Degroof Petercam

Consolidated financial statements

Annual report 2018

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Consolidated balance sheet

(in thousands of EUR)

	Notes	31.12.2018	01.01.2018	31.12.2017
Assets				
Cash, balances with central banks and other demand deposits	7.1	2 792 984	3 191 899	3 191 899
Financial assets held for trading	7.2			132 368
Financial assets designated at fair value through profit or loss	7.2			893 350
Financial assets at fair value through profit or loss	7.2	234 161	254 600	
Financial assets held for trading		119 783	128 938	
Other financial assets		114 378	125 662	
Financial instruments for hedge accounting	7.3	1 691	3 430	
Available-for-sale financial assets	7.4			1 195 166
Financial assets at fair value through other comprehensive income	7.4	891 504	1 052 029	
Equity instruments		12 766	13 335	
Debt securities		878 738	1 038 694	
Financial assets held to maturity	7.5			80 726
Financial assets at amortised cost	7.5	3 687 615	3 125 976	
Loans and advances to credit institutions		247 758	221 999	221 999
Loans and advances to customers		2 067 006	1 903 185	1 916 135
Debt securities		1 372 851	1 000 792	
Property and equipment	7.6	83 185	84 912	84 912
Goodwill and other intangible assets	7.7	372 640	368 843	368 843
Investments in entities accounted for using the equity method	7.8	1 418	146	146
Current tax assets		4 493	10 553	10 553
Deferred tax assets	7.15	5 944	8 141	7 985
Other assets	7.9	138 866	151 273	151 273
Total assets		**8 214 501**	**8 251 802**	**8 255 355**

(in thousands of EUR)

	Notes	31.12.2018	01.01.2018	31.12.2017
Liabilities and equity				
Liabilities		**7 288 668**	**7 314 108**	**7 315 541**
Financial liabilities held for trading	7.10	136 437	151 423	158 234
Financial instruments for hedge accounting	7.3	15 530	6 811	
Deposits from credit institutions	7.11	80 058	164 487	164 487
Deposits from customers	7.12	6 837 520	6 730 634	6 730 634
Provisions	7.13	64 398	67 853	67 852
Current tax liabilities		27 570	27 129	27 221
Deferred tax liabilities	7.15	9 072	10 052	11 394
Other liabilities	7.14	118 083	155 719	155 719
Equity		**925 833**	**937 694**	**939 814**
Issued capital	7.16	34 212	34 212	34 212
Share premium	7.16	417 369	420 553	420 553
Reserves and retained earnings	7.16	478 677	541 766	445 523
Revaluation reserves	7.16	(17 216)	(11 903)	(3)
Treasury shares (-)	7.16	(44 632)	(47 604)	(47 604)
Net profit for the period	7.16	56 764		86 460
Minority interests		659	670	673
Total liabilities and equity		**8 214 501**	**8 251 802**	**8 255 355**

Consolidated statement of comprehensive income

(in thousands of EUR)

	Notes	31.12.2018	31.12.2017
Interest income	8.1	48 215	53 748
of which arising from the application of the effective interest rate method		47 054	
Interest expense	8.1	(31 331)	(11 996)
Dividend income	8.2	3 491	2 931
Fee and commission income	8.3	540 164	526 522
Fee and commission expense	8.3	(142 759)	(151 553)
Net result on financial instruments held for trading	8.4		22 066
Net result on financial instruments designated at fair value through profit or loss	8.4		(2 862)
Net result on financial instruments measured at fair value through profit or loss	8.4	22 411	
Net result on financial instruments held for hedging purposes	8.5	3 388	
Net result on financial instruments not designated at fair value through profit or loss	8.6		8 660
Net result on financial instruments at fair value through other comprehensive income	8.6	(983)	
Net result on instruments at amortized cost	8.7	(226)	
Other net operating results	8.8	12 882	20 637
Share in the results from entities accounted for using the equity method		(479)	(351)
Net income		**454 773**	**467 802**
Personnel expenses	8.9	(193 130)	(194 116)
General and administrative expenses	8.10	(161 109)	(135 746)
Depreciation and amortization	8.11	(21 838)	(21 893)
Impairments	8.12	1 893	(7 702)
Financial assets		*2 995*	
Non financial assets		*(1 102)*	
Profit before tax		**80 589**	**108 345**
Income tax expense	8.13	(23 810)	(21 883)
Net profit		**56 779**	**86 462**
Remeasurement gains (losses) related to post-employment benefit plans	8.14	316	1 012
Realized and unrealized gains (losses) – Equity instruments at fair value through other comprehensive income	8.14	485	
Total other comprehensive income [1] that may not be reclassified subsequently to net profit		**801**	**1 012**
Fair value adjustments – Available-for-sale financial assets	8.14		4 002
Revaluation at fair value – Debt instruments at fair value through other comprehensive income	8.14	(7 639)	
Currency translation differences	8.14	1 524	(3 247)
Total other comprehensive income [1] that may be reclassified subsequently to net profit		**(6 115)**	**755**
Total comprehensive income		**51 465**	**88 229**

1 Unrealised profits and losses recorded directly in shareholders' equity, net of taxes.

(in thousands of EUR)

	Notes	31.12.2018	31.12.2017
Net profit attributable to		**56 779**	**86 462**
shareholders of the parent company		56 764	86 460
minority interests		15	2
Total comprehensive income attributable to		**51 465**	**88 229**
shareholders of the parent company		51 450	88 229
minority interests		15	0

Consolidated statement of changes in equity

	Capital	Share premium	Reserves and retained earnings	Revaluation reserves
Balance at 31.12.2016	**34 212**	**420 553**	**434 961**	**(2 413)**
Treasury shares transactions	0	0	0	0
Dividends paid	0	0	(47 315)	0
Change in minority interests	0	0	0	0
Prior period results	0	0	57 877	0
Net profit for the period	0	0	0	0
Fair value adjustments	0	0	0	5 011
Currency translation differences	0	0	0	0
Balance at 31.12.2017	**34 212**	**420 553**	**445 523**	**2 598**
Impact of the application of the IFRS 9 standard	0	0	9 783	(11 900)
Prior period results	0	0	86 460	0
Balance at 01.01.2018	**34 212**	**420 553**	**541 766**	**(9 302)**
Treasury shares transactions	0	(3 184)	0	0
Dividends paid	0	0	(63 089)	0
Change in minority interests	0	0	0	0
Net profit for the period	0	0	0	0
Revaluation at fair value - capital instruments	0	0	0	485
Revaluation at fair value - debt instruments	0	0	0	(7 639)
Fair value adjustments	0	0	0	316
Currency translation differences	0	0	0	0
Balance at 31.12.2018	**34 212**	**417 369**	**478 677**	**(16 140)**

(in thousands of EUR)

Currency translation differences	Treasury shares	Net profit for the period	Equity group's share	Minority interests	Total
642	**(47 605)**	**57 877**	**898 227**	**684**	**898 911**
0	1	0	1	0	1
0	0	0	(47 315)	0	(47 315)
0	0	0	0	(13)	(13)
0	0	(57 877)	0	0	0
0	0	86 460	86 460	2	86 462
0	0	0	5 011	0	5 011
(3 243)	0	0	(3 243)	0	(3 243)
(2 601)	**(47 604)**	**86 460**	**939 141**	**673**	**939 814**
0	0	0	(2 117)	(3)	(2 120)
0	0	(86 460)	0	0	0
(2 601)	**(47 604)**	**0**	**937 024**	**670**	**937 694**
0	2 972	0	(212)	0	(212)
0	0	0	(63 089)	(11)	(63 100)
0	0	0	0	(15)	(15)
0	0	56 764	56 764	15	56 779
0	0	0	485	0	485
0	0	0	(7 639)	0	(7 639)
0	0	0	316	0	316
1 525	0	0	1 525	0	1 525
(1 076)	**(44 632)**	**56 764**	**925 174**	**659**	**925 833**

Consolidated cash flow statement

(in thousands of EUR)

	Notes	31.12.2018	31.12.2017
Net profit		**56 779**	**86 462**
Non-monetary items included in the net profit and other adjustments		**43 252**	**42 282**
Taxes and deferred taxes	8.13	23 810	21 883
Income from associates, net of dividends received		479	351
Unrealised foreign exchange gains or losses and currency translation differences		(81)	251
Impairment and depreciation/amortization of (in)tangible assets	7.6/7.7	22 145	28 668
Changes in provision	7.13	(3 575)	(12 669)
Net losses (profits) on investments		216	237
Other adjustments		258	3 561
Change in assets and liabilities from operating activities		**2 859 161**	**(92 564)**
Assets held for trading or designated at fair value		22 421	825 492
Financial assets at fair value through other comprehensive income		154 571	
Loans and advances		2 699 568	(1 727 091)
Available-for-sale loans and securities			240 926
Other assets		72 520	(22 092)
Financial instruments for hedge accounting		13 839	0
Liabilities held for trading		(21 800)	23 548
Deposits from credit institutions		(104 819)	58 942
Deposits from customers		60 246	475 846
Other liabilities		(37 385)	31 865
Income taxes paid		**(14 332)**	**(51 330)**
Net cash flows from operating activities (A)		**2 944 860**	**(15 150)**
Acquisition of subsidiaries, joint ventures and associates, net of cash acquired (including increase in percentage interest held)	6	(6 281)	0
Disposal of subsidiaries, joint ventures and associates, net of cash disposed of (including decrease in percentage interest held)	6	12	50
Purchase of (in)tangible assets		(20 423)	(12 490)
Disposal of (in)tangible assets		818	545
Purchase of held to maturity investments			(7 041)
Income from the disposal or reimbursement of held to maturity investments			40 825
Acquisition of financial instruments at amortized cost		(843 396)	
Income from the disposal or reimbursement of instruments at amortized cost		472 848	

(in thousands of EUR)

	Notes	31.12.2018	31.12.2017
Net cash flows from investing activities (B)		**(396 422)**	**21 889**
Dividends paid		(63 100)	(47 326)
Purchase or sale of treasury shares		(212)	0
Net cash flows from financing activities (C)		**(63 312)**	**(47 326)**
Effect of exchange rate changes on cash and cash equivalents (D)		**3 120**	**(5 742)**
Net increase/decrease of cash and cash equivalents (A + B + C + D)		**2 488 246**	**(46 329)**
Cash and cash equivalents at the beginning of the period		**434 727**	**481 056**
Cash and cash equivalents at the end of the period		**2 922 973**	**434 727**

Supplementary information			
Interest received		78 176	75 030
Dividends received		3 491	2 931
Interest paid		(70 065)	(41 472)

Components of cash and cash equivalents		**2 922 973**	**434 727**
Cash and balances with central banks	7.1	2 536 976	30 730
Current accounts and call money loans with credit institutions	7.1	241 917	272 305
Loans and advances to credit institutions	7.5	144 080	131 692
of which not available		0	0

1 General information

The Royal Decree of 5 December 2004 requires quoted and unquoted credit institutions and investment firms to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, for financial periods that commenced on or after 1 January 2006. For this reason, the consolidated financial statements of Bank Degroof Petercam have been prepared in accordance with IFRS in force at 31 December 2018, as adopted by the European Union.

As Bank Degroof Petercam has no securities or borrowings that are traded, or are in the process of being offered, on a public securities market, IFRS 8 ('Operating segments') and IAS 33 ('Earnings per share') have not been applied.
It is for this reason that Bank Degroof Petercam does not publicly announce interim results and, accordingly, has only a single reporting date, namely the annual period-end.

Following the first time application of IFRS 9 et the choice of Bank Degroof Petercam to not restate the figures of the comparative periods (in accordance with the dispositions of the principle), Bank Degroof Petercam decided to only report one comparable year that will be presented under the principles of IFRS 9 (01.01.2018) and under the principles of IAS 39 (31.12.2017) in order to facilitate the understanding of the reader of the consolidated financial statements as well as the impact of the application of IFRS 9, being an important principle for the banking sector.

The consolidated financial statements are presented in thousands of euros, unless specifically stated otherwise.

2 Changes in the accounting policies and methods

The following IFRS standards, amendments and interpretations are applicable for the first time during the current financial year:

- IFRS 9 'Financial Instruments', and subsequent amendments;
- IFRS 15 'Revenue from Contracts with Customers', and subsequent amendments;
- Annual Improvements to IFRS Standards 2014-2016 Cycle;
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration';
- Amendments to IFRS 2: 'Classification and Measurement of Share-based Payment Transactions';
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'.

IFRS 9 (which replaces the requirements of IAS 39 'Financial Instruments: Recognition and Measurement') introduces new requirements in respect of the classification and measurement of financial assets and liabilities, a unique impairment model based on expected losses, and a substantially reformed approach to hedge accounting.

The classification and measurement of financial assets is based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Bank Degroof Petercam has used the transitional provisions relating to classification and measurement in order to revoke the retrospective classification of financial assets as being measured at fair value through profit or loss. In respect of investments in equity instruments (which are not held for trading), Bank Degroof Petercam has used the option to designate the majority of these investments at fair value through other comprehensive income. In respect of financial liabilities, the implementation of IFRS 9 has not resulted in changes resulting from the criteria for the classification and measurement of these instruments.

IFRS 9 has led to an overhaul of the impairment model which is now based on 'expected' losses rather than 'incurred' losses as provided for by IAS 39. This new model applies principally to loans, debt instruments measured at amortised cost or at fair value through other comprehensive income, to loan commitments and to financial guarantees issued. Based on the new model, the financial assets are classified in three categories on the basis of the extent of the deterioration in credit quality since their initial recognition.

Bank Degroof Petercam (which does not apply the IAS 39 provisions for hedge accounting) has used the new provisions of IFRS 9 in terms of micro-hedge accounting to cover the value of rate risk. This decision concerns, amongst others, financial instruments designated under IAS 39 at fair value through profit or loss.

The standard should be applied retrospectively and requires that the opening balance sheet be restated on the date of first application. Bank Degroof Petercam has chosen not to restate, in accordance with the provisions of IFRS 9, the comparative figures. As a consequence, the 2017 assets and liabilities relating to financial instruments are classified and measured in accordance IAS 39 as described in the accounting policies and methods presented in the 2017 financial statements.

IFRS 15 'Revenue from Contracts with Customers' replaces IAS 11 'Construction Contracts' and IAS 18 'Revenue' as well as related interpretations. This new standard applies to all contracts with customers (except for those contracts falling within the scope of standards relating to financial instruments, insurance contracts and leasing contracts) and introduces a unique five-step model to identify performance obligations and to determine the timing of the recognition of revenues as well as the amounts to be recognised.

For the first application of this standard, Bank Degroof Petercam has chosen the cumulative effect method with no restatement of comparative information, while restating the opening balance of undistributed retained earnings at that date. The application of IFRS 15 has not had a significant impact on the results or the equity.

The amendments to IFRS 4 Insurance Contracts / IFRS 9 Financial Instruments are not applicable to Bank Degroof Petercam.

The implementation of the other standards has not had a significant impact on the results or the equity of Bank Degroof Petercam, or on the presentation of the financial statements.

The standards, amendments of standards, and interpretations published by the IASB (International Accounting Standards Board) as at 31 December 2018 which become effective for future financial periods include:

STANDARDS ENDORSED BY THE EUROPEAN UNION:

- IFRS 16 'Leases' applicable for financial periods beginning on or after 1 January 2019;
- Amendments to IFRS 9 'Prepayment Features with Negative Compensation' applicable for financial periods beginning on or after 1 January 2019;

STANDARDS NOT ENDORSED BY THE EUROPEAN UNION

- Annual Improvements to IFRS Standards 2015-2017 Cycle applicable for financial periods beginning on or after 1 January 2019;
- Amendments to IAS 28 'Long-term Interests in Associates and Joint Ventures' applicable for financial periods beginning on or after 1 January 2019;
- IFRIC 23 'Uncertainty over Income Tax Treatments' applicable for financial periods beginning on or after 1 January 2019;
- Amendments to 'References to the Conceptual Framework in IFRS Standards' applicable for financial periods beginning on or after 1 January 2020;
- Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement' applicable for financial periods beginning on or after 1 January 2019;
- IFRS 17 'Insurance Contracts' applicable for financial periods beginning on or after 1 January 2021.

The Bank will apply the standards set out above when they become applicable

IFRS 16 replaces IAS 17 'Leases' and all related interpretations. The most important change introduced by IFRS 16 is that the majority of leasing contracts will be recorded on the balance sheets of the lessees. The new standard no longer permits lessees to account for leases as either operating or finance leases, treating all such contracts (with two limited exceptions) as finance leases. For lessees, this implies that most leases will be recognised on the balance sheet in the form of a right-of-use asset and a lease liability. The asset is subsequently depreciated, in general, on a linear basis over the lifetime of the lease contract. The lease liability is accounted for at amortized cost using the effective interest method.

In respect of accounting by lessors, numerous aspects of IAS 17 are carried over into IFRS 16 and the estimated impact should be limited.

The identification and review of the related contracts and the choice of tool was performed during the second half of 2018. The implementation of the standard will result in an increase in assets and liabilities as a result of accounting for the leasing contracts on the balance sheet which are currently accounted for as operating leases. This impact will result principally from leasing contracts for buildings and vehicles, and to a lesser extent from leasing contracts for computer equipment. Bank Degroof Petercam will implement IFRS 16 retrospectively without restating comparative information, and will account for the cumulative impact of the initial application of the standard as an adjustment to opening equity.

Bank Degroof Petercam expects an increase of the assets and liabilities by EUR 55 million with respect to the impact on the opening balance.

Bank Degroof Petercam envisages that the implementation of the other standards set out above will not have a significant impact.

3 Summary of accounting policies and methods

In the accounting policies and methods set out below, the term ‘gains and losses recognized in equity’ relates to those gains and losses that should specifically be recorded in other comprehensive income in accordance with IFRS.

3.1 Consolidation principles

SCOPE OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the parent company and those of its subsidiaries that exceed a materiality threshold. Subsidiaries are any entities that are controlled by Bank Degroof Petercam (i.e. entities in respect of which the Bank is exposed to, or has the right to, variable returns as a result of its links with the subsidiaries, and has the ability to influence such returns through its power over the subsidiaries). The materiality threshold is based on an analysis of various criteria, including the group’s share of consolidated shareholders’ equity, the group’s share of the consolidated result and the group’s share of the total consolidated assets.

Subsidiaries are fully consolidated as from the date on which effective control passes to Bank Degroof Petercam. They are deconsolidated as from the date that such control ceases. The accounts of the parent company and its subsidiaries are prepared as at the same date using similar accounting policies, with adjustments being recorded if necessary. Intra-group balances, transactions, income and expenses are eliminated.

Minority interests are presented separately in the consolidated results, and within shareholders’ equity in the consolidated balance sheet.

JOINT ARRANGEMENTS

Joint arrangements are those entities in which Bank Degroof Petercam holds either direct or indirect joint control, i.e. no decision relating to relevant activities can be taken without the unanimous agreement of the parties sharing control.

Where such joint arrangements exceed the materiality threshold, they are accounted for under the equity method for those partnerships defined as joint ventures (entities in which the joint control gives rights to the joint venture’s net assets), or by accounting for the contractual share of assets, liabilities, revenues and expenses of those partnerships defined as joint operations (entities in which the joint control gives rights to the joint operation’s assets, and obligations for its liabilities) as from the date on which joint control commences until the date on which joint control ceases. The materiality threshold is based on an analysis of various criteria, including the group’s share of consolidated equity, the group’s share of the consolidated result and the group’s share of the total consolidated assets.

The accounts of the joint arrangements are prepared as at the same date and using similar accounting policies to those used by the parent company of the group, with adjustments being recorded if necessary.

ASSOCIATES

Associates are those entities over which Bank Degroof Petercam has significant influence (i.e. the power to take part in financial and operating policy decisions, but not (joint) control over these policies).

Where associates exceed the materiality threshold, they are accounted for under the equity method as from the date on which significant influence commences until the date on which significant influence ceases. The materiality threshold is based on an analysis of various criteria, including the group’s share of consolidated shareholders’ equity, the group’s share of the consolidated result and the group’s share of total consolidated assets.

The financial statements of the associate are prepared as at the same date and using similar accounting policies to those used by the parent company of the group, with adjustments being recorded if necessary.

3.2 Translation of foreign currencies

CONVERSION OF ACCOUNTS IN FOREIGN CURRENCIES

On consolidation, the balance sheets of entities having a functional currency different from that of Bank Degroof Petercam (EUR) are translated at the exchange rate prevailing at the period-end.

The income statements and the cash flow statements for the same entities are translated at the average exchange rate for the financial period.

Exchange differences arising on translation are recorded in shareholders' equity.

Goodwill and fair value adjustments arising from the acquisition of foreign entities are considered to be the assets and liabilities of the acquired entity and are, therefore, translated at the exchange rate prevailing at the period-end. Exchange differences arising on translation are recorded in shareholders' equity.

In the event of the disposal of the above-mentioned entities, the exchange differences previously recorded in shareholders' equity are included in the calculation of the gain or loss arising on the disposal, and are recorded in the income statement.

TRANSLATION OF FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies recorded in the stand-alone financial statements of Bank Degroof Petercam entities are accounted for at the exchange rate prevailing on the transaction date.

Monetary assets and liabilities are translated at the exchange rate prevailing at the period-end, giving rise to a translation difference that is recorded in the income statement.

Non-monetary items valued at fair value are translated at the exchange rate prevailing at the period-end. Exchange differences arising on translation are recorded either in shareholders' equity or in the income statement depending on the accounting treatment of the item in question. Other non-monetary items are valued at historic exchange rates (i.e. the exchange rate prevailing on the transaction date).

3.3 Financial instruments

3.3.1 Recognition date for financial instruments

All derivatives and all purchases and sales of securities under contracts which require the delivery of the securities by a deadline defined by regulation or by market convention, are recognized on the transaction date. Receivables and deposits are recognized on the settlement date.

3.3.2 Offsetting

Financial assets and liabilities are offset when, and only when, Bank Degroof Petercam has a legally enforceable right to offset the amounts in question, and if it intends to settle on a net basis or to realize the asset and to settle the liability simultaneously.

3.3.3 Classification and measurement of financial assets

On initial recognition, financial assets are classified as follows:

- At amortised cost
- At fair value through other comprehensive income
- At fair value through other comprehensive income (irrevocable option) for equity instruments (with no recycling)
- At fair value through profit or loss

The criteria for classifying financial assets depends on the nature of the financial instrument. On the basis of an analysis of the characteristics and contractual terms of the financial instrument, the instrument is deemed to be either a debt instrument or an equity instrument. An equity instrument is defined as any contract providing evidence of a residual interest in the assets of an entity after deduction of all of its liabilities. A financial instrument that does not meet the criteria of an equity instrument is classified by Bank Degroof Petercam as a debt instrument.

3.3.3.1 Financial asset measured at amortized cost

A financial asset is measured at amortized cost if the following two conditions are met:

- The financial asset is being held under a business model the objective of which is to collect contractual cash flows;
- The contractual conditions of the financial asset give rise to cash flows which relate only to the reimbursement of the nominal and to interest on the outstanding balance of the principal.

Financial assets measured at amortised cost are recognized initially at their fair value (including transaction costs, if significant) and subsequently at amortised cost using the effective interest method, after the possible deduction of an impairment for loss of value. The amortisation under the effective interest method is recorded in the income statement under the caption 'interest income'. Impairments are recorded in the statement of comprehensive income under the caption 'impairments'.

3.3.3.2 Financial assets measured at fair value through other comprehensive income

A financial asset should be measured at fair value through other comprehensive income if the following two conditions are met:

- The financial asset is being held under a business model the objective of which is to collect contractual cash flows and by the sale of financial assets;
- The contractual conditions of the financial asset give rise to cash flows which relate only to the reimbursement of the nominal and to interest on the outstanding balance of the principal.

Financial assets measured at fair value through other comprehensive income are recognized initially at their fair value (including transaction costs if they are significant), and are subsequently measured at fair value. With the exception of impairments, all fluctuations in fair value are recorded under a specific caption in shareholders' equity. Upon the derecognition of the asset, the cumulative gain or loss previously recorded in shareholders' equity is recorded in the income statement under 'net result on financial instruments measured at fair value through other comprehensive income'. Impairments are recorded in the statement of comprehensive income under the caption 'impairments'.

Income from interest-bearing instruments accounted for under the effective interest method is recorded under 'interest income'. Dividends received are recorded under 'interest income'

3.3.3.3 Financial assets measured at fair value (irrevocable option)

On initial recognition, Bank Degroof Petercam may elect irrevocably to record subsequent movements in the fair value of an investment in an equity instrument, which is not held for trading, in a specific caption of shareholders' equity.

The financial assets at fair value through other comprehensive income on irrevocable option are initially measured at fair value (including transaction costs if significant) and subsequently revaluated at their fair value.

This category of financial assets is not subject to impairment and the amounts recorded in shareholders equity are never reclassified to profit or loss.

Only dividends received are accounted for in profit or loss, except if they clearly represent a reimbursement of capital.

3.3.3.4 Financial assets measured at fair value through profit or loss

All other financial assets, that is to say the financial assets that do not meet the criteria for classification at amortized cost or at fair value through other comprehensive income, are accounted for at fair value in the balance sheet (excluding transaction costs which are recorded directly in profit or loss) and are subsequently measured at fair value. The movements in fair value are recorded in profit or loss under the caption 'net result on financial instruments measured at fair value through profit or loss'. The interest received or paid on non-derivative interest bearing instruments are recorded in profit or loss under the caption 'interest income' or 'interest expense'. Dividends received are recorded under the caption 'dividends.

Furthermore, on initial recognition, Bank Degroof Petercam can elect irrevocably to designate a financial asset as being at fair value through profit or loss if this designation eliminates or reduces significantly a valuation or an accounting mismatch which would arise if the election was not made.

The election for fair value is irrevocable once the asset is recorded on the balance sheet. This category has the same accounting policies as those that apply to assets measured at fair value. The same profit or loss captions as those mentioned above are used for the recording of interest and dividends. However, movements in the fair value are recorded under the caption 'Net result on financial instruments measured at fair value through profit or loss'.

3.3.3.5 Business model

The term 'business model' designates the manner in which Bank Degroof Petercam manages its financial assets in order to generate cash flows. The Bank determines the business model at a level which reflects the manner in which groups of financial assets are managed together to achieve a particular economic objective. As a result, Bank Degroof Petercam does not determine business models on an instrument-by-instrument basis, but at a higher level of aggregation. The assessment of the business model is important for debt instruments in order to determine whether they may be measured at amortized cost or at fair value through other comprehensive income.

There are three types of business model:

- The 'held-to-collect' model, the objective of which is to hold assets to collect contractual cash flows. Sales are incidental to the objectives of the model, and generally more limited in frequency and volume. Nevertheless, this model does not imply that all assets are held until maturity. The following examples of sales are consistent with the 'held-to-collect' model:
  - The sales are due to an increase in the credit risk of a financial asset;
  - The sales are infrequent (even if significant in value) or insignificant individually and in aggregate (even if frequent); or
  - The sales take place close to the maturity of the financial asset and the proceeds from the sales approximate the collection of the remaining contractual cash flows.

- The 'collect and sale' model, the objective of which is to both collect contractual cash flows and the sale of assets. Under this model, the sale of financial assets and the collection of cash flows are both integral to achieving its objective. This business model is generally associated with more sales (in terms of frequency and of higher value) than is the case with the held-to-collect model.
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- Other business models, the principal objective of which is to purchase and sell assets. They include assets held for trading, portfolios of financial assets the management performance of which is evaluated on a fair value basis, and portfolios the objective of which is to maximise cash flows through sale. Such a model is neither a 'held-to-collect' model nor a 'collect and sale' model, and the collection of contractual cash flows is incidental to achieving the objective of the model. Debt instruments which do not exactly meet the criteria for 'principal & interest' (see section 3.3.3.6) are allocated to these types of model. This is notably the case with mutual funds (given that investors enter and leave the funds on the basis of their fair value, it is unlikely that cash flows from an investment in such a fund meets the criteria for 'principal and interest'.

3.3.3.6 'Principal and interest' criteria (solely payments of principal and interest (SPPI) test)

The classification and measurement of a debt instrument also depends on the analysis of the characteristics of the contractual cash flows of the instrument (SPPI test). The SPPI test is satisfied if the contractual conditions of the debt instrument give rise, at specified dates, to cash flows that are solely payments of principal and interest. In respect of this analysis, the principal is the fair value of the financial assets at initial recognition and interest reflect the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time and other risks and costs associated with the principal, as well as a margin.

In order to determine whether the SPPI test is satisfied, Bank Degroof Petercam analyses the contractual conditions of the instrument in order to assess whether the instrument includes a condition which could modify the timing or the amount of the contractual cash flows in such a way that the instrument does not meet this condition. In this respect, Bank Degroof Petercam has prepared a checklist in order to verify whether the cash flows from debt instruments are solely payments of principal and interest. In performing this analysis, the elements that Bank Degroof Petercam take into account include the following:

- The condition which modifies the timing or the amount of the contractual cash flows;
- Leverage;
- Prepayment or term extension feature;
- Condition that limits the receivable of Bank Degroof Petercam to cash flows generated by specific assets (e.g. non-recourse financial assets);
- Conditions that modify the counterparty for the time value of money (e.g. periodic revision of interest rates).

3.3.3.7 Reclassifications

Financial assets are not reclassified after their initial recognition, except during the financial period following that in which Bank Degroof Petercam decides to change its strategy for an activity which has a significant impact on operations. Bank Degroof Petercam reclassifies all of the assets involved prospectively on the first day of the following financial period. Prior periods are not restated.

Bank Degroof Petercam considers that such changes would rarely occur.

3.3.4 Classification and measurement of financial liabilities

On initial recognition, financial liabilities are classified as follows:

- At amortised cost
- At fair value through profit or loss

3.3.4.1 Financial liabilities at fair value through profit or loss

Financial liabilities are measured at fair value through profit or loss if they are:

- held for trading purposes;
- designated at fair value through profit or loss.

These liabilities are initially recorded at their fair value (excluding transaction costs which are recorded directly in profit or loss) and are, subsequently, measured at fair value. The movements in fair value of those liabilities designated as being measured at fair value through profit or loss are recorded in profit or loss under the caption 'Net result on financial instruments measured at fair value through profit or loss'. The sole exception to this principal relates to financial liabilities designated at fair value through profit or loss for which the movements in fair value resulting from changes in the credit risk associated with that liability should be recorded in other comprehensive income (except if Bank Degroof Petercam is of the view that such a split presentation could create an accounting mismatch in profit or loss). The interest paid or received on non-derivative interest bearing instruments are recorded in profit or loss under the caption 'interest income' or 'interest expense'.

The designation of financial liabilities at fair value through profit or loss (or fair value option) occurs at the initial recognition of the financial instrument and is subject to the following eligibility criteria:

- The designation has to eliminate or significantly reduce a measurement or recognition inconsistency (accounting mismatch) that would otherwise arise if the designation is not used; or
- A group of financial liabilities is managed, and its performance evaluated, on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative that is not strictly linked.

3.3.4.2 Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities which are neither held for trading nor designated at fair value through profit or loss.

These liabilities are recognized initially at fair value (plus transaction costs, if significant), and subsequently at amortized cost using the effective interest method.

Accrued interest (including any difference between the redemption amount and the net amount received) is recorded, using the effective interest method, in profit or loss under ‘interest expense’ or interest income.

3.3.4.3 Reclassifications

The initial classification of financial liabilities is irrevocable. No subsequent reclassification is permitted.

3.3.5 Derivatives

All derivative financial instruments having a positive (negative) replacement value are considered as financial assets (liabilities) held for trading, with the exception of derivatives that qualify as hedging instruments. Derivatives held for trading are initially recognized at fair value, and are subsequently measured at fair value. Changes in fair value, including accrued interest, are recorded under ‘net result on financial instruments measured at fair value’.

3.3.6 Impairment of financial assets

The impairment model for credit risk is based on expected credit losses (ECL). This model applies primarily to loans, financial instruments measured at amortized cost or at fair value through other comprehensive income, loan commitments and financial guarantees issued. The expected credit losses are estimated using a probability-weighted calculation of the credit losses over the life time of the financial instrument. The calculation of these losses is based, in part on the following parameters: probability of default (PD), loss given default (LGD), exposure at default (EAD) and the discount rate. The expected credit loss is calculated by reference to a weighted average of probable scenarios. The financial assets are classified on the basis of the extent of the increase in credit risk since their initial recognition, in three categories:

- Stage 1: Initial recognition: ‘performing’: the impairment is calculated as the expected losses over the lifetime resulting from the risk of default withing the twelve months after the reporting date;
- Stage 2: Significant credit risk increase: ‘under-performing: the impairment is calculated as the expected credit losses over the lifetime of the financial instrument;
- Stage 3: Non-performing financial asset for which objective proof of default exists at the reporting date: ‘non-performing’: the impairment is calculated as the difference between the accounting value of the asset and its expected recoverable value.

In order to identify a significant increase in credit risk, Bank Degroof Petercam compares the risk of default at the reporting date with that at the initial recognition of the financial asset. In order to classify its credit exposures, Bank Degroof Petercam has developed an internal scoring model which evolves based of credit events for its credit portfolios. In respect of debt instruments, external rating agencies are primarily used and Bank Degroof Petercam makes use of the exception relating to low credit risk.

Bank Degroof Petercam accounts for changes in expected credit losses relating to financial instruments measured at amortised cost in profit or loss under the caption ‘impairments’ as counterparty to an account that corrects the value of the impaired financial asset. For financial assets measured at fair value through other comprehensive income, the correction of value is recorded in other elements of comprehensive income as counterparty to the profit or loss caption ‘impairments’ with the carrying value of the financial asset not being corrected in the consolidated financial statements. For loan commitments and financial guarantees issued, the expected credit losses are accounted for in liabilities under the caption ‘provisions’ as counterparty to the profit or loss caption ‘impairments’.

3.3.6.1 Definition of default

Bank Degroof Petercam uses the same definition of default as that used for internal purposes to manage credit risk. This definition of default is aligned with currently applicable regulatory requirements in the sector.

A financial assets is considered to be in default if at least one of the two following conditions is met:

- the Bank considers that payment by the debtor is unlikely ('unlikely to pay')
- the debtor has payment arrears of more than 90 days.

3.3.6.2 Impaired financial asset (Stage 3)

The Bank does not take account of the level of collateral granted as guarantee when classifying financial assets under Stage 3; when a file meets at least one of the above-mentioned criteria, the financial asset is considered to be in default and is classified under Stage 3, even if the value of the guarantees received exceeds the amount due to the Bank.

When the expected recoveries are less than the exposure of the Bank, an ECL is recorded.

3.3.6.3 Restructuring in case of financial difficulties

In order to maximise the possibility of recovering amounts due if the counterparty encounters financial difficulties, Bank Degroof Petercam may, in certain specific cases and under certain conditions, accept a restructuring of the financial instrument which will generally take the form of an extension of the residual life of the loan/bond, or a postponement or rescheduling of certain contractual due dates.

Such files are systematically classified as Stage 2, unless the file is considered to be in default in which case it will classified as Stage 3.

3.3.6.4 Significant increase in credit risk

In accordance with the ECL model, the impairment of a financial assets is calculated as the expected credit losses over the lifetime of the financial instrument as from the moment there is a significant increase in the credit risk of the financial asset. This assessment of a significant increase in the credit risk of a credit is through comparison with the level of risk assessed at the initial recognition of the financial instrument.

In respect of the bond portfolio and interbank deposits, a significant increase in credit risk is assessed primarily by reference to external ratings (or, failing that, by reference to a corresponding internal rating):

- Bank Degroof Petercam uses the exception allowed by IFRS 9 relating to low credit risk, under which instruments with an 'Investment grade' rating (low credit risk) at the reporting date are systematically classified under Stage 1, with an ECL being subsequently attributed amounting to the portion of the expected losses from a default over the remaining lifetime of the asset that result from a default during the 12 months following the reporting date.
- In respect of the financial assets to which the exception allowed by IFRS 9 relating to low credit risk does not apply (i.e. assets with a non-Investment grade rating), Bank Degroof Petercam assesses the evolution of the credit risk, by comparing the probability of default (PD) over the lifetime of the instrument at the time of initial recognition, with the PD at the reporting date (for an equivalent lifetime). This assessment is performed individually at the level of each exposure and at each reporting date.

In respect of loans and advances to customers, Bank Petercam Degroof has developed an internal rating model. The evolution of this internal rating determines the level of deterioration of credit risk. This internal rating, which is recalculated at each reporting date, at the level of each individual credit facility, changes in function of credit events such as:

- A restructuring due to financial difficulties (forbearance measure): a financial asset that is restructured as a result of financial difficulties encountered by the borrower is always classified as Stage 2, unless the file is considered to be in default in which case it is classified as Stage 3;
- Placed on the 'Watch List': files included on this List are classified a Stage 2;
- Margin call made by Bank Petercam Degroof (Lombard credits), if the Bank deems that the collateral received in counterparty is insufficient;
- Significant payment arrears of more than 30 days: Bank Petercam Degroof is aligned with international standards, as a transfer to Stage 2 takes place as from the moment that a financial assets has significant payment arrears of more than 30 days.

Given that Bank Degroof Petercam never acquires portfolios of distressed assets, all financial instruments are systematically classified under Stage 1 at the time of their initial recognition. At subsequent reporting dates, if none of the above-mentioned criteria are met, the asset remains as Stage 1.

As from the moment that a financial instrument meets at least one of the criteria to be considered as having suffered a significant increase in credit risk since its initial recognition (see elsewhere), the financial instrument is classified under Stage 2 and an ECL corresponding to the expected losses over the lifetime of the instrument is recorded.

A financial asset is considered to be in default (i.e. as Stage 3) as from the moment that it satisfies the above-mentioned definition of default. The transfers between Stages are balanced in that a financial instrument that has been transferred in the past to Stage 2 or 3, can be transferred back to Stage 2 or 1 at a subsequent reporting date if the criteria for the transfer are no longer met, on condition that possible probation periods, in accordance with regulatory standards of the sector, are respected.

3.3.6.5 Governance and calculation of expected credit losses (ECL model)

The ECL results from the probability of default (PD), the estimation of exposure at default (EAD) and the loss given default (LGD). The ECL is calculated so as to reflect:

- An unbiased amount weighted for the probability of occurrence;
- The time value of money;
- Information on past events, current conditions and macro-economic forecasts.

The maximum period taken into account for the calculation of the ECL is the maximum contractual period (including extensions).

The lifetime ECL represents the sum of the ECLs over the lifetime of the financial asset, discounted at the effective interest rate. It is used for all financial instruments classified as Stage 2.

The 12 month ECL represents the portion of the lifetime ECL resulting from a default within the 12 months after the reporting date. It is used for the instruments classified under Stage 1.

Bank Petercam Degroof does not possess PD and LGD (Basel) models, given that it has opted for the standard approach for reasons of prudence. In order to comply with IFRS 9, PD and LGD models were developed in-house in order to prepare the calculations of ECL.

Bank Degroof Petercam takes three different macro-economic scenarios into account for the calculation of the ECL. A weighting is applied to each of the three scenarios. The reference macro-economic scenario represents the most probable forecast as assessed by the Bank. This scenario is also used for other internal and external requirements.

The calculation of the ECL requires important judgements about various aspects such as the financial situation of the borrower and its capacity to reimburse the credit, the value of, and the possibility of recovering, the collateral, or macro-economic forecasts. Bank Degroof Petercam adopts the most neutral approach possible in this respect.

3.3.6.6 Write-offs

A write-off reduces the gross carrying value of a financial asset when there is no longer a reasonable expectation of recovery of all or part of the asset, or when the asset has been the subject of a total or partial waiver. This situation results in the asset being removed from the balance sheet. Bank Degroof Petercam only records write-offs on a case by case basis, taking into account various factors, including:
- The financial asset is fully impaired;
- The period since the last impairment;
- Whether the collateral is recoverable within a normal timeframe;
- The probability of recovering the cash flows and estimating the time frame for such a recovery;
- The number of days since the most recent cash receipt;
- The status of the file and/or the debtor;

3.3.7 Fair value of financial instruments

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, on the principal or the most advantageous market, at the measurement date. The fair value of a liability reflects non-performance risk.

The fair value is determined by reference to quoted prices on an active market (quotations established by a stock exchange, broker, or any other source recognized by investors). Where no market exists or market prices are not available, valuation techniques are used in order to estimate, at the measurement date, the fair value under current market conditions. These techniques make maximum use of market inputs, of currently used calculation methods, as well as of a series of other factors including time value and credit and liquidity risk.

The fair value estimated in this manner is affected by the data used. Valuation techniques include, in particular, discounted cash flow analysis, reference to the current fair value of another instrument that is substantially the same, option pricing models, and other appropriate valuation models.

At the time of initial recognition, the fair value of a financial instrument is the transaction price (i.e. the fair value of the consideration given or received), unless another fair value for that instrument can be evidenced by reference to a quoted price on an active market for the same instrument, or based on a valuation technique the variables of which only include data from observable markets.

In determining the fair value of financial instruments, the Bank uses mainly the following valuation techniques:

ACTIVE MARKET

The financial instruments are valued at fair value by reference to the prices quoted on an active market if such prices are readily and regularly available, taking into account criteria including the volume of transactions or recent transactions. Quoted securities and derivatives on organized markets (futures and options) are valued in this way.

For over the counter derivatives such as interest rate swaps, options and foreign exchange contracts, the valuation is calculated using widely recognized models (discounted cash flow analysis, Black and Scholes model, etc.) which use observable market data.

The valuation of these derivatives includes a correction for credit risk (CVA – Credit Value Adjustment; DVA – Debit Value Adjustment). The CVA adjustment involves adapting the fair value of the derivatives in order to take account of the solvency of the counter-party in the valuation. Similarly, the DVA adjustment reflects the effect of the credit quality of Bank Degroof Petercam on the valuation of the derivatives.

For valuations using 'mid-market' prices as a basis for establishing fair values, a price adjustment is applied, by risk position, to the net open position using the bid or asking price, as appropriate.

ABSENCE OF ACTIVE MARKET

Most derivatives are traded on active markets. Where the price of a transaction on an inactive market does not correspond to the fair value of other observable current market transactions in the same instrument or the valuation obtained using an internal model based on observable market data, the difference is recorded directly in the income statement.

Where, however, this difference (commonly known as 'Day 1 profit and loss') is generated by a valuation model the parameters of which are not all based on observable market data, it is recorded in the income statement over the life of the transaction, or deferred until the date on which the instrument is derecognized. In all cases, any unrecognized differences are immediately recorded in the income statement if parameters that were not originally observable later become so, or where the fair value can be determined by reference to a price quoted on an active market involving the same instrument. For all transactions, the appropriate method for recording the difference in the income statement is determined on a case by case basis.

ABSENCE OF ACTIVE MARKET – EQUITY INSTRUMENTS (UNQUOTED SHARES)

In the absence of any trading price recently realized under normal market conditions, the fair value of unquoted shares is estimated using recognized valuation techniques such as discounted cash flow analysis, applying stock market multiples for comparable companies, and the net asset value method.

The carrying amount of short term financial instruments corresponds to a reasonable approximation of their fair value.

3.3.8 Embedded derivatives

An embedded derivative is defined as a component of a composite (hybrid) instrument which includes both a derivative financial instrument and a non-derivative host contract. This definition applies only to financial liabilities, non-financial contracts and financial assets not falling within the scope of IFRS 9.

An embedded derivative should be separated from the host contract and accounted for as a derivative when:

- the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative;
- the hybrid (composite) instrument is not measured at fair value through profit or loss.

This (embedded) derivative is valued at fair value through profit or loss in the same manner as a standalone derivative.

The host contract is accounted for and valued according to the principles governing the category to which it belongs. In so far as the separation of the embedded derivative is permitted (see above), the entire hybrid contract may be designated as being at fair value through profit or loss. If, however, it is not possible to separately value the embedded derivative, the entire hybrid contract must be designated as being at fair value through profit or loss.

3.3.9 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer to make specific payments to reimburse the contract's holder for a loss that it suffers due to the failure of a specified debtor to make a payment at maturity in accordance with the initial or modified terms of the debt instrument.

- Financial guarantee contracts are initially valued at their fair value and, if they are not designated as being at fair value through profit or loss, they are are subsequently measured at the higher of:
- The correction of value for losses determined in accordance with note 3.3.6; and
- The amount recorded at initial recognition reduced, where appropriate, by the accumulated income recorded in accordance with the revenue recognition accounting policies of Bank Degroof Petercam.

3.3.10 Derecognition of financial instruments

A financial asset is derecognized when:

- the contractual rights to the cash flows attached to the financial asset expire; or
- the Bank has transferred almost all risks and rewards attached to the ownership of this financial asset. If the Bank neither transfers nor keeps substantially all of the risks and rewards attached to the ownership of the financial asset, it is derecognized when control of the financial asset is not retained. In the contrary case, the Bank maintains the financial asset on the balance sheet to the extent that it continues to be involved with the asset.

A financial liability is derecognized if the liability has expired, i.e. when the obligation set out in the contract is cancelled or expires.

3.4 Hedge accounting

Bank Degroof Petercam applies the hedge accounting provisions set out in IFRS 9.

Hedging aims to reduce or eliminate exposure to fluctuations in exchange rates, interest rates or prices through the use of derivative or non-derivative financial instruments. For an instrument to qualify as hedge accounting, and in order to establish the relationship between the hedging instrument and the hedged item, the following conditions need to be met:

- the relationship only includes permitted hedging instruments and permitted hedged items;
- formal documentation of the hedging instrument and the hedged item or transaction to be covered needs to be prepared, describing the hedging relationship, the strategy and the nature of the hedged risk, and how the effectiveness of the hedging relationship will be assessed;
- demonstrating that there is an economic link between the hedged item and the hedging instrument and that these mutually counter-balance each other either partially or totally;
- the effect of credit risk does not control the movements in the value that results from this economic link; and
- the hedging ratio should take into the account the actual number of hedging instruments to cover the actual amounts of hedged items.

The accounting treatment of hedging instruments depends on which of the following categories they are classified under:

FAIR VALUE HEDGE

Changes in the fair value of the derivative or of the non-derivative hedging instrument designated and qualifying as a fair value hedge are recorded in the income statement under the heading 'net result on hedge accounting' together with the changes in fair value of the hedged assets or liabilities attributable to the hedged risk. Where the hedge no longer satisfies the conditions for hedge accounting, the accumulated adjustment recorded in the balance sheet in respect of the hedged item, in the case of an interest-bearing financial instrument, is amortized over the residual life of the hedged item in the form of an adjustment to the effective interest rate. If the interest rate risk on a portfolio of instruments is hedged, the adjustment is amortized on a straightline basis. In the case of a non-interest bearing financial instrument, the accumulated adjustment on the hedged item is only recorded in the income statement upon maturity (or derecognition) of the hedged item.

CASH FLOW HEDGES

The effective part of changes in the fair value of derivatives designated and qualifying as cash flow hedges is deferred in shareholders' equity under 'revaluation reserves'. The ineffective part of changes in the fair value is recorded directly in the income statement.

Gains and losses previously recorded in equity are transferred to the income statement and recognized in income or expense over the period during which the hedged instrument impacts the result.

If the hedging relationship is broken or if the hedge no longer meets the conditions for hedge accounting, the accumulated amounts recorded in shareholders' equity are maintained in shareholders' equity until the forecast transaction impacts on the income statement. Once it is foreseen that the forecast transaction will no longer take place, these amounts are immediately recorded in the income statement.

HEDGE OF A NET INVESTMENT IN A FOREIGN ENTITY

The hedging of a net investment in a foreign entity is accounted for in the same manner as cash flow hedges. Gains and losses recorded in shareholders' equity are recorded in the income statement at the time of the disposal or liquidation of the foreign entity.

3.5 Leasing contracts

A leasing contract qualifies as a finance lease when the contract transfers substantially all of the risks and rewards of ownership of the asset. An operating lease is any leasing contract other than a finance lease.

A GROUP ENTITY AS THE LESSEE IN A LEASE CONTRACT

For operating leases, the leased asset is not recognized in the balance sheet and the lease rental payments are recorded in the income statement on a straight-line basis over the life of the lease contract.

For finance leases, the leased asset is capitalized and accounted for at the lower of its fair value or the present value of the minimum contractual lease payments. The asset is depreciated using the same depreciation rates as for assets of a similar nature, over the shorter of the contract period and its useful life.

The related debt is recognized in liabilities as a financial debt. The financial expense is recognized in the income statement over the period covered by the lease contract so as to obtain a constant periodic interest rate on the remaining balance of the liability.

A GROUP ENTITY AS THE LESSOR

Assets leased under an operating lease contract are accounted for in the balance sheet as fixed assets and are depreciated using the same depreciation rates as for assets of a similar nature. The lease revenues are recorded in income on a straight-line basis over the life of the lease contract.

For finance leases, the present value of the minimum payments plus, where applicable, the residual value of the asset, is recognized as a receivable and not as a fixed asset. The financial income from the finance lease is spread over the life of the contract based on a table reflecting a constant rate of return on the net investment in the contract.

3.6 Property and equipment (including investment property)

Property and equipment are recorded at acquisition cost (including directly attributable expenses) less accumulated depreciation and any impairment losses. Bank Degroof Petercam applies the component method of fixed asset accounting (mainly for buildings) and the depreciable amount of an asset is determined after deduction of its residual value.

Depreciation is calculated on a straight-line basis, according to the useful lives of the assets concerned.

The useful lives applied are:

Nature of the fixed asset or component	Useful life
Land	Infinite
Buildings	40 to 50 years
Technical equipment	10 years
General equipment	20 years
Finishing	5 to 10 years
IT/telecom equipment	4 years
Miscellaneous equipment	5 years
Office furniture	10 years
Vehicles	4 years

Land and works of art have an indefinite useful life and are, therefore, not depreciated but can be subject to impairment losses.

At each financial period-end, where an indication of any kind exists that a tangible asset might have suffered impairment, an impairment test (comparing the net carrying amount of the asset with its recoverable value) is performed. An impairment loss is recorded when the carrying amount of the fixed asset is higher than its estimated recoverable value.

The useful lives and residual values of tangible fixed assets are reviewed at each financial period-end.

Investment properties are properties held to earn rentals and/or for capital appreciation. Where the part of a property used by the Bank for its own account can be disposed of separately or leased via a finance lease, this part is accounted for as a tangible fixed asset. Otherwise the property is regarded as an investment property if the part used by the Bank for its own account represents only an insignificant part of the total investment.

3.7 Intangible assets

An intangible asset is an identifiable non-monetary asset that has no physical substance.

Such an asset is recorded initially at cost if it is deemed that it will produce future economic benefits and if the acquisition cost of this asset can be reliably determined.

Intangible assets consist mainly of software acquired or developed internally as well as business activities ('fonds de commerce') which have been purchased, or acquired in the context of business combinations.

Purchased software is amortized on a straight-line basis, depending on its nature, over useful lives of three to five years, as from the time it becomes usable. Software maintenance costs are charged to the income statement as incurred. Expenditure to improve the quality of the software or which helps extend its useful life is, however, added to the initial acquisition cost. Development costs of internally-generated software are amortized on a straight-line basis over the period during which the group expects to benefit from the asset. Research costs are expensed directly as incurred.

Business activities ('fonds de commerce') are amortized on a straight-line basis over their expected useful lives. These useful lives generally do not exceed 20 years.

At each financial period-end, where there is an indication that an intangible asset might have suffered impairment, an impairment test (comparing the net carrying amount of the asset with its recoverable value) is performed. An impairment loss is recognized when the carrying amount of the asset is higher than its estimated recoverable value.

Intangible assets are recorded at cost less accumulated amortization and impairment losses. The useful lives and residual values of intangible fixed assets are reviewed at each financial period-end.

GOODWILL

Goodwill arises when a subsidiary, joint arrangement or associate is acquired. Goodwill represents the difference between the acquisition cost (including costs directly attributable to business combinations) and the (IFRS-restated) equity of the acquired entities, i.e. after recognizing at fair value (via shareholders' equity) all identifiable assets and liabilities in accordance with IFRS. Where the difference is positive, it is recorded in the balance sheet as an intangible asset. Where it is negative, it is credited to the income statement after verifying the valuation of all identifiable assets and liabilities. Subsequently, each recorded element will be valued using the same accounting policies applied to assets and liabilities of a similar nature.

After initial recognition, positive goodwill is valued at cost, less accumulated impairment losses.

Goodwill is not amortized, but is tested annually for impairment, or more often if events or changes in circumstance indicate that it may have suffered impairment. In order to test for impairment, and given that goodwill does not generate independent cash flows, the impairment test is applied to each cash generating unit which expects to benefit from the synergies resulting from the business combination. The cash generating units can be a legal entity or a sector of activity, determined based on geographic criteria or a mixture of abovementioned elements.

A change in the percentage holding in a subsidiary (i.e. an entity already controlled by Bank Degroof Petercam) is, however, considered as a transaction between shareholders. As a result, if the transaction does not result in a change in consolidation method, no adjustment is recorded and the difference between the acquisition or sales price and the carrying amount of the equity acquired or disposed is recorded directly in shareholders' equity.

When a business combination takes place in stages, goodwill is calculated after having revalued the shares previously held in the acquired company to their fair value at the date of the additional acquisition. Any profit or loss generated by this revaluation is accounted for in the income statement.

3.8 Other assets

Other assets comprise primarily income receivable (excluding interest), deferred charges and other debtors

3.9 Impairment of non-financial assets

An impairment loss is recorded whenever the carrying value of a non-financial asset (net of any depreciation/amortization) is higher than its recoverable value.

At each financial period-end, Bank Degroof Petercam assesses whether there is any indication (i.e. a loss-generating event) that an asset may have lost value. Where such an indication exists, an impairment test is carried out and, where appropriate, an impairment loss is recorded through the income statement.

Even where no objective indication exists of impairment, such an examination is carried out, at least every year at the same date, in respect of intangible assets with indefinite useful lives and of goodwill.

The recoverable value of a non-financial asset is the greater of its fair value less costs to sell, and its value in use. The fair value less costs to sell corresponds to the amount that can be realized from the sale of an asset under normal market conditions between informed and consenting parties, after deduction of the disposal costs. The value in use of an asset is the net present value of the future cash flows expected to be derived from this asset.

When it is not possible to estimate the recoverable value of an individual asset, the asset is attached to a cash generating unit (CGU) to determine any impairment losses at this level of aggregation.

An impairment loss is recorded directly in the income statement under 'impairments'. When an asset has been revalued, the impairment loss is recorded as a reduction of the revaluation. The impairment loss of a CGU is allocated so as to reduce the carrying value of the assets of this unit in the following order:

- firstly, to the goodwill associated with the CGU;
- subsequently, to the other assets of the CGU pro rata to the carrying amount of each of the CGU's assets.

An impairment loss recognized during a previous financial period is reversed whenever there has been a favourable change in the estimates used for determining the recoverable value of the asset since an impairment loss was last recognized. In such cases, the carrying amount of the asset needs to be increased to its recoverable value, without exceeding the carrying amount of the asset prior to the impairment loss, i.e. after the application of normal depreciation/amortization rates.

An impairment loss on goodwill cannot be subsequently reversed.

3.10 Provisions

A provision is recorded when:

- Bank Degroof Petercam has a present legal or constructive obligation resulting from a past event;
- it is probable that an outflow of economic benefits will be required to settle the obligation;
- the amount of the obligation can be reliably estimated.

When the effect of the time value of money is material, the provision is recorded at its present value.

In addition, the amount of the provision is increased in respect of direct external costs associated with the settlement of a specific obligation.

3.11 Tax

CURRENT TAX

Deferred tax is recognized whenever a temporary difference exists between the fiscal value of the assets and liabilities and their carrying amount. Deferred tax is recognized using the liability method which consists of calculating, at each financial period-end, deferred tax based on the current tax rates or the rates that will prevail (where known) at the time that the temporary differences reverse.

Deferred tax liabilities are recorded for all taxable temporary differences, with the exception of those:

- generated by the initial recognition of goodwill;
- linked to the initial recognition of an asset or a liability in a transaction that is not a business combination and that affects neither the accounting profit nor the taxable profit; or
- associated with investments in subsidiaries, associates and joint arrangements to the extent that the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized in respect of all tax-deductible temporary differences, tax losses carried forward and unused tax credits to the extent that it is probable that a future taxable profit will be available against which the differences can be utilized, except where the deductible temporary difference:

- is generated by the recognition of an asset or a liability in a transaction that is not a business combination and that affects neither the accounting profit nor the taxable profit; or
- relates to the investments in subsidiaries, associates and joint arrangements to the extent that this difference will not reverse in the foreseeable future.

Current tax payable and deferred tax are recorded in the income statement as tax charges or income, except where they are linked to items recorded in shareholders' equity (revaluation to fair value of available for sale assets and derivatives designated as cash flow hedges and actuarial gains and losses in respect of the obligations and assets of schemes that result from differences between the assumptions used at the beginning of the financial period and the reality observed at the end of the financial period), in which case they are recorded in shareholders' equity and are subsequently recognized in income if the gains or losses previously recorded in shareholders' equity are transferred to the income statement.

3.12 Employee benefits

OTHER LONG-TERM BENEFITS

Other long-term benefits comprise benefits such as those linked to profit sharing or bonuses on the condition that they are not expected to be wholly settled within twelve months following the end of the annual reporting period during which employee services were rendered.

The application of national legislation relating to remuneration policies requires the deferral, for a period exceeding twelve months, of the payment of profit sharing bonuses to certain members of the personnel.

Provisions are recorded in respect of the portion of such bonuses for which payment is expected after more than one year.

COMMITMENTS RELATED TO PENSION SCHEMES

Bank Degroof Petercam offers various pension schemes, both defined contribution and defined benefit, while respecting national regulations and practices in the sector.

For the defined contribution schemes, where the Bank's commitment consists of paying the premiums, this amount is recorded as an expense during the financial period.

Defined benefit schemes are plans where the Bank is required to pay supplementary contributions to the schemes in the event that the latter have insufficient assets to meet the current and past service obligations to employees. For these schemes, the charge to the income statement is determined using the projected unit credit method in such a way as to spread the cost of the future pension over the employee's expected working life. Any obligation of the Bank over and above the assets held by the schemes is recorded as a liability on the balance sheet. Actuarial gains and losses in respect of the obligations and assets of these schemes that result from differences between the assumptions used at the beginning of the financial period and the reality observed at the end of the financial period, are fully and immediately accounted in other comprehensive income. All calculations are performed by an independent actuary.

OTHER POST-EMPLOYMENT COMMITMENTS

Certain group companies offer to assume all or part of the cost of a 'medical care' insurance policy for employees under contract to the company at the time of their retirement, respecting the conditions set out in the plan until the death of the retired employees.

The group's estimated commitment is accumulated as a liability over the employees' years of service and is determined in a manner similar to that used for defined benefit pension schemes. The relevant calculations are also performed by an independent actuary.

SHARE-BASED PAYMENT TRANSACTIONS

Share options are granted to senior management and certain employees. The cost of services rendered is determined by reference to the fair value of the share options and is recognized progressively over the vesting period of the rights corresponding to the period of services rendered. The fair value of options is calculated using either Black and Scholes valuation techniques, or using a model based on Least Square Monte-Carlo type simulations that reflect the specific characteristics of each scheme.

In the case of equity-settled plans, the fair value used is that defined at the time of final acceptance by the beneficiaries. The number of options is, however, updated to reflect only those that will probably be exercised.

In accordance with IFRS 2, only share option plans making provision for settlement in shares issued after 7 November 2002 are taken into account. The resulting charge is recorded in the income statement with an offsetting entry to shareholders' equity.

For cash-settled plans, the fair value is recalculated at each financial period-end in the light of market data and the number of options exercisable. The charge resulting from this revaluation is recorded in the income statement with an off-setting entry to liabilities.

3.13 Other liabilities

Other liabilities include, in particular, short term employee benefits, dividends payable, expenses payable (excluding interest), deferred revenues and other debts.

3.14 Shareholders' equity

CAPITAL ISSUE COSTS

The costs of issuing new shares not linked to a business combination are deducted from shareholders' equity, net of any related tax.

DIVIDENDS

Dividends on shares for the period are not deducted from shareholders' equity at the financial period-end.

Details of the amount of the dividend proposed to the general meeting are provided in the section on post balance sheet events.

TREASURY SHARES

Whenever Bank Degroof Petercam or one of its subsidiaries purchases treasury shares, the acquisition price is deducted directly from shareholders' equity. Results generated on the sale of treasury shares are also recorded directly in shareholders' equity.

Dividends on treasury shares held by the Bank or its subsidiaries are eliminated and are therefore not included in the total amount of the proposed distribution.

OTHER COMPONENTS

Other elements that influence shareholder's equity including, among others, the treatment of option plans on treasury shares, the revaluation of certain financial instruments to fair value, actuarial gains and losses in respect of the obligations and assets of schemes that result from differences between the assumptions used at the beginning of the financial period and the reality observed at the end of the financial period, transactions between shareholders, the impact of the conversion of foreign currencies and consolidation entries, are explained above under the appropriate headings.

3.15 Interest income and charges

Interest income and charges are recorded in the income statement in respect of all interest-bearing instruments using the effective interest method. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to obtain the gross carrying amount of the financial asset or the amortized cost of the financial liability. The calculation of this rate includes all related fees and points paid or received, transaction costs and all other premiums or discounts.

Transaction costs are additional costs directly linked to the acquisition, issue or sale of a financial instrument.

In respect of financial assets which have been impaired following their initial acquisition, the interest income continues to be recorded on the basis of the effective interest rate and the impaired value of the assets.

Interest charges and income from derivatives held for trading are recorded under the same heading ('net result on financial instruments held for trading') as movements in fair value.

Accrued interest is recorded in the balance sheet on the same account as the corresponding financial asset or liability.

3.16 Dividends

Dividends are recorded once the shareholders' right to receive payment is established.

3.17 Fees and commissions

Bank Degroof Petercam recognizes in the income statement the fees and commissions received in respect of the various services rendered to its clients. The method of accounting for these fees and commissions depends on the nature of the services.

Commissions forming an integral part of the effective interest rate of a financial instrument are generally taken into account when determining this rate. This relates in particular to commissions for the granting of loans and for opening lines of credit. Commitment fees on credit lines, if they are significant and if the customer is expected to draw down, are deferred and accounted for as an adjustment to the effective interest rate on the loan. Otherwise they are recognized on a pro rata basis over the life of the commitment.

In respect of other types of fees and commissions, their recognition in profit or loss should reflect the extent of the transfer of control of the service or good to the client:

- Commissions for services provided over a specified period are recognized as and when the service is rendered, or on a straight-line basis over the duration of the commission-generating transaction. This applies to management, administration, financial servicing, custody and other service fees.
- Commissions relating to the performance of a service at a specified time (the date on which control of the service is transferred to the client), such as intermediary services, placement, performance and brokerage, are deferred and recorded at the time that the performance of the service is completed.

The amount of the fees and commissions represents the counterparty that we expect to receive in exchange for providing the services promised to the client (excluding amounts received on behalf of third parties – e.g. sales taxes). The counterparty promised in a contract concluded with a client can comprise fixed amounts, variable amounts, or both. All variable amounts (subject to a suspensive condition or related to the fulfilment of a specific objective) included in the price of a transaction are limited to the amount receivable that is highly probable (i.e. that subsequently there will not be a significant downward adjustment to the revenues recorded). This estimation is updated at every period end.

3.18 Result on the revaluation or disposal of financial instruments

Results on transactions for trading purposes include all gains and losses from changes in the fair value of financial assets and liabilities held for trading, as well as interest income and charges on derivatives not qualified as hedging instruments and any ineffectiveness observed in a hedging relationship.

Realized and unrealized gains and losses (excluding accrued interest and dividends) on financial instruments designated at fair value through profit or loss are recorded in the revaluation results relating to these instruments.

Gains and losses on the sale or disposal of financial instruments that are not designated at fair value through profit or loss, or are held for trading, are recorded under 'net result on financial instruments not measured at fair value through profit or loss'.

3.19 Cash and cash equivalents

The term 'cash and cash equivalents' covers cash, balances available with central banks, current accounts with credit institutions and loans and advances to credit institutions maturing within three months of their date of acquisition.

Bank Degroof Petercam presents the cash flows from its operating activities using the indirect method, under which the net result is adjusted for the effect of non-cash transactions, any deferrals or accruals of past or future operating cash inflows or outflows, and income and expense linked to investing or financing cash flows.

Tax flows, interest received and interest paid are presented together with the operating activities. Dividends received are classified as cash flows from operating activities.

Dividends paid are recorded as cash flows from financing activities. Equity instruments included in the portfolio of 'available-for-sale financial assets' are included in operating activities.

4 Use of judgment and estimates in preparing the financial statements

The preparation of financial statements in accordance with IFRS requires the use of judgments and estimates. Whilst management believes that it has taken into account all available information in arriving at these judgements and estimates, the reality can be different and such differences can have an impact on the financial statements.

These estimates and judgements relate primarily to the following matters:

- the determination of fair values of unquoted financial instruments;
- the classification of financial instruments based on the business model defined by Bank Degroof Petercam for managing the financial instruments and the analysis of the contractual terms of the financial assets in order to determine whether they respect the SPPI criteria;
- the determination of a reference liability ('proxy') in order to estimate the impact of the risk of a change in the risk-free rate on the instrument covered by a hedging relationship.
- the assessment of the efficiency of hedging relationships;
- the definition of the useful lives and residual values of intangible and tangible fixed assets;
- the assumptions used in respect of the valuation of commitments linked to post-employment benefits;
- the estimation of recoverable values of impaired assets;
- the assumptions used to calculate expected credit losses, the use of forward looking macro-economic information, and the assessment of the criteria for the significant deterioration of credit risk;
- the assessment of the current obligations arising from past events when recording provisions.

5 Risk management

5.1 General principles

The Bank's executive committee has defined the group's risk management policy in accordance with the risk tolerances defined in the Bank's economic capital model (ICAAP & ILAAP [1]), which has been validated by the risk committee.

The executive committee has delegated certain of its responsibilities for implementing its risk management policy to the following committees:

- the almac committee is responsible for managing the group's balance sheet and off-balance sheet assets and liabilities, in order to provide a stable and adequate financial margin within acceptable risk limits. This committee also manages the consolidated liquidity risk;
- the credit committee is responsible for granting new credit lines and new limits (for market operations) to non-financial counterparties. It also reviews existing credit lines and limits;
- the limits committee is responsible for granting new limits for all products for banking, institutional and corporate counterparties of the group. It also reviews existing limits on a regular basis.

In addition, day-to-day risk management and monitoring of limits are managed by the teams of the risk management department (Credit Risk Management, Portfolio Management Risk, Operational Risk Management and Banking Risk Management). These teams ensure that market, liquidity, credit and counterparty, wealth management and operational risks are followed up.

5.2 Comprehensive assessment – Asset Quality Review (AQR) & stress test

In December 2014, Bank Degroof Petercam was added to the list of significant banks at the European level by the European Central Bank (ECB). Since then, the Bank has been subject to direct prudential control by the ECB.

During 2015, the Bank was subject to a 'Comprehensive Assessment' exercise. A 'Comprehensive Assessment' exercise comprises two parts: the Asset Quality Review (AQR) and the Stress Test. The AQR comprises an in-depth analysis of the assets (primarily loans) and the accounting processes of the bank being tested. The objective is to ensure that the level of own funds of the bank (CET1 ratio) reflects reality, and that all necessary provisions have been recorded. The AQR exercise results in a correction to the CET1 ratio (adjusted CET1) which is used as the starting point for the Stress Test. The Stress Test ensures that the bank has a sufficient CET1 ratio for the following three years, even during a major crisis. Two scenarios (the first known as the base scenario which simulates a normal development of market factors, the second known as the unfavourable scenario which simulates a major crisis) are applied to the results and the balance sheet of the bank.

Since 2015, the Bank has not been subject to an AQR but a Stress Test took place in 2018.

The exercise was carried out in respect of data as at 31 December 2017. No minimum threshold needed to be met. The objective of the exercise was to obtain a view of the resistance of the sector to impacts from a crisis for which the assumptions were determined by the European Central Bank.

The results of this Stress Test for the banks of our group (SREP bank) are available at **www.bankingsupervision.europa.eu/press/pr/date/2019/html/ssm.pr190201~6114ab7593.en.html**, but have not been published individually contrary to the results for large banks.

Our results are within the standards of our reference group. In spite of the significant shocks imposed by the methodology, they confirm the limited risk presented by the Bank's balance sheet, the Bank's good management of its risks, as well as Bank's profitability.

In 2019, Bank Degroof Petercam, like all other banks under the direct supervision of the European Central Bank, will be subject to a new Stress Test. This exercise will focus on liquidity risk. The results should be known during the final quarter of 2019.

1 Internal Capital Adequacy Assessment Process & Internal Liquidity Adequacy Assessment Process.

5.3 Liquidity risk

Liquidity risk is the risk of Bank Degroof Petercam being unable to meet its financial commitments at their due dates at a reasonable cost.

The principal objective of liquidity management is to ensure that the group has sufficient financing, even during very unfavourable conditions. The liquidity strategy is managed at a consolidated level by the almac committee on a monthly basis, with day-to-day management being delegated to the treasury departments of the Brussels and Luxembourg dealing rooms, under the supervision of risk management.

Risk management ensures that Bank Degroof Petercam is able to ensure its liquidity in all crisis scenarios, whether it is a liquidity crisis on the market or a liquidity crisis specific to Bank Degroof Petercam. The assumptions underlying these scenarios are reviewed regularly. Treasury flows must remain positive under each of the scenarios, which are monitored on a daily basis. The internal stress test scenarios are supplemented by the regulatory stress tests of Basel III (LCR and NSFR).

The liquidity strategy of Bank Degroof Petercam can be summarized as follows:

- a large base of customer deposits, sourced from several group entities. Since October 2015, the customer deposit base has been reinforced as a result of the merger of Bank Degroof and Petercam;
- a complete independence from interbank funding: the Bank does not need to have recourse to inter-bank funding to finance itself;
- a low ‘loan to deposit ratio’, which indicates that the amount of credits granted is substantially lower than the total of customers’ deposits;
- bond portfolios which are liquid and which, for the most part, can rapidly be mobilized through repo operations with the European Central Bank.

The table below sets out the maturities of our assets and liabilities [1]. The liquidity gap is based on contractual maturities. The calculation of the corrected liquidity gap takes into account the capacity to mobilize the bond portfolios [2]:

(in thousands of EUR)

31.12.2018	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Financial assets					
Loans and advances to credit institutions [3]	2 775 599	247 976	52	0	18 394
Loans and advances to customers	216 537	200 758	388 449	936 470	381 989
Bonds and other fixed income securities	0	340 958	204 129	1 286 806	567 020
Derivatives	0	3 534 691	621 276	86 386	21 952
Interest rate derivatives	0	13 874	33 475	86 386	21 952
IRS	*0*	*13 874*	*33 475*	*86 386*	*21 952*
Other interest rate derivatives	*0*	*0*	*0*	*0*	*0*
Exchange rate derivatives	0	3 520 817	587 801	0	0
Total financial assets	**2 992 136**	**4 324 383**	**1 213 906**	**2 309 662**	**989 355**
Financial liabilities					
Deposits from credit institutions	66 278	13 292	6	0	0
Deposits from customers	6 465 154	332 705	22 522	1 878	431
Subordinated liabilities	0	0	0	0	0
Derivatives	0	3 543 546	625 452	94 783	17 078
Interest rate derivatives	0	18 910	37 694	94 783	17 078
IRS	*0*	*18 910*	*37 694*	*94 783*	*17 078*
Other interest rate derivatives	*0*	*0*	*0*	*0*	*0*
Exchange rate derivatives	0	3 524 636	587 758	0	0
Financial guarantees issued	0	132 834	0	0	0
Credit lines confirmed	0	322 817	0	0	0
Total financial liabilities	**6 531 432**	**4 345 194**	**647 980**	**96 661**	**17 509**
Liquidity gap	**(3 539 296)**	**(20 811)**	**565 926**	**2 213 001**	**971 846**
Impact of repo capacity of bond portfolio	1 962 115	(282 055)	(119 399)	(1 020 098)	(540 564)
Corrected liquidity gap	**(1 577 181)**	**(302 866)**	**446 527**	**1 192 903**	**431 282**

The above table presents the statements of financial position of the Bank per 31/12/18 split by maturity. Thanks to very liquid assets (amongst others EUR 2 775 599 thousands + EUR 1 962 115 thousands = EUR 4 737 714 thousands), the Bank would be capable to face significant and brutal withdrawing of the deposits by its customers (whose the total 'on demand' amounted to EUR 6 465 154 thousands as at 31/12/2018).

1 The balances of financial assets and liabilities include all movements, including future interest.
2 70% of the non-sovereign portfolio and 97% of the sovereign portfolio are considered to be readily accessible through repo operations with the European Central Bank.
3 Includes cash and assets with central bank.

(in thousands of EUR)

31.12.2017	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Financial assets					
Loans and advances to credit institutions	3 192 060	224 541	0	58	336
Loans and advances to customers	193 666	253 396	443 873	928 650	122 211
Bonds and other fixed income securities	0	236 449	452 633	1 027 231	214 135
Derivatives	0	3 698 794	1 138 178	112 535	13 326
Interest rate derivatives	0	6 378	25 368	112 535	13 326
IRS	*0*	*6 378*	*25 368*	*112 535*	*13 326*
Other interest rate derivatives	*0*	*0*	*0*	*6*	*0*
Exchange rate derivatives	0	3 692 416	1 112 810	0	0
Total assets	**3 385 726**	**4 413 180**	**2 034 684**	**2 068 474**	**350 008**
Financial liabilities					
Deposits from credit institutions	131 502	32 631	0	0	0
Deposits from customers	6 377 493	264 309	48 419	3 003	0
Derivatives	0	3 713 293	1 147 743	105 781	9 624
Interest rate derivatives	0	13 355	29 867	105 781	9 624
IRS	*0*	*13 355*	*29 867*	*105 781*	*9 624*
Other interest rate derivatives	*0*	*0*	*0*	*0*	*0*
Exchange rate derivatives	0	3 699 938	1 117 876	0	0
Financial guarantees issued	0	114 940	0	0	0
Credit lines confirmed	0	306 232	0	0	0
Total liabilities	**6 508 995**	**4 431 405**	**1 196 162**	**108 784**	**9 624**
Liquidity gap	**(3 123 269)**	**(18 225)**	**838 522**	**1 959 690**	**340 384**
Impact of repo capacity of bond portfolio	1 701 166	(113 216)	(541 902)	(839 814)	(206 234)
Corrected liquidity gap	**(1 422 103)**	**(131 441)**	**296 620**	**1 119 876**	**134 150**

The encumbered assets of the Bank concern loaned securities (in the context of the Bond Lending activity or in the context of repo operations), securities or cash provided as guarantees (principally in the context of operations involving derivatives) as well as mandatory monetary reserves deposited with central banks.

The financial data presented in accordance with the circular NBB_2015_03 of 12 January 2015, are the median values for the four quarters of the year.

The table below analyses assets on the basis of whether or not they are encumbered:

(in thousands of EUR)

	Accounting value of encumbered assets	Fair value of encumbered assets	Accounting value of unencumbered assets	Fair value of unencumbered assets
31.12.2018				
Assets of the Degroof Petercam group	311 815		8 093 260	
Equity instruments	0	0	26 704	26 704
Debt instruments	189 456	185 028	2 518 515	2 404 813
Other assets	0		734 481	
31.12.2017				
Assets of the Degroof Petercam group	580 532		7 682 240	
Equity instruments	0	0	74 144	74 144
Debt instruments	480 202	480 924	2 888 820	2 820 762
Other assets	0		742 535	

The guarantees received by the Bank are analysed in the following table on the basis of whether they are encumbered, or whether they are susceptible to being encumbered:

(in thousands of EUR)

	Fair value of encumbered guarantees received or encumbered own equity instruments issued	Fair value of guarantees received or own debt instruments issued susceptible to being encumbered
31.12.2018		
Guarantees received by the Degroof Petercam Group		352 641
Equity instruments		16 063
Debt instruments		198 159
Other assets		138 419
Own debt securities issued other than own secured obligations or asset-backed securities.		
31.12.2017		
Guarantees received by the Degroof Petercam Group		547 068
Equity instruments		
Debt instruments		432 682
Other assets		114 386
Own debt securities issued other than own secured obligations or asset-backed securities.		

The accounting value of liabilities susceptible to additional charges that would encumber assets, together with the associated encumbered assets and guarantees, are set out in the table below:

(in thousands of EUR)

	Corresponding liabilities, possible liabilities or loaned securities	Assets, guarantees received and own debt instruments issued, other than guaranteed debt and securities linked to encumbered assets
31.12.2018		
Accounting value of the selected financial liabilities	**110 495**	**114 080**
31.12.2017		
Accounting value of the selected financial liabilities	**143 642**	**163 635**

The Bank does not have a programme of covered bonds. The principal sources of encumbered assets are linked to the Bank's activities on the repo market, bond lending, or to collateral exchanged in order to cover exposures on derivative instruments. In this context, the pledged collateral results in part from the collateral received from other counterparties with which the Bank is active on the derivatives market.

5.4 Market risk

5.4.1 Policy

Market risks are the risks of unfavourable trends in market factors (interest rates, equity prices, exchange rates, etc.) that impact on the positions that the Bank takes for its own account.

Treasury, foreign exchange, providing liquidity for securities, and option brokerage activities are monitored on a daily basis using indicators such as Value-at-Risk (VAR), interest rate sensitivity, scenario analyses, option sensitivity (delta, gamma, vega, etc.) and, more simply, nominal volumes.

These activities are compared to limits set by the executive committee. Open positions are characteristically low compared to our own funds.

5.4.2 Interest rate risk

The interest rate risk results from differences between the maturities and the revaluation dates of assets and liabilities on the balance sheet and off balance sheet. This is the financial risk caused by the impact of a change in interest rates on the interest margin and on the fair values of interest rate instruments..

This risk is managed on a daily basis using the Basis Point Value indicator ('BPV') which only takes into account elements that are susceptible to interest rates, all maturities combined.

This risk is managed on a monthly basis by the almac committee using a standard defined in terms of duration gap. This standard was developed based on the maximum loss that is deemed to be acceptable in the event that interest rates rise by 1%, as allocated by the executive committee to the group's transformation activity. This includes all balance sheet items1 and, accordingly, also the treasury positions.

Furthermore, in accordance with Basel II, a stress test compares the loss which would be recorded if there was a parallel increase in interest rates of 2%, to the Bank's shareholders' equity. The result of this test was 3% of regulatory own funds at 31 December 2018.

This ratio decreased strongly compared to 2016 (when it amounted to 9%). This is due to multiple factors:

- the inclusion of the Bank's engagements towards its Pension Funds;
- the increase of own funds;
- the decrease of the Bank's exposure to interest rate risk.

The loss in case of an increase in interest rates of 1% amounted to:

(in thousands of EUR)

	2017	2018
On 31.12	2 454	7 117
Average of the period	12 393	9 896
Average of the period	17 810	12 283
Average of the period	2 454	7 117

The following table sets out the evolution of the sensitivity of the interest rate risk of the Bank (VBP indicator):

(in thousands of EUR)

	2017	2018
On 31.12	(139)	(199)
Average of the period	(148)	(216)
Average of the period	(205)	(255)
Average of the period	(118)	(199)

(in thousands of EUR)

	2017	2018
On 31.12		
Increase of the interest rates with 100 basis points		
Increase (decrease) of the net interest income over the past 12 months	30 289	35 277
Increase (decrease) of the fair value of the capital instruments	(2 454)	(7 117)
Decrease of the interest rates with 100 basis points		
Increase (decrease) of the net interest income over the past 12 months	(35 254)	(42 459)
Increase (decrease) of the fair value of the capital instruments	1 843	6 399

Since 1 January 2018, the Bank has applied hedge accounting. The elements covered are bonds and loans. The hedging instruments are interest rate swaps (IRS).

At initial recognition, the Bank documents all hedging relationships. The hedging documentation comprises the identification of the bond or the loan, the nature of the risk being hedged, the hedging instrument used and the method used to assess the effectiveness of the hedge. The Bank also assesses on an on-going basis whether the hedging instruments effectively compensate for the movements in the fair value of the hedged elements.

5.4.3 Foreign exchange risk

This mainly involves hedging the foreign exchange risk generated by all departments of the Bank and brokerage for institutional investors, principally collective investment funds.

The indicators used to monitor the daily foreign exchange risk are:

- fixed limits set in terms of nominal amounts;
- historical VAR.

(in thousands of EUR)

	2017		2018	
	Nominal	VAR 99 %	Nominal	VAR 99 %
On 31.12	3 006	8	2 212	9
Average for the period	1 571	17	2 124	20
Maximum for the period	844	4	1 443	7
Minimum for the period	3 311	68	3 774	90

5.4.4 Equity & options risk

5.4.4.1 Short term

Equity risk results from the liquidity provider services in respect of Belgian shares that the Bank provides to its clients.

The indicators used to monitor the daily equity risk are:

- fixed limits set in terms of nominal amounts;
- historical VAR.

The risks attached to options are monitored using various indicators of sensitivity to movements of the main underlying factors (delta, gamma and vega) and the Value-at-Risk.

(in thousands of EUR)

2018		31.12.2018	Average	Minimum	Maximum
Equity risk	Nominal	600	1 398	600	2 400
	VAR 99 %	33	62	33	104
Option risk	Delta equivalent	0	0	0	0
	VAR 99 %	0	0	0	0

2017		31 12 2017	Moyenne	Minimum	Maximum
Equity risk	Nominal	4 000	2 340	1 000	5 600
	VAR 99 %	109	146	58	455
Option risk	Delta equivalent	0	0	0	0
	VAR 99 %	0	0	0	0

5.4.4.2 Long term

Long-term equity risk is the risk that the value of the Bank's own funds declines as a result of a fall in the price of the shares included in the Bank's proprietary share portfolio.

This risk has declined significantly during the past three financial periods as a result of the sale of the majority of the portfolio of shares.

Market value of the Bank's proprietary share portfolio:

(in thousands of EUR)

	Legacy portfolio [1]	Accompanying portfolio [2]
31.12.2018	24 504	13 818
31.12.2017	43 984	

The impact on the Bank's own funds of a movement in the price of equities held by the Bank is as follows (all other factors being equal):

(in thousands of EUR)

		Impact on own funds	
Relevant markets or indices [3]	Mouvement	31.12.2018	31.12.2017
Bel 20	10 %	0	0
Other Belgian securities	10 %	426	426
Other European securities	10 %	0	0
The rest of the world	10 %	3 406	3 972

5.4.5 Raw materials risk

The Bank is not exposed to this type of risk.

1 The legacy portfolio contains shares inherited from the merger with Petercam SA. The portfolio is in run-off and is deemed to remain stable or to decrease in terms of positions
2 In 2018 an accompanying portfolio has been created containing positions of limited size detained with the aim to support certain activities of the group. This portfolio contains amongst each other funds of DPAM.
3 Having an impact on the portfolio value.

5.5 Credit risk

5.5.1 Definition

Credit risk is the risk of loss resulting from a counterparty (institutional, moral person, private, etc.) failing to meet its contractual obligations on time.

In the context of the adoption of IFRS 9, Bank Degroof Petercam classifies each financial asset (that falls within the scope of IFRS 9) by reference to the extent of the increase in credit risk ('Significant Increase in Credit Risk' or 'SICR') as from the date of initial recognition and, based on this classification, for each financial asset calculates impairments on the basis of an expected credit loss model over the full life of the asset concerned ("Expected Credit Loss" or 'ECL'). When the expected recoveries are less than the Bank's exposure, the ECL is accounted for.

In accordance with IFRS 9, credit risk is split into three levels:

		Impact sur les fonds propres
Stage	**Trigger**	**ECL = impairment**
Stage 1 = 'performing'	Initial recognition	12 months expected credit loss (= 12 months ECL)
Stage 2 = 'under-performing'	Significant credit risk increase (without recognized loss) since initial recognition	Lifetime expected credit loss (= LEL)
Stage 3 = 'non-performing'	Loss event	

Starting from the fact that Bank Degroof Petercam never acquires portfolios of distressed assets, all financial instruments are systematically classified under Stage 1 at the time of their initial recognition. As from the moment that a financial instrument meets at least one of the criteria to be considered as having suffered a significant deterioration in credit risk since its initial recognition (see elsewhere), the financial instrument is classified under Stage 2. A financial asset is classified under Stage 3 when it is considered to be in default.

The model which is used by Bank Petercam Degroof to assess whether there has been a significant increase in risk in the context of IFRS 9 is based on the following principles:

1) In respect of the bond portfolio and interbank deposits:

a. By using the exception allowed by the accounting standard relating to low credit risk, instruments with an 'Investment grade' rating at the reporting date are systematically classified under Stage 1. For other financial assets, Bank Petercam Degroof assesses the evolution of the credit risk, by comparing the probability of default (PD) over the lifetime of the instrument at the time of initial recognition, with the PD at the reporting date (for an equivalent lifetime). This assessment is performed individually at the level of each exposure and at each reporting date.

b. In respect of instruments with a non-Investment grade rating, they are transferred to Stage 2 when at least one of the following conditions is met: the PD is three times higher than the initial PD (or two times if the initial PD is higher than a specified level), increase in the credit spread of more than 100%, a forbearance measure (that is to say, the restructuring of an instruments as a result of financial difficulties of the counterparty), payment arrears of at least 30 days.

c. A financial asset passes to Stage 3 when it meets one of the following conditions:
– the Bank considers that payment by the debtor is unlikely ('unlikely to pay')
– the debtor has payment arrears of more than 90 days.
In these circumstances, the financial asset is considered to be in default. This definition of default is aligned with regulatory standards that are currently applicable in the sector.

d. Equally, a return to a more favourable stage is foreseen when no condition justifying a more unfavourable stage is any longer met, as long as the trial periods are respected.

2) In respect of loans and advances to customers, Bank Petercam Degroof has developed an internal rating model. The evolution of this internal rating determines the level of deterioration of credit risk.

a. At the moment of initial recognition, all credit exposures are classified under Stage 1.
b. A transfer to Stage 2 occurs when at least one of the following credit events is signalled: a forbearance measure and/or an entry on the Watch list (decline in the value of the holdings of the borrower, non-compliance by companies with financial ratios, breach of covenant, etc;) and/or a margin call (typically used in the context of so-called 'Lombard' credits, the securities portfolio of which is given as a pledge) when the Bank estimates that the credit guarantee is no longer sufficient and/or a payment arrears of more than 30 days.
c. A transfer to stage 3 when at least one of the following credit events is signalled: the payment by the debtors in unlikely ('unlikely to pay') and/or a payment arrears of more than 90 days.
   The Bank does not take account of the level of collateral granted as guarantee when classifying financial assets under Stage 3; when a file meets at least one of the above-mentioned criteria, the financial asset is considered to be in default and is classified under Stage 3, even if the value of the guarantees received exceeds the amount due to the Bank.
d. Equally, a return to a more favourable stage is foreseen when no condition justifying a more unfavourable stage is any longer met, as long as the trial periods are respected.

The calculation model for ECL is based on the following elements:

1) Bank Petercam Degroof does not possess PD and LGD models, given that it has opted for the standard approach for reasons of prudence. In order to comply with IFRS 9, PD and LGD (Basel) models were developed in-house in order to prepare the calculations of ECL.

2) An estimate of expected credit losses based on the following calculation approach: probability of default (PD) multiplied by the loss given default (LGD); it therefore comprises a collective approach for instruments under Stages 1 and 2 with, however, guarantees received in respect of loans and advances to customers being taken into consideration (where necessary) on an individual basis (by credit file). Under Stage 3, the estimation of ECLs is systematically performed on an individual basis, using the discounted cash flow method.

3) The PD * LGD approach is applied to each financial instrument and for every residual year. The maximum period that is taken into account for the calculation of the ECL is the maximum contractual period (including extensions). The lifetime ECL represents the sum of the ECLs over the lifetime of a financial asset, discounted at the effective interest rate. It is used for all financial instruments classified, as a minimum, under Stage 2. The 12 month ECL represents the portion of the lifetime ECL resulting from a default within the twelve months following the reporting date. It is used for the instruments classified under Stage 1.

4) The risk parameters (notably PD and LGD) are recalculated at the end of each year, on the basis of historic, current and forward looking data.

5) The result is obtained by way of a probability-weighted calculation, that is to say that the Bank takes into account three different macro-economic scenarios for the calculation of the ECL. A weighting is applied to each of the three scenarios. The reference macro-economic scenario represents the most probable forecast as assessed by the Bank. This scenario is also used for other internal and external requirements.

At 31 December 2018, the credit risk by stage and by type of instrument, was as follows:

	Credit risk			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to credit institutions	100%	0%	0%	100%
Loans and advances to customers	95%	3%	2%	100%
Bonds	99%	1%	0%	100%
Off-balance (given guarantees and undrawn creditlines)	99%	1%	0%	100%

5.5.2 Exposure by category of financial instrument and by counterparty

1) Exposure on 31.12.2017 – 31.12.2018

The table below sets out the exposures (expressed in nominal amounts, without deducting the guarantees received), by type of category of financial instrument and counterparty. The column 'guarantees received' sets out the guarantees at market value:

(in thousands of EUR)

31.12.2018	Counterparty	Carrying amount	Credit risk	Eligible guarantees in conformity to CRR [1]	Guarantees including CRR guarantees[1]
Loans and advances to credit institutions	a	489 675	489 675		
Loans and advances to customers	b	2 389 824	2 389 824	1 751 579	2 006 860
Bonds and other fixed-income securities		2 347 312	2 347 312		
Public sector	e	736 707	736 707		
Other issuers – banks	c+e	778 346	778 346		
Other issuers – commercial companies	d+e	832 259	832 259		
Equities, shares and other variable-income securities		26 408	26 408		
Derivatives		114 653	97 272	17 382	17 382
Hedging		1 691	1 691		
Financial guarantees issued		101 963	101 963	92 940	92 940
Other commitments off-balance		30 871	30 871		

(in thousands of EUR)

31.12.2017	Counterparty	Carrying amount	Credit risk	Guarantees
Loans and advances to credit institutions	a	494 384	494 384	0
Loans and advances to customers	b	2 209 505	2 209 505	1 493 128
Bonds and other fixed-income securities		2 114 100	2 114 100	0
Public sector	e	*638 501*	*638 501*	*0*
Other issuers – banks	c+e	*706 614*	*706 614*	*0*
Other issuers – commercial companies	d+e	*768 985*	*768 985*	*0*
Equities, shares and other variable-income securities		71 271	71 271	0
Derivatives		119 063	95 822	16 826
Financial guarantees issued		114 940	114 940	86 105

Starting from the category of financial instrument and counterparty, five separate credit risk categories can be identified within Bank Degroof Petercam:

a) Limits for banking counterparties

The granting of limits, in particular for interbank deposits, is centralized at group level and is based on the granting and review of limits by the limits committee on a monthly basis, which comprises senior management from Belgium and the Grand Duchy of Luxembourg.

At 31 December 2018, loans to credit institutions comprise principally current accounts, the majority of which are without any notice period, and to a lesser extent, with very short-term notice periods.

b) Credits to non-banking counterparties

This category consists principally of guaranteed credits. Approximately 90% of the Bank's consolidated outstanding credit balances are covered by real guarantees (principally diversified portfolios subject to fixed coverage ratios which are defined in function of the composition of the pledged portfolio and, to a lesser extent, unlisted securities and real estate).

1 The guarantees as presented are limited to the outstanding amount of the related loans and related guarantees.

c) Group's portfolio of investments with banking counterparties

This portfolio of investments was created in order to respond to the reinvestment requirements for treasury and represents approximately 28% of the total of the group's treasury that has been reinvested at 31 December 2018.

The portfolio consists almost exclusively of covered bonds with very good ratings, with the exception of three securities without collateral with one of the issuers not having a rating.

Analysis of bonds in portfolio of investments with banking counterparties, by rating:

(in %)

Rating	Proportion
AAA	94%
BBB+	3%
NR	3%

d) Corporate portfolios

This category comprises:

- the 'corporate portfolio' of the credit department, which is a portfolio of floating-rate European securitizations. This portfolio is being run-off (the Bank no longer makes new purchases) and currently amounts to approximately EUR 10.6 million. The portfolio is depreciating rapidly, due both to the arrival at maturity of a series of positions, but also due to the depreciable nature of the large majority of the securities included in the portfolio;
- the investment portfolio, started in 2012, which invests in short-term (four to five year terms) and medium term corporate bonds. This portfolio, which amounts to EUR 515 million, comprises primarily good quality European issuers, and to a lesser extent 'high yield' paper (of which EUR 10 million is in the Degroof Bonds Corporate EUR fund and EUR 5 million is in the II Belgian Credit Opp I Hedged Dis fund);
- a portfolio of very short-term commercial paper (maximum one year), which amounted to EUR 102 million at 31 December 2018;
- a new portfolio of car loans (ABS) with very good ratings (AAA), amounting to EUR 91.6 million at 31 December 2018.

Analysis of bonds in the 'corporate portfolios', by rating (excluding funds):

(in %)

Rating	Proportion
AAA	13%
AA	6%
A	14%
BBB	41%
BB	5%
NR	21%

The exposures without rating relate almost entirely to very short-term commercial paper (maximum one year).

e) Portfolio of sovereign and state-guaranteed bank debt

This category comprises Government debt and bank debt benefitting from guarantees by EU governments in various European countries. More than 6% of the portfolio is invested in Canadian debt.

Analysis of sovereign debt, or debt guaranteed by an EU government, by rating:

(in %)

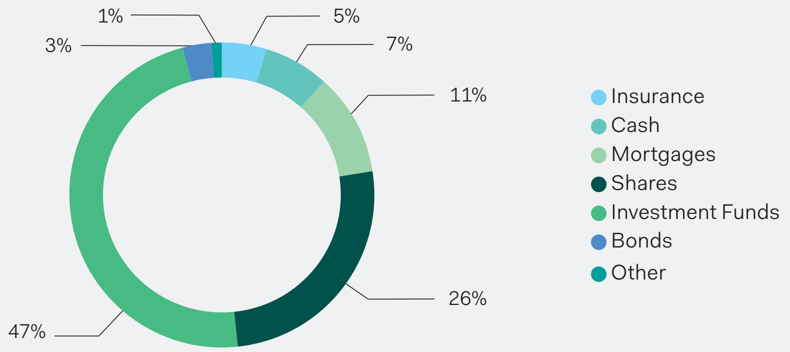
Rating	Proportion
AAA	10%
AA+	14%
AA	14%
AA-	33%
A+	2%
A-	7%
BBB	17%
NR	3%

Furthermore, in respect of derivatives, it should be noted:

- The exposures are calculated as a function of changes in market value, to which a coefficient ('add-on') is added which reflects the risk represented by future movements in this exposure. These exposures are compared with the limits set out by the limits committee.
- The column 'credit risk' takes into account the possibility of off-setting the exposure from derivatives with counterparties that have signed ISDA contracts.

2) Guarantees provided in the context of credit portfolios with clients at 31 December 2018.

At 31 December 2018, the guarantees relating to credits granted to clients comprised the following:

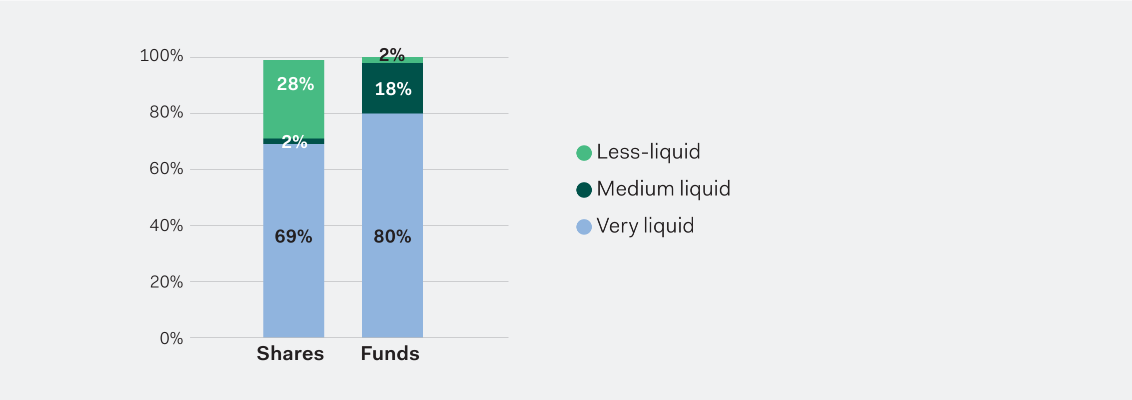


A majority of the guarantees thus comprise funds and shares which represent 73% of total guarantees.

Furthermore, the level of the liquidity of the guarantees provided, in respect of all instruments, is relatively high. The Bank has implemented a methodology to assess the level of liquidity of the various positions within the guarantee base. As a result, as is indicated by the table below, 65% of total guarantees are assessed as being very liquid with an impact in terms of weighting of the own funds of the Bank equal to 0%.

Liquidity level of the guarantees	% compared to the total guarantees
Very liquid guarantees	65%
Medium-liquid guarantees	10%
Less-liquid guarantees	25%

Focussing on funds and shares, the graph below also indicates that the level of liquidity is equally high as a proportion of the funds and shares provided as collateral.



5.5.3 Geographic exposure

On a geographic level, the Bank has limited exposure to 'emerging' markets and focusses its activities on the European Union, principally in Belgium and neighbouring countries, or with supranational institutions. The Bank also holds a portfolio of Italian and Spanish bonds, but these have short-term maturities (one to two years).

5.5.4 Overdue and doubtful receivables

1) Overdue receivables

The table below sets out client receivables that are overdue (in EUR millions):

(in thousands of EUR)

			Bonds and other fixed-income securities		
	Advances to credit institutions	Advances to customers	Public sector	Other issuers : banks	Other issuers : commercial companies
Assets without significant increase in credit risk since initial recognition (Stage 1)					
receivables with an unpaid due balance ≤ 30 days		*7,3*			
receivables with an unpaid due balance > 30 days and ≤ 60 days		*0,5*			
receivables with an unpaid due balance > 60 days and ≤ 90 days		*0,0*			
receivables with an unpaid due balance > 90 days and ≤ 180 days		*0,0*			
receivables with an unpaid due balance > 180 days and < 1 year		*0,0*			
receivables with an unpaid due balance > 1 year		*0,0*			
Carrying amount before impairments		**7,8**			
Impairments		**–**			
Total carrying amount		**7,8**			
Assets with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)					
receivables with an unpaid due balance ≤ 30 days		*11,8*			
receivables with an unpaid due balance > 30 days and ≤ 60 days		*1,0*			
receivables with an unpaid due balance > 60 days and ≤ 90 days		*2,9*			
receivables with an unpaid due balance > 90 days and ≤ 180 days		*0,0*			
receivables with an unpaid due balance > 180 days and < 1 year		*0,0*			
receivables with an unpaid due balance > 1 year		*0,0*			
Carrying amount before impairments		**15,7**			
Impairments		**0,0**			
Total carrying amount		**15,7**			
Credit-impaired assets (Stage 3)					
receivables with an unpaid due balance ≤ 30 days		*9,4*			
receivables with an unpaid due balance > 30 days and ≤ 60 days		*0,0*			
receivables with an unpaid due balance > 60 days and ≤ 90 days		*0,0*			
receivables with an unpaid due balance > 90 days and ≤ 180 days		*0,0*			
receivables with an unpaid due balance > 180 days and < 1 year		*0,4*			
receivables with an unpaid due balance > 1 year		*20,1*			*2,6*
Carrying amount before impairments		**29,9**			**2,6**
Impairments		**15,9**			**2,6**
Total carrying amount		**14,0**			**0,0**

The data set out above takes account of an internal materiality threshold., A receivable is considered to be overdue (unpaid) when the counterparty has not made a payment by the contractual due date. This does not mean that the counterparty will not make the payment, but that various actions could be taken (re-negotiation of the loan, legal proceedings, enforcement of collateral received as guarantee, etc.).

2) Doubtful receivables

The losses incurred on the credit portfolios are limited, as indicated by the following table (which should be read cumulatively over the past ten years for files that remain open):

(in thousands of EUR)

	31.12.2018	**31.12.2017**
Doubtful receivables	19 374	41 858
Impairments	(15 934)	(35 391)
Doubtful receivables after impairements	**3 440**	**6 467**

The balance of doubtful receivables has declined between 2017 and 2018 as the Bank has written off several files which had already been fully impaired for a number of years and for which the probability of recovering the amounts outstanding was deemed to be very unlikely.

5.5.5 Write-offs

Bank Degroof Petercam only records write-offs on a case by case basis.

The impairment committee is responsible for deciding on these write-offs on a file by file basis taking into account various factors:
- Whether the collateral is recoverable within a normal timeframe;
- The probability of recovering the cash flows and estimating the time frame for such a recovery;
- The number of days since the most recent cash receipt;
- The status of the file and/or the debtor;
- The period since the last impairment of the receivable involved (in general, approximately five years).

5.5.6 Forbearance

In order to maximise the possibility of recovering amounts due if the counterparty encounters financial difficulties, Bank Degroof Petercam may, in certain specific cases and under certain conditions, accept a restructuring of the financial instrument which will generally take the form of an extension of the residual life of the loan/bond, or a postponement or rescheduling of certain contractual due dates, without the Bank incurring a loss.

In addition, loans that are renegotiated due to financial difficulties encountered by the borrower (forborne loans), which result in a restructuring or a renegotiation of the terms and conditions of the contract amounted to EUR 42.7 million of the total outstanding loans granted by the Bank at 31 December 2018. Of this EUR 42.7 million, EUR 2.9 million were specifically impaired. The remaining balance of the loans continues to perform (no balance overdue for more than 90 days) and/or is guaranteed by sufficient collateral.

5.6 Asset management risk

Asset management risk is the financial risk deriving from a possible lack of consistency or excessive risk-taking in the asset management strategies pursued by the group as a whole. This risk thus includes the risk of legal actions by clients for which the legal mandates were not respected, the commercial risk of the loss of clients whose portfolios have under-performed as a result of inadequate management, and the reputational risk resulting from such events, but also from the elements imposed by regulations (MIFID, etc.).

In view of the importance of the asset management activities, this risk is specifically monitored within each entity by the respective control departments, and also at a consolidated level using aggregated data. For the Private Banking activity, the checks performed focus on compliance with management constraints set by both the client and the group's executive committee, as well as on monitoring of performance. At the level of the collective management activity within the Bank, the checks focus on compliance with legal requirements, prospectuses and investment processes.

The risk management of the group ensures that the checks and the management principles for Private Banking are consistent from one subsidiary to another.

5.7 Operational risk

The principal objective of the 'Operational Risk Management' team is to identify the various operational risks that the Bank faces and to ensure that these risks are adequately managed. In order to do this, the department analyses operational incidents that are encountered, in order to map potential risks for the Bank and to verify the results of the initial checks performed. The department also checks that lasting solutions are implemented where necessary.

Parallel with its monitoring of risks, the department is also required to provide its advice and recommendations to the Bank and its various activities in respect of the setting up of internal controls, and the analysis of various strategic and/or operational projects (new products, new procedures, etc.). The department also monitors the risks related to continuity of the provision of services, both by the bank and by third parties.

5.8 Capital management

The overriding objectives of capital management at Bank Degroof Petercam are to ensure that the Bank meets regulatory requirements and that it maintains a level of capitalization consistent with its level of activities and the risks that it takes on.

The method used for calculating regulatory capital adequacy requirements in accordance with European regulations concerning prudential requirements applicable to credit institutions (Basel III) has been used since 31 March 2014. As a reminder, the Bank has chosen the following options:

- the basic approach for evaluating capital adequacy requirements for operational risk;
- the standard approach based on external ratings for credit risk;
- the standard approach for market risk.

Regulatory capital:

(in thousands of EUR; in %)

	31.12.2018	31.12.2017
Tier 1 own funds	509 674	519 052
Tier 2 own funds	0	0
Weighted risk volume	3 040 429	3 032 635
CRD ratio	16,76%	17,12%
Tier 1 ratio	16,76%	17,12%

The movements in regulatory capital ratios compared to the previous financial period are characterized by the following:

- the risk weighted exposure of the Bank is stable, as a result of fact that the growth in the activity of granting credits to clients and the limited increase in operational risk have been off-set by a reduction in market risk.
- Tier 1 regulatory capital has declined slightly justified primarily by an increase in the accounting value of intangible assets that need to be deducted.

For more information with respect to this ratio, we refer to the 'Risk Report' which is available on our website.

The combination of these factors leads to a CRD ratio of 16.76%, and an identical Tier 1 ratio, which substantially exceeds regulatory requirements. This ratio doesn't take into consideration the quota of the result of 2018 that will not be distributed. For additional information in respect of this ratio, reference should be made to the 'Risk Report' available on our website.

In accordance with current regulations, this administrative capital management is complemented by the economic management of capital by way of an ICAAP model. Using this model, the Bank checks the adequacy of its capital compared to the requirements resulting from the risks generated by its various activities. It also ensures that the capital remains adequate for the coming three years under various scenarios, ranging from achieving our budgets to significant market crises.

6 Consolidation scope

6.1 List of the principal subsidiaries of Bank Degroof Petercam at 31 December 2018

Name	Registered office	(in.%) Percentage of capital held	Activity
Degroof Petercam Finance SA	Rue de Lisbonne 44 – 75008 Paris	100	Other financial institution
Degroof Petercam Gestion SA	Rue de Lisbonne 44 – 75008 Paris	100	Other financial institution
Banque Degroof Petercam Luxembourg SA	Rue Eugène Ruppert 12 – 2453 Luxembourg Cloche d'Or	99,96	Credit institution
Banque Degroof Petercam France SA	Rue de Lisbonne 44 – 75008 Paris	100	Credit institution
Cobimmo SA | NV	Rue Guimard 18 – 1040 Brussels	100	Other undertaking
Degroof Petercam Corporate Finance SA | NV	Rue Guimard 18 – 1040 Brussels	100	Other financial institution
Degroof Petercam Corporate Finance Spain	Avenida Diagonal 464 – 08006 Barcelona	100	Other financial institution
Degroof Petercam Asset Management SA | NV	Rue Guimard 18 – 1040 Brussels	100	Other financial institution
Degroof Petercam Asset Services SA	Rue Eugène Ruppert 12 – 2453 Luxembourg Cloche d'Or	99,96	Other financial institution
Degroof Petercam Insurance Broker SA	Rue Eugène Ruppert 12 – 2453 Luxembourg Cloche d'Or	99,96	Other financial institution
Entheca Finance SA	Rue de Lisbonne 44 – 75008 Paris	100	Other financial institution
Guimard Investissements SA | NV	Rue Guimard 18 – 1040 Brussels	100	Other financial institution
Imofig SA | NV	Rue Guimard 18 – 1040 Brussels	100	Other undertaking
Industrie Invest SA | NV	Rue Guimard 18 – 1040 Brussels	100	Other financial institution
Industrie Invest 2 SA | NV	Rue Guimard 18 – 1040 Brussels	100	Other financial institution
Immobilière Cristal Luxembourg SA	Rue Eugène Ruppert 12 – 2453 Luxembourg Cloche d'Or	99,96	Other undertaking
Messine Holding SA	Rue de Lisbonne 44 – 75008 Paris	100	Other financial institution
Banque Degroof Petercam (Suisse) SA	Place de l'Université 5 – 1205 Genève	100	Credit institution
Orban Finance SA	Rue Guimard 18 – 1040 Brussels	100	Other financial institution
Petercam Services SA | NV	Rue Guimard 18 – 1040 Brussels	100	Other financial institution
3P (L) SARL	Rue Eugène Ruppert 12 – 2453 Luxembourg Cloche d'Or	99,96	Other financial institution
Bank Degroof Petercam Spain, S.A.U.	Plaza del Ayuntamiento 26 - 46002 Valencia	100	Credit institution
Degroof Petercam, S.G.I.I.C	Avenida Diagonal 464 – 08006 Barcelona	100	Other financial institution
Promotion Partners SA	Rue Eugène Ruppert 12 – 2453 Luxembourg Cloche d'Or	99,96	Other financial institution

6.2 List of the principal associates of Bank Degroof Petercam at 31 December 2018

Name	Registered office	(en %) Percentage of capital held	Activity
Amindis SA	Rue du Bosquet 15A – 1348 Louvain-la-Neuve	33,33	Other company
Arvestar Asset Management SA	Rue Guimard 19 – 1040 Brussels	25,01	Other financial institution
BDG & Associés	244, rue Saint-Jacques Ouest bureau 51 Montréal QC H2Y 1L9 – Canada	45	Other financial institution
Le Cloître SA	Rue Eugène Ruppert 14 – 2453 Luxembourg Cloche d'Or	33,58	Other company
Promotion 777 SA	Rue Sigismond 17 – 2537 Luxembourg	33,98	Other company
Quadia SA	Square de la Comédie 1 -1205 Genève	22,5	Other financial institution
Stairway to Heaven SA	Rue Eugène Ruppert 12 – 2453 Luxembourg Cloche d'Or	47,98	Other financial institution

6.3 Significant changes in the consolidation scope during the current financial period

The continuation of the reorganization of the group's activities and the simplification of its structures is evidenced by the disposal of Degroof Petercam Asset Management Ltd. (Hong Kong) as well as by the liquidation of Degroof Petercam Immobilier SA, Degroof Holding Luxembourg SA, Degroof Finance SA, Heaven Services SA, and Invest House SA.

These changes have not had a significant impact on our financial statements.

In addition to the above operations, the group has acquired minority interests in Quadia SA (in Switzerland), Arvestar Asset Management SA, and Amindis SA and created the company Orban Finance with the aim to hold the majority of the own shares of the group.

In France, the group aims to pursue the growth in its Asset Management activities through the acquisition of Entheca Finance SA. Amounts of EUR 1.1 million and EUR 2.6 million representing, respectively, a customer relationship and a residual goodwill, as a result of this acquisition of the company Entheca Finance in December 2018.

6.4 Non-consolidated real estate affiliates

In the context of the diversification of its product offering, the Bank has created a real estate center of competence the objective of which is to invest in real estate financed primarily by the issuance of real estate certificates to private and institutional clients and, secondly, by way of loans granted by other financial institutions.

These operations were set up by creating real estate companies in which the Bank is either the majority shareholder, or a shareholder in the context of joint control (from a legal perspective). These companies are, accordingly, subsidiaries or joint arrangements of the Bank, which is represented on the board of directors and on the management committee; these decision making bodies are largely responsible for the operational and administrative management of the companies.

The Bank receives remuneration for providing these services that is contractually fixed and independent of the performance of the companies.

It is, however, the holders of the real estate certificates who, during meetings, take the strategic decisions relating to the management of the real estate, and who receive the revenues generated by the rental and subsequent sale of the real estate. At the end of the financial period, the assets of these companies had a value of approximately EUR 120 million, decreasing by EUR 80 million compared to previous year following the disposal and liquidation of certain positions.

As the definition of 'control' is based on the right to variable returns resulting from influence over the making of strategic decisions that impact on such returns, control over these companies is exercised exclusively by the holders of the real estate certificates, and not by the Bank. As a result, these entities are not consolidated by Bank Degroof Petercam.

At the end of the financial period, the financial investment of the Bank in these entities amounted to EUR 4 million.

The 'historical' competence center is a past activity for which certain real estate structure have initially been created by the Bank, which remain operational as per today. In addition, there is no equivalent business in Luxembourg (the local real estate activity being from a whole other nature).

6.5 Information by country

In accordance with the European Directive (CRD IV), the information required by country is as follows:

(in thousands of EUR)

31.12.2018	Belgium	Luxembourg	Spain	France	Switzerland	Total
Turnover	286 767	118 666	6 760	32 172	10 887	455 252
Number of employees (in units)	896	345	59	90	21	1 411
Profit (or loss) before tax	41 147	41 075	(4 343)	3 228	(39)	81 068
Tax on profit or loss	17 055	6 608	10	69	68	23 810
Public subsidies received	0	0	0	0	0	0

(in thousands of EUR)

31.12.2017	Belgium	Luxembourg	Spain	France	Switzerland	Total
Turnover	285 709	132 301	9 025	30 000	11 118	468 153
Number of employees (in units)	857	326	64	103	21	1 371
Profit (or loss) before tax	48 440	61 685	(1 305)	(855)	731	108 696
Tax on profit or loss	13 801	7 620	98	0	364	21 883
Public subsidies received	0	0	0	0	0	0

The differences between the column 'Total' and the consolidated statement of comprehensive income relate solely to the caption 'Share in the results from entities accounted for using the equity method', which does not need to be split by country under the terms of the above-mentioned Directive.

In order to reflect economic reality, the information is presented before the elimination of intra-group transactions.

7 Notes to the consolidated balance sheet

7.1 Cash, balances with central banks and other demand deposits

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Cash	5 101	3 917	3 917
Balances with central banks	2 545 972	2 915 597	2 915 597
Other demand deposits	241 917	272 385	272 385
Expected Credit Loss	(6)	0	
Total cash, balances with central banks	**2 792 984**	**3 191 899**	**3 191 899**

Both cash and balances with central banks other than mandatory reserves are included in the definition of cash and cash equivalents in the consolidated cash flow statement.

The positions with central banks include the mandatory monetary reserves [1] for which the daily average equals to EUR 81.1 million per 31/12/2018 (31/12/2017 : EUR 71.4 million).

Other demand deposits amounting to EUR 241.9 million at 31 December 2018 (EUR 272.3 million at 31 December 2017) are included in the Bank's definition of cash and cash equivalents in the consolidated cash flow statement.

7.2 Financial assets measured at fair value through profit or loss

7.2 a Figures at 31 December 2018 (IFRS 9)

Financial assets held for trading comprise the following, by nature:

(in thousands of EUR)

	31.12.2018	01.01.2018
1. Financial assets held for trading	**5 130**	**13 305**
Fixed-income securities	2 288	4 479
Bonds from other issuers	*2 288*	*4 479*
Equities	2 842	8 826
2. Derivative financial instruments	**114 653**	**115 633**
Foreign exchange derivatives	27 417	32 764
Interest rate derivatives	29 608	23 143
Equity derivatives	60 856	59 726
CVA/DVA	(3 228)	0
Total assets held for trading	**119 783**	**128 938**

Other financial assets comprise the following, by nature:

(in thousands of EUR)

	31.12.2018	01.01.2018
1. Financial assets mandatory at fair value through profit or loss	**103 577**	**121 026**
Public sector and government bonds	0	50 493
Bonds of other issuers	29 178	5 008
Other financial assets	74 399	65 525
2. Financial assets designated at fair value through profit or loss	**0**	**0**
3. Equity instruments measured at fair value through profit or loss	**10 801**	**4 636**
Other financial assets	**114 378**	**125 662**

The financial assets measured at fair value through profit or loss include as at 31 December 2018 an amount of EUR 154.2 million for which the residual life exceeds 12 months.

1 Mandatory reserves: minimum reserves held by credit institutions with the ECB or other central banks.

7.2 b Figures at 31 December 2017 (IAS 39)

The financial assets designated at fair value through profit or loss comprise the following, by nature:

(in thousands of EUR)

	31.12.2017
1. Financial assets held for trading	**13 305**
Fixed-income securities	4 479
Bonds from other issuers	*4 479*
Variable-income securities	8 826
Equities	*8 663*
Other variable income securities	*163*
2. Derivative financial instruments	**119 063**
Foreign exchange derivatives	32 764
Interest rate derivatives	26 573
Equity derivatives	59 726
Total assets held for trading	**132 368**

Securities investments are designated, at their acquisition date, at fair value through profit or loss (fair value option) when they are associated with derivatives, when such designation eliminates or significantly reduces an accounting mismatch which would otherwise result, and when a risk exists of not meeting the requirements (or not satisfying the conditions) for hedge accounting.

More specifically, this designation is used in order to prevent any consecutive mismatch in the valuation of certain sovereign and bank debt that is almost entirely guaranteed by EU governments or by covering assets (fair value recognized directly in shareholders' equity), purchased with the objective of supporting liquidity and linked, in accordance with the risk management strategy, to interest rate swaps (fair value through profit or loss).

The financial assets designated at fair value through profit or loss comprise:

(in thousands of EUR)

	31.12.2017
Fixed income securities	893 350
Treasury bills and government bonds	*351 176*
Bonds from other issuers	*542 174*
Total financial assets designated at fair value through profit or loss	**893 350**

7.3 Hedging instruments

The exposition of Bank Degroof Petercam to market risks (including interest rate risk) and the approach in terms of management of these risks are being analyzed in section 5 'Risk management'. In accordance with the strategy in place, the Group contracts interest rate swaps to cover the interest rate risk of assets with fixed interest, amongst others placements in instruments and loans by use of a reference interest rate (mainly Euribor).

The reference rate is a component of the interest rate risk which can be reliably observed and evaluated. The hedge accounting is used when the economical hedge relationships respect the criteria's of hedge accounting.

When the group purchases securities or grants a loan, and wishes the hedge itself against fair value fluctuations related to the interest rate risk, it will purchase an interest rate swap whose essential characteristics corresponds (practically) to the ones of the security or loan.

Bank Degroof Petercam evaluates prospectively the efficiency of the hedge by comparing the fair value fluctuations of the acquired security or granted loans resulting from the fluctuations of the reference interest rates with the fair value fluctuation of the interest rate swaps used to hedge the exposure.

The hedge ratio is determined by comparing the notional amount of the derivative with the principal of the purchased bond or granted loan.

Bank Degroof Petercam has identified the following principal sources of inefficiencies:

- the impact of the counterparty credit risk and the credit quality of Bank Degroof Petercam on the fair value of the interest rate swap, which are not reflected in the fair value movements of the hedge element attributable to the interest rate fluctuations.
- the differences in calendar between the settlement of the hedge instrument and the hedge elements,
- the interest rate swap contracts already have a value, due to the micro hedge structures created before the implementation of the hedge accounting in accordance with IFRS 9, which will lead to inefficiencies. The value of the swaps is smoothen on its residual duration to compare the impact of the evolution of the fair value of the swaps with the evolution of the Benchmark bonds since the introduction of IFRS 9. The smoothening is the market value of the hedge security (interest rate swap) per 31/12/2017, amortized between 31/12/2017 and the reporting date.

No other source of inefficiency has been identified in these hedging relationships.

The below tables provide information on the hedged elements, the hedge instruments and the hedge inefficiencies:

Fair value hedge
Interest rate risk

				31.12.2018
Derivatives for hedge accounting	**Nominal amount**	**Carrying amount**		**Balance sheet**
		Assets	**Liabilities**	
IRS - debt instruments hedging	971 602	1 691	13 961	Financial instruments for hedge accounting
IRS - loan hedging	60 772	0	1 569	Financial instruments for hedge accounting
Total derivatives for hedge accounting	**1 032 374**	**1 691**	**15 530**	

			31.12.2018
Assets designated as hedged items	**Carrying amount**	**Accumulaion of the adjustments of the fair value of the hedged element included in the book value**	**Balance sheet**
Financial assets at amortised cost			
Debt instruments	768 043	8 861	Financial assets at amortised cost - Debt instruments
Loans	62 277	1 202	Financial assets at amortised cost - Loans and advances to customers
Total financial assets at amortised cost	**830 320**	**10 063**	
Financial assets at fair value through other comprehensive income			
Debt instruments	221 851	1 511	Financial assets at fair value through other comprehensive income - Debt instruments
Total financial assets at fair value through other comprehensive income	**221 851**	**1 511**	

Per December 31, 2018 the Group owned the following interest rate swaps as fair value hedge instruments for interest rate risk

	Term to maturity			
Risk categories	**< 3 month**	**3 month to 1 year**	**1 year to 5 year**	**More than 5 year**
Interest rate risk				
Hedge of debt instruments				
Nominal amount (in thousands of EUR)	130 000	24 000	342 402	475 200
Average weighted fixed interest rate	1.16%	(0.03%)	0.45%	0.64%
Hedge of loans				
Nominal amount (in thousands of EUR)			21 512	39 260
Average weighted fixed interest rate			0.38%	0.86%

(in thousands of EUR)

Fair value movements used to calculate the hedge inefficiency	Hedging ineffectiveness recognized in income statement	Statement of comprehensive income	01.01.2018 Carrying amount Assets	Liabilities
(8 879)	160[1]	Net result on financial instruments held for hedging purposes	3 430	6 811
(1 241)	(39)	Net result on financial instruments held for hedging purposes	0	0
(10 120)	**121**		**3 430**	**6 811**

(in thousands of EUR)

Fair value movements used to calculate the hedge inefficiency	Remaining adjustment for discontinued hedges	01.01.2018 Carrying amount
8 861	0	535 874
1 202	0	0
10 063	**0**	**535 874**
1 511	0	348 032
1 511	**0**	**348 032**

1 After the smoothening of the market value of the hedge instrument par 31/12/17: estimated depreciation 1,333 thousands of EUR.

7.4 Financial assets measured at fair value through other comprehensive income

7.4 a Figures at 31 December 2018 (IFRS 9)

Financial assets measured at fair value through other comprehensive income comprise the following, by nature:

(in thousands of EUR)

	31.12.2018	01.01.2018
Debt instruments	878 738	1 038 694
Treasury bills and government bonds	*252 535*	*342 095*
Bonds from other issuers	*626 203*	*696 599*
Equity instruments	12 766	13 335
Total financial assets at fair value through other comprehensive income	**891 504**	**1 052 029**

The following tables present the depreciation of the debt instruments and the movements relates to the depreciaions on these instruments:

(in thousands of EUR)

	31.12.2018	01.01.2018
Fair Value stage 1	864 213	1 018 383
Impairments stage 1	(252)	(302)
Fair Value stage 2	14 525	20 311
Impairments stage 2	(228)	(184)
Total financial assets at fair value through other comprehensive income	**878 738**	**1 038 694**
Total impairments on financial assets at fair value through other comprehensive income	**(480)**	**(486)**

(in thousands of EUR)

	Financial instruments without significant increase in credit risk since initial recognition (stage 1)	Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired (stage 2)	Credit impaired financial assets (stage 3)	Total
Balance at 1 January 2018	**(302)**	**(184)**	**0**	**(486)**
Increase due to origination and acquisition	(73)	(73)	0	(146)
Decrease due to derecognition	90	79	0	169
Changes due to credit riks	16	(33)	0	(17)
Transfer to 12-month ECL (stage 1)	17	0	0	17
Transfer to lifetime ECL not credit impaired (stage 2)	0	(17)	0	(17)
Balance at 31 December 2018	**(252)**	**(228)**	**0**	**(480)**

The financial assets measured at fair value through other comprehensive income includes per 31/12/2018 a total of EUR 772.3 million for which the residual term is higher than 12 months.

The investments in equity instruments are detailed as follows:

(in thousands of EUR)

Sector	Fair value	Dividend income recognised
Hotels and restaurants	12 274	473
Real estate	264	0
Banking and insurance	208	0
Information technology and communication	19	0
Other	1	0
Balance at 31 December 2018	**12 766**	**473**

The below table presents the derecognition of the investments in equity instruments:

(in thousands of EUR)

Sector	Fair value at derecognition date	Dividend income recognised	Transfer of cumulative gain or loss within equity
Hotels and restaurants	2 068	0	0
Mining, carbon or steel industry	499	0	0
Real estate	360	0	0
Banking and insurance	4	0	0
Balance at 31 December 2018	**2 931**	**0**	**0**

7.4 b Figures at 31 December 2017 (IAS 39)

Available-for-sale financial assets represent investments in fixed or variable income securities, both listed and unlisted, and comprise the following, by nature:

(in thousands of EUR)

	31.12.2017
Carrying amount before impairments	**1 203 803**
Fixed income securities	1 135 223
Treasury bills and government bonds	*226 953*
Bonds from other issuers	*887 218*
Other fixed income instruments	*21 052*
Variable-income securities	68 580
Equities	*23 847*
Other variable income securities	*44 733*
Impairments	**(8 637)**
Total available-for-sale financial assets	**1 195 166**

Available-for-sale financial assets at 31 December 2017 include a total of EUR 510.8 million the residual life of which exceeds 12 months.

The table below details the movements relating to the impairment of available-for-sale financial assets:

(in thousands of EUR)

	Fixed income securities	Variable income securities	Total
Closing balance at 31.12.2016	**(2 846)**	**(6 564)**	**(9 410)**
Impairments	0	0	0
Impairment allowance used	0	429	429
Currency translation differences	344	0	344
Closing balance at 31.12.2017	**(2 502)**	**(6 135)**	**(8 637)**

The table below details the changes in fair values of available-for-sale financial assets:

(in thousands of EUR)

	Fixed income securities	Variable income securities	Total
Closing balance at 31.12.2016	**10 640**	**6 027**	**16 667**
Increase (decrease) in unrealised revaluation gains[1]	(2 670)	7 600	4 930
Decrease (increase) in unrealised revaluation losses[1]	257	(833)	(576)
Impairment recognized in the income statement	0	0	0
Closing balance at 31.12.2017	**8 227**	**12 794**	**21 021**

1 Including changes in unrealized gains and losses transferred from equity to the income statement as the result of the derecognition of these investments.

7.5 Financial assets measured at amortized cost

7.5 a Figures at 31 December 2018 (IFRS 9)

Interbank loans and advances and movements related to depreciation on these loans and advances are presented as follows:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Term loans	136 051	105 296	105 296
Reverse repurchase operations	99 975	99 973	99 973
Other	11 739	16 730	16 730
Impairments	(7)	0	
Total loans and advances to credit institutions	**247 758**	**221 999**	**221 999**

(in thousands of EUR)

	Financial instruments without significant increase in credit risk since initial recognition (stage 1)	Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired (stage 2)	Credit impaired financial assets (stage 3)	Total
Balance at 1 January 2018	**0**	**0**	**0**	**0**
Changes due to credit risk	(7)	0	0	(7)
Balance at 31 December 2018	**(7)**	**0**	**0**	**(7)**

Loans with initial terms of less than three months for an amount of EUR 144.1 million as at 31 December 2018 (31 December 2017: EUR 131.7 million) are included in the definition of cash and cash equivalents in the consolidated cash flow statement.

Loans and advances to customers and movements relating to impairments on these loans and advances are as follows:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Carrying amount before impairments	**2 084 628**	**1 938 685**	**1 951 526**
Overdrafts	422 524	412 509	412 509
Trade bills	314	2 600	2 600
Mortgage loans	49 625	95 476	95 476
Term loans	1 580 989	1 406 745	1 406 745
Debt instruments			12 862
Subordinated loans	1 626	1 410	1 389
Other	29 550	19 945	19 945
Impairments (IAS 39)			**(35 391)**
Impairments (IFRS 9)	**(17 622)**	**(35 500)**	
Total loans and advances to customers	**2 067 006**	**1 903 185**	**1 916 135**

(in thousands of EUR)

	31.12.2018	01.01.2018
Carrying amount before impairments stage 1	1 998 090	1 838 777
Impairments stage 1	(1 537)	(2 507)
Carrying amount before impairments stage 2	50 448	24 988
Impairments stage 2	(145)	(679)
Carrying amount before impairments stage 3	36 090	74 920
Impairments stage 3	(15 940)	(32 314)
Total of the loans and advances to clients	**2 067 006**	**1 903 185**

(in thousands of EUR)

	Financial instruments without significant increase in credit risk since initial recognition (stage 1)	Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired (stage 2)	Credit impaired financial assets (stage 3)	Total
Balance at 1 January 2018	**(2 507)**	**(679)**	**(32 314)**	**(35 500)**
Increase due to origination and acquisition	(762)	(18)	(1 392)	(2 172)
Decrease due to derecognition	700	7	2 755	3 462
Changes due to credit risk	987	584	0	1 571
Transfer to lifetime ECL not credit impaired (stage 2)	39	(39)	0	0
Decrease in allowance due to write off	0	0	15 021	15 021
Foreign exchange and other movements	6	0	(10)	(4)
Balance at 31 December 2018	**(1 537)**	**(145)**	**(15 940)**	**(17 622)**

Loans and advances to customers include as at 31 December 2017 an amount of EUR 1 257.1 million for which the residual life exceeds 12 months (31 December 2017: EUR 705.2 million).

Debt instruments and movements relating to impairments on these debts are as follows:

(in thousands of EUR)

	31.12.2018	01.01.2018
Carrying amount before impairments	**1 375 702**	**1 003 633**
Debt instruments		
Treasury bills and government bonds	*494 356*	*257 124*
Bonds from other issuers	*881 346*	*746 509*
Other debt instruments	*0*	*0*
Impairments	**(2 851)**	**(2 841)**
Total of the debt instruments at amortized cost	**1 372 851**	**1 000 792**

(in thousands of EUR)

	31.12.2018	01.01.2018
Carrying amount before impairments stage 1	1 370 834	999 188
Impairments stage 1	(183)	(300)
Carrying amount before impairments stage 2	2 248	1 943
Impairments stage 2	(48)	(39)
Carrying amount before impairments stage 3	2 620	2 502
Impairments stage 3	(2 620)	(2 502)
Total of the debt instruments at amortized cost	**1 372 851**	**1 000 792**

(in thousands of EUR)

	Financial instruments without significant increase in credit risk since initial recognition (stage 1)	Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired (stage 2)	Credit impaired financial assets (stage 3)	Total
Balance at 1 January 2018	**(300)**	**(39)**	**(2 502)**	**(2 841)**
Increase due to origination and acquisition	(133)	(1)	0	(133)
Decrease due to derecognition	214	0	0	214
Changes due to credit riks	(45)	(8)	0	(53)
Foreign exchange and other movements	81	0	(118)	(38)
Balance at 31 December 2018	**(183)**	**(48)**	**(2 620)**	**(2 851)**

7.5 b Figures at 31 December 2017 (IAS 39)

The below table presents the movements related to the impairment of loans and advances to customers:

(in thousands of EUR)

	31.12.2017
Opening balance	**(36 918)**
Impairment loss recognized	(5 038)
Reversal of impairment	4 112
Impairment allowance used	2 442
Currency translation differences	11
Closing balance	**(35 391)**

Impairment losses are calculated on the basis of individual valuations and on the basis of collective valuations.

The tables below set out supplementary information relating to available-for-sale financial assets that have been reclassified to loans and advances:

	Carrying amount	Fair value	Revaluation reserves
Closing balance at 31 December 2017	**12 862**	**12 315**	**(1)**

Amounts recognised in profit or loss or in equity	Profit or loss	Equity
At 31 December 2017		
Interest income	142	
Impairment	0	
Realised gains (losses)	0	
Amounts transferred from revaluation reserves to profit or loss		6

The fair value losses or gains that would have been recognized in equity after the reclassification date, if the reclassification had not occurred, amount to an aggregate net gain at 31 December 2017 of EUR 0.9 million.

Financial assets held to maturity represent investments in fixed income securities, the split by nature of which is as follows:

	31.12.2017
Fixed income securities	80.726
Treasury bills and government bonds	*70.575*
Bonds from other issuers	*10.151*
Total financial assets held to maturity	**80.726**

Financial assets held to maturity with a maturity in excess of 12 months amount to EUR 34.5 milion.

7.6 Property and equipment and investment property

Property and equipment comprise the following:

(in thousands of EUR)

	Land and buildings	IT equipment	Office equipment	Other equipment	Total
Net closing carrying amount at 31.12.2018	**70 093**	**5 927**	**4 430**	**2 735**	**83 185**
Acquisition cost	124 371	19 506	9 868	6 136	159 881
Accumulated depreciation and impairment	(54 278)	(13 579)	(5 438)	(3 401)	(76 696)
Net closing carrying amount at 01.01.2018	**70 364**	**6 849**	**4 199**	**3 500**	**84 912**
Net closing carrying amount at 31.12.2017	**70 364**	**6 849**	**4 199**	**3 500**	**84 912**
Acquisition cost	120 839	17 758	9 402	6 718	154 717
Accumulated depreciation and impairment	(50 475)	(10 909)	(5 203)	(3 218)	(69 805)

The movements in the net book value are as follows:

(in thousands of EUR)

	Land and buildings	IT equipment	Office equipment	Other equipment
Closing balance at 31.12.2016	**70 099**	**7 534**	**4 707**	**4 120**
Acquisitions	3 671	3 177	412	285
Disposals	(46)	(3)	(1)	(168)
Depreciation	(3 616)	(2 537)	(585)	(721)
Impairment loss recognized	(593)	(207)	(349)	0
Currency translation differences	(274)	(2)	0	(11)
Other	1 123	(1 113)	15	(5)
Closing balance at 31.12.2017	**70 364**	**6 849**	**4 199**	**3 500**
Closing balance at 01.01.2018	**70 364**	**6 849**	**4 199**	**3 500**
Acquisitions	3 207	2 027	866	130
Changes in consolidation scope	14	0	5	0
Disposals	0	(54)	(8)	(247)
Depreciation	(3 751)	(2 914)	(631)	(637)
Currency translation differences	116	3	5	4
Other	143	16	(6)	(15)
Closing balance at 31.12.2018	**70 093**	**5 927**	**4 430**	**2 735**

With the exception of vehicles (disclosed under 'Other equipment'), the residual values are estimated at zero. As purchased cars are generally sold after four years, their average residual value has been estimated at 40% of the purchase price, excluding VAT.

The estimated fair value of property (accounted for at amortized cost) of Bank Degroof Petercam amounts to EUR 151.8 million at 31 December 2018 (31 December 2017: EUR 149.2 million). The estimated fair values of the majority of the properties have been obtained from valuation reports prepared by independent real estate experts. In view of the limited liquidity in the property market, the specific nature of these properties, and the difficulty in obtaining details of comparable transactions, the estimated values of these properties have been classed at level 3 in the hierarchy of fair values. The techniques used by the real estate experts were primarily the following: the rental capitalization method, the discounted cash flow method, and the comparative market analysis method (valuation based on the value of the square metres constructed). Where several valuation methods are used for one property, the estimated value represents the average of the values calculated.

Bank Degroof Petercam does not hold investment property.

Bank Degroof Petercam has commitments, in its capacity as lessee, in respect of operating lease contracts relating principally to real estate, IT equipment and vehicles.

The minimum amount of future payments under non-cancellable operating lease contracts amounted to:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Less than one year	12 017	9 543	9 543
Between one and five years	28 511	20 671	20 671
More than five years	23 460	3 412	3 412
Closing balance	**63 988**	**33 626**	**33 626**

The above-mentioned amounts do not take into account the possible future indexation of operating lease payments for real estate. The operating lease expense is set out in note 8.10.

The lease term of certain lease contracts has been revaluated following the analysis of the leasing contracts for the implementation of IFRS 16. This element has been taken into consideration for the determination of the future minimum payments related to these contracts. This is the reason why this amount has slightly increased in 2018.

7.7 Intangible assets and goodwill

Intangible assets and goodwill comprise the following:

(in thousands of EUR)

	Goodwill	Business activities	Software	Other intangible assets	Total
Net closing carrying amount at 31.12.2018	**278 524**	**74 601**	**4 614**	**14 901**	**372 640**
Acquisition cost	355 399	152 877	28 372	15 006	551 654
Accumulated depreciation and impairment	(76 875)	(78 276)	(23 758)	(105)	(179 014)
Net closing carrying amount at 01.01.2018	**275 881**	**85 806**	**4 509**	**2 647**	**368 843**
Net closing carrying amount at 31.12.2017	**275 881**	**85 806**	**4 509**	**2 647**	**368 843**
Acquisition cost	352 756	165 489	27 642	2 647	548 534
Accumulated depreciation and impairment	(76 875)	(79 683)	(23 133)	0	(179 691)

The movements in the net book value are as follows:

	Goodwill	Business activities[1]	Software	Other intangible assets[2]
Closing balance at 31.12.2016	**275 881**	**104 912**	**4 661**	**0**
Acquisitions	0	0	2 297	2 647
Disposals	0	0	(565)	0
Depreciation	0	(12 603)	(1 832)	0
Impairment loss recognized	0	(5 591)	(35)	0
Other	0	0	(17)	0
Currency translation differences	0	(912)	0	0
Closing balance at 31.12.2017	**275 881**	**85 806**	**4 509**	**2 647**
Closing balance at 01.01.2018	**275 881**	**85 806**	**4 509**	**2 647**
Acquisitions	2 643	1 064	1 834	12 359
Depreciation	0	(11 982)	(1 802)	(105)
Impairment loss recognized	0	(705)	0	0
Other	0	79	73	0
Currency translation differences	0	339	0	0
Closing balance at 31.12.2018	**278 524**	**74 601**	**4 614**	**14 901**

The amounts of EUR 2.6 million and EUR 1.1 million that appear in the acquisitions line for 2018, under goodwill and business activities respectively, relate to the acquisition of Entheca Finance in December 2018.

BUSINESS ACTIVITIES

In accordance with its accounting policies and principles, when there were market conditions that were considered to be an objective indicator of impairment, the Bank has performed an impairment test on its business activities.

The recoverable value is determined as being the higher of the fair value and the value in use.

The fair value is obtained either by applying multiples to the net operating result, or on the assets under management. The value in use is determined using the discounted free cash flow method which discounts all future cash flows that will be generated by the entity's activities.

The results of these impairment tests are superior to the accounting value of the business activities, except in the case of the valuation of the Luxembourg business activities relating to the merger with Petercam in respect of which an impairment loss of EUR 0.7 million has been recorded.

The fair value has been used to estimate the value of the business activities of Banque Degroof Petercam France relating to asset management activities, by applying a goodwill coefficient to assets under management and taking into account the cost structure which currently impacts profitability.

1 Of which EUR 6.7 million at 31 December 2018, on the account of Banque Degroof Petercam France, and EUR 66.8 million related to business combinations Petercam.
2 The group continues its activities in terms of research and development through its progressive implementation of the transformation program of operational and supporting application. The development expenses in relation to the Finance Target Operating Model and Digital Acceleration projects have capitalized in 2018.

The value in use has been used for the estimation of the value of business activities in the context of the merger with Petercam relating to client relations in the framework of private banking activities and institutional asset management. The valuation performed in order to test for impairment is based on the same model as that used for the initial determination of the value of these business activities. This model comprises the discounting of cash flows, on the basis of projections of revenues generated through the management of client assets over a defined period ending in 2026. The progressive attrition of historic private discretionary asset management clients is estimated at 10.8% per annum in Belgium and 15% per annum in Luxembourg, while the annual growth in funds under management is estimated at 2%. The cash flows are discounted at an estimated cost of own funds after tax of 8.0%.

GOODWILL

In accordance with its accounting policies and methods, the Bank performs an impairment test on goodwill, as a minimum, at every financial period-end. In order to do this, the Bank has allocated goodwill to cash generating units. The recoverable value of a cash generating unit is determined as being the higher of its fair value and its value in use.

The fair value is estimated either by applying reference multiples to the net operating result, or to the assets under management. The value in use is determined using the discounted free cash flow method which discounts all future cash flows that will be generated by the entity's activities.

The results of these impairment tests are superior to the accounting value of the goodwill.

The goodwill relating to the merger with Petercam has been allocated to three cash generating units ('Asset Management and UCITS', 'Credits & Structuring' and 'Financial Markets & Private Equity').

The value of the 'Asset Management and UCITS' cash generating unit is estimated as the fair value, by applying a goodwill coefficient to the managed or administered assets. The value of the 'Credits & Structuring' and 'Financial Markets & Private Equity' cash generating units is estimated as the value in use, by discounting cash flows based on the five year plan (2019-2023).

In respect of the cash generating unit 'Financial Markets & Private Equity', the provisional results indicate an increase in revenues characterised by an average annual growth of nearly 9% over five years. Beyond this period, a growth rate of 2% has been applied, corresponding to the forecast long-term inflation rate. The projected cash flows are discounted at the estimated cost of capital before tax of 15.6% as at 31 December 2018. The recoverable value that results from this value in use is superior to the accounting value.

A sensitivity analysis has been carried out, in which a scenario with lower turnover levels have been tested, leading to cash flows lower by 30%. The recoverable value resulting from this analysis remains above the carrying value.

The value in use was used to estimate the recoverable value of the cash generating unit of Banque Degroof Petercam France active in Corporate Finance.

The projected cash flows were based upon medium term plans drawn up by management covering the period 2019-2023, before applying a steady growth rate of 2% corresponding to the forecast long term inflation rate. The projected cash flows were discounted at the estimated cost of capital before tax of 17.6% as at 31 December 2017. The recoverable value was superior to the accounting value. A sensitivity analysis has been performed which tests a scenario of lower income, resulting in cash flows that are approximately 20% lower. The recoverable value that results from this sensitivity analysis remains superior to the accounting value.

Goodwill is analyzed below, by cash generating unit:

(in thousands of EUR)

	Carrying amount			Method used for the recoverable amount
Cash generating unit	**31.12.2018**	**01.01.2018**	**31.12.2017**	
Bank Degroof Petercam SA | NV (Asset Management & UCITS)	230 277	227 634	227 634	Fair value[1]
Bank Degroof Petercam SA | NV (Credits & Structuring)	5 480	5 480	5 480	Value in use
Bank Degroof Petercam SA | NV (Sales & Advice/Professionals)	24 550	24 550	24 550	Value in use
Banque Degroof Petercam France SA (Corporate Finance)	18 217	18 217	18 217	Value in use
Total	**278 524**	**275 881**	**275 881**	

1 Level 3 in the hierarchy of fair values.

7.8 Investments in entities accounted for using the equity method

Investments in entities accounted for using the equity method are summarized in the table below:

(in thousands of EUR)

Associates	31.12.2018	01.01.2018	31.12.2017
BDG & Associés	129	146	146
Quadia SA	682		
Arvestar Asset Management SA	91		
Amindis SA	516		
Total	**1 418**	**146**	**146**

(in thousands of EUR)

	31.12.2018	31.12.2018	31.12.2017	31.12.2017	
Associates	**Equity**	**Profit**	**Equity**	**Profit**	**Currency**
BDG & Associés	447	(41)	448	(89)	CAD
Quadia SA	(271)	(623)			CHF
Arvestar Asset Management SA	1 713	213			EUR
Amindis SA	1 548	(263)			EUR

At 31 December 2018, an amount of EUR 1.6 million is included in the caption 'Other Liabilities' (mainly Le Cloître SA).

7.9 Other assets

Other assets comprise the following items:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Accrued income and prepaid expenses	103 378	111 809	111 809
Miscellaneous debtors	11 520	19 577	19 577
Other assets	23 968	19 887	19 887
Total other assets	**138 866**	**151 273**	**151 273**

Miscellaneous debtors comprise invoices receivable and tax prepayments or recoverable taxes defined in accordance with national regulations.

7.10 Financial liabilities held for trading

Financial liabilities held for trading comprise the following:

(in thousands of EUR)

	31.12.2018	01.01.2018.	31.12.2017
1. Financial liabilites held for trading	**0**	**1 015**	**1 015**
Fixed income	0	253	253
Variable income	0	762	762
2. Derivatives	**136 437**	**150 408**	**157 219**
Foreign exchange derivatives	31 049	46 018	46 018
Interest rate derivatives	32 145	22 436	29 247
Equity derivatives	77 827	81 954	81 954
CVA/DVA	(4 584)	0	0
Total financial liabilites held for trading	**136 437**	**151 423**	**158 234**

7.11 Deposits from credit institutions

Interbank deposits comprise the following:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Sight deposits	66 278	131 502	131 502
Term deposits	13 258	27 640	27 640
Other deposits	522	5 345	5 345
Total deposits from credit institutions	**80 058**	**164 487**	**164 487**

7.12 Deposits from customers

Deposits from customers are as follows:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Sight deposits	6 465 154	6 377 492	6 377 492
Term deposits	352 905	314 885	314 885
Other deposits	19 461	38 257	38 257
Total deposits from customers	**6 837 520**	**6 730 634**	**6 730 634**

Deposits from customers include as at 31 December 2018 an amount of EUR 1.5 million for which the residual life exceeds 12 months (31 December 2017: EUR 1.5 million).

7.13 Provisions

The provisions of the Bank comprise the following:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Pensions and other post employment defined benefit obligations	34 526	33 453	33 453
Other long term employee benfits	6 389	4 601	4 601
Restructuring	7 560	15 260	15 260
Expected credit losses on loan commitments and financial guarantees given	19	1	
Other provisions	15 904	14 538	14 538
Closing balance	**64 398**	**67 853**	**67 852**

Provisions for employee benefits are detailed in notes 10.1 and 10.2.

The provision for restructuring was set up in 2015 following the reorganization of activities resulting from the merger of the Degroof and Petercam groups. During the current accounting period EUR 5.8 million of the provision was used. At the year-end, the human resources department completely revised the provision to cover a new period of three years, which resulted in a reversal of EUR 1.9 million.

The movements on other provisions, which relate principally to provisions for pending litigation with various counterparties, are as follows:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Opening balance	**14 538**	**16 396**	**16 396**
Allowances for provisions	1 463	1 346	1 346
Use of provisions	(38)	(1 095)	(1 095)
Reversal of unused provisions	(59)	(2 109)	(2 109)
Closing balance	**15 904**	**14 538**	**14 538**

Due to the nature of its activities, the Bank is involved in a limited number of legal disputes.

In view of the uncertainties inherent in any legal dispute, the process of estimating the risks is inevitably uncertain. A provision that covers a proportion of certain amounts claimed has been recorded in the financial statements as at 31 December 2018.

It should be noted that payments in excess of a threshold for certain of the files are covered by insurance. The reimbursements paid by the insurers are recorded in 'Other net operating results'.

The evolution of the provision related to the expected credit losses on loans engagement and granted guarantees, are presented as follows

(in thousands of EUR)

	Financial instruments without significant increase in credit risk since initial recognition (stage 1)	Financial instruments with significant increase in credit risk since initial recognition but not credit-impaired (stage 2)	Credit impaired financial assets (stage 3)	Total
Balance at 1 January 2018	**1**	**0**	**0**	**1**
Increase due to origination and acquisition	12	0	0	12
Decrease due to derecognition	(4)	0	0	(4)
Changes due to credit riks	8	2	0	10
Balance at 31 December 2018	**17**	**2**	**0**	**19**

Each year, the ECB, the NBB and the FSMA carried out, in 2018, a number of inspections within the financial sector - including Bank Degroof Petercam - in order to evaluate the conformity of the sector with the applicable regulatory framework. These inspections have brought Bank Degroof Petercam to improve and to conform certain of its internal rules and procedures, which has been performed in accordance with the requests of the regulatory authorities. At the date of this present report, the possible regulatory and financial impacts in relation to the possible actions of the regulator, can't be determined.

It should be noted that with respect to the procedures to recuperate the funds initiated in the past by the liquidator of the company 'Bernard L. Madoff Investment Securities LLV (BLMIS)', the judgment of the Court of Appeal of the United States of February 25, 2019 has countered a previous judgement of the District Court of July 2014 with respect to the non-extraterritorial character of American law in terms of bankruptcy. This decision will probably be subject to an appeal before the Supreme Court of the United States. If the Supreme Court of the United States confirms the decision of the Court of Appeal, this could potentially have an impact on certain actions to recuperate funds that could be reinitiated in the future.

7.14 Other liabilities

Other liabilities comprise the following items:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Salaries and social charges	53 725	53 372	53 372
Accrued charges and deferred income	31 757	45 335	45 335
Miscellaneous creditors	19 911	45 037	45 037
Share-based payment liability	2 072	2 262	2 262
Other	6 545	5 221	5 221
Liabilities relating to the anticipated acquisition of minority interests	4 073	4 492	4 492
Total other liabilities	**118 083**	**155 719**	**155 719**

Miscellaneous creditors comprise primarily invoices payable as well as taxes payable other than taxes calculated on the profit for the financial period.

As the acquisition price for the non-controlling interests is a variable price that depends on a number of factors and which will be paid in instalments between 2016 and 2024, the liabilities related to this planned acquisition have been valued on the basis of models, parameters and data described in note 7.7 relating to goodwill and other intangible assets. This anticipated acquisition concerns Corporate Finance activities in France.

7.15 Tax

The movements on deferred taxes are explained by:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Opening balance	**(1 911)**	**(3 409)**	**(2 732)**
Income (expense) in income statement	(2 810)	0	(332)
Items recorded directly in equity	1 921	1 498	(1 340)
Impact of change in income tax rate – income statement	(6)	0	1 601
Impact of change in income tax rate – equity	0	0	(1 076)
Changes in consolidation scope	(301)	0	438
Other	13	0	(31)
Currency translation differences	(34)	0	63
Closing balance	**(3 128)**	**(1 911)**	**(3 409)**

Deferred taxes are calculated on the following temporary differences and are presented by class of temporary difference:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Deferred tax assets	**23 551**	**26 887**	**26 887**
Personnel benefits	13 491	18 067	18 067
Tangible and intangible assets	5 199	6 376	6 376
Provisions for liabilities and charges	1 490	762	762
Derivatives	1 805	733	733
Losses carried forward	1 326	168	168
Other	240	781	781
Deferred tax liabilities	**26 679**	**28 798**	**30 296**
Tangible and intangible assets	20 216	23 138	23 138
Provisions for liabilities and charges	1 882	562	562
Derivatives	5	0	0
Financial instruments at fair value through profit or loss			1 437
Available-for-sale financial assets			4 910
Financial instruments	4 137	4 849	
Other	439	249	249
Net deferred taxes	**(3 128)**	**(1 911)**	**(3 409)**

Certain deferred tax assets have not been recognized to the extent that certain companies within the Degroof Petercam group are not certain that future taxable profits will be available within the relevant taxable entities against which the tax losses carried forward can be utilized.

Unrecognized deferred tax assets at 31 December 2018 amounted to EUR 11 million and related purely to recoverable tax losses with indefinite expiry dates (31 December 2017: EUR 12.1 million)

Deferred taxes amounting to EUR 16 thousands (31 December 2017 : 4.3 Millions) have not been recognized on temporary differences relating to the distributable reserves of subsidiaries, as these differences are unlikely to reverse in the short term. The amount is significantly lower than the past years following the belgian taks reform with respect to the company income taxes.

7.16 Shareholders' equity

The table below sets out the components of equity attributable to shareholders:

(in thousands of EUR)

	31.12.2018	01.01.2018	31.12.2017
Issued capital	34 212	34 212	34 212
Share premium	417 369	420 553	420 553
Legal reserve	4 411	4 411	4 411
Untaxed reserve	15 108	15 108	15 108
Reserves available for distribution	93 137	93 137	93 137
Other reserves and retained earnings	366 021	429 110	332 867
Revaluation reserves	(17 216)	(11 903)	(3)
Treasury shares (-)	(44 632)	(47 604)	(47 604)
Net profit for the period	56 764	0	86 460
Total	**925 174**	**937 024**	**939 141**

The share capital of Bank Degroof Petercam is represented by 10 842 209 ordinary shares without nominal value. All shares are fully subscribed and paid up.

The reserves and retained earnings comprise the reserves of Bank Degroof Petercam, including the initial impact of the transition to international financial reporting standards (IFRS), the undistributed results of the group, as well as the difference between the acquisition or disposal price and the carrying value of shareholders' equity acquired or disposed of in the context of a change in the percentage shareholding of a subsidiary that did not result in a change in the scope of consolidation.

Revaluation reserves comprise, in part, the amounts relating to the first application of IFRS 9, the revaluation of financial assets at fair value, as well as translation differences resulting from the consolidation of the financial statements of entities prepared in a functional currency different from that used by Bank Degroof Petercam and, in part, actuarial gains and losses in respect of obligations and assets of pension schemes that result from differences between the assumptions used at the beginning of the financial period and the reality observed at the end of the financial period.

At 31 December 2018, the Degroof Petercam group held 325 631 shares in Bank Degroof Petercam SA | NV, representing 3.00% of the subscribed capital. These treasury shares are used, as a general rule, to cover staff incentive plans.

7.17 Fair values of financial instruments

The carrying values and fair values of the financial instruments are set out, by category of financial instrument, in the table below:

(in thousands of EUR)

	31.12.2018		01.01.2018		31.12.2017	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets						
Cash, balances with central banks and other demand deposits	2 792 984	2 792 984	3 191 899	3 191 899	3 191 899	3 191 899
Financial assets at fair value through profit or loss	234 161	234 161	254 600	254 600		
Financial assets held for trading	119 783	119 783	128 938	128 938	132 368	132 368
Other financial assets	114 378	114 378	125 662	125 662		
Financial instruments for hedge accounting	1 691	1 691	3 430	3 430		
Financial assets designated at fair value through profit or loss					893 350	893 350
Available-for-sale financial assets					1 195 166	1 195 166
Financial assets at fair value through other comprehensive income	891 504	891 504	1 052 029	1 052 029		
Equity instruments	12 766	12 766	13 335	13 335		
Debt securities	878 738	878 738	1 038 694	1 038 694		
Financial assets held to maturity					80 726	83 454
Financial assets at amotised cost	3 687 615	3 735 060	3 125 976	3 132 806		
Loans and advances to credit institutions	247 758	247 602	221 999	222 023	221 999	222 023
Loans and advances to customers	2 067 006	2 120 028	1 903 185	1 906 864	1 916 135	1 919 814
Debt securities	1 372 851	1 367 430	1 000 792	1 003 919		
Total	**7 607 955**	**7 655 400**	**7 627 934**	**7 634 764**	**7 631 643**	**7 638 074**
Financial liabilities						
Financial liabilities held for trading	136 437	136 437	151 423	151 423	158 234	158 234
Financial instruments for hedge accounting	15 530	15 530	6 811	6 811		
Financial assets at amortized cost	6 917 578	6 918 353	6 895 121	6 895 333	6 895 121	6 895 333
Deposits from credit institutions	*80 058*	*80 059*	*164 487*	*164 486*	*164 487*	*164 486*
Deposits from customers	*6 837 520*	*6 838 294*	*6 730 634*	*6 730 847*	*6 730 634*	*6 730 847*
Total	**7 069 545**	**7 070 320**	**7 053 355**	**7 053 567**	**7 053 355**	**7 053 567**

For those financial instruments that are not valued at fair value in the financial statements, the following methods and assumptions are used to determine their fair value:

- the carrying value of short term financial instruments and of financial instruments without fixed maturities, such as current accounts, corresponds to a reasonable approximation of their fair value;
- other loans and borrowings are revalued on the basis of the most recently observed price or by discounting their future cash flows based on the market interest rate trends at the period-end.

Bank Degroof Petercam uses a hierarchy of three levels of fair values, by reference to the source of data used to determine the fair value:

Level 1 – Published market value:
this category comprises financial instruments for which the fair value is determined by direct reference to prices quoted on an active market.
Level 2 – Valuation technique based on observable market data:
this category includes financial instruments for which the fair values are determined by reference to valuation techniques the parameters of which are derived from an active market or which are observable. These valuation techniques are those that are currently used by market participants.
Level 3 – Valuation technique based on non-observable market data:
this category includes financial instruments for which a significant part of the parameters used for the determination of the fair value are not derived from observable market data.

Bank Degroof Petercam accounts for transfers from one level to another level of the hierarchy of fair values at the end of the financial period during which the transfer takes place.

During 2018 there were no significant transfers.

Financial instruments marked to fair value are analyzed as follows:

(in thousands of EUR)

31.12.2018	level 1	level 2	level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	109 349	86 442	38 370	234 161
Financial assets held for trading	*49 452*	*70 331*	*0*	*119 783*
Other financial assets	*59 897*	*16 111*	*38 370*	*114 378*
Financial instruments for hedge accounting	0	1 691	0	1 691
Financial assets at fair value through other comprehensive income	857 390	21 556	12 558	891 504
Equity instruments	*208*	*0*	*12 558*	*12 766*
Debt securities	*857 182*	*21 556*	*0*	*878 738*
Total	**966 739**	**109 689**	**50 928**	**1 127 356**
Financial liabilities				
Financial liabilities held for trading	43 944	92 493	0	136 437
Financial instruments for hedge accounting	0	15 530	0	15 530
Total	**43 944**	**108 023**	**0**	**151 967**

(in thousands of EUR)

01.01.2018	level 1	level 2	level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	62 861	176 167	15 572	254 600
Financial assets held for trading	*14 730*	*109 214*	*4 994*	*128 938*
Other financial assets	*48 131*	*66 953*	*10 578*	*125 662*
Financial instruments for hedge accounting	0	3 430	0	3 430
Financial assets at fair value through other comprehensive income	882 852	153 440	15 737	1 052 029
Equity instruments	*192*	*0*	*13 143*	*13 335*
Debt securities	*882 660*	*153 440*	*2 594*	*1 038 694*
Total	**945 713**	**333 037**	**31 309**	**1 310 059**
Financial liabilities				
Financial liabilities held for trading	10 858	140 565	0	151 423
Financial instruments for hedge accounting	0	6 811	0	6 811
Total	**10 858**	**147 376**	**0**	**158 234**

Financial instruments marked to fair value (excluding accrued interest) are analyzed as follows:

(in thousands of EUR)

31.12.2017	level 1	level 2	level 3	Total
Financial assets				
Derivatives	10 589	107 051	0	117 640
Financial assets held for trading	4 141	4 091	4 994	13 226
Financial assets designated at fair value through profit or loss	716 584	170 681	2 254	889 519
Available-for-sale financial assets	684 535	480 717	24 017	1 189 269
Total	**1 415 849**	**762 540**	**31 265**	**2 209 654**
Financial liabilities				
Derivatives	10 589	136 704	0	147 293
Financial liabilities held for trading	269	742	0	1 011
Total	**10 858**	**137 446**	**0**	**148 304**

The table below sets out the movements relating to financial instruments valued at fair value under level 3:

(in thousands of EUR)

	Financial assets held for trading	Financiel assets designed at fair value through profit or loss	Availiable-for sale financial assets
Closing balance at 31.12.2016	**677**	**3 214**	**32 464**
Profits and losses recognised in the result for the current year [1]	1	(799)	(240)
Profits and losses recognised in shareholders' equity		(423)	(263)
Impairment			0
Acquisitions	4 993	2 464	4 612
Disposals	(677)		(480)
Issuances		262	300
Settlements		(2 464)	(8 410)
Transfers to level 3			2 514
Transfers from level 3			(5 281)
Changes to the scope of consolidation			(1 235)
Other			36
Closing balance at 31.12.2017	**4 994**	**2 254**	**24 017**

(in thousands of EUR)

	Financial assets at fair value through profit or loss	Financiel assets designed at fair value through profit or loss	Available-for sale financial assets	Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income
Closing balance at 31.12.2017	**4 994**	**2 254**	**24 017**	**0**	**0**
IFRS 9 impact	4 636	(2 254)	(24 017)	5 941	15 738
Closing balance at 01.01.2018	**9 630**	**0**	**0**	**5 941**	**15 738**

1 Recorded under 'Net result on financial instruments held for trading' (note 8.4).
Recorded under 'Net result on financial instruments designated at fair value through profit or loss' (note 8.5).

(in thousands of EUR)

	Financial assets at fair value through profit or loss	Financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income
Closing balance at 01.01.2018	**9 630**	**5 941**	**15 738**
Profits and losses recognised in the result for the current year	770	(2 663)	(1 492)
Profits and losses recognised in shareholders' equity	0	0	1 260
Acquisitions	4 990	24 398	87
Disposals	(4 994)	0	(2 931)
Transfers to level 3	0	194	0
Closing balance at 31.12.2018	**10 396**	**27 870**	**12 662**

The financial instruments valued using a level 3 model are primarily unquoted shares and bonds.

The method that is generally used is based on stock market multiples for the most recently published consolidated results of comparable companies that are quoted. A discount for lack of liquidity is subsequently applied to the resultant values.

The valuations are performed by a department that is independent from the front office.

An alternative valuation, using hypotheses that are reasonably possible but generally less favourable, would result in the following changes to the valuation of the portfolio:

(in thousands of EUR)

	value	Alternative value	Impact on result	Impact on equity
31.12.2018				
Equity instruments	12 558	7 923	(561)	(4 074)
Debt securities	38 370	36 458	(1 912)	0
31.12.2017				
Variable-income securities	26 444	19 877	0	(6 567)
Fixed-income securities	4 821	4 142	0	(679)

The alternative hypotheses that are reasonably possible that were used include, depending on the values, the use of higher risk premiums for discounting (for the values calculated using a discounted cash flow model), the use of an alternative calculation based on stock market multiples of comparable companies, or the use of a higher discount for lack of liquidity.

The following table sets out the fair values of financial instruments that are not valued at fair value, by category of fair value:

(in thousands of EUR)

31.12.2018	Level 1	Level 2	Level 3	Total
Financial assets				
Cash, balances with central banks and other demand deposits	0	2 792 984	0	2 792 984
Financial assets at amotised cost	871 346	2 800 381	63 333	3 735 060
Loans and advances to credit institutions	0	247 602	0	247 602
Loans and advances to customers	0	2 070 458	49 570	2 120 028
Debt securities	871 346	482 321	13 763	1 367 430
Total	**871 346**	**5 593 365**	**63 333**	**6 528 044**
Financial liabilities	**0**	**6 918 353**	**0**	**6 918 353**
Deposits from credit institutions	0	80 059	0	80 059
Deposits from customers	0	6 838 294	0	6 838 294
Total	**0**	**6 918 353**	**0**	**6 918 353**

(in thousands of EUR)

01.01.2018	Level 1	Level 2	Level 3	Total
Financial assets				
Cash, balances with central banks and other demand deposits	0	3 191 899	0	3 191 899
Financial assets at amotised cost	558 706	2 463 807	110 293	3 132 806
Loans and advances to credit institutions	0	222 023	0	222 023
Loans and advances to customers	0	1 803 946	102 918	1 906 864
Debt securities	558 706	437 838	7 375	1 003 919
Total	**558 706**	**5 655 706**	**110 293**	**6 324 705**
Financial liabilities				
Deposits from credit institutions	0	164 486	0	164 486
Deposits from customers	0	6 730 847	0	6 730 847
Total	**0**	**6 895 333**	**0**	**6 895 333**

The following table sets out the fair values (excluding accrued interest) :

(in thousands of EUR)

31.12.2017	Level 1	Level 2	Level 3	Total
Financial assets				
Cash, balances with central banks and other demand deposits	0	3 191 980	0	3 191 980
Loans and advances to credit institutions	0	222 218	0	222 218
Loans and advances to customers	0	1 810 412	103 287	1 913 699
Financial assets held to maturity	82 020	0	0	82 020
Total	**82 020**	**5 224 610**	**103 287**	**5 409 917**
Financial liabilities				
Deposits from credit institutions	0	164 475	0	164 475
Deposits from customers	0	6 728 022	0	6 728 022
Total	**0**	**6 892 497**	**0**	**6 892 497**

7.18 Offsetting financial assets and liabilities

The table below sets out the amounts of financial assets and liabilities before and after they are offset.

- As mentioned in the column 'Gross amount of offset recorded financial instruments', no amount can be offset under the criteria set out in IAS 32.
- The column 'Non-offset amounts in balance sheet – Financial instruments' details the amount of financial instruments that are the subject of a legally binding global offsetting agreement that does not meet the criteria set out in IAS 32. In this case, amounts can only be offset in the case of default by, or insolvency or bankruptcy of, the counterparty.
- Financial instruments received or given as a guarantee (the column 'Non-offset amounts in balance sheet – Cash guarantees' and 'Non-offset amounts in balance sheet – Guarantees in form of securities') can also only be offset in the case of default by, or insolvency or bankruptcy of the counterparty.

31.12.2018	Gross amount of recorded financial instruments	Gross amount of offset recorded financial instruments	Net amount of financial instruments recorded on the balance sheet
Financial assets			
Derivatives	116 344	0	116 344
Reverse repos, securities borrowed and similar arrangements	100 000	0	100 000
Reverse repos	100 000	0	100 000
Total	**216 344**	**0**	**216 344**
Financial liabilities			
Derivatives	151 967	0	151 967
Repos, securities lent and similar arrangements	0	0	0
Repos	0	0	0
Total	**151 967**	**0**	**151 967**

31.12.2017	Gross amount of recorded financial instruments	Gross amount of offset recorded financial instruments	Net amount of financial instruments recorded on the balance sheet
Financial assets			
Derivatives	119 063	0	119 063
Reverse repos, securities borrowed and similar arrangements	99 973	0	99 973
Reverse repos	99 973	0	99 973
Total	**219 036**	**0**	**219 036**
Financial liabilities			
Derivatives	157 218	0	157 218
Repos, securities lent and similar arrangements	5 031	0	5 031
Repos	5 031	0	5 031
Total	**162 249**	**0**	**162 249**

(in thousands of EUR)

		Non-offset amounts in balance sheet	
Financial instruments	Cash guarantees	Guarantees in form of securities	Net amounts
19 982	17 382	0	78 980
0	0	100 000	0
0	0	100 000	0
19 982	**17 382**	**100 000**	**78 980**
19 982	23 809	0	108 176
0	0	0	0
0	0	0	0
19 982	**23 809**	**0**	**108 176**

(in thousands of EUR)

		Non-offset amounts in balance sheet	
Financial instruments	Cash guarantees	Guarantees in form of securities	Net amounts
23 241	16 826	0	78 996
0	0	99 973	0
0	0	99 973	0
23 241	**16 826**	**99 973**	**78 996**
23 241	21 775	0	112 202
0	0	5 031	0
0	0	5 031	0
23 241	**21 775**	**5 031**	**112 202**

7.19 Transfers of financial assets

The financial assets that the Degroof Petercam group has transferred, but that have not been derecognized in accordance with IFRS 9, comprise primarily securities that have been temporarily disposed of in the context of repo transactions or securities lending transactions. In general, the counterparty to these transactions is able to reuse the collateral received.

The table below provides an overview of the financial assets transferred and the related liabilities:

(in thousands of EUR)

31.12.2018	Securities lending		Repurchase agreements	
	Debts intruments	Equities instruments	Debts intruments	Equities instruments
Transferred financial assets at carrying amount	**156 608**	**0**	**0**	**0**
Financial assets at fair value through profit or loss	0	0	0	0
Financial assets at fair value through other comprehensive income	97 840	0	0	0
Financial assets at amotised cost	58 768	0	0	0
Associated financial liabilities at carrying amount				
Deposits from credit institutions	n/a	n/a	0	0
For those liabilities that have recourse only to the transferred assets				
Fair value of transferred assets	n/a	n/a	0	0
Fair value of associated liabilities	n/a	n/a	0	0
Net position	n/a	n/a	0	0

(in thousands of EUR)

01.01.2018	Securities lending		Repurchase agreements	
	Debts intruments	Equities instruments	Debts intruments	Equities instruments
Transferred financial assets at carrying amount	**63 336**	**0**	**10 041**	**0**
Financial assets at fair value through profit or loss	0	0	0	0
Financial assets at fair value through other comprehensive income	50 256	0	10 041	0
Financial assets at amotised cost	13 080	0	0	0
Associated financial liabilities at carrying amount				
Deposits from credit institutions	n/a	n/a	0	0
For those liabilities that have recourse only to the transferred assets				
Fair value of transferred assets	n/a	n/a	0	0
Fair value of associated liabilities	n/a	n/a	0	0
Net position	n/a	n/a	0	0

(in thousands of EUR)

31.12.2017	Securities lending		Repurchase agreements	
	Fixed income securities	Variable-income securities	Fixed income securities	Variable-income securities
Transferred financial assets at carrying amount	**63 336**	**0**	**10 041**	**0**
Financial assets designated at fair value through profit or loss	45 168	0	0	0
Available-for-sale financial assets	15 203	0	10 041	0
Financial assets held to maturity	2 965	0	0	0
Associated financial liabilities at carrying amount				
Deposits from credit institutions	n/a	n/a	0	0
For those liabilities that have recourse only to the transferred assets				
Fair value of transferred assets	n/a	n/a	0	0
Fair value of associated liabilities	n/a	n/a	0	0
Net position	n/a	n/a	0	0

7.20 Impacts of the first application of IFRS9

Elements previously designated at fair value through profit or loss and hedge accounting

In order to reduce the interest rate risk, Bank Degroof Petercam enters into interest rate swaps (IRS) where it pays a fixed rate and receives a floating rate in order to cover debt instruments. Under IAS 39, IRSs are valued at fair value through profit or loss and the liabilities are, in principle, classified in available-for-sale financial assets (fair value through other comprehensive income). In order to reduce the accounting mismatch, IAS 39 authorises the designation of these securities, at the date of acquisition, at fair value through profit or loss ('Fair Value Option' or 'FVO'). This designation permits the movements in the fair values of these securities to be recorded in profit or loss, as is the case with IRSs.

The application of the FVO implies a risk of volatility at the level of the profit or loss account if there is a movement in the credit spread for securities. In effect, the movement in the interest rates attached to these obligations and the IRSs off-set each other, which is not the case for movements in the credit spread.

For this reason, Bank Degroof Petercam has decided to apply the hedge accounting principles of IFRS 9 and to requalify financial assets previously classified as FVO in accordance with this accounting standard.

The securities below, previously designated as fair value through profit or loss, have been classified under IFRS 9 either at fair value through other comprehensive income, or as financial assets measured at amortised cost in function of the business models defined by Bank Degroof Petercam. IRSs have been designated as hedging instruments.

Elements previously designated under the other IAS 39 categories

Loans and receivables with credit institutions, loans and receivables with clients and debt instruments classified as 'loans and receivables' in accordance with IAS 39 have been transferred largely to financial assets measured at amortized cost. The reversal of revaluation reserves frozen following a reclassification of certain from 'available-for-sale financial assets' to 'loans and receivables' and, subsequently, amortised as from that moment, has not had a significant impact as a result of the application of IFRS 9.

Debt instruments classified as available-for-sale financial assets under IAS 39 have shifted, in part (approximately 35% of this portfolio), towards financial assets measured at amortized cost because these instruments are held under a business model the objective of which is to hold the instruments in order to collect the contractual cash flows and respect the 'SPPI' criteria. The mutual funds (EUR 44.5 million) have moved to financial assets measured at fair value through profit or loss given that they do not meet the 'SPPI' criteria. A large proportion of these equity instruments (approximately 75% of this portfolio, classified under IAS 39 as available-for-sale financial assets) held by the group for strategic reasons, have been designated as measured through other comprehensive income in accordance with IFRS 9. Impairments associated with these equity instruments that had been recognised previously, have been reclassified from retained earnings to revaluation reserves (accumulated other comprehensive income).

Under IAS 39, certain debt instruments were reclassified from 'available-for-sale financial assets' to 'held-to-maturity investments'. Under IFRS 9, these instruments enter into a 'collect and sell' business model and are measured at fair value through other comprehensive income. On the transition date, the accounting value of these instruments was adjusted against the revaluation reserves (accumulated other comprehensive income) reflecting the retrospective application of the interest rate method since the date of their initial recognition.

With the exception of certain derivatives (see above), the application of IFRS 9 has not resulted in changes to the measurement and classification of financial assets held for trading under IAS39.

Incidences sur le bilan et les capitaux propres

The following tables reconciles the assets and liabilities of the statement of financial position, showing the measurement class and the book value as originally determined in accordance with IAS 39, and the amounts of the assets and liabilities of the statement of financial position per January 1, 2018, presented in accordance with IFRS 9.

The implementation of the accounting classification in accordance with IFRS 9 is described in the summary of accounting policies and methods of the consolidated financial statements.

Financial assets

		Carrying amount IAS39	Financial instruments at fair value through profit or loss		
			Financial assets held for trading	Financial assets mandatory at fair value through profit or loss (Equity instruments)	Financial assets mandatory at fair value through profit or loss (non SPPI)
IAS 39	Cash, balances with central banks and other demand deposits	3 191 899			
	Financial assets held for trading	132 368	128 938		
	Fixed-income securities	*4 479*	*4 479*		
	Variable-income securities	*8 826*	*8 826*		
	Derivative financial instruments	*119 063*	*115 633*		
	Financial assets designated at fair value through profit or loss	893 350			2 271
	Fixed-income securities	*893 350*			*2 271*
	Available-for-sale financial assets	1 195 166		4 636	118 755
	Fixed-income securities	*1 132 721*			*74 281*
	Variable-income securities	*62 445*		*4 636*	*44 474*
	Loans and advances to credit institutions	221 999			
	Loans and advances to customers	1 916 135			
	Debt instruments	*12 862*			
	Other loans and advances	*1 903 273*			
	Financial assets held to maturity	80 726			
	Property and equipment	84 912			
	Goodwill and other intangible assets	368 843			
	Investments in entities accounted for using the equity method	146			
	Current tax assets	10 553			
	Deferred tax assets	7 985			
	Other assets	151 273			
	TOTAL	**8 255 355**	**128 938**	**4 636**	**121 026**

IFRS 9 Reclassifications

Financial instruments at fair value through other comprehensive income		Derivatives for hedge accounting	Financial assets at amortised cost				Other
Debt instruments	Equity instruments	Assets	Cash, balances with central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Debt instruments	
			3 191 899				
		3 430					
348 032						537 852	
348 032						*537 852*	
650 866	13 335					407 428	
650 866						*407 428*	
	13 335						
				221 999			
					1 903 185	12 793	
					21	*12 793*	
					1 903 164		
39 796						42 719	
							84 912
							368 843
							146
							10 553
							8 141
							151 273
1 038 694	**13 335**	**3 430**	**3 191 899**	**221 999**	**1 903 185**	**1 000 792**	**623 868**
						Total IFRS9	**8 251 802**

Financial liabilities

		Carrying amount IAS 39
IAS 39	Financial liabilities held for trading	158 234
	Fixed-income securities	*253*
	Variable-income securities	*762*
	Derivative financial instruments	*157 219*
	Deposits from credit institutions	164 487
	Deposits from customers	6 730 634
	Debt securities	67 852
	Provisions	27 221
	Current tax liabilities	11 394
	Deferred tax liabilities	155 719
	Other liabilities	**7 315 541**

Equity

		Carrying amount IAS 39
IAS 39	Issued capital	34 212
	Share premium	420 553
	Reserves and retained earnings	531 983
	Revaluation reserves	(3)
	Debt instruments	*10 434*
	Equity instruments	*5 053*
	Other	*(15 490)*
	Treasury shares (-)	(47 604)
	Minority interests	673
	Total	**939 814**

IFRS 9 Reclassifications

	Financial liabilities at fair value through profit or loss	Derivatives for hedge accounting	Financial liabilities at amortised cost			Other
			Deposits from credit institutions	Deposits from customers	Debt securities	
	151 423	6 811				
	253					
	762					
	150 408	*6 811*				
			164 487			
				6 730 634		
						67 853
						27 130
						10 051
						155 719
	151 423	**6 811**	**164 487**	**6 730 634**	**0**	**260 753**
					Total IFRS9	**7 314 108**

IFRS 9 Restatements

	Gross impact		Tax impact		Carrying amount IFRS 9
	Measurement impact	Impairment impact	Measurement impact	Impairment impact	
					34 212
					420 553
	11 112	(935)	(651)	257	541 766
	(14 368)	486	2 123	(141)	(11 903)
	2 929	*486*	*(341)*	*(141)*	*13 367*
	(17 297)		*2 464*		*(9 780)*
					(15 490)
					(47 604)
	(4)		1		670
	(3 260)	**(449)**	**1 473**	**116**	**937 694**

The following table summarizes the impact of the variation of assets and liabilities with respect to their classification and measurement following the application of IFRS 9.

	Carrying amount IAS 39 31/12/2017	Reclassi-fications [1]	Measur-ement Impact	Carrying amount IFRS 9 01/01/2018
Financial assets				
Financial assets held for trading	132 368			
To : Derivatives for hedge accounting		(3 430)		
Total financial assets held for trading				128 938
Derivatives for hedge accounting	0			
From : Financial assets held for trading		3 430		
Total derivatives for hedge accounting				3 430
Financial assets designated at fair value through profit or loss	893 350			
To: Financial assets mandatory at fair value through profit or loss		(2 254)		
To: Financial assets at fair value through other comprehensive income		(348 032)		
To: Debt instruments at amortised cost		(543 064)		
Total financial assets designated at fair value through profit or loss				0
Available-for-sale financial assets	1 195 166			
To: Financial assets mandatory at fair value through profit or loss		(123 391)		
To: Financial assets at fair value through other comprehensive income		(663 563)		
To: Debt instruments at amortised cost		(408 212)		
Total available-for-sale financial assets				0
Loans and advances to customers	1 916 135			
To: Debt instruments at amortised cost		(12 824)		
To: Financial assets mandatory at fair value through profit or loss		(17)		
Impairment impact			(109)	
Total loans and advances to customers				1 903 185
Financial assets held to maturity	80 726			
To: Debt instruments at amortised cost		(42 719)		
To: Financial assets at fair value through other comprehensive income		(38 007)		
Total financial assets held to maturity				0
Financial assets mandatory at fair value through profit or loss	0			
From: Financial assets designated at fair value through profit or loss		2 254		
From: Loans and advances to customers		17		
From: Available-for-sale financial assets		123 391		
Total financial assets mandatory at fair value through profit or loss				125 662

1 Movements related to the impacts of the reclassification due to the application of the classification principles of IFRS 9 considering the economic models and the SPPI criteria.

	Carrying amount IAS 39 31/12/2017	Reclassi-fications[1]	Measur-ement Impact	Carrying amount IFRS 9 01/01/2018
Financial assets at fair valur through other comprehensive income	0			
From: Financial assets designated at fair value through profit or loss		348 032		
From: Financial assets held to maturity		38 007		
From: Available-for-sale financial assets		663 563		
Measurement impact			2 427	
Impairment impact			0	
Total financial assets at fair valur through other comprehensive income				1 052 029
Debt instruments at amortised cost	0			
From: Financial assets designated at fair value through profit or loss		543 064		
From: Financial assets held to maturity		42 719		
From: Available-for-sale financial assets		408 212		
To: Loans and advances to customers		12 824		
Measurement impact			(5 688)	
Impairment impact			(339)	
Total debt instruments at amortised cost				1 000 792
Total financial assets	**4 217 745**	**0**	**(3 709)**	**4 214 036**
Financial liabilities				
Financial liabilities held for trading	158 234			
To : Derivatives for hedge accounting		(6 811)		
Total financial liabilities held for trading				151 423
Derivatives for hedge accounting				
From : Financial assets held for trading		6 811		
Total derivatives for hedge accounting				6 811
Provisions	67 852			
Impairment impact			1	
Total provisions				67 853
Total financial liabilities	**226 086**	**0**	**1**	**226 087**

Dereciation for credit losses

The following table provides a comparison between the impairment for credit losses as calculated in accordance with IAS 39 and IAS 37 and the corresponding impairment as calculated in accordance with IFRS 9 per January 1, 2018.

The application of the new depreciation model, as described in the summary of accounting policies and methods of the consolidated financial statements results in a gross increase of impairment and provisions by EUR 935 thousands.

IAS 37/ IAS 39 31/12/2017	IAS 39/IAS 37		
	Collective provisionning	Individual provisionning	Total
Loans and advances to customers	3 077	32 314	**35 391**
Financial assets held to maturity	0	0	**0**
Available-for-sale financial assets			
Fixed-income securities	0	2 502	**2 502**
Total impairments	**3 077**	**34 816**	**37 893**
Provisions for commitments and financial guarantees given	0	0	

Reclassification to amortized cost or to fair value through other comprehensive income’

The following table provides information on the financial assets that have been reclassified so that they are measured at amortized cost, and, on the financial assets that have been reclassified outside the category of at fair value through profit and loss so that they are measured at fair value through other comprehensive income.

Financial instruments measured at fair value through profit and loss under IAS 39 and reclassified to amortized cost under IFRS 9
Financial instruments available for sale under IAS 39 and reclassified at amortized cost under IFRS 9
Financial instruments measured at fair value through profit and loss under IAS 39 and reclassified to fair value through other comprehensive income under IFRS 9.

IFRS 9 01/01/2018	IFRS 9 impact on impairment: Reclassification[1]	Application new impairment methodology[2]	Total	Impairment per stage: Stage 1	Stage 2	Stage 3
Loans and advances to customers	(35 391)					
A Financial assets at amortised cost - Loans and advances to customers	35 391	109	**35 500**	2 507	679	32 314
Fixed income securities	0					
A Financial assets at amortised cost	0		**0**			
Fixed income securities	(2 502)					
A Financial assets at amortised cost	2 502	339	**2 841**	300	39	2 502
B Financial assets at fair value through other comprehensive income - Debt instruments		486	**486**	302	184	0
Impairments	**0**	**934**	**38 827**	**3 109**	**902**	**34 816**
Provisions for commitments and financial guarantees given		1	1	1		
Total impairments	**0**	**935**	**38 828**			

Carrying amount 31/12/2018	Fair value 31/12/2018	Fair value variation that would have been recognised during 2018: in profit or loss	in other comprehensive income	Effective interest rate determined on the date of initial application	The interest revenue or expense recognised
441 234[3]	440 432	27		0,75%	3 327
66 318	66 402		(447)		
205 542	205 542	(253)		0,69%	3 078

1 Movements related to the impacts of the reclassification due to the application of the classification principles of IFRS 9 considering the economic models and the SPPI criteria.
2 The provisions for credit losses on the debts instruments measured at fair value through other comprehensive income are accounted for in the accumulated other comprehensive income and don't decrease the book value of the instruments presented in the consolidated statement of financial position.
3 The book value captures a revaluation adjustment of EUR 3,059 thousands with respect to the fair value hedge.

8 Notes to the consolidated statement of comprehensive income

8.1 Interest income and expense

8.1 a Figures at 31 December 2018 (IFRS 9)

Interest income and expense, by class of interest-bearing financial instrument, is as follows:

(in thousands of EUR)

	31.12.2018
Interest income	**48 215**
Financial assets at fair value through other comprehensive income	*7 088*
Loans and advances to credit institutions	*1 416*
Loans and advances to customers	*26 483*
Financial assets at amotised cost	*6 540*
Financial instruments for hedge accounting	*2 965*
Financial liabilities	*2 562*
Interest income stemming from the application of the effective interest rate method	47 054
Financial assets held for trading	*102*
Financial assets mandatorily at fair value through profit or loss	*1 059*
Interest income stemming from the application of another method then the effective interest rate method	1 161
Interest expenses	**(31 331)**
Deposits from credit institutions	*(1 337)*
Deposits from customers	*(9 078)*
Financial instruments for hedge accounting	*(10 406)*
Financial assets	*(10 431)*
Other	*(78)*
Interest expenses stemming from the application of the effective interest rate method	(31 330)
Financial liabilities held for trading	*(1)*
Interest expenses stemming from the application of another method then the effective interest rate method	(1)
Net interest income	**16 884**

8.1 b Figures at 31 December 2017 (IAS 39

Interest income and expense, by class of interest-bearing financial instrument, is as follows:

(in thousands of EUR)

	31.12.2017
Interest income	**53 748**
Financial assets held for trading	*125*
Financial assets at fair value through profit or loss	*17 383*
Interest income on assets stated at fair value	17 508
Loans and advances to credit institutions	*679*
Loans and advances to customers	*23 684*
Available-for-sale securities	*6 300*
Held to maturity securities	*1 790*
Other	*3 787*
Interest income on assets not stated at fair value	36 240
Interest expenses	**(11 996)**
Financial liabilities held for trading	*(55)*
Interest expenses on assets stated at fair value	(55)
Deposits from credit institutions	*(1 393)*
Deposits from customers	*(4 081)*
Other	*(6 467)*
Interest expenses on liabilities not stated at fair value	(11 941)
Net interest income	**41 752**

8.2 Dividend income

Dividend income is detailed below, by category of financial asset:

(in thousands of EUR)

	31.12.2018	31.12.2017
Financial assets held for trading	100	531
Financial assets designated at fair value through profit or loss		1 050
Others financial assets at fair value through profit or loss	2 918	
Available-for-sale securities		1 350
Financial assets at fair value through other comprehensive income	473	
Total	**3 491**	**2 931**

8.3 Fee and commission income and expense

Fee and commission income and expense is detailed below, by type of service:

(in thousands of EUR)

	31.12.2018	31.12.2017
Fee and commission income	**540 164**	**526 522**
Asset management	354 386	326 661
Issues and placements of securities	8 529	10 932
Custodian services	75 613	83 964
Other securities services	55 070	58 977
Cash related services	6 594	9 746
Financial engineering	35 879	31 507
Derivatives	4 093	4 735
Fee and commission expense	**(142 759)**	**(151 553)**
Asset management	(109 701)	(81 233)
Issues and placements of securities	(19)	(79)
Custodian services	(9 217)	(40 686)
Other securities services	(19 811)	(23 392)
Cash related services	(3 457)	(5 604)
Derivatives	(554)	(559)
Net commission income	**397 405**	**374 969**

The table below breaks out commissions received and paid (31 December 2018) by principal type of revenue:

(in thousands of EUR)

	31.12.2018
Revenues stemming from assets under management	311 506
– Management fees	246 897
– Custody fees	14 227
– Administrative charges	50 382
Revenues stemming from transactions	37 146
Commissions stemming from issuance and structuring	43 328
Other commissions and revenues	5 425
Total revenu	**397 405**

8.4 Net result on financial instruments measured at fair value through profit or loss

8.4 a Figures at 31 December 2018 (IFRS 9)

The table below analyses the gains and losses on financial instruments measured at fair value through profit or loss, by type of financial instrument:

(in thousands of EUR)

	31.12.2018
Gains (losses) on financial assets held for trading	**24 607**
Debt securities	3 124
Bonds	*2 923*
Other debt securities	*201*
Equity instruments	486
Derivatives	20 997
Foreign exchange derivatives	*25 784*
Interest rate derivatives	*(12 026)*
Equity derivatives	*7 224*
Commodity derivatives	*15*
Gains (losses) on financial instruments mandatory at fair value through profit and loss	**(12 711)**
Treasury bills and government bonds	(82)
Bonds from other issuers	(2 587)
Other instruments	(10 042)
Equity instruments at fair value through profit and loss	**882**
Foreign exchange result	**9 633**
Net result on financial instruments mesured at fair vue through profit or loss	**22 411**

8.4 b Figures at 31 December 2017 (IAS 39)

The table below analyses the gains and losses on financial instruments held for trading, by type of financial instrument:

(in thousands of EUR)

	31.12.2017
Realized and unrealized gains (losses) on financial instruments held for trading	**15 879**
Fixed income securities	4 070
Variable income securities	947
Exchange activities	10 833
Other	29
Gains (losses) on derivatives	**6 187**
Foreign exchange derivatives	9 734
Interest rate derivatives	(4 212)
Equity derivatives	681
Other derivatives	(16)
Net result on financial instruments held for trading	**22 066**

The table below analyzes, by type of financial instrument, realized and unrealized gains and losses on financial instruments designated at fair value through profit or loss:

(in thousands of EUR)

	31.12.2017
Fixed income securities	(2 971)
Variable income securities	109
Net result on financial instruments designated at fair value	**(2 862)**

With the exception of derivatives, all interest received and paid on financial instruments is recorded as interest income. Accordingly, the above-mentioned gains and losses on derivatives represent the impact of their revaluation to fair value including accrued interest, while the gains and losses on other financial instruments represent only the changes in their market values.

8.5 Net result on hedge accounting

The table below analyzes, by type of financial instrument, the gains and losses on hedge accounting:

(in thousands of EUR)

	31.12.2018
Fair value changes of the hedged item attributable to the hedged risk	11 573
Fair value changes of the hedging derivatives	(8 185)
Net gains (losses) from hedge accounting	**3 388**

8.6 Net result on financial instruments measured at fair value through other comprehensive income

8.6 a Figures at 31 December 2018 (IFRS 9)

The table below analyzes, by category and by type of financial instrument, gains and losses on financial instruments measured at fair value through other comprehensive income:

(in thousands of EUR)

	31.12.2018
Debt securities	(983)
Treasury bills and government bonds	*(519)*
Bonds from other issuers	*(635)*
Other debt instruments	*171*
Net result on financial instruments at fair value through other comprehensive income	**(983)**

8.6 b Figures at 31 December 2017 (IAS 39)

The table below analyzes, by category and by type of financial instrument, gains and losses on financial instruments not designated at fair value through profit or loss:

(in thousands of EUR)

	31.12.2017
Gains (losses) on available-for-sale financial assets	**8 661**
Fixed income securities – public debts	1 148
Fixed income securities – other debts	3 032
Variable income securities	4 481
Net result on sale of loans and advances	**(1)**
Losses on sale of loans and advances	(1)
Net result on financial instruments not designated at fair value through profit or loss	**8 660**

8.7 Net result on financial instruments measured at amortized cost

The table below analyzes, by category and by type of financial instrument, gains and losses on financial instruments measured at amortized cost:

(in thousands of EUR)

	31.12.2018
Debt instruments	(226)
Treasury bills and government bonds	*(148)*
Bonds from other issuers	*(78)*
Net result on financial instrumens measured at amortized cost	**(226)**

Information about 31/12/2017 are described within point 8.6b.

8.8 Other net operating results

Other net operating results are analyzed below:

(in thousands of EUR)

	31.12.2018	31.12.2017
Other operating income	**20 480**	**30 058**
Lease income	3 214	3 326
Realized capital gains on sales of tangible and intangible fixed assets	14	101
Realized capital gains on sales of investments	0	387
Reversals of provisions	1 955	2 109
Supply of services	6 936	7 284
Other	8 361	16 851
Other operating charges	**(7 598)**	**(9 421)**
Realized capital losses on sales of tangible and intangible fixed assets	(230)	(795)
Transfer to provisions	(1 480)	(3 431)
Other	(5 888)	(5 195)
Other net operating results	**12 882**	**20 637**

In 2017, the account ‘Other income and operational charges’ include the impacts of the modification of the contractual conditions of the advantages subsequent to employment, following the harmonization of the remuneration policy due to the merger.

8.9 Personnel expenses

Personnel expenses comprise the following:

(in thousands of EUR)

	31.12.2018	31.12.2017
Wages and salaries	(152 528)	(152 931)
Social security, social insurance and extra-legal insurance	(24 760)	(26 132)
Pension costs	(11 923)	(11 858)
Share-based compensation	(36)	1 106
Other costs	(3 883)	(4 301)
Personnel expenses	**(193 130)**	**(194 116)**

Note 10 provides detailed information about post-employment benefits and share-based payments.
The number of personnel employed, expressed in full-time equivalents, is, by category:

(in units)

FTE on	31.12.2018	31.12.2017
Senior management	372	362
Employees	1 028	999
Workers	11	10
Total	**1 411**	**1 371**

8.10 General and administrative expenses

General and administrative expenses are analyzed below:

(in thousands of EUR)

	31.12.2018	31.12.2017
Marketing, advertising and public relations	(6 161)	(5 877)
Professional fees	(29 651)	(21 548)
Operating leases	(16 873)	(15 806)
IT and telecommunications charges	(51 836)	(44 568)
Repairs and maintenance	(5 108)	(5 594)
Operational taxes	(22 379)	(19 619)
Other general and administrative expenses	(29 101)	(22 734)
General and administrative expenses	**(161 109)**	**(135 746)**

Operating lease expenses relate primarily to vehicles and buildings. The other general and administrative expenses represent primarily entertainment and travel expenses, expenses for office supplies, training expenses, subscriptions, and insurance premiums other than those related to personnel.

The general expenses show a strong increase in 2018; this concerns both the operational expenses as the integration and transformation expenses.

8.11 Depreciation of property and equipment and amortization of intangible assets

During the financial period ended 31 December 2018, depreciation of property and equipment amounted to EUR 7.9 million (31 December 2017: EUR 7.5 million) and amortization of intangible assets amounted to EUR 13.9 million (31 December 2017: EUR 14.4 million;).

An analysis of depreciation and amortization by category of property and equipment and of intangible asset is provided in notes 7.6 and 7.7.

8.12 Impairments

8.12 a Figures at 31 December 2018 (IFRS 9)

Movements in impairments, by category of asset, are as follows:

(in thousands of EUR)

	31.12.2018
Financial assets	
Reversals of impairment losses	**4 518**
Loans and advances to customers	4 267
Debt instruments at amortized cost	183
Debt instruments at fair value through OCI	68
Allowance for impairments	**(1 523)**
Loans and advances to customers	(1 418)
Debt instruments at amortized cost	(75)
Debt instruments at fair value through OCI	(30)
Net variation of impairment losses on financial assets	**2 995**
Non financial assets	
Allowance for impairments	**(1 102)**
Intangible assets	(1 102)
Net variation of impairment losses on non financial assets	**(1 102)**
Impairment losses on assets	**1 893**

8.12 b Figures at 31 December 2017 (IAS 39)

Movements in impairments, by category of asset, are as follows:

(in thousands of EUR)

	31.12.2017
Reversals of impairment losses	**4 112**
Loans and advances	4 112
Allowance for impairments	**(11 814)**
Loans and advances	(5 039)
Tangible assets	(1 149)
Intangible assets	(5 626)
Net variation of impairment losses on assets	**(7 702)**

Details of the movements in impairments of tangible and intangible fixed assets are included in notes 7.6 and 7.7, by category of tangible and intangible fixed asset.

8.13 Income tax expense

The net income tax expense is explained by the following elements:

(in thousands of EUR)

	31.12.2018	31.12.2017
Tax on current year result	**(22 159)**	**(22 688)**
Income tax for the period	(19 343)	(25 446)
Deferred tax	(2 816)	2 758
Other tax expense	**(1 651)**	**805**
Income tax on prior years	(1 599)	906
Other items	(52)	(101)
Net income tax expense	**(23 810)**	**(21 883)**

The table below reconciles the normal tax rate in Belgium (29.58%) to the effective tax rate of Bank Degroof Petercam:

(in thousands of EUR)

	31.12.2018	31.12.2017
Profit before income tax	*80 589*	*108 345*
Income of entities accounted for using the equity method	*479*	*351*
Tax base	81 068	108 696
Tax rate applicable at closing	29.58%	33.99%
Theoretical income tax expense	**(23 980)**	**(36 946)**
Effect of tax rate differences in other jurisdictions	1 251	(4 096)
Tax impact of non-deductible expenses	(6 945)	(6 348)
Tax impact of non-taxable income	6 853	25 421
Permanent differences	(388)	(827)
Effect of other items	1 187	(505)
Previously unrecognized deferred tax assets	0	1 778
Unrecognized deferred tax assets	(137)	(1 372)
Income tax for the period	**(22 159)**	**(22 895)**
Average effective tax rate	**27.33%**	**21.06%**

The fiscal impact of non-taxable revenues relates principally to realized gains on shares and non-taxable dividends.

8.14 Other components of other comprehensive income

8.14 a Figures at 31 December 2018 (IFRS 9)

Details of other components of other comprehensive income are as follows:

(in thousands of EUR)

	31.12.2018
Remeasurement gains (losses) related to post-employment benefit plans	**316**
Gross amount	258
Taxes recorded directly in reserves	58
Revaluation at fair value - Equity instruments at fair value through other comprehensive income	**485**
Adjustment to fair value, before taxes	816
Taxes recorded directly in reserves	(331)
Total other comprehensive income that may not be reclassified subsequently to net profit	**801**
Currency translation differences	**1 524**
Gross amount	1 524
Revaluation at fair value - Debt instruments at fair value through other comprehensive income	**(7 639)**
Adjustment to fair value, before taxes	(9 137)
Transfer from the reserve to results, before taxes	(1 160)
Impairments	*(6)*
Losses (gains) on disposals	*(1 154)*
Taxes recorded directly in reserves	2 658
Total other comprehensive income that may be reclassified subsequently to net profit	**(6 115)**
Total other comprehensive income	**(5 314)**

8.14 b Figures at 31 December 2017 (IAS 39)

Details of other components of other comprehensive income are as follows:

(in thousands of EUR)

	31.12.2017
Remeasurement gains (losses) related to post-employment benefit plans	**1 012**
Gross amount	1 544
Taxes recorded directly in reserves	(532)
Total other comprehensive income that may not be reclassified subsequently to net profit	**1 012**
Currency translation differences	**(3 247)**
Gross amount	(3 247)
Fixed income securities	**4 002**
Adjustment to fair value, before taxes	(835)
Transfer from the reserve to results, before taxes	1 792
Impairments	(3 647)
Losses (gains) on disposals	*(4 180)*
Prorata of the reserve for the revaluation of available-for-sale financial assets following their reclassification	*533*
Taxes recorded directly in reserves	1 020
Variable income securities	4 837
Adjustment to fair value, before taxes	11 244
Transfer from the reserve to results, before taxes	(4 481)
Impairments	*0*
Losses (gains) on disposals	*(4 481)*
Taxes recorded directly in reserves	(1 926)
Total other comprehensive income that may be reclassified subsequently to net profit	**755**
Total other comprehensive income	**1 767**

9 Rights and commitments

9.1 Assets in open custody

Assets in open custody are primarily marketable securities that have been placed in custody by clients, regardless of whether or not the control over the assets by the holder is restricted, or whether or not the assets are subject to a management contract with Bank Degroof Petercam. These assets are measured at fair value.

Assets in open custody with the Bank at 31 December 2018, and at 31 December 2017 amounted to EUR 75.3 billion and EUR 80.9 billion respectively.

9.2 Credit related rights and commitments

Bank Degroof Petercam has commitments under credit lines granted to clients, the unused portion of which at 31 December 2018 amounted to EUR 322.8 million (31 December 2017: EUR 306.2 million).

9.3 Guarantees given and received

Bank Degroof Petercam has pledged, for its own account and for those of its clients, financial instruments amounting to EUR 157.3 million at 31 December 2018 (31 December 2017: EUR 179.1).

Bank Degroof Petercam has received pledges of assets from its clients amounting to EUR 4 041.1 million at 31 December 2018 (31 December 2017: EUR 4 798.9 million). As a general rule, these pledges cannot be used by the Bank in the absence of a default by the owner of the pledge, except for those obtained in the context of repo operations, which amounted to EUR 0.0 million at 31 December 2018 (31 December 2017: EUR 0.0 million). Of the pledges obtained that can be used, none had been given as a guarantee for repo operations at 31 December 2018 (guarantees received and then given as guarantees at 31 December 2017: nil).

10 Employee benefits and other remuneration

10.1 Other long-term benefits

The application of national legislation relating to remuneration policies requires the deferral, for a period exceeding twelve months, of the payment of profit sharing bonuses to certain members of the personnel.

Movements on this provision are as follows:

(in thousands of EUR)

	31.12.2018	31.12.2017
Opening balance	**4 601**	**5 434**
Allowances for provisions	4 155	2 173
Use of provisions	(2 325)	(2 704)
Reversal of unused provisions	(53)	(215)
Other	11	(87)
Closing balance	**6 389**	**4 601**

10.2 Post-employment benefits

Post-employment benefits comprise pension schemes and the partial payment of medical care insurance premiums following the retirement of certain employees. Beneficiaries of this benefit are employees who are currently retired or who will be retired before May 1, 2022 as well as their spouses.

The pension schemes include both defined contribution and defined benefit plans. The defined benefit plans comprise a defined benefit plan and a defined contribution plan with returns that are guaranteed in accordance with local obligations. The defined benefit plan was closed in December 2004.

The charge for the current financial period in respect of the defined contribution plans was EUR 2.6 million (31 December 2017: EUR 2.4 million). For the other plans, the table below details the Degroof Petercam group's commitments and the principal actuarial assumptions used:

	Pension plans	
	31.12.2018	**31.12.2017**
Present value of the funded obligations	131 714	124 463
Fair value of plan assets	101 662	95 820
A. Net liability (asset) of post-employment benefits	**30 052**	**28 643**
B. Change in defined benefit obligation		
Balance at beginning of year	**124 463**	**115 135**
Current service cost	9 303	10 372
Interest cost	1 310	1 313
Benefits paid during year	(1 410)	(1 052)
Administrative charges and taxes	(1 124)	(1 034)
Increase (decrease) related to business combinations, disposals, transfers	108	44
Currency translation differences	523	(1 245)
Revaluations:		
a. Actuarial gains and losses from demographic assumptions	3 120	0
b. Actuarial gains and losses from financial assumptions	(4 575)	384
c. Actuarial gains and losses from other assumptions	(4)	546
Balance at end of year	**131 714**	**124 463**
C. Change in fair value of plan assets		
Balance at beginning of year	**95 820**	**87 168**
Interest income	1 041	1 057
Employer contributions	8 325	7 414
Employee contributions	172	161
Benefits paid during year	(1 410)	(1 052)
Administrative charges and taxes	(1 123)	(1 034)
Net transfers	108	44
Currency translation differences	399	(832)
Return on plan assets (other than interest income)	(1 670)	2 894
Balance at end of year	**101 662**	**95 820**
D. Components of cost		
Service cost		
a. Current service costs	9 303	8 528
b. Past service costs	0	1 845
Charges / income (net of interest)	269	256
Employee contributions	(172)	(161)
Administrative charges and taxes	0	7
Net charges recorded in income	**9 400**	**10 475**
a. Actuarial gains and losses from demographic assumptions		
b. Actuarial gains and losses from financial assumptions	3 120	0
c. Actuarial gains and losses from other assumptions	(4 575)	384
d. Return on assets (other than interest income)	(4)	538
d. Rendement des actifs (autres que les revenus d'intérêts)	1 670	(2 894)
Revaluations recorded in other elements of comprehensive income	**211**	**(1 972)**
E. Reconciliation of net obligations (assets) related to post-employment benefits		
Balance at beginning of year	**28 643**	**27 967**
Net charges recorded in income	9 400	10 475
Revaluations recorded in other elements of comprehensive income	211	(1 972)
Employer contributions	(8 325)	(7 414)
Currency translation differences	123	(413)
Balance at end of year	**30 052**	**28 643**

(in thousands of EUR)

Other benefits	
31.12.2018	**31.12.2017**
4 474	4 810
0	0
4 474	**4 810**
4 810	**14 243**
135	(8 096)
98	298
(81)	(87)
	0
0	0
0	0
(161)	0
(115)	(393)
(212)	(1 155)
4 474	**4 810**
0	**0**
0	0
81	87
0	0
(81)	(87)
0	0
0	0
0	0
0	0
0	**0**
135	451
0	(8 547)
98	298
0	0
0	0
233	**(7 798)**
(161)	0
(115)	(393)
(212)	(1 155)
0	0
(488)	**(1 548)**
4 810	**14 243**
233	(7 798)
(488)	(1 548)
(81)	(87)
0	0
4 474	**4 810**

	Pension plans	
	31.12.2018	31.12.2017
F.1 Principal actuarial assumptions to determine the defined benefit obligations		
Discount rate	1.40%	1.10%
Future salary increase	2.75%	2.75%
Inflation rate	1.75%	1.75%
Mortality rate	MR/FR-5	MR/FR-5
F.2 Principal actuarial assumptions to determine net costs		
Discount rate	1.10%	1.30%
Future salary increase	2.75%	2.75%
Inflation rate	1.75%	1.75%
Mortality rate	MR/FR-5	MR/FR-5
G. Plan assets		
Treasury	3 481	4 152
Equity securities	20 221	22 509
Debt securities	25 257	28 185
Real estate	4 949	6 256
Assets held by the insurance company	47 754	33 298
Other	0	1 420

(in thousands of EUR)

	Pension plans	
H. Sensitivity analysis on defined benefit obligations at year-end		
Discount rate	(0.25%)	0.25%
Amount of obligation related to pension schemes	135 534	128 085
Amount of obligation related to other benefits	4 669	4 290
Inflation rate	(0.25%)	0.25%
Amount of obligation related to pension schemes	130 382	133 082
Rate of increase in medical costs	(0.25%)	0.25%
Amount of obligation related to other benefits	4 286	4 672
I. Cash flows forecast for next financial year		
Employer contributions		
Contributions related to pension schemes	8 882	
Contributions related to other benefits	87	
Timing of payments of future benefits		
Less than one year	1 535	
Between one and two years	2 064	
Between two and three years	3 636	
Between three and four years	2 635	
Between four and five years	4 967	
Between five and ten years	27 462	

In addition to the information set out above, it should be noted that the impact resulting from demographic hypotheses reflects the modification of the hypothesis that pensions are now taken 100% at 65 years of age in place of the previous hypothesis that 50% were taken at 62 years of age and 50% at 65 years of age.

This modification is justified by legal changes restricting early retirement.

(in thousands of EUR)

	Other benefits	
	31.12.2018	31.12.2017
	2.20%	2.05%
	n/a	n/a
	4.70%	4.70%
	MR/FR-5	MR/FR-5
	2.05%	2.10%
	n/a	n/a
	4.70%	4.70%
	MR/FR-5	MR/FR-5
	n/a	n/a
	n/a	n/a
	n/a	n/a
	n/a	n/a
	n/a	n/a
	n/a	n/a

10.3 Share-based payments

Bank Degroof Petercam has issued several share option plans prior to 2015 for the benefit of its directors and senior management with the objective of ensuring their loyalty and aligning their personal interests with those of the Bank. These plans comply with national legal provisions. These option plans include both cash-settled plans and plans that are settled in shares. In both cases there is generally a two to four year vesting period.

At 31 December 2018, all option plans that will be settled by delivery of securities have matured.

The movements on share options relating to these plans are as follows:

(in units; in EUR)

	31.12.2018		31.12.2017	
	Number of outstanding options	Weighted average exercise price	Number of outstanding options	Weighted average exercise price
Opening balance	**184 898**	**135.58**	**254 379**	**138.51**
Options withdrawn	(227)	137.61	(7 531)	143.33
Options exercised	(103 258)	131.78	(1)	146.68
Options expired	(81 413)	140.4	(61 949)	146.68
Closing balance	**0**	**0**	**184 898**	**135.58**
of which exercisable	0	0	184 898	135.58

In respect of the above-mentioned plans and in accordance with IFRS 2, the Bank no longer records an expense as all vesting periods have ended. Until such time as these options are exercised, the recording of the expense does not have an impact on shareholders' equity as this balance is increased by an identical amount. Once the options are exercised, shareholders' equity will increase by an amount equal to the number of options exercised multiplied by the exercise price.

In addition to the above-mentioned plans, there are three cash-settled option plans at 31 December 2018. The fair value of these options is calculated annually on the basis of the underlying value of the options.

The first plan was established in 2013 using a subsidiary (Industrie Invest), the sole activity of which is the holding of shares in Bank Degroof Petercam and Degroof Equity (shares issued in the context of the split of the shares of Bank Degroof before the merger with Petercam), financed by own funds and borrowings. The number of options granted at 15 May 2013 was 79 870, of which 22 555 remain outstanding at 31 December 2018. These options have a final exercise date of 30 April 2021 and an exercise price of EUR 45. An expense of EUR 0.2 million was recorded in respect of this plan during the current financial period and a payment of EUR 0.8 million following the exercise of 51 905 options. This plan is valued using a specific model based on Least Square Monte-Carlo type simulations in order to take into account the possibility of the early exercising of the options. The principal data for this model are: a Euro interest rate curve, the cash price for Bank Degroof Petercam shares (EUR 137.09) and Degroof Equity (EUR 13.09), anticipated dividends (EUR 5.50), and the implied volatility (16.39% corresponding to the at the money implied volatility of Eurostoxx 50 until the last possible exercise date).

The second plan was also established during 2013 using a subsidiary (Bank Degroof Petercam Spain), for the sole benefit of the directors of this company. The number of options granted at 25 September 2013 was 583 000 of which 29 150 remain outstanding at 31 December 2018. These options have a final exercise date of 30 December 2019 and an exercise price of EUR 6.17. This plan generated an income of EUR 0.4 million during the current financial period and a payment of EUR 0.2 million following the exercise of 262 350 options. This plan is valued using a specific model based on Least Square Monte-Carlo type simulations in order to take into account the possibility of the early exercising of the options. The principal data for this model are: a Euro interest rate curve, the cash price for Bank Degroof Petercam Spain shares (EUR 6.98), anticipated dividends (EUR 0.00), and the implied volatility (15.58% corresponding to the at the money implied volatility of Eurostoxx 50 until the earliest possible exercise date).

The third plan was established during 2014 using a subsidiary (Industrie Invest II) the sole activity of which is the holding of shares in Bank Degroof Petercam and Degroof Equity (shares issued in the context of the split of the shares of Bank Degroof before the merger with Petercam), financed by own funds. The number of options granted at 1 August 2014 was 54 055 of which 9 985 remain outstanding at 31 December 2018. These options have a final exercise date of 30 April 2019 and an exercise price of EUR 160.84. This plan generated an expense of EUR 0.2 million during the current financial period and a payment of EUR 0.7 million following the exercise of 38 550 options. The remaining options are valued at their intrinsic value due to the proximity of their maturity (four months) and the illiquidity of the underlying shares.

11 Related parties

For Bank Degroof Petercam, related parties include associates, joint ventures, pension funds, the members of the board of directors and executive directors of Bank Degroof Petercam, as well as the close family members of the above-mentioned persons and any company controlled or significantly influenced by one of the above-mentioned persons.

The tables below summarize, by type, the transactions entered into with related parties during the past two years:

(in thousands of EUR)

31.12.2018	Entities with joint control or significant influence	Associates	Key Management	Other related parties	Total
Balance sheet					
Overdrafts	2 270	21 784	1	290	24 345
Term loans	10 583	0	0	0	10 583
Other	5	46	0	0	51
Investment securities	0	0	0	2 844	2 844
Total assets	**12 858**	**21 830**	**1**	**3 134**	**37 823**
Deposits	84 253	219	5 436	1 940	91 848
Other	15	37	0	0	52
Other liabilities	290	0	0	30 070	30 360
Total liabilities	**84 558**	**256**	**5 436**	**32 010**	**122 260**
Guarantees given by the group	800	0	0	3 450	4 250
Guarantees received by the group	41 510	0	0	0	41 510
Commitments	830	0	0	0	830
Notional amount of derivatives	1 089	0	0	0	1 089
Share options					
Excercised	2 952	0	17 690	0	20 642
Expired	1 476	0	5 790	0	7 266

(in thousands of EUR)

31.12.2018	Entities with joint control or significant influence	Associates	Key Management	Other related parties	Total
Profit and loss					
Interest expenses	28	0	0	0	28
Personnel expenses	0	0	0	6 154	6 154
Other	0	0	0	1 105	1 105
Total expenses	**28**	**0**	**0**	**7 259**	**7 287**
Interest income	153	626	0	0	779
Fees and commissions	605	155	21	10	791
Purchases or sales of goods, property and other assets	0	0	0	490	490
Other	0	54	0	85	139
Total income	**758**	**835**	**21**	**585**	**2 199**

(in thousands of EUR)

31.12.2017	Entities with joint control or significant influence	Associates	Key Management	Other related parties	Total
Balance sheet					
Overdrafts	1 290	20 194	0	0	21 484
Term loans	10 599	0	0	336	10 935
Mortgage loans	0	0	0	0	0
Investment securities	0	0	0	3 204	3 204
Other assets	0	0	0	0	0
Total assets	**11 889**	**20 194**	**0**	**3 540**	**35 623**
Deposits	71 741	63	5 821	1 495	79 120
Other	5	0	0	2	7
Other liabilities	0	0	0	28 661	28 661
Total liabilities	**71 746**	**63**	**5 821**	**30 158**	**107 788**
Guarantees given by the group	800	0	0	3 147	3 947
Guarantees received by the group	34 673	0	0	0	34 673
Commitments	651	0	0	0	651
Notional amount of derivatives	469	0	0	0	469

(in thousands of EUR)

31.12.2017	Entities with joint control or significant influence	Associates	Key Management	Other related parties	Total
Profit and loss					
Interest expenses	30	0	2	0	32
Loss on derivatives	0	0	0	0	0
Fees and commissions	0	0	0	0	0
Personnel expenses	0	0	0	7 130	7 130
Other	0	0	0	739	739
Total expenses	**30**	**0**	**2**	**7 869**	**7 901**
Interest income	207	518	1	0	726
Profit on derivatives	0	0	0	0	0
Fees and commissions	448	66	13	18	545
Purchases or sales of goods, property and other assets	0	0	0	34	34
Other	0	8	0	151	159
Total income	**655**	**592**	**14**	**203**	**1 464**

All transactions with related parties included in the above tables have been made under normal market conditions.

The costs linked to the remuneration paid to executive directors including bonuses paid to the members of the board of directors as well as the costs regarding the allocation of options to these same people are presented by category of advantages granted to employees, defined within the IAS 19 and IFRS 2 standards.

(in thousands of EUR)

	31.12.2018	31.12.2017
Short-term benefits	7 179	7 241
Post-employment benefits	548	532
Other long-term employee benefits	1 371	1 297
Termination benefits	0	800
Share-based payments	0	(126)
Total	**9 098**	**9 744**

12 Post balance sheet events

The meeting of the board of directors on 25 April 2019 decided to propose to the annual general shareholders meeting that a gross dividend of EUR 4.5 per share be distributed, giving rise to a distribution outside the group of EUR 47 325 006 and authorized the publication of the financial statements.

Bank Degroof Petercam has prepared itself to the different possible consequences of the Brexit. This analysis has been performed on the activities of the counterparties of Bank Degroof Petercam.

We can noted the following preparatory measures:

- Review of the contracts (netting and collateral conventions) with our interbank counterparties to favor entities from the European Union.
- Review of our clearing contracts to favor entities from the European Union,
- Review of the fund distribution conventions.

Bank Degroof Petercam having only a marginal amount of activities in this country (or counterparties from this country), the consequences of Brexit, even without an agreement with the European Union ('hard Brexit'), are minor, both in terms of risks and profitability.

Auditor's fees

(in thousands of EUR)

31.12.2018	
Auditor's fees in the exercice of his mandate	**290**
Fees for exceptional services or special missions undertaken for the company by the auditor	**28**
Other attestation projects	0
Other missions outside the auditing missions	28
Fees paid to parties linked to the auditor in respect of an audit mandate undertaken at group level	**633**
Emoluments for exceptional services or specific projects completed within the company by parties related to the auditor	**373**
Other attestation projects	11
Tax consultancy missions	23
Other missions outside the auditing missions	339

Statutory auditor's report

Statutory auditor's report to the general meeting of Bank Degroof Petercam SA on the consolidated financial statements as of and for the year ended 31 December 2018

In the context of the statutory audit of the consolidated financial statements of Bank Degroof Petercam SA ('the Company') and its subsidiaries (jointly 'the Group'), we provide you with our statutory auditor's report. This includes our report on the consolidated financial statements for the year ended 31 December 2018, as well as other legal and regulatory requirements. Our report is one and indivisible.

We were appointed as statutory auditor by the general meeting of 24 May 2016, in accordance with the proposal of the board of directors issued on the recommendation of the audit committee and as presented by the workers' council. Our mandate will expire on the date of the general meeting deliberating on the annual accounts for the year ended 31 December 2018. We have not been able to identify the exact date of our initial appointment. However, we can confirm that we have performed the statutory audit of the consolidated financial statements of Bank Degroof Petercam SA for at least 30 consecutive financial years.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Unqualified opinion

We have audited the consolidated financial statements of the Group as of and for the year ended 31 December 2018, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. These consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information. The total of the consolidated statement of financial position amounts to EUR 8.214.501 (000) and the consolidated statement of profit or loss shows a profit for the year of EUR 56.779 (000).

In our opinion, the consolidated financial statements give a true and fair view of the Group's equity and financial position as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Basis for our unqualified opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') as adopted in Belgium. In addition, we have applied the ISAs as issued by the IAASB applicable for the current accounting year while these have not been adopted in Belgium yet. Our responsibilities under those standards are further described in the "Statutory auditors' responsibility for the audit of the consolidated financial statements" section of our report. We have complied with the ethical requirements that are relevant to our audit of the consolidated financial statements in Belgium, including the independence requirements.

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 we have 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 judgement, 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.

Impairment of goodwill

We refer to note 7 section 7 of the consolidated financial statements.

Description

As at 31 December 2018, the Group's consolidated statement of financial position included goodwill amounting to EUR 278.524 (000), representing four Cash generating units ('CGU').

Goodwill is assessed for impairment annually in accordance with IAS 36. The recoverable value of a CGU is determined as being the higher of its value-in-use and its fair value less cost of disposal. The value-in-use approach uses a discounted free cash flow method which discounts all future cash flows. The fair value less cost of disposal approach uses the application of reference multiples to the net operating result, or to the assets under management.

Determining the amount of impairment losses, if any, to be recorded requires the Group to exercise significant judgment and make key assumptions, particularly in relation to the determination of the reference multiples to determine the fair value less cost of disposal and to the forecasting and discounting of future cash flows to determine the value-in-use.

Our audit procedures

With the assistance of our valuation specialists, we have performed the following procedures:

- We evaluated the appropriateness of management's determination of the CGU's,
- We assessed the reasonableness of the reference multiples used in the determination of the fair value less cost of disposal by performing a regression analysis,
- We evaluated the process by which management's business plan was prepared, used in the determination of the value-in-use,
- We assessed management's previous ability to forecast cash flows accurately and challenged the reasonableness of current forecasts by comparing key assumptions (in particular the discount rate, forecasted period growth rate and inflation rate) to historical data, economic and industry forecasts and internal planning data,
- We corroborated the key market related assumptions to external data,
- We challenged the appropriateness of the sensitivity analysis performed by management by performing further sensitivity analysis, primarily focused on changes in operating cash flows and reference multiples,
- We tested the mathematical accuracy of the cash flows models,
- We assessed the appropriateness of the information presented in note 7 section 7 of the consolidated financial statements.

Provision for claims and litigations

We refer to note 13 section 7 of the consolidated financial statements.

Description

As at 31 December 2018, the Group's consolidated statement of financial position included a provision for litigations amounting to EUR 15.904 (000).

Due to the nature of its activities, the Group is involved in a limited number of claims and legal disputes. An unfavorable outcome for certain of these claims and litigations could lead to a potential significant impact on the financial position of the Group. In addition, as a financial institution, the Group can be subject to inspections by the European Central Bank, the National Bank of Belgium or the Financial Services and Markets Authority. Potential instances of non-compliance with the regulatory framework applicable to the Group could also lead to a potential significant impact on the financial position of the Group, and in particular in case of non-compliance with the law of 11 January 1993 on preventing the use of the financial system for purposes of money laundering and terrorist financing (and its modifications) ('the anti-money laundering law') and the law of 18 September 2017 replacing the anti-money laundering law ('the new anti-money laundering law').

In view of the uncertainties inherent in any legal dispute, as well as with respect to the possible actions taken by regulators, the process of estimating the financial consequences linked to regulatory and legal risks is inevitably uncertain. Management recognizes provisions for claims and litigations, if applicable in relation to the observations from the inspections, based on its assessment of the likelihood of settlement of individual cases or action by the regulators resulting in an outflow of resources and taking into account factors such as the Group's insurance cover. The assessment of the likely outcome of a claim and litigation includes a significant level of subjectivity and judgment by management.

Our audit procedures

- We evaluated the process by which management's assess the likely outcome of claims, litigations and inspections, as well as the appropriateness of management's assessment,
- We assessed management's previous ability to determine the likely outcome of claims and litigations accurately and challenged the reasonableness of current determination,
- We agreed management's assessment of claims and litigations to relevant correspondence and to the claims register,
- We inspected the latest report issued by the in-house legal counsel, including analysing the rationale for the conclusion reached,
- We inspected and analysed the correspondence from the external lawyers in response to our request for confirmation of the status of the legal actions and assessed the impact of this evidence on the appropriateness of the provisions,
- With the assistance of our regulatory specialists, we have inspected and analysed the correspondence between the Company and the European Central Bank, the National Bank of Belgium and the Financial Services and Markets Authority and have assessed the impact of potential instances of non-compliance with the applicable regulatory framework on the appropriateness of the provisions,
- We assessed the appropriateness of the information presented in note 13 section 7 of the consolidated financial statements.

Board of directors' responsibilities for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, and for such internal control as 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 related to 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 realistic alternative but to do so.

Statutory auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance as to whether the consolidated 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 ISAs 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 the users taken on the basis of these consolidated financial statements.

When performing our audit we comply with the legal, regulatory and professional requirements applicable to audits of the consolidated financial statements in Belgium.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also perform the following procedures:

- 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 error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal controls 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 board of directors;
- Conclude on the appropriateness of board of directors' 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 auditors' 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 auditors' 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, including the disclosures, 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 or 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, among 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

For the matters communicated with 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 public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Responsibilities of the Board of Directors

The board of directors is responsible for the preparation and the content of the board of directors' annual report on the consolidated financial statements and the statement of the non-financial information attached to the board of directors' annual report on the consolidated financial statements.

Statutory auditor's responsibilities

In the context of our mandate and in accordance with the Belgian standard (revised in 2018) which is complementary to the International Standards on Auditing as applicable in Belgium, our responsibility is to verify, in all material respects, the board of directors' annual report on the consolidated financial statements and the statement of the non-financial information attached to the board of directors' annual report on the consolidated financial statements and to report on these matters.

Aspects concerning the board of directors' annual report on the consolidated financial statements

Based on specific work performed on the board of directors' annual report on the consolidated financial statements, we are of the opinion that this report is consistent with the consolidated financial statements for the same period and has been prepared in accordance with article 119 of the Companies' Code.

In the context of our audit of the consolidated financial statements, we are also responsible for considering, in particular based on the knowledge gained throughout the audit, whether the board of directors' annual report on the consolidated financial statements contains material misstatements, that is information incorrectly stated or misleading. In the context of the procedures carried out, we did not identify any material misstatements that we have to report to you.

The non-financial information required by article 119 §2 of the Companies' Code has been included in a separate report attached to the board of directors' annual report on the consolidated financial statements. This report on the non-financial information contains the information required by article 119 §2 of the Companies' Code and is consistent with the consolidated financial statements for the same period. The Company has prepared this non-financial information based on Sustainable Development Goals ('SDG'). In accordance with art 148 §1, 5° of the Belgian Companies' Code, we do not comment on whether this non-financial information has been prepared in accordance with Sustainable Development Goals ('SDG') mentioned in the board of directors' annual report on the consolidated financial statements.

Information about the independence

- Our audit firm and our network have not performed any engagement which is incompatible with the statutory audit of the consolidated accounts and our audit firm remained independent of the Group during the term of our mandate.
- The fees for the additional engagements which are compatible with the statutory audit referred to in article 134 of the Companies' Code were correctly stated and disclosed in the notes to the consolidated financial statements.

Other aspect

- This report is consistent with our additional report to the audit committee on the basis of Article 11 of Regulation (EU) No 537/2014.

Zaventem, May 2019
KPMG Réviseurs d'Entreprises / Bedrijfsrevisoren
Statutory Auditor
represented by

Olivier Macq
Réviseur d'Entreprises / Bedrijfsrevisor