 severance payments totalling of EUR 491,100 were made to Executive Committee members (EUR 476,625 in 2017).

8. Remuneration of the statutory auditor

The fees of the statutory auditor and of entities related to the statutory auditor are monitored at consolidated level by the Audit Committee. Additional audit activities and consultancy assignments are approved in advance by the Audit Committee in accordance with Article 5, § 4 of Regulation (EU) No 537/2014.

The total amount of the fees for non-prohibited non-audit services provided by the statutory auditor (excluding those provided by the statutory auditor's network) may not exceed, for all Argenta group companies together and during the three years of the statutory auditor's mandate, seventy per cent of the total amount of fees for the statutory audit.

The audit of the Company's financial position and of the financial statements is assigned to the statutory auditor, Deloitte Bedrijfsrevisoren CVBA, represented by Dirk Vlaminckx.

The remuneration received by Deloitte (excluding VAT) for 2017 and 2018 breaks down (in accordance with Article 134 of the Companies Code) into:

- fees for audit assignments: this includes the fees for the auditing of the statutory (unconsolidated) and consolidated financial statements and other reporting assignments: (EUR 308,616 in 2017 and EUR 291,518 in 2018).
- fees for other assignments: EUR 195,980 in 2018 in respect of additional auditing activities, tax-related work and smaller ad hoc assignments (EUR 389,530 in 2017).

9. Related party transactions

As part of its business, the Company regularly undertakes business transactions with related parties. These transactions relate mainly to loans, deposits and insurance. They are in all cases carried out at arm's length.

The tables below provide an overview of the financial scope of the activities undertaken with the related parties. The relationships between the parent and its subsidiaries are described in Section 1 (general information).

31/12/2017 Balance sheet	Parent company	managers in key positions	Other related parties
Deposits	0	0	0
Term loans	0	0	97,177
Consumer loans	0	0	0
Mortgage loans	0	591,119	412,511
Other receivables	439,470	0	3,066,987
Total assets	439,470	591,119	3,576,675
Deposits	77,015,927	972,891	407,233,010
Debt securities issued	0	0	0
Subordinated liabilities	0	0	0
Other liabilities	1,064,578	0	24,916,457
Total liabilities	78,080,505	972,891	432,149,467
Guarantees issued by the group	0	0	0
Guarantees received by the group	0	0	0

31/12/2018 Balance sheet	Parent company	managers in key positions	Other related parties
Deposits	0	0	0
Term loans	0	0	63,825
Consumer loans	0	0	0
Mortgage loans	670,182	505,102	529,697
Other receivables	0	0	3,908,435
Total assets	670,182	505,102	4,501,957
Deposits	77,291,032	1,888,526	403,576,209
Debt securities issued	0	0	0
Subordinated liabilities	0	0	0
Other liabilities	1,017,192	0	34,743,869
Total liabilities	78,308,223	1,888,526	438,320,078
Guarantees issued by the group	0	0	0
Guarantees received by the group	0	0	0

As already explained, holding company BVg is the Company's parent company. Above it is the family holding Investar. The 'parent company(-ies)' column contains the data in respect of both holding companies.

The 'managers in key positions' column includes information in respect of executive and non-executive directors (Section 7) and the close relatives of directors who are natural persons.

Close relatives of a natural person are those who could be expected to be able to exert influence on the natural person (these include the natural person's partner and children residing in his/her household).

'Other related parties' includes details of the Company's sister companies, i.e. the aforementioned Insurance Pool.

31/12/2017 Income statement	Parent company	managers in key positions	Other related parties
Interest expenses	33,899	395	8,260
Fee and commission expenses	0	0	12,305,658
Administrative expenses	0	0	0
Other expenses	9,614,715	0	0
Total expenses	9,648,614	395	12,313,918
Interest income	310	5,902	182,037
Fee and commission income	0	0	0
Other income	528,202	0	30,313,368
Total income	528,512	5,902	30,495,405

31/12/2018 Income statement	Parent company	managers in key positions	Other related parties
Interest expenses	37,485	602	4,337
Fee and commission expenses	0	0	11,582,217
Administrative expenses	0	0	0
Other expenses	11,485,516	0	0
Total expenses	11,523,000	602	11,586,554
Interest income	4,673	7,772	10,687
Fee and commission income	0	0	0
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	0	0	18,316
Other income	415,986	0	37,157,698
Total income	420,659	7,772	37,186,701

No impairment losses were recognised in 2017 and 2018 on balance sheet items involving related parties.

Note on asset sales from the Company to its sister entity Aras

Since 2013, credit transfers have taken place between the Company and sister entity Aras. This is covered by a framework agreement, and a RACI (Responsible – Accountable – Consulted – Informed) has been established. Based on this RACI, the transfers are coordinated and all relevant parties are systematically involved so that transactions take place at arm's length. The credit transfers are compiled on the basis of a random selection from recent new production of (according to Aras's risk appetite) eligible loans. After transfer, they are immediately transferred.

In this way the Company grants Dutch loans through the branch, which are then taken over definitively by Aras. The definitively transferred credits involved and the attendant settlement of transaction costs are not included in the above tables.

Note on compensation – executive directors

The remuneration of the executive directors has already been described in Section 7. The table below sums the remuneration of the executive directors at Argenta level. No post-departure remuneration has been paid.

Remuneration of the executive directors	31/12/2017	31/12/2018
Severance compensation	476,625	491,100
Salaries and directors' fees	2,185,000	2,243,400
Total	2,661,625	2,734,500

10. Operating segments

The Company is required to provide information on operational segments to enable users of its financial statements to assess the nature and financial consequences of the business activities it undertakes and the economic environment in which it operates.

An operational segment is a component of the Company that performs business activities that may generate income or expenses, and of which, among other things, the business results or services rendered are assessed separately at regular intervals by management and for which separate financial information is available.

Section 1 (General Information) explains the structure of the Company (with a branch office in the Netherlands that is incorporated into the structure of Argenta Spaarbank nv).

The operational segmentation in the IFRS financial statements is based on geographical areas where the Bank Pool is active. This is systematically further reflected in the organisation through the existence of Argenta Spaarbank nv in Belgium, a branch office in the Netherlands (part of Argenta Spaarbank nv) and a subsidiary Argenta Asset Management (AAM) in Luxembourg. The ultimate chief operating decision maker (CODM) is the Executive Committee of the Company.

The Bank Pool delivers services under the heading of 'retail banking'. Until further notice this is treated in the internal reporting as a single operational segment. In 2018, lending to local and regional authorities was further embedded. These loans are considered as an additional investment (asset) category.

Information on geographical regions

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

31/12/2017 Assets	Belgium	The Netherlands	Luxembourg	Total
Cash, cash balances at central banks and other demand deposits	1,023,027,809	45,286,977	681,435	1,068,996,221
Financial assets held for trading	7,959,258	3,513,408	0	11,472,666
Available-for-sale financial assets	7,900,541,785	0	0	7,900,541,785
Loans and receivables	12,046,215,700	15,613,311,428	198,190	27,659,725,318
Derivatives used for hedge accounting	102,427,643	0	0	102,427,643
Held-to-maturity financial assets	462,780,202	0	0	462,780,202
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	122,822,732	0	0	122,822,732
Tangible assets	12,303,638	394,299	5,459	12,703,396
Investment properties	1,009,298	0	0	1,009,298
Goodwill and other intangible assets	62,455,431	932,503	76,366	63,464,300
Tax assets	1,160,750	3,879,833	0	5,040,583
Other assets	113,302,340	98,602,930	3,270,524	215,175,794
Non-current assets classified as held for sale	0	0	0	0
Total assets	21,856,006,586	15,765,921,378	4,231,974	37,626,159,937

31/12/2018 Assets	Belgium	The Netherlands	Luxembourg	Total
Cash, cash balances at central banks and other demand deposits	1,022,363,655	115,890,474	1,885,949	1,140,140,078
Financial assets held for trading	5,934,092	4,094,606	0	10,028,698
Non-trading financial assets mandatorily at fair value through profit or loss	64,562,150	0	0	64,562,150
Financial assets at fair value through other comprehensive income	3,810,957,321	0	0	3,810,957,321
Financial assets at amortised cost	17,382,128,241	16,605,619,525	600,042	33,988,347,808
Derivatives used for hedge accounting	73,711,127	0	0	73,711,127
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	112,681,197	80,887,043	0	193,568,240
Investments in subsidiaries, joint ventures and associates	0	0	0	0
Tangible assets	14,730,890	273,217	867	15,004,974
Goodwill and other intangible assets	62,306,598	779,663	44,175	63,130,436
Tax assets	19,092,647	0	0	19,092,647
Other assets	113,327,913	65,025,312	3,751,818	182,105,043
Total assets	22,681,795,831	16,872,569,840	6,282,851	39,560,648,522

31/12/2017 Liabilities and equity	Belgium	The Netherlands	Luxembourg	Total
Deposits from central banks	0	0	0	0
Financial liabilities held for trading	0	3,408,123	0	3,408,123
Financial liabilities at amortised cost	30,949,919,048	4,062,092,427	0	35,012,011,475
Derivatives used for hedge accounting	369,722,361	14,588,089	0	384,310,450
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	0	0	0	0
Provisions	4,551,650	55,541	0	4,607,191
Tax liabilities	22,200,229	9,565,049	992,002	32,757,280
Other liabilities	146,636,900	69,170,896	1,701,537	217,509,333
Total liabilities	31,493,030,188	4,158,880,125	2,693,539	35,654,603,853
Equity attributable to owners of the parent	1,048,851,488	909,856,950	12,804,003	1,971,512,441
Equity attributable to minority interest	0	0	43,643	43,643
Total equity	1,048,851,488	909,856,950	12,847,646	1,971,556,084
Total liabilities and equity	32,541,881,676	5,068,737,075	15,541,185	37,626,159,937

31/12/2018 Liabilities and equity	Belgium	The Netherlands	Luxembourg	Total
Deposits from central banks				0
Financial liabilities held for trading	0	4,073,472	0	4,073,472
Financial liabilities at amortised cost	32,564,356,265	4,396,066,268	0	36,960,422,533
Derivatives used for hedge accounting	246,796,798	103,872,252	0	350,669,050
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	0	0	0	0
Provisions	5,157,442	910,199	0	6,067,641
Tax liabilities	98,737	10,217,317	2,118,884	12,434,938
Other liabilities	127,501,345	82,176,456	2,039,520	211,717,320
Total liabilities	32,943,910,587	4,597,315,964	4,158,404	37,545,384,954
Equity attributable to owners of the parent	946,295,791	1,049,053,061	19,807,566	2,015,156,419
Equity attributable to minority interest	43,438	0	63,711	107,149
Total equity	946,339,229	1,049,053,061	19,871,277	2,015,263,567
Total liabilities and equity	33,890,249,816	5,646,369,025	24,029,681	39,560,648,522

31/12/2017 Income statement	Belgium	The Netherlands	Luxembourg	Conso	Total
Net interest income	283,308,363	210,652,893	576	488,557	494,450,389
Dividend income	153,513	0	0	0	153,513
Net fee and commission income	-58,943,349	-41,282	9,842,714	-202,831	-49,344,748
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	18,810,068	310,465	0	-310,465	18,810,068
Gains or losses on financial assets and liabilities held for trading	654,003	-1,729,808	0	-178,092	-1,253,896
Gains or losses from hedge accounting	2,873,055	0	0	0	2,873,055
Gains and losses on derecognition of non-financial assets	43,023	0	0	0	43,023
Net other operating income	41,815,539	1,100,295	995	0	42,916,830
Administrative expenses	-270,005,870	-42,415,367	-1,357,380	202,831	-313,575,786
Depreciation	-23,356,482	-264,503	-105,431	0	-23,726,415
Provisions or reversal of provisions	9,337,951	0	0	0	9,337,951
Impairments or reversal of impairments	3,194,821	3,338,795	0	0	6,533,616
Profit or loss from non-current assets classified as held for sale	565,005	0	0	0	565,005
Profit or loss before tax	8,449,641	170,951,488	8,381,475	0	187,782,604
Tax expense	14,446,897	-60,736,293	-2,490,103	0	-48,779,498
Profit or loss after tax	22,896,539	110,215,195	5,891,373	0	139,003,106

31/12/2018 Income statement	Belgium	The Netherlands	Luxembourg	Conso	Total
Net interest income	292,824,476	237,928,074	-1,035	0	530,751,515
Dividend income	184,317	0	0	0	184,317
Net fee and commission income	-65,006,766	822,573	18,463,608	-776,497	-46,497,082
Gains or losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss	5,138,204	-1,024,558	0	1,042,873	5,156,520
Gains or losses on financial assets and liabilities held for trading	-2,091,541	1,156,781	0	-1,042,873	-1,977,633
Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss	35,704	0	0	0	35,704
Gains or losses from hedge accounting	1,143,227	47,422	0	0	1,190,649
Gains and losses on derecognition of non-financial assets	189,783	0	0	0	189,783
Net other operating income	53,239,591	891,187	-14,845	-11,056	54,104,876
Administrative expenses	-300,530,289	-47,769,300	-1,654,740	787,553	-349,166,775
Depreciation	-23,212,397	-317,198	-37,827	0	-23,567,422
Provisions or reversal of provisions	-2,118,718	-681,752	0	0	-2,800,470
Impairments or reversal of impairments	2,173,877	710,830	0	0	2,884,708
Profit or loss from non-current assets classified as held for sale	0	0	0	0	0
Profit or loss before tax	-38,030,530	191,764,058	16,755,162	0	170,488,690
Tax expense	14,132,667	-50,415,073	-4,231,533	0	-40,513,939
Profit or loss after tax	-23,897,863	141,348,985	12,523,629	0	129,974,751

All transactions between segments are at arm's length. The largest earnings-related transaction between operational segments consists of the charging on of a funding cost by the Company (Belgium) to the branch (the Netherlands) for capital made available (to enable loans to be granted in the Netherlands).

Information on products and services

The present IFRS consolidated statements cover only the Bank Pool, which falls entirely under the heading of retail banking, and is considered as a single operational segment for the purposes of the consolidated internal reporting.

Retail banking provides financial services to individuals, and to a limited extent also to self-employed persons and small and medium-sized enterprises. In the Benelux, it provides advice on daily banking, saving, lending and investment.

Information on key customers

Where the income from transactions with a single external customer accounts for at least 10 % of the Company's income, this must be disclosed.

Under the various policies the Company currently applies to limit the concentration of credit risk (and implicitly the concentration of income), this 10% would never be reached.

Notes to the consolidated balance sheet

11. Cash, cash balances and deposits with (central) banks

Cash, cash balances and deposits with (central) banks (asset side) includes all cash and current account balances with central and other banks.

	31/12/2017	31/12/2018
Cash	61,901,183	70,224,406
Deposits with central banks	949,284,468	965,710,220
Deposits with other financial institutions	57,810,570	104,205,452
Total	1,068,996,221	1,140,140,077

As of 31 December 2017, there were EUR 949,284,468 in the current accounts at the central bank. The largest part of this amount consists of the monetary reserves that every financial institution is required to hold with the central bank. There is also a larger amount in anticipation of the purchase of securities or the granting of loans. As of 31 December 2018, there were EUR 965,710,220 in these accounts.

In 2017 and 2018, there were no deposits from central banks.

12. Financial assets and liabilities held for trading

The financial assets and liabilities held for trading are composed as follows:

Financial assets	count	notional	31/12/2017	count	notional	31/12/2018
Interest rate options - caps	10	1,550,000,000	8,063,674	10	1,550,000,000	5,938,432
Securitization transactions - caps	1	1,184,000,000	3,408,992	2	2,107,000,000	4,090,266
Total			11,472,666			10,028,698

Financial liabilities	count	notional	31/12/2017	count	notional	31/12/2018
Interest rate options - caps	0	0	0	0	0	0
Securitization transactions - caps	1	1,184,000,000	3,408,123	2	2,107,000,000	4,073,472
Total			3,408,123			4,073,472

Not listed (OTC) - interest-rate options - caps

Financial assets held for trading include the interest rate options (caps) as they have a positive fair value. Financial liabilities include interest rate options (caps) with a negative fair value.

These interest rate options, purchased over-the-counter (OTC) from other financial institutions, are always entered into in the framework of economic hedges, but hedge accounting cannot be applied to them.

The options serve as protection against the interest rate risk. They are commitments by the seller to pay the buyer an interest rate difference in exchange for a premium paid by the buyer.

In 2017 and 2018 no additional caps were concluded in the context of interest rate risk management at the Company.

Not listed (OTC) - swaps (securitisation transaction)

Under this heading are the caps concluded in the context of a securitisation transaction and that are not accounted for according to hedge accounting principles.

In 2017 and 2018, new securitisation transactions were carried out, with two caps for each transaction. The limited difference between the market value of the caps on the asset side and the liability side of the balance sheet is recognised in the income statement.

13. Assets not held for trading, mandatorily measured at fair value through profit and loss

With the introduction of the IFRS 9 standard, an additional test, the SPPI (Solely Payments of Principal and Interest) was introduced. For determining the classification and for measurement, this SPPI test is performed to determine whether only ordinary interest and capital repayments are made on a financial instrument. Where this is not the case, the effect will have to be processed to FVTPL (Fair Value through P&L).

As of 31/12/2018, there was EUR 64,562,150 under this classification. These are securities purchased in the past that the SPPI tests found not to meet these criteria.

	31/12/2017	31/12/2018
Total	0	64,562,150
Breakdown into fixed and variable interest rate type		
Variable	0	51,788,123
Fixed	0	12,774,027
Onbepaald	0	0
Geographical breakdown		
Belgium	0	0
European Monetary Union	0	64,562,150
Rest of the world	0	0
Breakdown by residual term or maturity date		
Up to 1 year	0	2,099,421
Between 1 and 5 years	0	19,846,418
More than 5 years	0	42,616,311

	31/12/2017	31/12/2018
Breakdown according to counterparty		
General governments	0	19,846,419
Credit institutions	0	26,607,356
Other financial corporations	0	18,108,375
Non-financial corporations	0	0
Effective interest rate of the portfolio at 31/12	0	0.93%

14. Financial assets at fair value through other comprehensive income

In recent years, the majority of the Company's securities portfolio (shares and bonds) was catalogued under the heading "available-for-sale financial assets". As of 31/12/2017, there was EUR 7,900,541,785 under this classification.

The implementation of the IFRS 9 standard resulted in a different classification of the securities portfolio. As a result, as at 31/12/2018, EUR 3,810,957,321 of securities were recognised at fair value through other comprehensive income (with the same measurement method as the "available-for-sale financial assets").

	31/12/2017	31/12/2018
Available-for-sale financial assets (IAS 39)	7,900,541,785	0
Financial assets at fair value through other comprehensive income (IFRS 9)	0	3,810,957,321
of which hedged via micro hedges (notional amount)	1,296,989,327	1,315,193,792
Breakdown by instrument type		
Equity instruments	6,958,504	7,650,182
Debt securities	7,893,583,281	3,803,307,139
Breakdown into fixed and variable interest rate type		
Variable	3,238,962,238	1,622,140,600
Fixed	4,654,621,042	2,181,166,539
Undefined (equity instruments)	6,958,504	7,650,182
Geographical breakdown		
Belgium	2,310,067,487	1,333,581,754
European Monetary Union	3,884,877,851	1,908,304,687
Rest of the world	1,705,596,447	569,070,880
Breakdown by residual term or maturity date		
Up to 1 year	1,435,482,741	307,465,762
Between 1 and 5 years	5,075,676,510	2,203,065,126
More than 5 years	1,382,424,030	1,292,776,251
Undefined (equity instruments)	6,958,504	7,650,182

	31/12/2017	31/12/2018
Breakdown according to counterparty		
General governments	2,629,943,011	1,330,239,055
Credit institutions	1,847,703,786	1,241,041,733
Other financial corporations	1,674,382,188	419,139,536
Non-financial corporations	1,748,512,800	820,536,997
Breakdown according to impairment stage (gross carrying amount)		
Debt securities		
Stage 1	0	3,803,893,601
Stage 2	0	0
Stage 3	0	0
Breakdown according to impairment stage (accumulated impairment)		
Debt securities		
Stage 1	0	-586,462
Stage 2	0	0
Stage 3	0	0
Effective interest rate of the portfolio at 31/12	1.00%	0.97%
Used as collateral (notional amount)	466,630,300	371,160,000
Encumbrance in the event of utilization of the NBB credit line	250,000,000	250,000,000

Under the the new IFRS 9 standard, impairments must be created for the debt instruments in this portfolio. Given the robustness of this portfolio with no arrears, there are no individual (stage 3) impairments in 2017 and 2018. As at 31/12/2018, stage 1 impairments were recognised in an amount of EUR 586,462.

The relevant securities are all included at market value in the balance sheet with the delta market value taken into equity. Section 24 provides further information on the market values used and in particular on the level hierarchy of the fair values involved.

The Company has opted to measure the entire portfolio of equity instruments at fair value through other comprehensive income. The underlying positions consist of infrastructure funds and real estate companies that the Company holds with a long-term investment perspective, or equity instruments of companies (in particular Visa Card Company) where a long-term relationship is sought. No positions were realised during 2018, and EUR 184,317 of dividends were received.

Given the limited holding of shares and bonds of British origin, Argenta expects Brexit to have no impact on the securities portfolio of the Argenta Group.

As of the end of 2017, a nominal EUR 498,380,300 of securities were encumbered as part of the collateral management of derivative instruments and of repos, and as surety for the credit cards issuer. The Company also has a credit line with the NBB of EUR 250 million, for which securities are encumbered as and when this credit line is used. In 2018, securities were encumbered in a nominal amount of EUR 371,160,000.

The fair value and amortised cost, and the related unrealised gains or losses (latent capital gains or losses) on the portfolios in question at 31 December were as follows:

31/12/2017	Amortised cost	Accumulated fair value changes	Accumulated impairments	Fair value
Debt securities				
General governments	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
Other financial corporations	1,656,376,861	13,841,766	0	1,670,218,627
Non-financial corporations	1,721,997,499	23,725,721	-5,363	1,745,717,857
Equity instruments				
Investment funds and 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

31/12/2018	Amortised cost	Accumulated fair value changes	Accumulated impairments	Fair value
Debt securities				
General governments	1,250,517,058	79,889,701	-167,704	1,330,239,055
Credit institutions	1,238,398,269	2,836,961	-193,497	1,241,041,733
Other financial corporations	415,323,027	-7,540,645	-17,098	407,765,284
Non-financial corporations	825,989,343	-1,520,113	-208,163	824,261,067
Equity instruments				
Investment funds and shares	5,968,252	1,681,930	0	7,650,182
Total	3,736,195,949	75,347,834	-586,462	3,810,957,321

This classification by public and regional administrations, credit institutions, other financial institutions and other institutions is that of a prudential reporting at solo level.

15. Financial assets at amortised cost

Before the introduction of the IFRS 9 standard, a distinction was made on the balance sheet between “loans and receivables” and “financial assets held until maturity”.

The IFRS 9 standard introduced a new classification whereby the financial instruments under the above headings now fall under the “financial assets at amortised cost”. In addition, on the basis of the business model analysis, the Company has now included part of the securities that were previously classified under “available-for-sale assets” under “financial assets at amortised cost”.

A distinction is made between “loans and advances” and debt securities.

	31/12/2017	31/12/2018
Financial assets at amortised cost (IFRS 9)	0	33,988,347,808
Loans and advances (IFRS 9)	0	29,800,400,936
Debt securities (IFRS 9)	0	4,187,946,872
Loans and receivables (IAS 39)	27,659,725,318	0
Held-to-maturity financial assets (IAS 39)	462,780,202	0
Breakdown by product type		
Consumer loans	114,057,678	162,833,480
Mortgage loans	26,957,897,483	28,832,736,442
Term loans	545,857,794	759,349,793
Advances and overdrafts	2,595,185	11,994,154
Other loan receivables - MBS portfolio	17,031,178	0
Loans from credit institutions	22,286,000	33,487,068
Debt securities	462,780,202	4,187,946,872
Breakdown into fixed and variable interest rate type		
Variable	98,499,229	1,010,383,987
Fixed	364,280,973	3,177,562,885
Geographical breakdown		
Belgium	439,663,220	1,516,234,767
European Monetary Union	23,116,982	2,130,860,218
Rest of the world	0	540,851,887
Breakdown by residual term or maturity date		
Debt securities		
Up to 1 year	217,626,190	974,257,846
Between 1 and 5 years	84,636,672	1,501,583,704
More than 5 years	160,517,339	1,712,105,322
Loans and advances		
Up to 1 year	1,035,565,036	1,158,417,372
Between 1 and 5 years	3,817,323,306	4,306,200,968
More than 5 years	22,806,836,975	24,335,782,596
Breakdown according to counterparty		
General governments	445,054,453	1,228,110,654
Credit institutions	0	638,838,526
Other financial corporations	14,693,537	1,188,425,808
Non-financial corporations	3,032,211	1,132,571,885

	31/12/2017	31/12/2018
Breakdown according to impairment stage (gross carrying amount)		
Debt securities		
Stage 1	0	4,148,090,133
Stage 2	0	41,560,196
Stage 3	0	0
Loans and advances		
Stage 1	0	25,035,657,917
Stage 2	0	4,658,423,784
Stage 3	64,352,277	129,853,236
Breakdown according to impairment stage (accumulated impairment)		
Debt securities		
Stage 1	0	-1,217,418
Stage 2	0	-486,039
Stage 3	0	0
Loans and advances		
Stage 1	0	-1,218,392
Stage 2	0	-9,753,683
Stage 3	-20,331,261	-12,561,925
Collective impairments	-6,240,696	0
Effective interest rate of the portfolio debt securities at 31/12	2.33%	0.90%
Effective interest rate of the portfolio loans and advances at 31/12	2.64%	2.47%
Used as collateral (notional amount)	31,750,000	43,500,000

The loans and advances have further increased through the additional lending to the Company's retail customers, both in Belgium and the Netherlands.

At the end of 2018, the debt securities were subject to stage 1 impairments of EUR 1,217,418 and stage 2 impairments of EUR 486,039.

For loans and receivables, there are EUR 1,218,392 of stage 1 and EUR 9,753,683 of stage 2 impairments. These last two impairments have replaced the EUR 6,240,696 of collective impairments at the end of 2017.

The effective interest rate of the debt securities portfolio is lower because the portfolio is structured differently under this classification. At the end of 2017 there was a limited portfolio of securities with only fixed interest rates, today it is a larger portfolio with also variable interest rates.

From 1 October 2011 onwards, part of the MBS securities portfolio was reclassified from "available-for-sale assets" to "loans and receivables". As a result of the new classification and measurement under the new IFRS 9 standard, these securities have ended up under debt securities.

16. Derivatives used for hedging

This section contains, inter alia, additional information on the balance sheet headings 'derivatives used for hedge accounting' and 'fair value changes of the hedged items in a portfolio hedge of interest rate risk'. The Company uses derivatives and hedge accounting only for hedging interest rate risk.

General explanation

Hedge accounting (accounting treatment of hedging transactions in IFRS) can be used for derivatives that are intended to be used for hedging, subject to certain criteria being met. These criteria for the accounting treatment of a derivative as a hedging instrument include:

- the hedging instrument, the hedged position and the purpose and strategy of the hedging and the party involved must be officially documented before hedge accounting is applied.
- the hedge must be documented, substantiating that it is expected to be highly effective (within a range of 80% to 125%) in offsetting changes in the fair value (or cash flows) related to the hedged risk during the entire reporting period;
- the hedge is effective from the start and is continuously assessed.

Note on macro hedges

First and foremost, the Company continues to apply IAS 39, which has been authorised by the EU, because it reflects best the way in which the Company manages its activities. The option to continue applying this was provided for in the new IFRS 9 standard.

Hedging relationships are intended to limit the interest rate risk ensuing from the selected category of assets (or liabilities) which fall within the definition of qualifying hedged positions.

The Company performs an overall analysis of the interest rate risk and selects assets (and/or liabilities) that need to be included in the hedging of the interest rate risk of the portfolio. At the outset it defines the risk position to be hedged, the duration, the way in which the tests are conducted and the frequency thereof.

The Company has opted to hedge a portfolio of mortgage loans with a fixed interest rate, and selects within that portfolio the hedged positions as a function of the interest rate risk management strategy. The assessment of the effectiveness consists of checking whether the object of the hedge, i.e. limiting the interest rate risk, has been achieved.

With hedge accounting, the changes in the fair value of the fixed rate legs of these swaps are offset by opposite changes in the fair value of the hedged positions. The fluctuations in the fair value of the floating rate components of the swaps have a net impact on the results.

What we have here is a fair value hedge, whereby the hedged risk consists of the benchmark (euribor), which is the interest rate component of the fixed-rate mortgage loans. The gains or losses (changes in fair value) on the hedged positions as a result of the hedged risk, and the gains or losses (changes in fair value) on the hedging instruments are recognised in the income statement.

The changes in fair value of the hedged positions (in this case a hedged portfolio of mortgage loans) can be found under the heading 'cumulative fluctuations in the value of the hedged positions when hedging the interest risk' and amount to EUR 193,568,240 as of 31 December 2018. What we have here are macro fair value hedges of the interest rate risk on a hedged mortgage portfolio.

Macro hedge – fair value hedging	count	notional	31/12/2017	count	notional	31/12/2018
Fair value changes of the hedged items in a portfolio hedge of interest rate risk			122,822,732			193,568,240
Derivatives with negative fair value (clean price)	34	5,050,000,000	-218,148,334	49	5,550,000,000	-242,806,272
Derivatives with positive fair value (clean price)	33	3,200,000,000	97,538,609	21	2,600,000,000	52,564,948

In the above table, the clean price is included in order to provide a link between the swaps involved in the hedge accounting and the change in the fair value of the hedged positions.

Meanwhile, swaptions have also been concluded in the context of the macro coverage of the interest rate risk. Hedge accounting can be applied to the intrinsic value of the swaptions involved. The time value of these instruments ends up in the profit and loss based on the market value evolution of these instruments. As long as the option for entering into the swap has not been exercised, a one-sided interest rate risk is hedged.

As of 31/12/2018, the Company had 6 swaptions concluded in a nominal amount of 600 million (100 million per instrument). Four were concluded in 2018. The swaptions involved have a positive time value of EUR 26,518,611. As of 31/12/2018 they had no intrinsic value, so no change in the fair value of the hedged positions was recorded. The time value is not included in the market value (clean price) in the table above as it is not part of the hedging relationship.

Note on micro hedges

The Company also concludes swaps to hedge the interest rate risk on individual instruments (so-called 'micro-hedges').

Swaps have been concluded to hedge the securities purchased at that time. These were classified under 'available-for-sale assets' and since 1 January 2018 appear under 'Financial assets at fair value through other comprehensive income'. The changes in the fair value of the fixed rate legs of these swaps are offset by opposite changes in the fair value of the hedged positions.

In this way, part of the change in fair value of the 'available-for-sale' securities (since 1 January 2018 'Financial assets at fair value through other comprehensive income') is not recognised on a separate line in other comprehensive income, but is treated in the income statement in the context of hedge accounting. As of 31 December 2018, this involved an amount of EUR 56,935,140.

Micro hedge – fair value hedging	count	notional	31/12/2017	count	notional	31/12/2018
Fair value changes of the hedged items in a micro hedge of interest rate risk			65,571,900			56,935,140
Derivatives with negative fair value (clean price)	9	1,075,723,300	-66,467,456	11	1,220,806,300	-56,821,460
Derivatives with positive fair value (clean price)	1	100,020,000	932,491	0	0	0

In the above table, the clean price is included in order to provide a link between the swaps involved in the hedge accounting and the change in the fair value of the hedged positions.

In 2011, a swap was concluded that was recognised in IFRS as a cash flow hedge (CFH). This involved a forward starting swap (start date 31 May 2016 and end date 31 May 2021) for a notional amount of EUR 100 million to hedge the interest rate risk on a future portfolio of term products. Meanwhile, the placement of the term products concerned was also realised. The swap in question had a negative market value of EUR 10,252,209 as of 31 December 2018.

Note on totals of derivatives used for hedging

Outside of one swap that is processed as a cash flow hedge, all swaps are processed as fair value hedges. The table below shows the derivative instruments as recognised in the balance sheet, giving additionally the total market value recognised under the applicable IFRS hedge accounting rules.

Fair value (dirty price) derivatives used for hedge accounting	31/12/2017	31/12/2018
Derivaten used for hedge accounting (assets)	102,427,643	73,711,127
Fair value macro hedges	101,844,313	73,711,127
Fair value micro hedges	583,330	0
Derivaten used for hedge accounting (liabilities)	384,310,450	350,669,050
Fair value macro hedges	289,753,289	269,317,321
Fair value micro hedges	77,607,739	68,631,437
Cash flow hedge	16,949,422	12,720,292

Further explanation is included in Section 32 for the gains and losses from the accounting for hedging transactions, and in Section 3 for the recognition of the cash flow hedge.

The table below gives an overview of the maturities of the derivative positions.

31/12/2017	notional	1 year	1-5 year	5-10 year	10-15 year	>20 year
Macro hedge – fair value hedge	8,250,000,000	1,200,000,000	1,050,000,000	3,850,000,000	1,150,000,000	1,000,000,000
Micro hedge – fair value hedge	1,175,743,300	0	550,000,000	523,549,500	102,193,800	0
Micro hedge – cash flow hedge	100,000,000	0	100,000,000	0	0	0

31/12/2018	notional	1 year	1-5 year	5-10 year	10-15 year	>20 year
Macro hedge – fair value hedge	8,150,000,000	0	2,350,000,000	3,350,000,000	1,250,000,000	1,200,000,000
Micro hedge – fair value hedge	1,220,806,300	100,000,000	703,797,500	314,815,000	102,193,800	0
Micro hedge – cash flow hedge	100,000,000	0	100,000,000	0	0	0

17. Property, plant and equipment

The property, plant and equipment (measured using the cost price model) as of 31 December 2017 and 31 December 2018 were as follows:

	31/12/2017	31/12/2018
Property, plant and equipment	12,703,396	14,452,502
Investment properties	1,009,298	552,472
Total	13,712,694	15,004,974
Fair value of investment properties	1,078,713	532,094

The portfolio of real estate investments changes mainly as a result of the purchasing and reselling of properties under the mortgage lending foreclosure policy. In addition, periodically a 1% share is purchased in premises that are used as office buildings by independent branch managers. These are also accounted for under the investment properties.

The fair value of the real estate investments (level 3) is based on the individual valuation of the respective investments.

	Land and buildings	IT	Other	Total	Investment properties
01/01/2017	347,566	4,222,322	7,907,242	12,477,130	1,450,009
Acquisitions	0	2,701,391	3,059,548	5,760,939	279,915
Disposals	-219,607	0	-167,408	-387,015	-670,898
Depreciation	-5,197	-2,371,301	-2,846,427	-5,222,925	-35,783
Transfer	-122,762	0	122,762	0	0
Other changes	0	0	75,266	75,266	-13,944
31/12/2017	0	4,552,413	8,150,983	12,703,396	1,009,298

	Land and buildings	IT	Other	Total	Investment properties
01/01/2018	0	4,552,413	8,150,983	12,703,396	1,009,298
Acquisitions	0	1,328,797	5,312,894	6,641,691	0
Disposals	0	-43,699	-455,501	-499,199	-433,212
Depreciation	0	-1,589,864	-2,810,527	-4,400,391	-19,031
Transfer	0	0	0	0	0
Other changes	0	0	7,006	7,006	-4,583
31/12/2018	0	4,247,647	10,,204,854	14,452,502	552,472

The amount for buildings and land reduced to zero in 2017 with the sale of these buildings and land.

18. Goodwill and other intangible assets

Goodwill is defined as the portion of the cost of the acquisition of a business combination that exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired, as determined as of the date of acquisition.

As at 31 December, the other intangible assets included on the basis of the paid costs (cost model) were composed as follows:

	Internally developed software	Other intangible assets	Goodwill	Total
01/01/2017	51,226,526	5,564,433	0	56,790,960
Acquisitions	19,685,950	5,455,296	0	25,141,246
Disposals	0	-199	0	-199
Depreciation	-16,501,239	-1,966,468	0	-18,467,707
Other changes	610,762	-610,762	0	0
31/12/2017	55,021,999	8,442,301	0	63,464,300

	Internally developed software	Other intangible assets	Goodwill	Total
01/01/2018	55,021,999	8,442,301	0	63,464,300
Acquisitions	17,275,984	1,538,542	0	18,814,526
Disposals	0	-391	0	-391
Depreciation	-16,385,651	-2,762,348	0	-19,147,999
Other changes	0	0	0	0
31/12/2018	55,912,332	7,218,104	0	63,130,436

In the case of the acquired software this relates to the purchased software and the capitalised cost of intangible assets.

The amount of EUR 19,148,000 for 2018 can be found in the income statement under the amortisation of the assets concerned.

The acquisition price and acquisition costs of acquired software and the capitalised cost of intangible assets are amortised at 20% a year. Other intangible assets are amortised at 10% per annum.

19. Tax assets and liabilities

The tax position can be summarised as follows:

	31/12/2017	31/12/2018
Current tax assets	5,040,583	694,713
Deferred tax assets	0	18,397,934
Total tax assets	5,040,583	19,092,647
Current tax liabilities	992,002	4,466,426
Deferred tax liabilities	31,765,278	7,968,512
Total tax liabilities	32,757,280	12,434,938
Total deferred tax position	31,765,278	-10,429,422

The deferred taxes are broken out below:

Deferred taxes by type	31/12/2016	Changes via other comprehensive income	Changes via profit or loss	31/12/2017	Changes via other comprehensive income	Changes via profit or loss	31/12/2018
Related to cash flow hedge	4,659,925	-1,012,903	0	3,647,022	-1,545,319	0	2,101,703
Related to reclassified available-for-sale financial assets	2,121,552	-866,728	0	1,254,824	-1,254,824	0	0
Related to the fair value valuation of derivatives	13,796,819	0	-6,097,782	7,699,037	0	-826,814	6,872,223
Related to fiscal losses and non-deductible expenses under local accounting rules	4,438,595	0	4,553,457	8,992,052	0	15,437,938	24,429,990
Related to fiscal losses and non-deductible expenses under IFRS	0	0	0	0	0	2,042,499	2,042,499
Related to defined benefit pension plan valuation	0	430,353	163,392	593,745	0	-563,417	30,328
Total deferred tax assets	25,016,891	-1,449,278	-1,380,933	22,186,680	-2,800,143	16,090,206	35,476,743
Related to financial instruments at fair value	47,787,341	-16,328,425	0	31,458,916	-26,689,353	-313,896	4,455,667
Related to amortised cost valuation	24,860,731	0	-2,367,688	22,493,043	0	-1,901,389	20,591,654
Other items	228,969	0	-228,969	0	0	0	0
Total deferred tax liabilities	72,877,041	-16,328,425	-2,596,657	53,951,959	-26,689,353	-2,215,285	25,047,321
Total deferred tax position	47,860,150	-14,879,147	-1,215,724	31,765,279	-23,889,210	-18,305,491	-10,429,422

The main items in 2018 were a deferred tax liability of EUR 4,455,667 on the positive delta market value of the ‘available-for-sale assets’, a deferred tax liability of EUR 20,591,654 on the amortised cost of the loans and a tax claim of 8,973,926 relating to the processing of the derivative instruments and a tax claim of EUR 24,429,990 in respect of “costs not deductible for tax purposes” and losses carryforwardable for tax purposes.

In this way, the tax claim in respect of non-deductible costs has risen from EUR 8,992,052 at the end of 2017 to a cumulative EUR 24,429,990 at the end of 2018. This increase is the result of, among other things, no longer being able to apply the FDI (direct foreign investment) deductions in Belgium and a tax-carryforwardable loss in Belgium. When creating DTAs (deferred tax assets), an assessment is always made as to whether they can be used. There are no temporary deductible differences for which no DTA (deferred tax asset) was created.

Section 37 provides further information of the impact of corporate taxes on the Company’s result.

20. Other assets

The other assets break down as follows:

	31/12/2017	31/12/2018
Prepaid expenses	5,419,849	8,429,840
Other assets in the context of lending	84,189,383	30,745,239
Other assets in the context of securities transactions	5,038,262	4,973,087
Other assets in the context of payment traffic	59,122,495	69,013,029
Suspense accounts	61,405,805	68,943,848
Total	215,175,794	182,105,043

Other assets in the context of to lending relate to credit advances on notary accounts and with the external manager in connection with the Dutch loans. Other assets in the context of securities transactions are related to fees receivable from external fund managers. Assets in the context of to payment transactions concern transition accounts for debit and credit cards. ‘Suspense accounts’ contains amounts awaiting definitive allocation to specific bookkeeping accounts, advances to agents and personnel and current accounts of affiliated companies.

21. Financial liabilities measured at amortised cost

	31/12/2017	31/12/2018
Deposits from credit institutions (see 21.1)	76,393,437	4,930,530
Retail funding deposits (see 21.2)	32,427,415,232	33,916,930,075
Retail funding - debt certificates - retail savings certificates (see 21.3)	717,959,678	415,930,699
Debt certificates – bonds (see 21.4)	1,193,646,908	2,047,236,993
Subordinated liabilities (see 21.5)	596,596,220	575,394,236
Total	35,012,011,475	36,960,422,533

21.1. Deposits from credit institutions

The deposits from credit institutions are composed as follows:

	31/12/2017	31/12/2018
Deposits from credit institutions	76,393,437	4,930,530
Geographical breakdown		
Belgium	1,219,958	839,596
European Monetary Union	75,173,479	4,090,934
Rest of the world	0	0
Breakdown by residual term or maturity date		
Up to 1 year	76,393,437	4,930,530
Breakdown by type		
Demand deposits	1,451,462	1,087,803
Collateral from financial institutions	74,941,975	3,842,727
Effective interest rate of the portfolio as of 31/12	-0.33%	-0.21%

21.2. Retail funding – deposits

Deposits from institutions other than credit institutions - essentially deposits by retail customers in the Company - break down as follows:

	31/12/2017	31/12/2018
Deposits from other than credit institutions	32,427,415,232	33,916,930,075
Breakdown by type		
Demand deposits	4,074,884,558	4,588,194,542
Term deposits	2,907,221,165	2,509,063,785
Regulated savings deposits	23,075,556,453	24,259,375,993
Mortgage linked deposits	441,035,930	593,829,758
Other deposits	1,928,717,126	1,966,465,997
Breakdown of fixed-term deposits by residual term		
Up to 1 year	937,589,385	892,587,511
Between 1 and 5 year	1,619,373,584	1,317,184,875
More than 5 year	350,258,196	299,291,400
Effective interest rate of the portfolio as of 31/12	0.30%	0.24%

The portfolio of regulated savings deposits is rising gradually. Deposits linked to mortgage loans include, among other things, the undrawn amounts of mortgage loans and 'savings' linked to Dutch mortgage loans.

This latter item relates to the placement of the savings - built up in the case of mortgage loans at the branch of group entity Aras - by that entity with the Company.

The 'other deposits' consist mainly of the savings deposits in the Netherlands branch.

21.3. Retail funding - debt certificates - retail savings certificates

The debt certificates break down as follows:

	31/12/2017	31/12/2018
Debt certificates – retail savings certificates	717,959,678	415,930,699
Breakdown by residual term		
Up to 1 year	296,690,991	317,513,018
Between 1 and 5 year	421,268,687	98,417,681
More than 5 year	0	0
Effective interest rate of the portfolio as of 31/12	2.35%	2.33%

The downward trend of this portfolio in recent years continues because a few years ago the Company decided not to case offering retail savings certificates, as its features are mirrored by the "term account" product.

21.4. Debt certificates – bonds

This item contains the A notes issued by SPV Green Apple 2017 I NHG and SPV Green Apple 2018 I NHG in the context of securitisation transactions.

	31/12/2017	31/12/2018
Debt certificates – bonds	1,193,646,908	2,047,236,993
Green Apple 2017-I NHG – A notes	1,193,646,908	1,063,315,054
Green Apple 2018-I NHG – A notes	0	983,921,939

Under this heading both the capital and the prorata interest can be found.

The A notes of SPV Green Apple 2017 were issued on 5 October 2017 in a notional amount of EUR 1.2 billion and were placed with institutional investors. As at 31/12/2017 a notional amount of EUR 1,054,512,000 of notes was still outstanding.

The interest rate on these notes is Euribor 3 months plus 40 basis points. On 31/12/2017 the effective interest rate was 0.089%. The notes run until 2056 with a prepayment option from March 2024.

The A notes of SPV Green Apple 2018 were issued on 26 June 2018 in a notional amount of EUR 1 billion and were placed with institutional investors. As at 31/12/2018 a notional amount of EUR 975,560,000 of notes was still outstanding.

The interest rate on these notes is Euribor 3 months plus 40 basis points. On 31/12/2017 the effective interest rate was 0.082%. The notes run until 2057 with a prepayment option from January 2025.

21.5. Subordinated liabilities

The normal subordinated liabilities are placed by the Company with the retail public. The Tier 2 loan issued in 2016 was offered to institutional investors only.

The subordinated liabilities are composed as follows:

	31/12/2017	31/12/2018
Subordinated liabilities	596,596,220	575,394,236
Breakdown by residual term		
Up to 1 year	22,184,956	44,094,158
Between 1 and 5 years	574,411,264	531,300,078
More than 5 years	0	0
Breakdown by type		
Subordinated loans (retail funding)	86,389,886	64,784,757
Tier 2 loan (corporate funding)	510,206,334	510,609,479
Effective interest rate of the portfolio as of 31/12	3.67%	3.80%

Since 2014, no subordinated certificates have been offered any more to retail customers. The current portfolio will therefore systematically decrease as these securities arrive at maturity.

In the second quarter of 2016, a Tier 2 loan was issued and placed with institutional investors. This was an issue for a nominal amount of EUR 500 million. This liabilities heading contains both the outstanding capital and the pro rata interest.

22. Provisions

The changes in the provisions during the year are:

	Pension obligations	Litigation	Commitments and financial guarantees given	Other	Total
31/12/2016	0	179,354	0	11,871,212	12,050,566
Additions	1,894,576	0	0	0	1,894,576
Reversal and use	0	-179,354	0	-9,158,597	-9,337,951
31/12/2017	1,894,576	0	0	2,712,615	4,607,191
Additions	0	2,002,873	637,794	159,804	2,800,471
Reversal and use	0	0	0	0	0
Other	-1,839,035	0	499,015	0	-1,340,020
31/12/2018	55,541	2,002,873	1,136,809	2,872,419	6,067,642

The provisions for legal disputes are based on the best possible accounting estimates available at year-end, taking account of the opinions of legal and tax advisers. These involve litigation with branch managers with whom cooperation has been discontinued.

For future obligations and guarantees given, expected credit losses are also recognised in the form of stage 1 and Stage 2 impairment amounts. Further information can be found in 5.3.

The item 'other provisions' mainly consists of a provision for a possible soil remediation of land that was sold. The large reversal in 2017 relates to a fiscal provision for VAT.

The timing of the cash outflows that correspond with these provisions is by definition uncertain, considering the unpredictability of the outcome of, and the time associated with, the settlement of disputes.

Note on group insurance

The Company provides an additional company pension scheme for its employees. The Company offers an occupational pension scheme of the defined contribution type for its Belgian employees. These defined contribution plans are funded solely by the employer through a group insurance, in which the insurer guarantees a minimum return.

Under Article 24 of the Supplementary Pensions Act of 28.04.2003 on Supplementary Pensions (the so-called 'WAP/LPC'), the employer is required to guarantee a minimum return on defined contribution plans. The legal minimum guaranteed return which the employer is required to pay in respect of employer contributions was until 31 December 2015 set at 3.25%. The guaranteed return was recently amended by this Act. Since then a variable guaranteed return has applied, linked to the yield on the 10-year OLO; with a minimum of 1.75% and a maximum of 3.75%. However, the cumulative contributions up to 31 December 2015 remain subject to the 3.25% guaranteed return until employees leave the Company's pension plan (the 'horizontal' approach).

Because of the legally imposed minimum guaranteed return, Belgian defined contribution plans are considered as defined benefit plans. The contributions to the pension plan depend on the wage level and seniority.

The Company offers an occupational pension scheme of the defined contribution type for its Dutch employees, financed entirely by the employer. For the defined benefit plans, the final benefit at retirement date for the employee depends on various elements such as years of service and final remuneration.

The pension plan assets consist of insurance contracts. The main risks to which the Company's contribution plans are exposed are interest rate, inflation, life expectancy and legal retirement age. The pension obligations are evaluated at least annually. The sensitivity of the plans to interest rate and inflation shocks is defined on a regular basis.

	31/12/2017	31/12/2018
Defined benefit obligations at the beginning of the period	34,306,601	40,494,086
Current service cost	4,341,415	4,513,901
Past-service cost	0	0
Interest expenses	455,481	495,265
Actuarial gain or loss resulting from changes in demographic assumptions	0	29,877
Actuarial gain or loss resulting from changes in financial assumptions	0	-5,553,571
Experience adjustments	1,457,808	981,794
Benefits paid	-67,220	-811,358
Defined benefit obligations at the end of the period	40,494,085	40,149,994
Fair value of plan assets (insurance contracts) at the beginning of the period	34,306,601	38,599,509
Interest income	469,249	471,357
Administrative expenses and taxes	-511,423	-605,953
Employer contributions	4,665,905	5,233,285
Actuarial gain or loss resulting from changes in financial assumptions	0	-4,788,802
Experience adjustments	-263,603	2,846,928
Benefits paid	-67,220	-811,358
Fair value of plan assets (insurance contracts) at the end of the period	38,599,509	40,944,966
Funded status	-1,894,576	794,972
Asset ceiling limit	0	850,513
Net defined benefit obligations	-1,894,576	-55,541
Net defined benefit obligations at the beginning of the period	0	-1,894,576
Current service cost	-4,839,070	-5,143,761
Changes to the amounts recognised in other comprehensive income	-1,721,411	1,749,512
Employer contributions	4,665,905	5,233,285
Net defined benefit obligations at the end of the period	-1,894,576	-55,540
Amounts recognised in the income statement	-4,839,070	-5,143,761
Current service cost	-4,341,415	-4,513,901
Past-service cost	0	0
Interest charges	-455,481	-495,265
Interest income	469,249	471,357
Administrative expenses and taxes	-511,423	-605,953

	31/12/2017	31/12/2018
Changes to the amounts recognised in other comprehensive income	-1,721,411	1,749,512
Actuarial gain or loss resulting from changes in demographic assumptions	0	-29,877
Actuarial gain or loss resulting from changes in financial assumptions	0	764,769
Experience adjustments	-1,721,411	1,865,133
Asset ceiling limit	0	-850,513

Additional information on the contracts

	Belgian employees	Dutch employees
Nature of the benefits of the pension plan	Capital on retirement age Death capital in the event of death during active employment	Pension annuity from retirement age (lifelong). Partner annuity in the death of the participant or pensioner of the plan (lifelong). Orphan capital in the event of the death of the participant or pensioner of the plan (lifelong).
Legislative framework	Governed by the Belgian LPC/WAP (supplementary pension law) and included in a set of pension regulations. The National Bank of Belgium (NBB) and the Financial Services and Markets Authority (FSMA) act as out the supervisors.	Regulated by the Dutch Pensions Act. The Nederlandsche Bank (DNB) and the Autoriteit Financiële Markten (AFM) act as out the supervisors.
Plan changes	Since 1 May 2011 there has been a fixed contribution plan, financed with employer's contributions, replacing the previous plan. Since 1 May 2017, the distinction in premium budget between wage scales has been abolished.	Since 1 March 2008 there has been a fixed benefit plan, financed with employer's contributions.
Limitations and settlements	Not applicable.	
Active affiliates	804	46
Passive affiliates	784	19
Estimated contributions 2018	4,570,980	662,305

Hypotheses used

For the Belgian fixed contribution plans, the following assumptions were used: discount rate (1.86%), inflation rate (1.70%), salary increase (2.00%), mortality tables (experience tables Assuralia 2011-2015) and turnover (based on observed historical data, broken down by age category).

For the Dutch defined benefit plans, the following assumptions were used: discount rate (1.86%), inflation rate (1.70%), salary increase (2.00%), mortality tables (AG 2014 prognosis table) and turnover (based on observed historical data).

For the measurement at 31 December 2017, the Company used the Iboxx Corporate AA 10+ return curve. Given the average duration of the pension plan obligations of around 20 years, and the fact that the weighted average duration of the underlying assets in the Iboxx Corporate AA 10+ was closer to 10 years, on 31 December 2018 the Company switched to a yield curve that is derived from the EUR Europe Corporate AA+ AA AA-BVAL Yield Curve 20 Years.

Sensitivity of the gross pension liability

	+ 100 bp	- 100 bp
Discount rate		
Impact on the defined benefit obligations	-11.94%	+20.92%
Impact on the fair value of plan assets (insurance contracts)	-11.26%	19.71%
Inflation rate	+ 100 bp	- 100 bp
Impact on the defined benefit obligations	-0.10%	+0.10%
Impact on the fair value of plan assets (insurance contracts)	0.00%	0.00%
Salary increase rate	+ 100 bp	- 100 bp
Impact on the defined benefit obligations	+0.65%	-0.35%
Impact on the fair value of plan assets (insurance contracts)	0.00%	0.00%

Weighted average term

	31/12/2017	31/12/2018
Average duration of the pension obligation	21.50	20.30

23. Other liabilities

The other liabilities are composed as follows:

	31/12/2017	31/12/2018
Social security charges	6,693,574	7,056,059
Accrued charges	9,152	984
Supplier accounts	38,402,020	44,141,857
Debts – other group companies	28,197,896	35,402,837
Debts – agents	28,626,963	28,981,593
Credit items in suspense	40,055,357	33,160,297
Payment traffic items in suspense	43,033,605	22,956,877
Investment items in suspense	7,546,108	7,365,496
Various taxes	3,914,208	2,194,329
Other	21,030,451	30,456,991
Total	217,509,332	211,717,320

The 'in suspense' accounts contain primarily amounts that stay on these accounts for a few days only (until definitively allocated).

24. Fair value of financial instruments

24.1. 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 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 fact of 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 the 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 measured 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 financial instruments and of financial instruments not recognised at fair value are explained and validated by Alco 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). Only where these are available does the Company use 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 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. 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. They are based on assumptions used by the Company in the valuation. Examples of non-observable inputs are the historical volatility of a quoted share, and non-observable interest rates derived from observable data, but which are not confirmed by observable data.

When the fair value measurement uses inputs falling within different levels, the asset or liability is classified according to the lowest level of the inputs concerned (with level 1 as the highest and level 3 as the lowest level).

24.2. Financial instruments not recognised at fair value

The fair values recognised have been obtained on the basis of internal calculations. However, these can fluctuate on a daily basis due to the parameters used, such as interest rates and counterparty creditworthiness. Nor is there an intention to realise the fair value immediately. As a result, this value does not represent the substantial value to the Company on a going concern basis.

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 by the discounted cash flow method. The discounting percentage 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). 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).

The following table presents the carrying amounts and fair values of financial assets and financial liabilities that, in the consolidated balance sheet, are not stated at their fair value.

It does not include the fair value of non-financial instruments such as property, plant and equipment and other intangible assets that were briefly discussed in the respective notes.

	31/12/2017		31/12/2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash, cash balances at central banks and other demand deposits	1,068,996,221	1,068,996,221	1,140,140,077	1,140,140,077
Financial assets at amortised cost				
Loans and advances from credit institutions				
- demand deposits	0	0	0	0
- term deposits	0	0	0	0
- reserves with central banks	0	0	0	0
- collateral with financial institutions	22,286,000	22,286,000	33,487,068	33,487,068
Loans and advances from other customers				
- consumer loans	114,057,678	118,130,649	162,833,480	169,371,969
- mortgage loans	26,957,897,483	29,455,403,834	28,832,736,442	31,248,149,151
- term loans	545,857,794	566,490,924	759,349,793	792,349,612
- advances and overdrafts	2,595,185	2,595,185	11,994,154	11,994,154
- other loan receivables – MBS portfolio	17,031,178	21,462,950	0	0
Debt securities	0	0	4,187,946,872	4,215,109,221
Held-to-maturity financial assets	462,780,202	473,228,779	0	0
Total financial assets	29,191,501,741	31,728,594,542	35,128,487,886	37,610,601,252
Financial liabilities at amortised cost				
Deposits from credit institutions	76,393,437	76,393,437	4,930,530	4,930,530
Deposits from other than credit institutions				
Demand deposits	4,074,884,558	4,074,884,558	4,588,194,542	4,588,194,542
Term deposits	2,907,221,165	3,059,413,379	2,509,063,785	2,640,984,811
Deposits of a special nature	1,928,717,126	1,928,717,126	1,966,465,997	1,966,465,997
Regulated savings deposits	23,075,556,453	23,075,556,453	24,259,375,993	24,259,375,993
Mortgage linked deposits	441,035,930	441,035,930	593,829,758	593,829,758
Debt securities issued, including retail savings certificates				
Saving certificates	717,959,678	751,402,372	415,930,699	430,185,355
Bonds	1,193,646,908	1,204,537,188	2,047,236,993	2,058,633,745
Subordinated liabilities				
Subordinated certificates	86,389,886	91,967,226	64,784,757	67,679,048
tier 1-loan	0	0	0	0
tier 2-loan	510,206,334	553,891,334	510,609,479	528,235,000
Total liabilities	35,012,011,475	35,257,799,003	36,960,422,533	37,138,514,779

The table below shows the fair values of the listed IFRS classifications schematically by hierarchy level.

A Level 2 is assigned by the Company to the very short term financial instruments - with the carrying value used as market value -, while a Level 3 is assigned to all other calculated market values.

31/12/2017	Fair value	level 1	level 2	level 3
Cash, cash balances at central banks and other demand deposits	1,068,996,221	0	1,068,996,221	0
Loans and receivables	30,186,369,542	0	46,344,135	30,140,025,407
Held-to-maturity financial assets	473,228,779	212,105,213	235,527,078	25,596,488
Financial liabilities at amortised cost	35,257,799,003	0	29,596,587,504	5,661,211,499

31/12/2018	Fai value	level 1	level 2	level 3
Cash, cash balances at central banks and other demand deposits	1,140,140,077	0	1,140,140,077	0
Financial assets at amortised cost	36,470,461,175	2,431,613,955	1,828,976,488	32,209,870,732
Loans and advances	32,255,351,954	0	45,481,222	32,209,870,732
Debt securities	4,215,109,221	2,431,613,955	1,783,495,266	0
Financial liabilities at amortised cost	37,138,514,779	0	31,412,796,820	5,725,717,959

Cash, cash balances at (central) banks and other demand deposits are measured at Level 2 fair value (given the short term nature).

Loans and receivables level 3 fair value relate primarily to mortgage loans to individuals for which Argenta has calculated a market valuation based on a DCF model. Here, certain assumptions are applied with respect to spread and prepayment rate.

From 2018, the classification “financial assets held until maturity” is no longer provided for in the IFRS balance sheet structure. Under the “financial assets measured at amortised cost”, the debt instruments in question are supplemented with other securities from the securities portfolio. The relevant fair values are obtained externally.

Financial liabilities measured at amortised cost under level 2 relate to deposits from credit institutions, demand deposits, deposits of a special nature and regulated savings deposits. Given the short-term nature of these liabilities, they are treated as a level 2 (carrying value equivalent to fair value).

The financial obligations included under level 3 are the retail savings certificates, subordinated loans and fixed-term deposits. Here, a market valuation is calculated based on a DCF model.

24.3. Financial instruments stated 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 assets’, 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 where 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
Assets measured at fair value	5,887,268,279	2,106,403,500	20,770,315
Financial assets held for trading	0	11,472,666	0
Available-for-sale financial assets	5,887,268,279	1,992,503,191	20,770,315
Derivaten used for hedge accounting	0	102,427,643	0
Liabilities measured at fair value	0	387,718,573	0
Financial liabilities held for trading	0	3,408,123	0
Derivaten used for hedge accounting	0	384,310,450	0
31/12/2018	level 1	level 2	level 3
Assets measured at fair value	3,223,983,964	734,213,880	1,061,452
Financial assets held for trading	0	10,028,698	0
Financial assets at fair value through other comprehensive income	3,211,209,937	598,685,932	1,061,452
Non-trading financial assets mandatorily at fair value through profit or loss	12,774,027	51,788,123	0
Derivaten used for hedge accounting	0	73,711,127	0
Liabilities measured at fair value	0	354,742,522	0
Financial liabilities held for trading	0	4,073,472	0
Derivaten used for hedge accounting	0	350,669,050	0

In the 'available-for sale' 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, also due to an increase in liquidity.

In 2018 there was one change in level from level 1 to level 2 for the instruments measured at fair value. This involved a security with a nominal value of EUR 6.95 million (with a carrying value of EUR 6,952,397).

Quoted prices are used in the measurement of this instrument. Market observation showed that the market in which it is traded was no longer active, which led to the adjustment of the level hierarchy.

The following table provides a reconciliation of level 3 fair values between 1 January 2017 and 31 December 2018.

	Derivatives - assets	Derivatives - liabilities	Available- for-sale debt securities	Debt securities at fair value through other comprehensive income	Available- for-sale equity instruments	Equity instruments at fair value through other comprehensive income	Financial assets at fair value through profit or loss
01/01/2017	2,083,651	-21,112,190	20,149,935	0	61,452	0	0
Purchases / new contracts	0	0	0	0	681,008	0	0
Expired instruments	0	0	0	0	0	0	0
(Partial) repayments	0	0	0	0	0	0	0
Changes to other levels	-2,083,651	21,112,190	0	0	0	0	0
Changes from other levels	0	0	0	0	0	0	0
Other changes (including value changes)			-122,080	0	0	0	0
31/12/2017	0	0	20,027,855	0	742,460	0	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	0	0
Expired instruments	0	0	0	-20,027,855	0	0	0
(Partial) repayments	0	0	0	0	0	0	0
Changes to other levels	0	0	0	0	0	0	0
Changes from other levels	0	0	0	0	0	0	0
Other changes (including value changes)	0	0	0	0	0	318,992	0
31/12/2018	0	0	0	0	0	1,061,452	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 measured at level 3 fair values was EUR 20,708,863 as of 31 December 2017 and EUR 1,061,452 as of end-2018.

Level changes have per se no P&L impact. The delta market values of the financial instruments at fair value with changes in fair value through comprehensive income under other comprehensive income (OCI).

In 2018, EUR 20 million of securities (with level 3) arrived at maturity. EUR 1,061,452 of securities (shares) with a level 3 fair value remain. These are shares and an infrastructure fund where the Company receives a pricing or valuation from third parties. The measurement method for the caps was refined in 2017, so that these are now included as level 2.

Note on the credit risk in the fair value of derivatives

In line with market practices, a CVA (Credit Valuation Adjustment) and a DVA (Debt Valuation Adjustment) have been taken into account in establishing the market value of derivatives. The combined impact of both elements was very limited, amounting to EUR 2.3 million in 2018 as against EUR 1.0 million in 2017, with an impact on the result of EUR +1.3 million.

25. Derivatives

Besides derivatives embedded in contracts, the Company has three types of derivatives (derived financial instruments) on its balance sheet on 31 December 2018: interest rate options (purchased and sold caps), swaptions and swaps.

Under IFRS, derivatives are to be recorded in the trading portfolio, unless a hedging relationship is demonstrated between the asset concerned and a specifically hedged component.

Such a hedge relationship can be considered as effective if, due to market factors such as a change in interest rates, the price fluctuations or cash flows of the financial derivative almost entirely offset the price fluctuations or cash flows of the hedged component.

Owing to the strict IFRS criteria that must be satisfied to classify these as hedging instruments, they are sometimes classified as derivatives held for trading.

The Company uses hedging transactions that satisfy all the required criteria for hedging transactions of IAS 39, as approved by the EU. As a result, the particular hedging instruments are classified as derivatives used for hedging. The frameworks for processing micro-hedges in the AFS portfolio and for processing derivatives as cash flow hedges are also embedded at the Company.

In 2017 and 2018 no offsetting was undertaken in processing the derivatives both on and off the balance sheet, so that no information on this was given in accordance with the descriptions of IFRS 7 on this subject.

Interest rate options

Interest rate options are used as protection against the interest rate risk. These are options where the seller commits to pay the buyer an interest rate difference in exchange for a premium paid by the buyer. The interest rate difference is the difference between the current interest rate and an agreed interest rate for a notional amount.

At the end of 2018, the Company had 10 caps in its balance sheet in a notional amount of EUR 1.55 billion. These are used in managing its global interest rate risk.

It also has securitisation-related caps on its balance sheet. At end-2017 it had two caps in notional amounts of EUR 1.18 billion each, at end-2018 it had four securitisation-related caps on its balance sheet.

Financial assets (unlisted)	count	Notional	31/12/2017	count	notional	31/12/2018
Interest rate options– caps	10	1,550,000,000	8,063,674	10	1,550,000,000	5,938,432
Securitisation transactions – caps	1	1,184,000,000	3,408,992	2	2,107,000,000	4,090,266

Financial liabilities (unlisted)	count	notional	31/12/2017	count	notional	31/12/2018
Interest rate options– caps	0	0	0	0	0	0
Securitisation transactions – caps	1	1,184,000,000	3,408,123	2	2,107,000,000	4,073,472

Although targeted to hedge the interest rate risk, these 10 caps are processed under IFRS as instruments held for trading.

The fair values used for the separately presented financial derivatives above were determined using solely measurement techniques based on objectively observable market parameters.

Swaptions

In 2017, the Company started to conclude swaptions. Two swaptions were concluded that year. Another four were concluded in 2018.

A swaption entitles the buyer to conclude a swap after the option period and thus to pay or receive a fixed rate. With a payer swaption, the buyer is entitled to pay fixed interest and receive a floating rate.

These swaptions are accounted for as hedging derivatives (macro hedge). The hedge accounting framework for this type of instrument has been developed for this purpose.

Interest rate swaps

Interest rate swaps are contractual agreements between two parties on the basis of which interest flows in the same currency are exchanged. These obligations are calculated on the basis of various interest types. With the majority of interest rate swaps, a net exchange of cash flows takes place. This consists of the difference between the fixed and variable interest payments.

The following table lists all swaps and swaptions recognised at year-end, the hedged positions and the IFRS processing method.

2017				
no.	notional	Hedge type	Treatment in IFRS	Derivative type
67	8,250,000,000	interest rate risk on loan portfolio	macro portfolio fair value hedge	interest rate swaps
10	1,175,743,300	interest rate risk on individual AFS securities	micro fair value hedge AFS instruments	interest rate swaps
1	100,000,000	interest rate risk on term products	micro hedge - cash flow hedge	interest rate swaps
2	200,000,000	interest rate risk on loan portfolio	macro portfolio fair value hedge	swaptions

2018				
no.	notional	Hedge type	Treatment in IFRS	Derivative type
70	7,550,000,000	interest rate risk on loan portfolio	macro portfolio fair value hedge	interest rate swaps
11	1,220,806,300	interest rate risk individual FVTOCI securities	micro fair value hedge AFS instruments	interest rate swaps
1	100,000,000	interest rate risk on term products	micro hedge - cash flow hedge	interest rate swaps
6	600,000,000	interest rate risk on loan portfolio	macro portfolio fair value hedge	swaptions

Note on the cash flow hedging referred to in the above table

On 3 May 2011, a forward starting swap was concluded in a notional amount of EUR 100 million (start date 31 May 2016 and end date 31 May 2021) to hedge the interest cost of a future portfolio of retail savings certificates/term deposits.

As of 31 December 2017, the swap concerned had a negative market value of EUR 14,588,089 and, after offsetting an unrealised tax claim of EUR 3,647,022, an amount of EUR 10,941,066 was recorded under 'cash flow hedge' in equity.

As of 31 December 2018, the swap concerned had a negative market value of EUR 10,252,209 and, after offsetting an unrealised tax claim of EUR 2,101,703, an amount of EUR 8,150,506 was recorded under 'cash flow hedge' in equity.

Notes to the consolidated income statement

26. Net interest income

	31/12/2017	31/12/2018
Interest income	837,526,294	812,427,411
Available-for-sale financial assets	75,276,640	0
Loans and receivables from credit institutions	230,095	0
Loans and receivables from other customers	749,374,679	0
Held-to-maturity financial assets	8,868,946	0
Non-trading financial assets mandatorily at fair value through profit or loss	0	654,888
Financial assets at fair value through other comprehensive income	0	37,485,911
Financial assets at amortised cost – loans and advances	0	732,710,867
Financial assets at amortised cost – debt securities	0	37,994,930
Derivatives used for hedge accounting	3,306,685	3,109,458
Other assets	469,249	471,357
Interest expenses	343,075,905	281,675,896
Deposits from credit institutions	3,235,090	2,123,893
Deposits from other than credit institutions	109,519,849	92,487,684
Debt securities issued, including retail saving certificates	27,242,615	11,457,625
Subordinated liabilities	22,856,102	22,422,226
Derivatives used for hedge accounting	179,766,768	152,689,202
Other liabilities	455,481	495,265
Net interest income	494,450,389	530,775,423
of which interest-income on credit impaired financial assets	410,583	192,518

The breakdown of interest income and charges by type of financial instrument that generates an interest margin is as follows.

27. Dividend income

Dividends received are specified below.

	31/12/2017	31/12/2018
Dividend income from equity instruments	153,513	184,317

In 2017 and 2018, a dividend was received from Visa Card Company.

28. Net commission and fee income

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

	31/12/2017	31/12/2018
Fee and commission income	111,887,107	122,861,718
Securities – issuances and transfer orders	17,416,085	13,689,437
Customer resources distributed but not managed	71,390,936	83,481,684
Payment services	13,960,092	14,422,812
Other	9,119,994	11,267,785
Fee and commission expenses	-161,231,855	-169,358,800
Acquisition charges	-136,133,085	-142,199,307
Custody	-1,667,524	-1,924,046
Payment services	-20,985,620	-22,481,571
Other	-2,445,627	-2,753,875
Net fee and commission income	-49,344,748	-46,497,082

29. Realised gains and losses on financial assets and liabilities not measured at fair value through profit or loss

The realised result on the one hand on financial assets at fair value through other comprehensive income and on the other hand on financial assets measured at amortised cost can be presented as follows:

	31/12/2017	31/12/2018
Gains on derecognition		
Available-for-sale financial assets (IAS 39)		
Gains on derecognition of debt securities	18,737,024	0
Gains on derecognition of equity instruments	176,835	0
Financial assets at fair value through other comprehensive income (IFRS 9)		
Gains on derecognition of debt securities	0	4,403,790
Gains on derecognition of equity instruments (no recycling)	0	0
Financial assets at amortised cost	0	1,896,021
Losses on derecognition		
Available-for-sale financial assets (IAS 39)		
Losses on derecognition of debt securities	-103,791	0
Losses on derecognition of equity instruments	0	0
Financial assets at fair value through other comprehensive income (IFRS 9)		
Losses on derecognition of debt securities	0	-640,633
Losses on derecognition of equity instruments (no recycling)	0	0
Financial assets at amortised cost	0	-502,658
Total	18,810,068	5,156,520
of which financial assets at fair value through other comprehensive income	18,810,068	3,763,157
of which financial assets at amortised cost	0	1,393,363

The fair values of the category 'financial assets measured at amortised cost' are given in Section 24.

In 2017, a total net gain of EUR 18.8 million was produced by the 'available-for-sale assetse. In 2018, EUR 3,763,157 came from financial assets at market value and EUR 1,393,363 from financial assets at amortised cost. The sales within the financial assets at amortised cost relate to securities (8 positions) with a carrying value of EUR 222.45 million that are close to maturity. The other sales of securities (2 positions) for EUR 5.07 million are not significant.

30. Gains and losses on financial assets and liabilities held for trading

The results of the assets and liabilities held for trading can be shown as follows:

	31/12/2017	31/12/2018
Gains and losses on swaps and swaptions	0	0
Gains and losses on caps	-1,253,896	-1,977,633
Total	-1,253,896	-1,977,633

The result of interest options can be found under the net result.

Under the ALM policy, all the caps concerned are concluded for the account of the Company.

The result of the caps is the result of the recognition of the relevant instruments at market value on the balance sheet, with changes in market value taken through profit and loss.

31. Gains or losses on non-trading financial assets mandatorily at fair value through profit or loss

The result of assets that are not held for trading purposes but that are required to be recognised at market value through profit or loss.

This is impact on market value of a limited portfolio of securities that did not meet the SPPI tests and were therefore included on the balance sheet at market value with changes in market value taken through the P&L.

	31/12/2017	31/12/2018
Gains and losses on debt securities	0	35,704
Gains and losses on equity instruments	0	0

32. Gains (and losses) from hedge accounting

For derivatives that are part of the fair value hedge transactions undertaken to hedge the interest rate risk of a portfolio of individual securities, the relevant interest is given under net interest income.

Changes in the fair value of these derivatives and changes in fair value arising from the hedged risk of the hedged assets are recognised in the item 'gains and losses from hedge accounting'.

	31/12/2017	31/12/2018
Portfolio hedge of interest rate risk		
Fair value changes of the hedged items in a portfolio of interest rate risk	190,104,457	-69,631,599
Fair value changes of the derivatives used for hedge accounting	-187,362,259	70,745,504
Hedging interest rate risk of individual financial instruments		
Change in fair value of the hedging instruments	27,767,264	8,713,504
Fair value changes hedged instruments	-27,636,407	-8,636,760
Result administrative processing of hedging transactions	2,873,055	1,190,649

The difference between the changes in the market value of the hedged positions and the change in market value of the hedging instruments gives the gains and losses from hedge accounting. The above contains the macro hedge (hedging of the interest rate risk of a portfolio) and the micro hedge (hedging of the interest rate risk of individual instruments).

In the case of the swap processed as a cash flow hedge, there was no ineffectiveness in 2017 and 2018, leaving no movements in connection with this swap under this heading.

33. Gains and losses on derecognition of non-financial assets

The 'gains and losses on derecognised assets, other than held for sale', are shown below.

	31/12/2017	31/12/2018
Gains on property, plant and equipment	171,271	317,147
Gains on investment properties	16,751	15,857
Losses on property, plant and equipment	-144,999	-143,221
Losses on investment properties	0	0
Total	43,023	189,783

34. Other net operating income

Other net operating income consists of the following elements::

	31/12/2017	31/12/2018
Other operating income		
Rental income from investment properties	137,461	62,953
Cost-sharing, group companies	29,981,357	37,608,379
Portfolio acquisition fee from agents	5,113,444	6,275,039
Received from renting out of printers & ICT infrastructure	7,879,128	8,488,672
Other	8,120,137	14,061,877
Other operating expenses		
Expenses with respect to rented-out investment properties	0	0
Cost-sharing, group companies	-7,989,721	-9,015,017
Other	-324,975	-3,377,028
Total	42,916,830	54,104,876

The 'cost-sharing, group companies' item refers to expenses recharged to and from Argenta Group entities (in this case the BVg holding) and the Insurance Pool that are not consolidated by the Company.

The largest part of the EUR 3.3 million under "other fees paid" relates to fees that paid in the context of phishing.

35. Administrative expenses

Employee expenses consist of the following components:

	31/12/2017	31/12/2018
Staff expenses	61,564,459	67,459,323
Wages and salaries	42,671,339	47,575,295
Social security charges	11,445,579	12,232,897
Pension expenses	4,341,416	4,513,901
Share-based payments	0	0
Other	3,106,125	3,137,231
Average number of employees in FTE	774.6	824.6

The Company has mainly pension obligations based on defined contribution schemes. The contributions are paid by the employer only. In Belgium such group insurance schemes are required to provide a minimum return.

There are no 'share-based payments' at the Company.

General and administrative expenses can be summarised as follows:

	31/12/2017	31/12/2018
Other administrative expenses	252,011,328	281,707,452
Marketing expenses	3,662,983	4,438,942
Professional fees	57,562,146	63,765,118
IT expenses	52,409,395	62,411,759
Rents	10,007,941	11,269,904
Business taxes and bank taxes	68,431,047	70,810,547
Other	59,937,815	69,011,182

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

The increase in general and administrative expenses was primarily due to expenses incurred in the further development of the IT infrastructure, higher professional fees, and the continuing high levels of investments.

The rents relate mainly to the rent paid for office buildings used by the tied agents (branch managers). This rent is recovered from the tied agents. The average remaining term of these rental contracts is 5.9 years. In addition, rent is also paid for the office buildings.

The increase in the 'other' item reflects primarily higher contributions to professional associations and supervisory authorities, increased loan management services, more valuation costs for loan applications and control valuations, interim staff, technical and legal training and utilities for rented buildings.

36. Impairments

The changes in impairments can be broken down as follows:

	31/12/2017	31/12/2018
Impairments	-6,533,617	-2,884,708
Available-for-sale financial assets (IAS 39)	-163,237	0
Loans and receivables (IAS 39)	-6,370,380	0
Debt securities at amortised cost (IFRS 9)	0	24,797
Loans and advances at amortised cost (IFRS 9)	0	-2,996,593
Financial assets at fair value through other comprehensive income (IFRS 9)	0	87,089

The tables below show the composition and evolution of the impairments at 31 December 2017 and 31 December 2018. The impairments on future obligations and guarantees given are explained in sections 5.3 and 22.

At end-2017, there was a global positive impact of EUR 6,370,379 on impairments recognised on 'loans and receivables' on both an individual and a portfolio basis, and a positive impact of EUR 163,237 on impairments of available-for-sale assets.

	01/01/2017	Change of balance sheet impairments	31/12/2017	Recoveries in profit or loss	Direct write offs (Change of balance sheet impairments not impacting profit or loss)	Total impairments in profit or loss
Available-for-sale debt securities (IAS 39)	-168,600	163,237	-5,363	0	0	163,237
Collectif	0	0	0	0		0
Specific	-168,600	163,237	-5,363	0	0	163,237
Loans and receivables (IAS 39)	-35,748,646	9,176,687	-26,571,959	1,518,484	-4,324,792	6,370,379
Collectif	-9,997,084	3,756,388	-6,240,696			3,756,388
Specific	-25,751,562	5,420,299	-20,331,263	1,518,484	-4,324,792	2,613,991
Consumer loans	-2,019,250	349,996	-1,669,254	120,243	-245,201	225,038
Mortgage loans	-22,394,762	5,027,516	-17,367,246	984,061	-3,863,460	2,148,117
Term loans	-398,599	60,802	-337,797	7,513	0	68,315
Advances and overdrafts	-938,951	-18,015	-956,966	406,667	-216,131	172,521
Other loan receivables	0	0	0	0	0	0
Total	-35,917,246	9,339,924	-26,577,322	1,518,484	-4,324,792	6,533,616

As of 2018, there is a net positive impact of EUR 2,884,707, including a negative impact of EUR 111,886 (EUR 24,797 plus EUR 87,089) on fixed-income securities and EUR 2,996,593 on loans and advances.

	01/01/2018	Change of balance sheet impairments	31/12/2018	Recoveries in profit or loss	Direct write offs (Change of balance sheet impairments not impacting profit or loss)	Total impairments in profit or loss
Debt securities at amortised cost	-1,678,660	-24,797	-1,703,457	0	0	-24,797
Stage 1	-714,547	-502,871	-1,217,418			-502,871
Stage 2	-964,113	478,074	-486,039			478,074
Stage 3	0	0	0	0	0	0
Debt securities at fair value through other comprehensive income	-499,373	-87,089	-586,462	0	0	-87,089
Stage 1	-499,373	-87,089	-586,462			-87,089
Stage 2	0	0	0			0
Stage 3	0	0	0	0	0	0
Loans and advances at amortised cost	-34,783,428	11,249,464	-23,533,964	1,844,703	-10,097,573	2,996,593
Stage 1	-1,956,852	738,495	-1,218,357			738,495
Stage 2	-12,495,315	2,741,632	-9,753,683			2,741,632
Stage 3	-20,331,261	7,769,337	-12,561,924	1,844,703	-10,097,573	-483,533
<i>Of which consumer loans</i>	<i>-1,669,254</i>	<i>1,029,384</i>	<i>-639,869</i>	<i>305,298</i>	<i>-1,494,595</i>	<i>-159,912</i>
<i>Of which mortgage loans</i>	<i>-17,367,246</i>	<i>6,595,690</i>	<i>-10,771,555</i>	<i>1,090,941</i>	<i>-8,203,358</i>	<i>-516,727</i>
<i>Of which term loans</i>	<i>-337,797</i>	<i>210,906</i>	<i>-126,891</i>	<i>8,112</i>	<i>-223,599</i>	<i>-4,581</i>
<i>Of which advances and overdrafts</i>	<i>-956,966</i>	<i>-66,645</i>	<i>-1,023,610</i>	<i>440,351</i>	<i>-176,021</i>	<i>197,685</i>
<i>Of which other loan receivables</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Total	-36,961,461	11,137,578	-25,823,883	1,844,703	-10,097,573	2,884,707

The phase 3 impairments are the individual impairments that are applied.

The detailed change table for impairments at 31 December 2018 has been included in the notes on credit risk in section 5.3.

37. Income tax expense

The details of current and deferred taxes are shown below:

Income tax expense	31/12/2017	31/12/2018
Current tax liabilities for the financial year	50,052,493	56,828,122
Current liabilities in respect of prior periods	-57,267	-632,750
Deferred taxes related to timing differences – fiscal losses	-7,216,754	-15,369,550
Deferred taxes related to timing differences	6,001,026	-311,883
Total P&L impact of income taxes	48,779,498	40,513,939
Reconciliation of statutory and effective tax rate		
Profit or loss before tax	187,782,605	170,488,690
Statutory tax rate	33.99%	29.58%
Income tax calculated using statutory rate	63,827,307	50,430,555
Tax effect of different tax rates in other countries	-15,770,645	-10,118,835
Tax effect of non-taxable income	0	
Tax effect of non-tax-deductible expenses	2,031,680	622,917
Tax benefit not previously recognised	0	
Prior period taxation	-57,267	-632,750
Tax impact of change in tax rate	-1,209,073	91,216
Other	-42,504	120,837
Total income tax expense	48,779,498	40,513,939
Effective tax rate	25.98%	23.76%

As reflected in the table above, the effective tax rate was 25.98% in 2017 and 23.76% in 2018.

The planned change in tax rate in Belgium (from 33.99% in 2017 to 29.58% in 2018-2019 and subsequently 25% from 2020) had in 2017 an impact of EUR 1,209,073 on the taxes in the IFRS result. The limited global impact can be explained by the following factors:

- a large part of the taxable base was already taxed at 25% (the basic tax rate in the Netherlands);
- the tax on the latent values of the “available-for-sale assets” does not go through profit and loss but through equity;
- the impact of the “amortisation of transaction costs” with a resulting tax liability and that of the “derivative instruments” with a resulting tax claim largely cancel each other out.

Other notes

38. Lease contracts

The Company only acts as a lessee in lease agreements. These lease agreements qualify as operating lease contracts. They relate to:

- Office buildings for own use that are rented from the parent company that manages the property and makes it available to the Company. This relates to various office buildings with lease terms of between 9 and 15 years. The lease costs depend on the surface area used (in m²) and are indexed annually. Given the Company's intention to use these buildings during the entire term of the lease, the lease payments are equated to non-cancellable minimum lease payments. The Company has no purchase option on the underlying asset of the lease agreement.
- Office buildings for own use that are rented from third parties. This relates to various floors of office buildings with lease terms of between 3 and 6 years. The lease cost is indexed annually. The Company has no purchase option at lease expiry date.
- Buildings rented by the Company and sublet to the agents. The full lease cost is recovered via the sublease agreement. The lease contracts are for 9 years, with termination options every 3 years, and are indexed annually. The Company has no purchase option at lease expiry date.
- Company cars made available to Company employees (salary cars and cafeteria plan cars). The lease terms are 3 to 5 years. The Company has a purchase option on maturity.

The company is not a counterparty in lease agreements that qualify as financial leases.

The table below gives an overview of the costs and income of the lease agreements:

	31/12/2017	31/12/2018
Minimum lease payments	11,776,323	13,719,747
Conditional lease payments	0	0
Minimum sublease payments received	-7,948,996	-9,044,600

The future minimum lease payments under non-cancellable lease agreements are:

	31/12/2017	31/12/2018
One year after the end of the financial year	9,532,884	6,162,562
More than one year and no more than five years after the end of the financial year	34,557,936	33,404,458
More than five years after the end of the financial year	33,441,133	51,465,793

With the introduction of the new IFRS 16 standard on leasing, amounts will appear on the balance sheet (active and liability side) from 31/03/2019.

39. Encumbered assets

By circular 2015/03 the Belgian regulator brought into effect in the Belgian prudential framework the guidelines of the European Banking Authority (EBA) of 27 June 2014 on the disclosure of encumbered and unencumbered assets.

The institutions are required, on an advancing basis, to disclose basic information about the previous twelve months based on median values of at least quarterly data. Below is an overview of the encumbered assets at the Company as reported as of 31 December 2017 and 2018, together with the average for 2018.

	31/12/2017	31/12/2017	31/12/2018	31/12/2018	gem. 2018	gem. 2018
	Notional value	Fair value	Notional value	Fair value	Notional value	Fair value
Collateral for derivatives (caps and swaps)	466,630,300	515,786,689	371,160,000	412,719,719	381,368,425	429,263,876
Collateral for repo transactions	0	0	0	0	0	0
Collateral for Bank Card Company	31,750,000	32,424,413	43,500,000	43,595,212	43,500,000	44,447,120
Total collateral given	498,380,300	548,211,102	414,660,000	456,314,931	424,868,425	473,710,996
Cash paid (derivatives)		22,286,000		33,487,068		23,110,767
Cash received (derivatives)		74,941,976		3,842,727		62,821,293
Net cash (derivatives)		-52,655,976		29,644,341		-39,710,526
Collateral NBB credit line	250,000,000	259,573,950	250,000,000	256,135,687	250,000,000	257,854,818

At the end of 2017, a nominal EUR 466,630,300 was encumbered in respect of derivatives and repos and a nominal EUR 31.75 million in connection with the use of credit cards by the Company's customers. In addition, EUR 22.2 million of cash was paid and EUR 74.9 million of cash received in respect of collateral management for derivatives.

At the end of 2018, a nominal EUR 371,160,000 was encumbered in respect of derivatives and repos and a nominal EUR 43.5 million in connection with the use of credit cards by the Company's customers. In addition, EUR 33.48 million of cash was paid and EUR 3.8 million of cash received in respect of collateral management for derivatives.

Argenta Spaarbank has not issued covered bonds and the loans that were previously securitised are, as already explained, back in the Bank Pool balance sheet. The bank has a EUR 250 million credit line with the NBB, for which securities will be encumbered as and when this credit line is used.

This note - combined with Section 41 - gives an indication of the encumbered (pledged) assets as described and requested in the IFRS 7 standard (being assets encumbered as collateral for liabilities or contingent liabilities).

40. Securitisation policy

The operational framework and the policies for undertaking securitisation transactions were elaborated in mid-2007. Two securitisation transactions were carried out, one in October 2017 and one in June 2018.

Under its investment policy, the Company also has a number of ABSs and MBSs in its investment portfolio. The portfolio is given below by exposure, indicating the type and country of issue. The Company invests only in the A tranches of securitisation transactions and has no “resecuritisation” positions in its possession.

Type	Country	31/12/2017	31/12/2018
MBS	Belgium	23,431,633	17,678,755
MBS	Spain	22,050,474	17,631,199
MBS	France	39,091,729	25,340,006
MBS	Ireland	32,416,706	29,788,052
MBS	Netherlands	762,420,958	657,253,286
MBS	Great Britain	14,829,162	14,752,878
ABS	Germany	20,680,303	48,639,180
ABS	Spain	26,063,442	0
ABS	United States of America	7,242,797	4,730,557
ABS	France	25,623,978	14,977,848
ABS	Ireland	21,300,104	18,821,212
ABS	Luxembourg	74,926,547	101,793,541
ABS	Netherlands	23,163,001	28,072,080
Total securitisation positions		1,093,240,834	979,478,594

The MBSs are all related to securitised mortgage loans. The ABS in the USA relates to a securitisation of student loans and the ABS from Spain refers to the securitisation of covered bonds. The ABSs from other countries relate to securitised vehicle loans.

41. Off-balance sheet liabilities

The Bank Pool has issued guarantees against its own financial assets. The reasons and nominal values of the assets involved can be found in the table below.

		31/12/2017	31/12/2018
Collateral given			
For repos	Notional value	0	0
For swaps and caps	Notional value	466,630,300	375,168,000
For Bank Card Company	Notional value	31,750,000	43,500,000
Collateral received			
		33,464,950,601	35,647,449,727

The collateral received relates to the collateral received in return for lending (including mortgage registrations and pledged securities).

The financial guarantees granted and received are given below.

	31/12/2017	31/12/2018
Financial guarantees issued	4,352,806	4,413,712
Financial guarantees received	0	0

Finally, there are credit lines granted and received. The credit lines granted relate to notified credit lines and credit offers for retail lending.

The credit lines received relate to the credit lines received from other financial institutions on the Company's accounts with these institutions.

	31/12/2017	31/12/2018
- Credit lines granted	1,569,554,444	1,664,142,331
- Credit lines received	250,000,000	250,000,000

The Bank Pool has a EUR 250 million credit line with the NBB, for which securities will be encumbered as and when this credit line is used.

The impairments on future obligations (credit commitments) and guarantees given are explained in sections 5.3 and 22.

42. Contingent liabilities

The Company is a defendant in a number of disputes within the context of standard business operations.

The Company sets aside provisions for disputes when, in management's opinion and after consultation with its legal advisers, it is probable that the Company will have to make payments and the payable amount can be estimated with sufficient reliability.

These provisions were briefly explained in Section 22. Provisions

For further claims and legal proceedings against the Company of which the management is aware (and for which, in accordance with the principles described above, no provision has been set aside), management believes, after obtaining professional advice, that these claims have no chance of success, or that the Company can defend itself successfully against them, or that the outcomes of these cases are not expected to result in a significant loss in the income statement.

43. Events after the balance sheet date

Important events after balance sheet date

To the best of the knowledge of the Board of Directors, no other significant events have occurred since the end of the financial year concerning the Company and its individual subsidiaries.

In other words, no material events have occurred since the balance-sheet date that require an adjustment of the Company's consolidated financial statements as of 31 December 2018.

To the best of the Board of Directors' knowledge, there are no circumstances other than those mentioned in this Annual Report that could have a material impact on the Company's development.

Approval for publication

On 26 March 2019, the Board of Directors reviewed the financial statements and gave its approval for their publication. The financial statements will be presented to the General Meeting of Shareholders on 26 April 2019.

Additional Information

The Company's IFRS financial statements are published in Dutch and English. The English version is a translation of the original Dutch version and is published as a courtesy to stakeholders. In the event of any disparity between the two versions, the Dutch language version takes precedence. Questions related to the distribution of these reports should be directed to:

Argenta Bank- en Verzekeringsgroep nv

Belgiëlei 49-53
B-2018 Antwerp
Tel: + 32 3 285 50 65
Fax: + 32 3 285 51 89
pers@argenta.be

Complaints management

If you have a complaint or remark concerning Argenta Group services, please first contact your branch manager. Our branch managers are always ready and willing to do all they can to help resolve your problem. If you are not satisfied with the outcome, you can then contract Argenta Group's Complaint Management service for both Bank and Insurance issues.

Complaints management

Belgiëlei 49-53
B-2018 Antwerp
Tel: + 32 3 285 56 45
Fax: + 32 3 285 55 28
klachtenbeheer@argenta.be

Appendix: overview of abbreviations used

ALCO	Assets and Liability Committee
AAM	Argenta Asset Management
AE	Asset Encumbrance
AER	Asset Encumbrance Ratio
AFS	Available For Sale
ALM	Asset Liability Management
Aras	Argenta Assuranties nv
Aspa	Argenta Spaarbank nv
BM	Business Model
BVg	Bank- en Verzekeringsgroep nv
CBHK	Centraal Bureau voor Hypothecaire Kredieten
CET 1	Common Equity Tier 1
CFO	Chief Financial Officer
CGU	Cash Generating Unit
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulations
CVA	Credit Valuation Adjustment
DC	Danish Compromise
DCF	Discounted Cash Flow method
DTA	Deferred Tax Asset
DVA	Debt Valuation Adjustment
EAD	Exposures At Default
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Losses
FICOD	Financial Conglomerates Directive
FVOCI	Fair Value through Other Comprehensive Income
GRC	Group Risk Committee
HTM	Held To Maturity
IAS	International Accounting Standards
IBNR	Incurred But Not Reported
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards

ILAAP	Internal liquidity adequacy assessment process
IO	Investment Consultation
IRB	Internal Ratings Based
Kreco	Credit Risk Committee – Retail
LAT	Liability Adequacy Test
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
MBS	Mortgage Backed Securities
MCR	Minimum Capital Requirements
NHG	National Mortgage Guarantee (NL)
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income or Other Elements of the Total Result or Unrealised Results
OTC	Over The Counter
PD	Probability of Default
Prico	Pricing Committee
RACI	Responsible Accountable Consulted Informed
RAF	Risk Appetite Framework
RMBS	Residential Mortgage Backed Security
RO	Rating Consultation
ROE	Return On Equity
ROI	Return On Investment
SCR	Solvency Capital Requirements
SFCR	Solvency and Financial Condition Report
SPPI	Solely Payments of Principal and Interest
SREP	Supervisory Review and Evaluation Process
WAP	Supplementary Pensions Act (Belgium)

