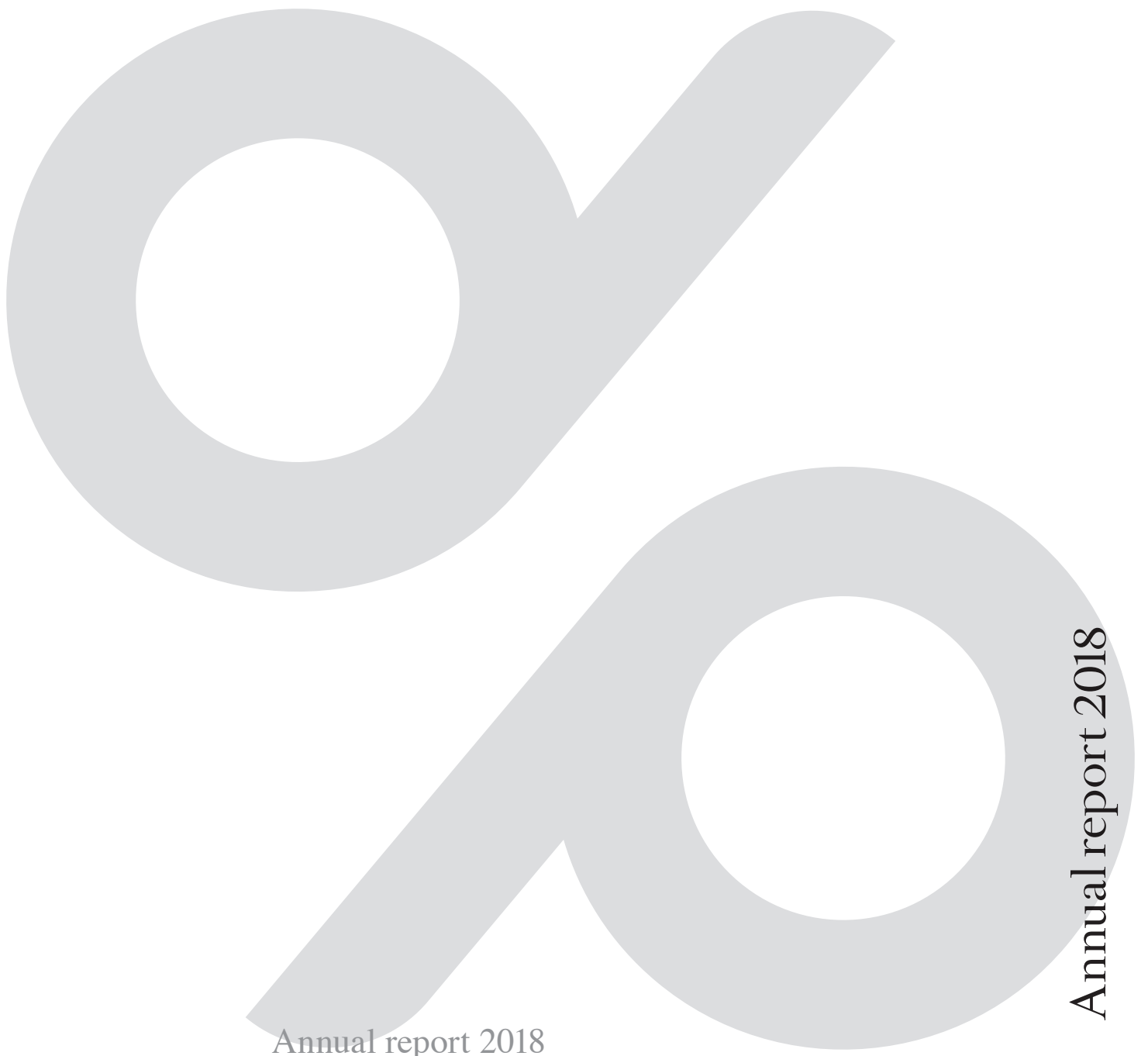

Annual report



Annual report 2018

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Bank Degroof Petercam

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Statement from the board of directors

“Our mission is to offer qualitative, innovative and sustainable solutions best suited for our clients. In 2018, we continued to capitalize on our transversal business model and our highly qualified talents to create value for all our clients.”



Ludwig Criel (Chairman of the board of directors) – Philippe Masset (CEO)

2018 turned out to be very eventful for investors: political uncertainties, trade tensions, the Chinese slowdown and the end of quantitative easing. After a volatile fourth quarter and a chaotic December, the main asset classes ended in the red. How did this affect your investment performances?

Philippe Masset: In spite of the unfavorable environment, our teams delivered above-average long term returns. Our private banking model portfolios and flagship fund ‘Global strategy’ recorded top tier performances on 1, 3 and 5 years in comparison to our main competitors. Also, our DPAM funds systematically record outstanding long term returns, which led to DPAM receiving the ‘Super Award’ of Belgian financial dailies De Tijd/L’Echo for the second year in a row, confirming the best asset manager in both fixed income and equity over the past five years.

Degroef Petercam is a unique blend in many ways. Clients are attracted by your distinctive business model as they can tap into in-depth niche expertise in four combined domains: Private Banking and Institutional Asset Management, Investment Banking and Asset Services. What was the commercial evolution in these domains in 2018?

Philippe Masset: **Private Banking** clients benefited from our revamped patrimonial offering and from solutions best suited to their needs, including our dedicated approach to family business owners, new climate and social impact funds and exclusive private equity investments. 2018 was an exceptional year for our **Investment Banking** team with 99 mandates successfully realized and a sharp increase in stock option plans. Our entity for **Institutional Asset Management** department leveraged a number of blockbuster funds internationally and already over 50% of the funds and mandates are sold outside Belgium. The **Asset Services** division experienced the effects of declining markets at the end of the year, but the pipeline remains very solid.

With the merger of Bank Degroef and Petercam in 2015, you launched a three-year integration plan. Which are your next strategic steps and how does the digitalization fit in your strategy?

Ludwig Criel: In 2018, we successfully finalized our integration and outlined our growth strategy for the next five years. We believe we exist to empower our clients to realize their ambitions and want them to feel at ease about their financial future. As an independent reference, it is our mission to be top experts offering quality and innovative solutions best suited for them. We will continue to leverage our integrated business model and highly skilled people to create value for our clients.

Philippe Masset: We strive for innovative solutions, simplified processes, operational efficiency and regulatory strength. We believe in a hybrid client approach where people and expertise are central but are supported by technology. In 2018, our digital acceleration program led to the launch of an easy full-digital onboarding platform and of a new feature in our app, allowing to push tailored text and video messaging towards our clients regarding their investment portfolio. We also welcomed Xavier De Pauw – former CEO of MeDirect Belgium – as Group Head of Strategic Innovation. He is in charge of our continuous transformation including the development of innovative platforms, tools and new ways of working. I am convinced that the key factor for success is to have the best solutions as well as the best expertise delivered in a user-friendly manner.

The persistence of negative interest rates in Europe kept pressure on the global interest rate margins of financial players. The widening of the spread weighed on interest related income. Are you satisfied with the group's profitability?

Philippe Masset: We are not immune for what is happening on the markets, but overall, we can reflect on a resilient group performance, especially considering the increased quality of our underlying results. Excluding net interest income, which is mainly influenced by external factors, the quality of our underlying commercial revenue has noted a 3.8% increase compared to 2017. This showcases our higher independence of interest rate revenue and the strength of our fee-generating business. The gross operating income amounted to 109 million euros. After tax and exceptional items mainly relating to integration costs for the last year, the consolidated net profit was 57 million euros.

What about the assets under management and the quality of the group's balance sheet?

Ludwig Criel: In 2018, total clients assets totaled 63.2 billion euros, influenced by negative market effects. End of March 2019, the estimated total clients assets had risen again to nearly 68 billion euros. While stock markets fell sharply in 2018 – with the Eurostoxx50 -12% and the BEL 20 -16% – our assets under management decreased only with 5.3% to 50.5 billion euros. Institutional funds and mandates, strongly contributed to net new assets. At 31 December 2018, outstanding credits to clients amounted to 2.1 billion euros for a balance sheet of 8.2 billion euros. Our core capital ratio amounted to 16.8%, well in excess of regulatory requirements.

Degroof Petercam is known as a promotor of humane finance. 'Humane' is one of the five ETHIC- values: Excelling, Teaming Up, Humane, Intrapreneurial and Client-Centric. Which progress did your record in terms of sustainability?

Philippe Masset: Sustainability, responsible investment and philanthropy are close to our heart. In 2018, we collected 30% more assets in our sustainable funds, recruited extra responsible investment specialists, offered new climate funds and acquired a participation in Quadia to develop new impact investments for our clients. Our Degroef Petercam Foundation also multiplied philanthropy initiatives aimed at fostering jobs of tomorrow and at making our colleagues aware of their social impact and of social entrepreneurship. As illustrated in our non-financial report, the impact of our work clearly goes beyond profit.

How do you look at the future?

Ludwig Criel: Looking ahead, geopolitical uncertainty remains high, impeding a predictable macro-economic and financial outlook. Also, the investment industry continues to face pressure from ever-increasing regulatory changes. However, I am confident about our future. I believe in the progress we've made, in our strategy, and above all, in the potential of our people. I would like to thank them for making their mark, each in his or her own way. In closing, I would like to thank our clients for their loyalty and trust as well as my fellow board members and family shareholders for their unwavering support.



Key figures

Key figures

Total client assets (in billion EUR)	2018		2017 (Proforma)	
	Gross	Net*	Gross	Net*
Assets under management**	50,5	50,5	53,4	53,4
Assets under administration***	34,9	7,2	38,0	8,4
Assets under custody****	78,1	5,4	84,9	6,1
Total client assets		63,2		67,9

In 2018, the presentation of our assets was modified to better reflect the different activities of the group.

* excluding double counting;

** management and credit services;

*** administrative services, including fund accounting, fund directing, registration and set up of new funds, transfer agent, etc.;

**** custody services, including recording, holding and custody through securities and cash accounts.

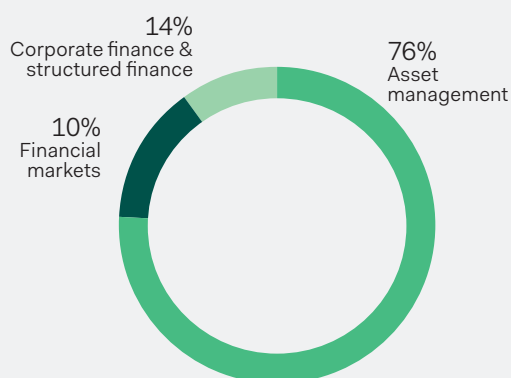
Net income (in million EUR)



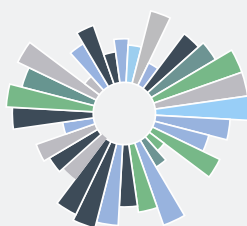
455
2018

468
2017

Distribution of income



Gross operating profit (in million EUR)



109
2018

129
2017

Consolidated net profit (in million EUR)

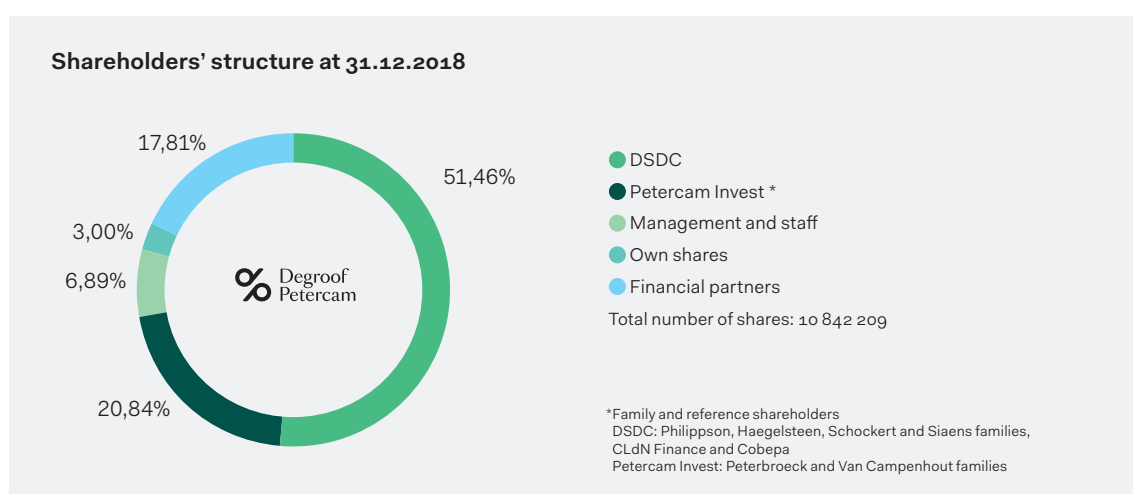


57
2018

86
2017

Breakdown by country of full-time equivalents (FTE)	2018	2017
Belgium*	896	857
Luxembourg	345	326
Swiss	22	22
France	90	100
Spain	59	64
Total	1 412	1 369

* Including the branches in Germany, Italy and the Netherlands.



Board of directors

Chairman of the board of directors
Ludwig Criel*
Chairman of the executive committee
Philippe Masset
Directors-members of the executive committee
Nathalie Basyn
Gautier Bataille de Longprey
Bruno Colmant
Benoît Daenen
Gilles Firmin
Pascal Nyckeys
François Wohrer

Directors

Miguel del Marmol
Jean-Baptiste Douville de Franssu
Christian Jacobs*
Jean-Marie Laurent Josi
Véronique Peterbroeck
Alain Philippson
Jacques-Martin Philippson
Alain Schockert
Frank van Bellingen
Guido Vanherpe*

*Independent director.



Degroef
Petercam

Highlights

Private Banking

- 34.2 billion euros managed for private clients (gross).
- Above-average returns of portfolios and patrimonial funds (first quartile).
- Expansion of clientele thanks to:
 - the solutions we develop specifically for FBO (Family Business Owners), combining Private Banking and Corporate Finance, in Belgium, France, Luxembourg and Spain;
 - the recruitment - in Flanders among others - of around fifty highly qualified professionals;
 - the opening of a new office in Turnhout and Tournai;
 - the expansion of the Family Office offer and advice on asset structuring in the context of the increasing international mobility of our client families;
 - the innovations in sustainable investment, with new funds focused on climate change and impact investing;
 - the organization of important events, such as our Degroof Petercam Business Day and our Flemish Entrepreneurs Summit.
- Internationalization through:
 - the International Hub in Luxembourg, which promotes cross-border cooperation within the group and is responsible for activities in countries where we do not have a local entity such as Portugal;
 - the integration of Entheca Finance in France, a French management company whose main focus is on a clientele of entrepreneurs and large private investors;
 - the integrated Eurometropole approach from our offices in Lille, Courtrai and Tournai;
 - the opening of a representative office in Canada (Montreal).

Asset Services

- 34.8 billion euros assets under administration (gross).
- Set up of around thirty new funds under Belgian and Luxembourg law.
- Set up of two Reserved Alternative Investment Funds (Fonds d'Investissement Alternatif Réserve -FIAR), private equity vehicles specialized in risk capital for high-tech and regenerative economies.
- Regrouping of all fund services into a single entity, notably Degroof Petercam Asset Services (DPAS).

Institutional Asset Management

- 44.7 billion euros of (gross) assets under management with a net capital inflow of nearly 900 million euros.
- Management of nearly 300 institutional mandates.
- Ongoing international expansion, with more than 50% of funds and mandates sold outside Belgium.
- Favorable long-term investment performances in volatile markets.
- Set up of a convertible bond franchise in Paris.
- Continued strong growth of blockbuster strategies such as newly sustainable thematic equities (NewGems), emerging market debt, European (sustainable) equities (Euroland), high-yield bonds and global unconstrained bonds (Universalis).
- Set up of Arvestar, a joint venture with Argenta Asset Management with the aim of institutionalizing the financial management of the Argenta pension savings funds by DPAM.
- Numerous awards for quality of the management and fund:
 - . L'Echo/De Tijd: Super Award for the best equity and bond manager over five years;
 - . Thomson Reuters Lipper Awards: Bonds EUR High Yield, Listed European Real Estate...;
 - . Scope Awards in Germany: best fixed income manager.

Investment Banking

- 99 mandates in advisory, mergers and acquisitions (M&A) and capital market activities successfully completed.
- 45 M&A mandates totaling 2.8 billion euros, of which 16 in Belgium, 28 in France and 1 in Spain.
- 16 equity capital market transactions of which 11 as bookrunner, such as the IPO on Euronext Brussels of the British biotech company Acacia, the capital increases of Cofinimmo, IOW, TINC and Xior. Execution of more than 110 million euros in secondary equity block trades.
- Landmark debt capital market transactions in Belgium and France, such as the bond issues of Befimmo and Apsys, the Dossche Mills syndicated loan, the bond buy back of Orès and debt financing of Biogroup and Prodware.
- Strong activity of our dealing desk in all asset classes worldwide, on behalf of individuals and institutional investors of the group.
- Sharp increase in the volume of stock option plans.
- Further development in the local market for family businesses in Luxembourg.
- Successful launch of Corporate Finance activities in Spain.
- Institutional seminars on Benelux equities in the healthcare, consumer and real estate sectors in major international financial hubs such as New York, London, Paris, Milan, Zurich, Brussels, Luxembourg and Madrid.

Responsible investment

- 30% asset increase into SRI funds, or nearly 4 billion euros invested in 11 sustainable strategies.
- Full operational Responsible Investment Competence Center at the service of all research and investment teams of the group.
- Development of new proprietary models and screenings to complement the investment decision-making process: impact reports for environmental, social and governance criteria (ESG), sustainability audits, development of proprietary thematic key performance indicators (KPIs) for ESG challenges.
- Focus on climate change and carbon risk: carbon footprint assessment of all managed funds and mandates and identification of main contributors and emitters.
- Additional commitment at the level of Degroof Petercam Asset Management (DPAM) as supporter of the Taskforce Climate-related Financial Disclosures (TCFD).
- Active shareholdership through the strong involvement of the Voting Advisory Board, who participated in 538 general meetings of shareholders and voted on almost 7 800 resolutions.
- Further international recognition:
 - . Luxflag ESG label for all sustainable strategies;
 - . 2nd consecutive year of top rating A+ from UN backed Principles for Responsible Investment (PRI);
 - . Top 10 Citywire ranking as genuinely committed to ESG fund house.
- Participation in several collective engagement initiatives, such as the Cobalt Institute for the sustainable and responsible use of cobalt, and the Investor Statement on Digital Rights for Corporate Accountability.

Private Equity

- Overall strong performance, significant deployment of capital and completion of six new private investments.
- Raise of more than 100 million Canadian dollars for BDG-Appalaches II, our second buy-out fund focused on smallcaps in Canada.
- Development of an impact investment fund in collaboration with our Swiss partner Quadia.
- Launch of Co-Investment Small-Cap Europe, first compartment of a new venture capital FIPS structure (Fonds d'Investissement Professionnel Spécialisé) for private equity investments, in partnership with Access Capital in France.
- Successful expansion of the private equity offering in Luxembourg.
- Significant distributions in Green Fund II, Down 2 Earth and CVC Capital Partners 6.

Financial Research

- Publication of our annual Benelux Company Handbook and first edition of our 'Family Business Owners Barometer' survey in Belgium and Luxembourg.
- In-depth coverage of more than 130 listed companies in the Benelux by the team of sell-side analysts who published more than 1 000 company updates and 60 detailed reports .
- Expansion of sell-side research to a broader client base in Spain and the United States.
- Buy-side research team of equity and credit analysts drawing up a recommendation list for more than 100 European and US equities and covering more than 500 high yield and investment grade corporate bonds.

Philanthropy

- Celebration of the tenth anniversary of Degroof Petercam Foundation.
- Animation of nine workshops in the five countries of the group, to make our colleagues aware of their social impact and to introduce them to social entrepreneurship.
- Session with 120 staff members of the 'next generation' in the Havenhuis in Antwerp for a forum on the circular economy, in collaboration with the family group Sibelco.
- Collection of 500 000 euros in donations via the crowdfunding platform Gingo, to finance 31 social projects in Belgium and Luxembourg.
- Participation in the annual summit of the European Venture Philanthropy Association (EVPA) in Warsaw.
- Appointment of a new external board member of the foundation: Mr. Etienne Denoël, Director Emeritus of McKinsey & Company, CEO of the NGO 'Agir pour l'Enseignement'.
- 2 400 hours of voluntary work through the participation of 340 colleagues in the sixth edition of the Degroof Petercam Solidarity Days, as well as blood donations and first aid training courses.
- Collection of funds by the Degroof Petercam Cycling Team for the benefit of the Belgian Foundation against Cancer.
- Active participation in Net Mentora (entrepreneurial network), and support of the SJD Pediatric Cancer Center, the Fundació Banc Dels Aliments (food bank) in Spain.

Credits

- Net increase in the volume of the credit portfolio to 2.1 billion euros.
- Continued strong dynamics in cross-border credits (Belgium, Luxembourg, and France).
- Further development of the Lombard credits offering granted to Belgian, Luxembourg, French, Spanish and Swiss clients as a powerful alternative for traditional mortgage loans.
- Slight decline in average credit margins despite the very competitive credit environment.
- Excellent quality of the underlying credit portfolio without recording any additional net credit provision.

Digitalization

- 'Digital Acceleration' program led by the digital committee aiming at driving the continuous digital transformation of our group, including the development of innovative platforms, tools and new ways of working.
- Appointment of Xavier De Pauw, former CEO of MeDirect, as Group Head of Strategic Innovation and chairman of the digital committee.
- New functionalities for My Degroef Petercam (MyDP), our online portfolio consulting and reporting tool, which welcomed its 10 000th user.
- Launch of a digital platform for opening accounts.
- Launch of new feature for sending regular updates on smartphones regarding the evolution of the financial markets and the investment strategy of our main asset management fund, DP Global Strategy.
- Increased digital expertise sharing to DPAM clients through multichannel publication platforms, including newsletters, the MyDP app and the new fund website managed by DPAM (dpamfunds.com).



Management report

The consolidated financial statements are prepared in accordance with IFRS. IFRS 9 and IFRS 15 were applied for the first time in the past financial year.

1 General comments

In 2018, Degroof Petercam's financial results were generated in less favorable economic conditions. Financial markets were more volatile, and the fourth quarter ended with a sharp decline. After showing initial signs of recovery, the slope of the yield curve declined again at the end of the year, confirming the persistent negative trend in short-term interest rates.

The results for the past financial year reflect the performance of fee-generating businesses, mainly Institutional Management, Private Banking, Investment Banking and fund administration activities.

In 2018, Degroof Petercam modified the presentation of client assets (under management, under administration and under custody) to better reflect all the group's activities, namely:

- management and credit services;
- administrative services, including fund accounting, fund domiciliation, registration and set up of new funds, transfer agent, etc.;
- custodian services, including registration, deposit and custody through securities and cash accounts.

In this respect, the group has restated the 2017 data, which differ slightly from the figures officially reported in 2018.

At 31 December 2018, total client assets (all activities combined) amounted to EUR 63.2 billion compared to EUR 67.9 billion a year earlier.

At 31 December 2018, assets under management totaled EUR 50.5 billion, compared to EUR 53.4 billion at the end of 2017. While equity markets declined sharply in 2018 (Eurostoxx: -12%, BEL 20: -16%), the amount of assets under management recorded only a limited decline of 5.3% compared to the end of 2017. The distribution of our funds and institutional mandates contributed to the inflow of new net assets in 2018, but the overall trend in assets under management of private clients in Belgium was again affected by the tax measures implemented at the end of 2017.

Private client assets under management amounted to EUR 34.2 billion as at 31 December 2018 compared to EUR 36.6 billion a year earlier.

Institutional Asset Management also recorded a decline in gross assets under management from EUR 45.6 billion to EUR 44.7 billion at the end of 2018 (including investments by private clients in funds managed by the group). Otherwise, the commercial network continued its international expansion.

As at 31 December 2018, the Asset Services business recorded EUR 34.9 billion in assets under administration and/or custody, including EUR 7.2 billion for mutual funds for third-party clients.

The total amount of credits used by Degroof Petercam clients at 31 December 2018 totaled EUR 2.1 billion, compared to the balance sheet total of EUR 8.2 billion and cash deposits of EUR 6.8 billion.

With regard to the Investment Banking activities in 2018, Corporate Finance, which is mainly active in Belgium and France, again recorded an increase amounting to 16.7%, ending with a turnover of EUR 37 million at the end of the year. Revenues from the sell-side activity of the market hall remained generally stable compared to 2017.

2 Comments on the financial statements

The consolidated net profit (group share) amounted to EUR 56 763 853 compared to EUR 86 459 998 in the previous financial year. This sharp decline is due to a significant decline in interest margin results in a very low interest rate environment, partially offset by a higher overall level of fees, as well as to a significant increase in other operating expenses.

Consolidated comprehensive income (group share) is obtained by adding the unrealized profits and losses directly recognized in equity (revaluation reserves) to the consolidated net profit; the total was EUR 51 448 785 as at 31 December 2018 compared with EUR 88 228 590 a year earlier.

Net interest margin, for all activities, was significantly lower than the results posted in the previous financial year. The key features of 2018 included the persistence of negative short-term rates, as well as the volatility of credit spreads. Income from credits increased as a result of the growth in outstandings, whose margins remained stable.

As regards the results relating to Financial Markets activities, the foreign exchange desk achieved a remarkable increase in 2018, with a much higher volume of fees from the Luxembourg banking entity, combined with a significant improvement in the results of the parent company's activities in this area. In addition, the selling of stock option plans continued to expand in 2018, as did activities and results related to the Private Equity. The results of the other desks are down, particularly the selling of structured products, but also in bond trading.

Net commission income from all business lines continued to grow compared to the previous year.

While the amount of assets under management declined by 5.3% overall compared to the end of 2017, net management fee income nevertheless increased compared to the previous year. This growth was driven by the increased profitability of individual private management (whose pricing was reviewed in 2018), the positive impact of the annual average market effect, as well as net capital inflows from institutional investors and fund distribution activity, partially offset by withdrawals from private clients.

For the second year in a row, revenue from Corporate Finance activities grew in both France and Belgium, supported by a significant number of M&A transactions in the last months of the year.

Custodian fees (part of which are included in the new Private Banking pricing in 2018), as well as commissions on cash, derivatives and securities lending activities, were down compared to the previous year.

The decrease in net other operating income for the past year compared to the previous year is mainly due to the exceptional recognition in 2017 of the positive impacts of the change in contractual terms and conditions of post-employment benefits (as part of the HR harmonization).

The accounting results for the revaluation and realization of the financial assets of the long-term securities portfolio deteriorated in 2018, mainly as a result of the decline in the estimated value of financial instruments (measured through the income statement) held within this portfolio itself.

Personnel expenses remained stable overall compared to the previous year. This is the result of the combined effects of the increase in payroll following indexations and the increase in the number of employees (net group growth of 43 employees compared to the end of 2017), and the decrease in variable remuneration provisions.

Other general expenses showed a strong increase in 2018: this concerns both current operating expenses and integration and transformation costs.

Depreciation of tangible and intangible fixed assets for the year was constant. Impairment losses or reversals net of impairment losses on assets were significantly more positive in 2018, both in terms of individual loans and collective provisions, but also in terms of the year's low net impairment losses on private management assets and other goodwill on investments and other associated companies.

The estimated tax liabilities at year-end were generally higher than in the previous financial year. The decrease in direct taxes of certain subsidiaries (mainly Banque Degroof Petercam Luxembourg) is fully offset by the increase in taxes of the main Belgian entities (mainly due to the lack of deductibility of the profit premiums granted by them to their employees). In addition, the level of consolidated tax losses of the group's French entities decreased significantly during the financial year due to the excellent results of Degroof Petercam Finance; in contrast, the consolidated tax losses of Degroof Petercam Spain increased significantly in 2018.

The decline in other components of comprehensive income is mainly due to the negative change in the revaluation reserves of the Held to Collect & Sale bond portfolio (abbreviated as HTCS), moderately offset by the positive impact of foreign exchange translations (for subsidiaries whose balance sheets and income are denominated in foreign currencies), as well as the favorable, but limited, impact of the revaluation of financial and other assumptions on pension plans.

2.1 Appropriation of statutory profit

At 31 December 2018, the statutory net profit of Bank Degroof Petercam nv | sa totaled EUR 75 733 289. Taking into account the profit carried forward from the previous financial year of EUR 199 136 509, the profit base to be allocated amounts to EUR 274 869 798.

The board of directors proposes to the general meeting to allocate the profit for the financial year as follows:

	(in EUR)
Profit for the year	75 733 289
+ Profit brought forward	199 136 509
= Profit to be appropriated	274 869 798
- Allocation to other reserves	0
- Directors' fees	918 354
- Dividends	48 789 941
- Profit shares	5 887 756
= Profit to be carried forward	219 273 747

The board of directors proposes to the general meeting to distribute a gross dividend of EUR 4.50 per share.

2.2 Consolidated shareholders' equity

Consolidated shareholders' equity, including minority interests, amounted to EUR 925.8 million at the end of the financial year, an increase of EUR 14 million compared to the previous year.

The decrease in consolidated shareholders' equity is the result of the following effects:

- in the context of the initial application of IFRS 9 in the opening balance sheet for the financial year (for a net impact of EUR -2.1 million):
 - restatements of revaluation reserves (EUR -11.9 million);
 - reclassifications to equity First Time Application (abbreviated as FTA) of the initial impacts (EUR 9.8 million).
- as part of the movements during the financial year (for a net impact of EUR -11.9 million):
 - the distribution (outside the group) relating to the previous financial year (EUR -63.1 million);
 - the result (including third parties) for the financial year (EUR 56.8 million);
 - the revaluation of financial assets at fair value during the financial year (EUR -7.2 million);
 - movements in the purchase/sale of treasury shares (EUR -0.2 million);
 - the IAS 19 revaluation of the conditions of post-employment benefits (EUR 0.3 million); and
 - the development of translation differences (EUR 1.5 million).

Regulatory capital amounted to EUR 509.7 million and largely exceeded the requirements set by prudential standards. The Tier 1 (core capital) and Tier 2 (supplementary capital) solvency ratios stood at 16.8% at 31 December 2018.

The Return on Equity-ratio (ROE) totaled 6.5% on 31 December 2018. This ratio represents the relative value of the consolidated net profit for the year in relation to the average consolidated shareholders' equity.

2.3 Assets under custody

At the end of the financial year 2018, consolidated open deposits stood at EUR 75.3 billion, down 6.8% compared to the end of 2017.

3 Changes in capital

At 31 December 2018, share capital amounted to EUR 34 211 634. It is represented by 10 842 209 shares with no nominal value. All shares are fully subscribed and fully paid up. The accounting par value per share is EUR 3.1554.

4 Treasury shares held by the group (Art. 624 of the Companies Code)

Degroof Petercam SA does not hold treasury shares.

As at 31 December 2018, the sub-subsidiaries of Degroef Petercam SA, Orban Finance SA, Industrie Invest SA, and Industrie Invest 2 SA together held 325 631 Banque Degroef Petercam SA shares, representing 3% of the share capital.

The consolidated carrying amount of all treasury shares held by the subsidiaries amounted to EUR 44 631 483 as at 31 December 2018. The purpose of the treasury shares held in the group is to support employee profit-sharing plans.

During the past financial year, the total number of treasury shares decreased by 2 248 shares.

5 Circumstances that could significantly influence the development of the group

In the context of the implementation of the integration projects over the 2016-2018 period, significant IT investments were made in the group's main business lines with a view to gradually equipping them with state-of-the-art technology, particularly in the area of digital technology.

Following the merger and gradual deployment of new information technologies, the group will continue to benefit from synergies and will be equipped with a modern platform promoting the growth of the segments of activity.

In general, the group's growth and profitability are also influenced by:

- the ongoing effort to grow the business as and when opportunities arise, as demonstrated by past acquisitions and commercial investments;
- changes in assets under management and stock markets;
- Corporate Finance assignments;
- the macroeconomic environment.

6 Research and development activities

The group continues its research and development activities through the progressive implementation of its transformation program of the operational and support applications.

Development costs related to the Finance Target Operating Model (FTOM) and Digital Acceleration projects were capitalized in 2018 for EUR 7.8 million and EUR 4.6 million, respectively. Most of these projects are expected to be operational from the second half of 2019.

7 Remuneration policy

The remuneration policy, which is an integral part of the governance memorandum, came into effect on 24 September 2014.

The policy was defined by the executive committee in consultation with the board of directors, the appointments and remuneration committee and the control functions.

This remuneration policy promotes sound and effective risk management and does not encourage any risk-taking that exceeds the level of risk tolerated by the group, while promoting the group's long-term objectives and interests and avoiding conflicts of interest.

In accordance with prevailing legislation, the policy has been published on the group's website.

The general principles are as follows:

- the total volume of variable remuneration granted does not limit the group's capacity to strengthen its equity;
- variable remuneration is never guaranteed, except in the exceptional case of a newly recruited employee and for the first year of employment;
- the executive committee has designated a number of 'identified staff' and drawn up a remuneration policy for them. This was done in line with the selection methodology and criteria set by the board of directors and based on the impact of these persons on the risk profile of the group.

This policy also provides for a maximum ratio between the amount of fixed remuneration and the amount of variable remuneration as well as schemes to carry forward variable remuneration in cash or, possibly, in financial instruments, in accordance with the procedures provided for by the regulatory authorities;

- the remuneration of non-executive members of the board of directors consists solely of fixed remuneration determined on the basis of market benchmarks. These members do not receive variable remuneration of any kind.

8 Main risks to which the group is exposed

By the nature of its activities, Degroof Petercam is exposed to certain risks.

The main risks are as follows:

- market risks, mainly related to investment activities in securities portfolios (equities, bonds) and to interest rate transformation activity ('Asset and Liability Management');
- liquidity risk resulting from differences in maturities between financing resources (generally short-term) and the use thereof;
- counterparty risk related to credit activity (a risk largely covered by using securities portfolios as collateral) and intermediation operations in derivative instruments;
- risks related to the asset management business (risk of legal action by clients if mandates have not been complied with, commercial risk of loss of dissatisfied clients and related reputational risks);
- the operational risk resulting from its activities, including banking activities (error in order execution, fraud, cybercrime, etc.), custodian services (loss of assets) or fund management (non-compliance with constraints).

9 Policy concerning the use of financial instruments

Within the group, derivatives are used for own account in the following ways:

In the context of ALM (Asset and Liability Management) management, interest rate derivatives (mainly interest rate swaps) are used to hedge the long-term interest rate risk of the group.

Interest rate swaps are used to hedge investments in bonds and loans granted to clients, from a micro-hedging perspective. These transactions are recognized in the accounts as 'Fair Value Hedge'.

Interest rate swaps are also used for global hedging purposes, with a macro-hedge perspective.

This use of derivatives is supervised by the ALM committee.
















































Similarly, the group's treasury department (interest rate risk < 2 years) uses interest rate derivatives and treasury swaps to manage the group's interest rate risk and treasury risk.




The management of the group's foreign exchange position also involves the use of derivatives (forward foreign exchange contracts and currency swaps) to cover commitments to clients and the financing of subsidiaries in the currency corresponding to their activities.

Degroof Petercam also engages in mediation in derivatives, notably stock options, on behalf of its clients.

10 Corporate governance

At 31 December 2018, the governance bodies of Bank Degroof Petercam nv |sa were comprised as follows:

	Board of directors	Executive committee	Audit committee	Risk committee	Remuneration committee	Nomination committee	Expiration date
Ludwig Criel*							2021
Philippe Masset							2020
Nathalie Basyn							2021
Bruno Colmant							2021
Gautier Bataille de Longprey							2022
Gilles Firmin							2019 ¹
Pascal Nyckees							2021
Benoît Daenen							2023
François Wohrer							2024
Véronique Peterbroeck							2021
Alain Schockert							2022
Alain Philippson							2019 ¹
Jean-Baptiste Douville de Franssu							2021
Miguel del Marmol							2021
Jean-Marie Laurent Josi							2022
Christian Jacobs*							2019 ²
Frank van Bellingen							2019 ¹
Jacques-Martin Philippson							2022
Guido Vanherpe*							2024

 Non-executive director
  Executive director
  Chairman
 * Independent director

10.1 The board of directors

The board of directors of Degroof Petercam includes the members of the executive committee and the non-executive directors.

The composition of the board of directors is reliant on the following rules:

- the composition of the board as a whole must enable it to function effectively, efficiently and in the best interests of the company; it must show a diversity and a complementarity of experience and expertise;
- no individual member nor group of directors must be able to control the decision-making of the board;
- the majority of directors must be non-executive;
- the board must include three independent directors among its members as at 31 December 2018.

The mission of the appointments committee is to make periodic recommendations to the board of directors concerning the size and composition of the board, particularly when terms of office are renewed. The members of the board all possess the professional integrity and appropriate experience required by the legal provisions.

In its recommendations to the general meeting of shareholders for the appointment of directors, the appointments committee takes into account the balance of knowledge, expertise, diversity and experience within the board.

¹ The renewals of these mandates will be submitted to the general meeting of 28.05.2019.

² The renewal of the mandate will not be submitted to the general meeting of 28.05.2019 in view of the fact that Mr. Christian Jacobs has served 3 terms as an independent director and can therefore no longer be qualified as independent within the meaning of article 526b of the CS.

During the financial year, the following changes were made to the composition of the board of directors and the executive committee.

The ordinary general meeting of 22 May 2018 appointed Guido Vanherpe as an independent non-executive director and François Wohrer as an executive director for a six-year term.

The board of directors considers as independent directors those of its members who meet the criteria mentioned in article 526b of the Companies Code. As at 31 December 2018, the following persons should be considered as independent directors: Christian Jacobs, Ludwig Criel and Guido Vanherpe.

On the recommendation of the appointments committee, the board of directors has decided to propose to the ordinary general meeting of 28 May 2019, for a term of three years expiring at the end of the May 2022 general meeting, the renewal of the terms of office as directors of Gilles Firmin (as executive director), Frank van Bellingen and Alain Philippson (as non-executive directors). In addition, the board of directors has decided to propose to the general meeting, on the recommendation of the appointments committee, the appointment of Kathleen Ramsey and Yvan De Cock as independent directors for a three-year term expiring at the end of the general meeting in May 2022.

In accordance with the applicable legal provisions, these appointments are subject to prior approval by the supervisors.

Responsibilities and operation of the board of directors

The board of directors is responsible for defining the strategy and the general policy. It ensures they are implemented by the executive committee and, based on the proposals of the executive committee, decides on the resources required to fulfill them. It determines the responsibilities and composition of the executive committee and supervises its activities. It ensures that sufficient resources exist to support the long-term future of the company.

It deliberates on all issues and matters within its competence, such as the approval of the annual financial statements and management reports as well as the convening of general meetings. At each quarterly meeting, it receives the information it needs regarding business performance and key figures, both for the company itself and for its main subsidiaries. It also approves the annual budget.

The board of directors meets at least four times a year. It met seven times during the past financial year.

At the end of each quarter, the board of directors reviewed, among other things, the results achieved by the group. It conducted strategic reviews on the direction to be given to the group's activities and developments.

The board of directors can only validly deliberate if at least half of its members are present or represented. No director may represent more than two of their fellow directors. Resolutions are passed by a simple majority of votes. In the event of a tied vote, the proposal is rejected.

The total remuneration allocated to the members of the board of directors is stated in the notes to the parent company financial statements (point XXIX, sub-item A4). The full version of the parent company's financial statements is available at the company's registered office.

10.2 Advisory committees created by the board of directors

Degroof Petercam has, in accordance with legal provisions, established four specialized committees within the board of directors, composed exclusively of non-executive directors, at least one of whom (and the majority in the case of the audit committee) is an independent director within the meaning of article 526b of the Companies Code. The board of directors may also designate observers.

10.2.1 Audit committee

As at 31 December 2018, the audit committee was composed of the following persons:

Membres	
Christian Jacobs	Chairman, independent director
Ludwig Criel	Independent director
Guido Vanherpe	Independent director
Miguel del Marmol	
Jean-Marie Laurent Josi	
Frank van Bellinghen	

The Chief Executive Officer, the Chief Risk Officer and the Chief Audit Officer, whilst not being members, are invited to attend the meetings of the audit committee. The Chief Financial Officer is invited to attend meetings related to the analysis of the half-yearly and annual financial statements and the development of the performance.

The company's auditor takes part in meetings that deal with the examination of the half-yearly and annual financial statements.

The audit committee met seven times during the past financial year. It reported systematically on its activities to the board of directors.

Each member of the audit committee has professional experience in financial management, reporting, accounting and auditing; each member of the audit committee has professional experience as a director exercising executive functions, and the members of the audit committee have complementary professional experience in different sectors of activity and have collective competence in the area of the group's activities.

The audit committee is chaired by Mr. Christian Jacobs, who has a degree in economics. He has significant experience in accounting and auditing acquired through various executive positions he has held for nearly 30 years in the banking and financial sector, mainly within the JP Morgan Group, but also as president of United Fund for Belgium, director and member of the executive committee of the Belgian Banking Association, and vice president of the American Chamber of Commerce in Belgium). He has chaired the group's audit committee since 2009.

Mr. Ludwig Criel has a degree in applied economics. He was chairman of the board of Petercam from 2011 to 2015, and has been chairman of the board of Degroef Petercam since 2018. He has extensive expertise and professional competence in accounting matters, having served as CFO and director of CMB for 24 years, as well as various non-executive mandates held within the Saverco group. In addition, he is chairman of the board of directors of De Persgroep.

Mr. Guido Vanherpe has a degree in applied economics and marketing. He also completed an MBA. He has been managing director of the La Lorraine Bakery Group since 1995. He is chairman of the audit committee of Resilux and was a member of the audit committee of Terbeke. During his career, in addition to his theoretical skills, he has acquired extensive professional experience in accounting and auditing.

Mr. Jean-Marie Laurent Josi holds an MBA from Solvay Business School and a master's degree in tax accounting. He has acquired specialized professional experience in accounting and auditing mainly through his role as CEO of Cobepa since 2004, as well as through his various roles as a director of companies in a number of sectors, and more particularly his role as a member of the audit committee of Carmeuse and of Touring Club.

Mr. Miguel del Marmol has a degree in business engineering. He has acquired professional experience in auditing and accounting throughout his career with the Total Group, particularly as general manager.

Mr. Frank van Bellingen has a bachelor's degree in philosophy, a master's degree in economics and a master's degree in international relations, but he was also certified as an accountant and tax expert until 2006. Director and CFO of CLDN-Cobelfret for more than 20 years, he brings relevant experience and expertise in auditing and accounting.

The audit committee assists the board of directors in the performance of its supervisory role, particularly with respect to:

- financial information intended for shareholders and third parties;
- the audit process;
- the functioning of the internal control system;
- monitoring the relationship with the auditor.

The meetings mainly focused on examining the half-yearly financial statements, the annual financial statements and activity reports, on the follow-up of the implementation of the recommendations by the group's internal auditors and the approval of the planning of the internal audit missions, on the selection process for the new auditor, on the follow-up of financial reporting projects, IT strategy and the correspondence/reports of the regulators. The committee is also informed of the conclusions of the audit and risk committees of the subsidiaries. Representatives of the group's main subsidiaries reported on their activities and challenges. The committee has taken note of the list of disputes.

10.2.2 Risk committee

As at 31 December 2018, the risk committee was composed of the following persons:

Membres	
Frank van Bellingen	Chairman
Guido Vanherpe	Independent director
Christian Jacobs	Independent director
Jean-Baptiste Douville de Franssu	
Jacques-Martin Philippon	

The Chief Executive Officer, the Chief Risk Officer and the Chief Audit Officer, whilst not being members, are invited to the meetings of the risk committee.

The risk committee met seven times during the past financial year. It reported systematically on its activities to the board of directors.

Each member of the risk committee has professional experience as a director in executive positions, and has the necessary additional knowledge, expertise, experience and abilities to understand the group's strategy and risk tolerance level.

Mr. Frank van Bellingen has a master's degree in economics and a master's degree in international relations. He has acquired professional experience in risk management through his role as a director and chief financial officer of CLDN-Cobelfret, where he has been responsible for risk management since 1988. He has also chaired the risk committee of Degroof Petercam since 2015.

Mr. Guido Vanherpe has a degree in applied economics and applied marketing. He also completed an MBA. He has been managing director of the La Lorraine Bakery Group since 1995 and has gained relevant professional experience in risk management.

Mr. Christian Jacobs, who has a degree in economics, has dealt with risk management during his career with the JP Morgan Group, and has supplemented his expertise with his role as a director and member of the executive committee of the Belgian Banking Association, and vice president of the American Chamber of Commerce in Belgium.

Mr. Jean-Baptiste Douville de Franssu graduated from the Groupe de l'Ecole Supérieure de Commerce de Reims and the University of Middlesex (London) in Business Administration. He holds a degree in actuarial science from Pierre and Marie Curie University (Paris). Until 2012 he was managing director of Invesco Plc, one of the largest asset managers in the world. Since then, he has held numerous board positions in the financial sector. He is chairman of the board of directors of L'Istituto per le Opere di Religione (IOR) and vice-chairman of the board of directors and chairman of the Audit and Risk Committee of the La Française Group.

Mr. Jacques-Martin Philippson has gained professional experience in risk management throughout his career as a director (executive and non-executive) of many companies since 1990. In addition, he has been a member of the risk committee of Degroof Petercam in Belgium and Luxembourg since 2012.

The risk committee assists the board of directors in assessing the level of risk tolerance and proposes action plans in this area.

The risk committee deals in particular with the group's main risk policies. It receives specific briefings from the relevant managers, examines the procedures for controlling certain market risks and structural interest rate risks.

The risk committee paid particular attention to the monitoring carried out by risk management and more specifically to the impact of certain decisions on the group's risk profile. The committee also ensured the proper application of the compensation policy and the identification of identified staff. It validated the ICAAP 1 and ILAAP 2 reports, updating the recovery plan, the periodic risk management and operational risk reports, as well as the Compliance Officer's annual report (quarterly and annually, Enterprise Wide Risk Assessment). In addition, IT security and cyber risks as well as GDPR issues were analyzed by the risk committee.

10.2.3 Appointments committee

As at 31 December 2018, the appointments committee was composed of the following persons:

Membres	
Alain Philippson	Chairman
Ludwig Criel	Independent director
Guido Vanherpe	Independent director
Jean-Marie Laurent Josi	
Véronique Peterbroeck	
Jacques-Martin Philippson	

After his studies as a commercial engineer at the Solvay Brussels School (ULB), Mr. Alain Philippson started his career at First National Citibank. In 1972, he joined Bank Degroof, where he was a member of the executive committee for more than 30 years and chaired the board of directors for many years.

Mr. Guido Vanherpe has a degree in applied economics and marketing. He also completed an MBA. He has been managing director of the La Lorraine Bakery Group since 1995.

Mr. Jean-Marie Laurent Josi holds an MBA from Solvay Business School and a master's degree in tax accounting. He has acquired specialized professional experience in accounting and auditing mainly through his role as CEO of Cobepa since 2004, as well as through his various roles as a director of companies in a number of sectors, and more particularly his role as a member of the audit committee of Carmeuse and of Touring Club.

Ms. Véronique Peterbroeck, who is a candidate in economics and a state-certified stockbroker, has been a director of the group since 2011. She is also a director of various asset management companies and foundations/ASBLs for development in developing countries in the South, and also gained experience in human resources through her time as an employee in Petercam's human resources department in 2006.

In addition to his directorships with Degroof Petercam in Belgium and Luxembourg since 2011-2012, Mr. Jacques-Martin Philippson has been a director of companies since 1990 in the areas of events, audiovisual, logistics, financial management, real estate development and asset management.

The members of the appointments committee have complementary professional experience in different sectors of activity and collectively have the necessary expertise to enable the committee to exercise a relevant and independent judgment on the composition and functioning of the group's management and administrative bodies

The appointments committee is consulted in particular on matters relating to:

- the composition and size of the board of directors and executive committee;
- the definition of the profile of the board of directors and executive committee members and identified staff, and the selection process;
- proposals for appointing and re-electing directors and members of the executive committee.

The Chief Executive Officer and the Group Chief HR Officer are invited to attend the meetings of the appointments committee.

The appointments committee ensures that it applies the recruitment, appointment and renewal policy applicable to the functions of directors, acting directors and managers of the independent control function.

The appointments committee ensures that it makes proposals regarding the composition of the board of directors and the executive committee, defines the profile of their members and participates in the selection process of their members. It also makes recommendations regarding the appointment and re-election of directors and members of the executive committee.

The directors are elected by the general meeting of shareholders, after approval by the supervisory authority, for a term not exceeding six years, and are eligible for re-election.

For the renewal of a director's mandate, the appointments committee must analyze the individual contribution of the director concerned before recommending the renewal of the mandate to the board of directors.

The members of the executive committee are appointed by the board of directors, based on the proposal from the appointments committee, and after approval by the supervisory authorities. The chairman of the executive committee is appointed by the board of directors from among the members of this committee after recommendation of the appointments committee and approval by the supervisory authority. The dismissal or non-renewal of the chairman's mandate is subject to the same procedure.

The appointments committee met seven times during the past financial year. It reported systematically on its activities to the board of directors.

10.2.4 Remuneration committee

As at 31 December 2018, the remuneration committee was composed of the following persons:

Membres	
Ludwig Criel	President, independent director
Christian Jacobs	Independent director
Alain Schockert	

Each member of the committee has professional experience as a director exercising executive functions and the members of the remuneration committee have the necessary expertise to exercise reasoned and independent judgment on remuneration policies and incentives created for risk, capital and liquidity management.

Mr. Ludwig Criel has a degree in applied economics. He was chief financial officer and executive officer of CMB for 24 years, and has held various non-executive positions within the Saverco Group. He is also chairman of the board of directors of De Persgroep. After having chaired the board of directors and the remuneration committee of Petercam from 2011 to 2015, he is now chairman of the board of Degroof Petercam, and has been a member of the remuneration committee since 2016.

Mr. Christian Jacobs, who has a degree in economics, held executive positions within the JP Morgan Group for nearly 30 years and chaired the JP Morgan remuneration committee for 8 years, was a member of the Euroclear remuneration committee for 4 years and finally chaired the Imperbel Belgium remuneration committee.

Mr. Alain Schockert, who has a degree in applied economics and who is both master as well as doctor in management sciences, has been chairman of the board of directors of Banque Degroof Petercam Luxembourg since 2015 and a director of the group in Belgium since 1998. He was also a member of the remuneration and appointment committee of Cofinimmo.

The remuneration committee is consulted in particular on matters relating to:

- the general remuneration policy;
- the total amount of variable remuneration;
- the remuneration of directors who are members of the executive committee;
- the remuneration of identified staff and independent control functions;
- the profit-sharing plans for group employees.

The Chief Executive Officer and the Group Chief HR Officer are invited to attend the meetings of the remuneration committee.

The remuneration committee met seven times during the past financial year. It reported systematically on its activities to the board of directors.

10.3 Executive committee and day-to-day management of the group

In accordance with article 17 of its articles of association and article 24 of the banking act, the board of directors has set up an executive committee within its ranks.

The executive committee is responsible for managing the activities of the credit institution within the framework of the general policy defined by the board of directors.

Accordingly, the executive committee is empowered by the board of directors to make decisions and represent the company in its dealings with personnel, clients, other credit institutions, the wider economic and social environment and public authorities. It will also make decisions in respect of the representation of the company within its subsidiaries and within those companies in which it holds equity investments.

At 31 December 2018, the executive committee was composed of the following members:

Composition du comité de direction	
Philippe Masset	Chief Executive Officer
Nathalie Basyn	Chief Financial Officer
Bruno Colmant	Head of Macro Economic Research and Economic Advisor
Gautier Bataille de Longprey	Group Head of Business Development
Gilles Firmin	Chief Risk Officer
Pascal Nyckees	Group Chief Operations Officer
Benoît Daenen	Head of Private Banking
François Wohrer	Group Head of Investment Banking

The composition of the executive committee is determined on the basis of the following principles:

- the complementarity of expertise (in financial matters, risk management, operational know-how, etc.) required to ensure the implementation of the strategy as defined by the board of directors;
- changing requirements;
- the consideration of the moral and ethical criteria applicable within the group.

Each of the current members of the executive committee holds the title of managing director.

In principle, the executive committee meets four times a month. It met 48 times during the past financial year.

10.4 Earnings appropriation policy

The dividend is determined with reference to consolidated net profit and retained earnings, as well as the strategy of the group.

10.5 Governance memorandum

Degroof Petercam has drawn up a governance memorandum assessing the basic features of its management structure with respect to:

- the personal integrity and financial soundness of major shareholders;
- a transparent management structure with a focus on sound and prudent management;
- the definition of the expertise and responsibilities of each segment of the organization;
- the collegial nature of the executive management;
- the independent control functions;
- the suitable profiles and qualities of its executives;
- the remuneration policy for its executives;
- the determination of the strategic objectives and values that the group sets for itself;
- management's sound knowledge of the operational structure and activities;
- adequate communication regarding management and control with the various stakeholders concerned.

This information is submitted to the National Bank of Belgium and is periodically updated.

11 Significant events after the balance sheet closing date

Degroof Petercam has no significant events to report.

12 Discharge to directors and auditor

In accordance with the law and the articles of association, the general meeting is requested to grant discharge to the directors and the auditor of Bank Degroef Petercam nv | sa with respect to the performance of their mandates during the past financial year.

13 List of mandates exercised by directors in accordance with the application of the Law of 3 May 2002 amending the rules on incompatibility of mandates applicable to directors of credit institutions and investment companies and the Banking, Finance and Insurance Commission Regulation of 9 July 2002

The list of external mandates held by directors of Degroef Petercam and which are subject to publication, is available at www.degroofpetercam.com.

Brussels, 25 April 2019.



Degroof
Petercam

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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) - Capital instruments at fair value through other comprehensive income	8.14	485	
Total other comprehensive income 2 that may not be reclassified subsequently to net profit 2		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 g 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 at 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.

Additional information concerning the precise nature and the effects of these changes are detailed in note 7.20 relating to the initial impact of the transition to IFRS 9.

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 current pace of recognition is in line with the requirements of IFRS 15.

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

Notes to the consolidated financial statements

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 Degroef 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 Degroef 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 Degroef 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 Degroef 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 Degroef 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.
- 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 Degroef 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 Degroef 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 be 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 Degroef 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 Degroef 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.

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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 Degroef 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 Degroef 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 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 Degroef 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

Tax assets and liabilities payable correspond to the amounts actually payable or recoverable, determined on the basis of the prevailing tax regulations and rates applicable in each country in which the group has companies at the financial period-end, as well as to prior period tax adjustments.

DEFERRED TAXES

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 Degroef 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 & ILAAP¹), 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. Not surprisingly, due to the specificities of the business model of the Bank compared with the rest of the market (Private Banking), the highly adverse impact concern commissions (Non Interest income).

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

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.

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 liabilities¹. The liquidity gap is based on contractual maturities. The calculation of the corrected liquidity gap takes into account the capacity to mobilize the bond portfolios²:

(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.

Notes to the consolidated financial statements

(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.		

Notes to the consolidated financial statements

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

Notes to the consolidated financial statements

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)

Relevant markets or indices ³	Mouvement	Impact on own funds	
		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:

Stage	Trigger	Impact on own funds
		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.

Notes to the consolidated financial statements

2) In respect of loans and advances to customers, Bank Petercam Degroef 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 is 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 Degroef 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		
<i>Public sector</i>	e	736 707	736 707		
<i>Other issuers – banks</i>	c+e	778 346	778 346		
<i>Other issuers – commercial companies</i>	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
<i>Public sector</i>	e	638 501	638 501	0
<i>Other issuers – banks</i>	c+e	706 614	706 614	0
<i>Other issuers – commercial companies</i>	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:

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):

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:

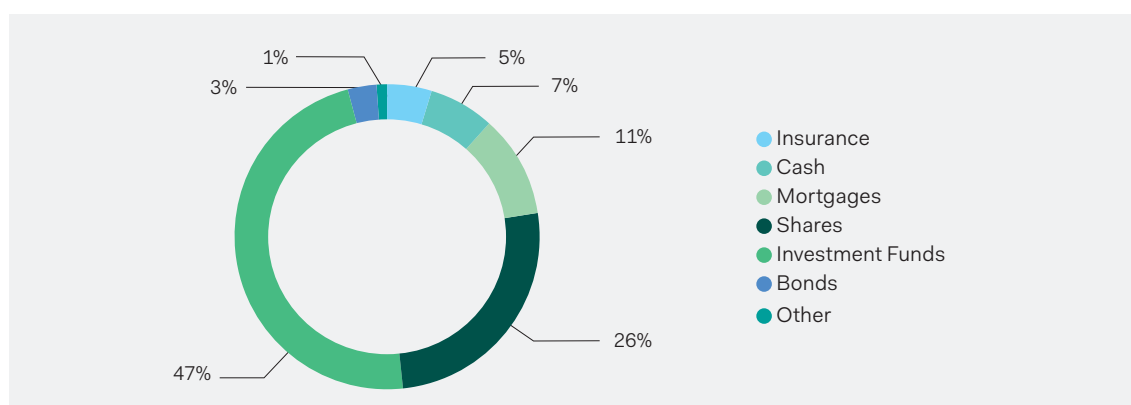
Rating	Proportion (in %)
AAA	10%
AA+	14%
AA	14%
AA-	33%
A+	2%
A-	7%
BBB	17%
NR	3%

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:

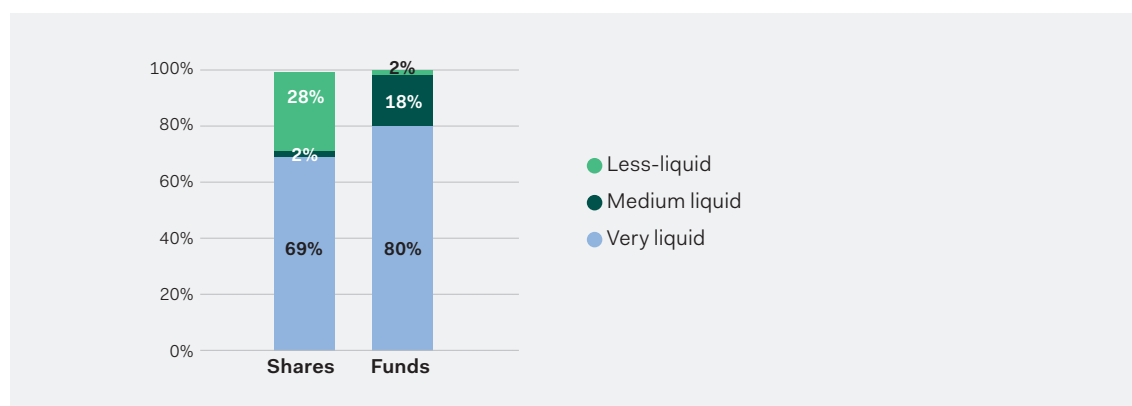


A majority of the guarantees thus comprise funds and shares which represent 73% of total guarantees.

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

Notes to the consolidated financial statements

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):

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

(in thousands of EUR)

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 Degroef 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 Degroef 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 Degroef Petercam Asset Management Ltd. (Hong Kong) as well as by the liquidation of Degroef Petercam Immobilier SA, Degroef Holding Luxembourg SA, Degroef 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 reserves¹ 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
<i>Bonds from other issuers</i>	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
<i>Bonds from other issuers</i>	4 479
Variable-income securities	8 826
<i>Equities</i>	8 663
<i>Other variable income securities</i>	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
<i>Treasury bills and government bonds</i>	351 176
<i>Bonds from other issuers</i>	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.

Notes to the consolidated financial statements

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	Accumulation 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

Risk categories	Term to maturity			
	< 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)

01.01.2018

Fair value movements used to calculate the hedge inefficiency	Hedging ineffectiveness recognized in income statement	Statement of comprehensive income	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)

01.01.2018

Fair value movements used to calculate the hedge inefficiency	Remaining adjustment for discontinued hedges	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.

Notes to the consolidated financial statements

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
<i>Treasury bills and government bonds</i>	252 535	342 095
<i>Bonds from other issuers</i>	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 risks	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
<i>Treasury bills and government bonds</i>	226 953
<i>Bonds from other issuers</i>	887 218
<i>Other fixed income instruments</i>	21 052
Variable-income securities	68 580
<i>Equities</i>	23 847
<i>Other variable income securities</i>	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.

Notes to the consolidated financial statements

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		
<i>Treasury bills and government bonds</i>	494 356	257 124
<i>Bonds from other issuers</i>	881 346	746 509
<i>Other debt instruments</i>	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 risks	(45)	(8)	0	(53)
Foreign exchange and other movements	81	0	(118)	(38)
Balance at 31 December 2018	(183)	(48)	(2 620)	(2 851)

Notes to the consolidated financial statements

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 million.

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.

Notes to the consolidated financial statements

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)

Cash generating unit	Carrying amount			Method used for the recoverable amount
	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)

Associates	31.12.2018	31.12.2018	31.12.2017	31.12.2017	Currency
	Equity	Profit	Equity	Profit	
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 liabilities 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 liabilities 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 benefits	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 Degroef 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

Notes to the consolidated financial statements

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 risks	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 LLC (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 tax 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 amortised 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.

Notes to the consolidated financial statements

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
<i>Financial assets held for trading</i>	49 452	70 331	0	119 783
<i>Other financial assets</i>	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
<i>Equity instruments</i>	208	0	12 558	12 766
<i>Debt securities</i>	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
<i>Financial assets held for trading</i>	14 730	109 214	4 994	128 938
<i>Other financial assets</i>	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
<i>Equity instruments</i>	192	0	13 143	13 335
<i>Debt securities</i>	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	Financial assets designed at fair value through profit or loss	Available-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	Financial 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).

Notes to the consolidated financial statements

(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 amortised 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 amortised 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

Notes to the consolidated financial statements

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.

	Gross amount of recorded financial instruments	Gross amount of offset recorded financial instruments	Net amount of financial instruments recorded on the balance sheet
31.12.2018			
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

	Gross amount of recorded financial instruments	Gross amount of offset recorded financial instruments	Net amount of financial instruments recorded on the balance sheet
31.12.2017			
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.

Notes to the consolidated financial statements

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 instruments	Equities instruments	Debts instruments	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 amortised 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 instruments	Equities instruments	Debts instruments	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 amortised 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 IFRS 9

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 IAS 39.

Notes to the consolidated financial statements

Impact on the statement of financial position and the equity

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 1 January 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 IAS 39	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)
Cash, balances with central banks and other demand deposits	3 191 899			
Financial assets held for trading	132 368	128 938		
<i>Fixed-income securities</i>	4 479	4 479		
<i>Variable-income securities</i>	8 826	8 826		
<i>Derivative financial instruments</i>	119 063	115 633		
Financial assets designated at fair value through profit or loss	893 350			2 271
<i>Fixed-income securities</i>	893 350			2 271
Available-for-sale financial assets	1 195 166		4 636	118 755
<i>Fixed-income securities</i>	1 132 721			74 281
<i>Variable-income securities</i>	62 445		4 636	44 474
Loans and advances to credit institutions	221 999			
Loans and advances to customers	1 916 135			
<i>Debt instruments</i>	12 862			
<i>Other loans and advances</i>	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 IFRS 9	8 251 802

Notes to the consolidated financial statements

Financial liabilities

Carrying amount IAS 39

IAS 39	Financial liabilities held for trading	158 234
	<i>Fixed-income securities</i>	253
	<i>Variable-income securities</i>	762
	<i>Derivative financial instruments</i>	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)
	<i>Debt instruments</i>	10 434
	<i>Equity instruments</i>	5 053
	<i>Other</i>	(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 IFRS 9		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

Notes to the consolidated financial statements

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 value 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 value 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

Notes to the consolidated financial statements

Derecognition 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 1 January 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		Impairment per stage			
	Reclassi- fication ¹	Application new impairment methodology ²	Total	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			

Fair value variation that would have been recognised during 2018

Carrying amount 31/12/2018	Fair value 31/12/2018	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
<i>Financial assets at fair value through other comprehensive income</i>	7 088
<i>Loans and advances to credit institutions</i>	1 416
<i>Loans and advances to customers</i>	26 483
<i>Financial assets at amortised cost</i>	6 540
<i>Financial instruments for hedge accounting</i>	2 965
<i>Financial liabilities</i>	2 562
Interest income stemming from the application of the effective interest rate method	47 054
<i>Financial assets held for trading</i>	102
<i>Financial assets mandatorily at fair value through profit or loss</i>	1 059
Interest income stemming from the application of another method than the effective interest rate method	1 161
Interest expenses	(31 331)
<i>Deposits from credit institutions</i>	(1 337)
<i>Deposits from customers</i>	(9 078)
<i>Financial instruments for hedge accounting</i>	(10 406)
<i>Financial assets</i>	(10 431)
<i>Other</i>	(78)
Interest expenses stemming from the application of the effective interest rate method	(31 330)
<i>Financial liabilities held for trading</i>	(1)
Interest expenses stemming from the application of another method than 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
<i>Financial assets held for trading</i>	125
<i>Financial assets at fair value through profit or loss</i>	17 383
Interest income on assets stated at fair value	17 508
<i>Loans and advances to credit institutions</i>	679
<i>Loans and advances to customers</i>	23 684
<i>Available-for-sale securities</i>	6 300
<i>Held to maturity securities</i>	1 790
<i>Other</i>	3 787
Interest income on assets not stated at fair value	36 240
Interest expenses	(11 996)
<i>Financial liabilities held for trading</i>	(55)
Interest expenses on assets stated at fair value	(55)
<i>Deposits from credit institutions</i>	(1 393)
<i>Deposits from customers</i>	(4 081)
<i>Other</i>	(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 revenues	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
<i>Bonds</i>	2 923
<i>Other debt securities</i>	201
Equity instruments	486
Derivatives	20 997
<i>Foreign exchange derivatives</i>	25 784
<i>Interest rate derivatives</i>	(12 026)
<i>Equity derivatives</i>	7 224
<i>Commodity derivatives</i>	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 measured at fair value 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)
<i>Treasury bills and government bonds</i>	(519)
<i>Bonds from other issuers</i>	(635)
<i>Other debt instruments</i>	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

Notes to the consolidated financial statements

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)
<i>Treasury bills and government bonds</i>	(148)
<i>Bonds from other issuers</i>	(78)
Net result on financial instruments 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 representation and travel expenses, supplies and documentation, 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

Notes to the consolidated financial statements

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
<i>Profit before income tax</i>	<i>80 589</i>	<i>108 345</i>
<i>Income of entities accounted for using the equity method</i>	<i>479</i>	<i>351</i>
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 million).

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 Degroef Petercam group's commitments and the principal actuarial assumptions used:

Notes to the consolidated financial statements

	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 costs		
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
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)	538
d. Return on assets (other than interest income)	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

Notes to the consolidated financial statements

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					
Exercised	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

Notes to the consolidated financial statements

(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 Degroef 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 Degroef 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 Degroef 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 exercise 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 – Draft

Statutory auditor's report to the general meeting 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 audit of the consolidated financial statements for the year ended 31 December 2018, as well as our report on other legal, regulatory and professional requirements. These reports are 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 AUDIT OF 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'). 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 9 section 7 of the consolidated financial statements.

Provision for 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 legal disputes. On the other hand, an unfavorable outcome for certain litigation could lead to a potential significant impact on the financial position of the Group.

In view of the uncertainties inherent in any legal dispute, the process of estimating the risks is inevitably uncertain. Management recognizes provisions for litigations based on its assessment of the likelihood of settlement of individual cases 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 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 litigations, as well as the appropriateness of management's assessment,
- We assessed management's previous ability to determine the likely outcome of litigations accurately and challenged the reasonableness of current determination,
- We agreed management's assessment of litigations to relevant correspondence and to the complaints 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 for litigations,
- We examined the contractual arrangements for insurance cover.

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.

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;

Consolidated financial statements

- 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.

REPORT ON THE OTHER LEGAL, REGULATORY AND PROFESSIONAL REQUIREMENTS

Responsibilities of the Board of Directors

The board of directors is responsible for the preparation and the content of the board of directors' annual report on the consolidated financial statements, 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 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, 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 and other information included in the annual report

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. We do not express any form of assurance on the board of directors' annual report on the consolidated financial statements.

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, which is part of the annual report. 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 KPIs for Environmental, Social & Governance Issues ('KPIs for ESG'), Principles for Responsible Investment ('PRI') and Sustainable Development Goals ('SDG'). However, we do not comment on whether this non-financial information has been prepared, in all material respects, in accordance with KPIs for ESG, PRI and SDG mentioned in the board of directors' annual report on the consolidated financial statements. In addition, we do not express any form of assurance regarding the individual elements included in this non-financial information.

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 Bedrijfsrevisoren / Réviseurs d'Entreprises
Statutory auditor
represented by

Olivier Macq
Réviseur d'Entreprises / Bedrijfsrevisor



Degroef
Petercam

Abridged company financial statements

The abridged non-consolidated statutory financial statements set out on the following pages are those of Bank Degroef Petercam SA | NV, which has its registered office at rue de l'Industrie | Nijverheidsstraat 44, 1040 Brussels.

These financial statements have been prepared in accordance with accounting policies generally accepted in Belgium. All amounts are stated in thousands of euros.

The statutory auditor has issued an unqualified opinion on the complete non-consolidated statutory financial statements, which will be filed with the National Bank of Belgium within the prescribed deadlines.

Balance sheet after profit appropriation

(in thousands of EUR)

	31.12.2018	31.12.2017
Assets		
I Cash in hand, balances with central banks and post office banks	1 415 242	1 345 310
III Loans and advances to credit institutions	209 068	223 378
A Repayable on demand	107 098	122 815
B Other loans and advances (with agreed maturity dates or periods of notice)	101 970	100 563
IV Loans and advances to customers	1 446 955	1 304 905
V Debt securities including fixed-income securities	1 374 723	1 466 881
A Issued by public bodies	310 507	263 681
B Issued by other borrower	1 064 216	1 203 200
VI Shares and other variable-yield securities	14 692	8 447
VII Financial fixed assets	418 971	399 216
A Participating interests in affiliated enterprises	410 859	392 848
B Participating interests in other enterprises linked by participating interests	4 047	2 750
C Other financial fixed assets	3 281	3 282
D Subordinated claims on affiliated enterprises and on other enterprises linked by participating interests.	784	336
VIII Formation expenses and intangible fixed assets	18 184	9 163
IX Tangible fixed assets	19 731	23 740
XI Other assets	32 580	33 663
XII Deferred charges and accrued income	75 040	87 784
Total assets	5 025 186	4 902 487

(in thousands of EUR)

	31.12.2018	31.12.2017
Liabilities		
Debts	4 542 697	4 440 114
I Amounts owed to credit institutions	123 820	290 720
A Repayable on demand	95 908	220 128
C Other debts (with agreed maturity dates or periods of notice)	27 912	70 592
II Amounts owed to customers	4 232 254	3 910 147
B Other debts	4 232 254	3 910 147
¹ Repayable on demand	4 039 257	3 750 989
² With agreed maturity dates or periods of notice	192 997	159 158
IV Other liabilities	121 516	167 901
V Accrued charges and deferred income	34 548	34 166
VI Provisions and deferred taxes	20 459	27 080
A Provisions for liabilities and charges	20 239	26 849
³ Other liabilities and charges	20 239	26 849
B Deferred taxes	220	231
VII Fund for general banking risks	10 100	10 100
Shareholders' equity	482 489	462 373
IX Capital	34 212	34 212
A Issued capital	34 212	34 212
IX Share issue premiums	115 919	115 919
XII Reserves	113 084	113 105
A Legal reserve	4 411	4 411
C Untaxed reserves	15 536	15 557
D Reserves available for distribution	93 137	93 137
XII Profit (loss(-)) brought forward	219 274	199 137
Total liabilities	5 025 186	4 902 487

(in thousands of EUR)

	31.12.2018	31.12.2017
Off-balance sheet captions		
I Contingent liabilities	222 629	222 629
B Guarantees serving as direct credit substitutes	119 379	119 379
C Other guarantees	1 030	1 030
E Assets charged as collateral security on behalf of third parties	102 220	102 220
II Commitments which could give rise to a credit risk	245 364	245 364
B Commitments as a result of spot purchases of transferable or other securities	23 881	23 881
C Undrawn margin on confirmed credit lines	221 483	221 483
III Assets lodged with the credit institution	48 783 157	48 783 157
B Safe custody and equivalent items	48 783 157	48 783 157
IV Amount still to be paid up on shares	1 395	0

Income statement

(in thousands of EUR)

	31.12.2018	31.12.2017
Charges		
II Interest payable and similar charges	8 164	5 247
V Commissions payable	4 099	4 498
VI Loss on financial transactions	631	0
B Loss on disposal of investment securities	631	0
VII General administrative expenses	171 076	167 118
A Remuneration, social security costs and pensions	95 670	103 561
B Other administrative expenses	75 406	63 557
VIII Depreciation and amounts written off formation expenses, intangible and tangible fixed assets	7 946	8 160
IX Increase in amounts written off receivables and in provisions for off-balance-sheet captions 'I Contingent liabilities' and 'II Commitments which could give rise to a credit risk'	0	622
X Amounts written off on the investment portfolio of debt securities, shares and other fixed-income or variable-yield securities	5 189	0
XII Provisions for liabilities and charges other than those included in the off balance sheet captions 'I Contingent liabilities' and 'II Commitments which could give rise to a risk'	0	760
XV Other operating charges	23 958	18 574
XVIII Extraordinary charges	27 035	14 930
A Depreciation and amounts written off formation expenses, intangible and tangible fixed assets	0	751
B Amounts written off financial fixed assets	23 044	10 592
C Provisions for extraordinary liabilities and charges: allowances	0	2 022
D Loss on disposal of fixed assets	174	0
E Other extraordinary charges	3 817	1 565
XX Income taxes	1 811	1 221
XXI Profit for the period	75 712	70 123
XXIII Profit for the period, available for appropriation	75 733	70 144

(in thousands of EUR)

	31.12.2018	31.12.2017
Income		
I Interest receivable and similar income	33 740	31 342
including that from fixed-income securities	9 641	14 445
III Income from variable-yield securities	94 282	75 232
A From shares and other variable-yield securities	1 032	530
B Participating interests in affiliated enterprises	93 250	74 106
C From participating interests in other enterprises linked by participating interests	0	31
D From other shares held as financial fixed assets	0	565
IV Commissions receivable	158 215	141 315
A Brokerage and related fees	22 343	26 057
B Remuneration of asset management, investment advice and safekeeping services	117 020	25 268
C Other fees received	18 852	89 990
VI Profit on financial transactions	999	11 525
A Profit on trading of securities and other financial instruments	999	9 089
B Profit on disposal of investment securities	0	2 436
IX Write-backs of amounts written off receivables and in provisions for off-balance-sheet captions 'I Contingent liabilities' and 'II Commitments which could give rise to a credit risk'	1 968	0
X Adjustments in write-downs on the investment portfolio of debt securities, shares and other fixed-income or equity investment securities	0	914
XI Utilisation and write-backs of provisions for liabilities and charges other than those included in the off balance sheet captions 'I Contingent liabilities' and 'II Commitments which could give rise to a risk'	0	5 096
XIV Other operating income	25 461	21 956
XVII Extraordinary income	9 965	3 810
A Adjustments to depreciation and amounts written off intangible and tangible fixed assets	0	1
B Adjustments to amounts written off financial fixed assets	0	10
C Adjustments to provisions for extraordinary liabilities and charges	6 610	2 383
D Gain on disposal of fixed assets	98	96
E Other extraordinary income	3 257	1 320
XIX bis B Transfers from deferred income taxes	11	11
XX B Adjustments of income taxes and write-back of tax provisions	979	52
XXII Transfers from untaxed reserves	21	21

(in thousands of EUR)

	31.12.2018	31.12.2017
Off-balance sheet captions		
I Contingent liabilities	222 629	222 629
B Guarantees serving as direct credit substitutes	119 379	119 379
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Degroof
Petercam

Consolidated non-financial statement

This document constitutes Degroef
Petercam's draft non-financial information
statement for the year 2018.

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Introduction



Sustainability at Degroof Petercam: Imagine Tomorrow

Our societies are on a unsustainable track, facing numerous interrelated economic, social and environmental challenges. Natural resources are being depleted; the world population is growing increasingly urbanized; the effects of climate change are felt around the world.

Seeking to put many of these challenges on top of the global development agenda, the United Nations adopted 17 [Sustainable Development Goals](#) (SDGs) in 2015. The SDGs are creating a common framework towards eradicating poverty, protecting the planet and advancing prosperity by 2030. They bring forward several paradigm shifts for public authorities, civilians and companies alike.

At Degroof Petercam we believe that the SDGs present a unique opportunity, not just a challenge, to achieve a better and more sustainable future for all. Companies like ours have a vital role to play in creating a more sustainable environment. We are therefore determined to make our voice heard and push for change through the impact we have on our internal and external stakeholders, such as our staff members, clients, shareholders, partners and society at large.

While our sustainable efforts are not yet aligned with the official SDGs framework, the inherent [E.T.H.I.C. values](#) of our group (Excelling, Teaming up, Humane, Intrapreneurial and Client-centric) already led to a wide array of initiatives in our organization over the past years. As illustrated by our pioneering role in philanthropy, sustainable and responsible investments and impact investing, we already address many of the targets which are also set out in the SDGs. We continuously seek to further improve and to align our efforts with the SDGs in the future.

More than ever, the integration of environmental, social and governance (ESG) criteria in the management of our activities is a prerequisite for our viability and therefore for our profitability and our ability to create long-term shareholder value.



“ Companies like ours have a vital role to play in creating a more sustainable environment. We are therefore determined to make our voice heard and push for change through the impact we have on our internal and external stakeholders, such as our staff members, clients, shareholders, partners and society at large.

Jean-Marc Verbist – Group Chief HR Officer

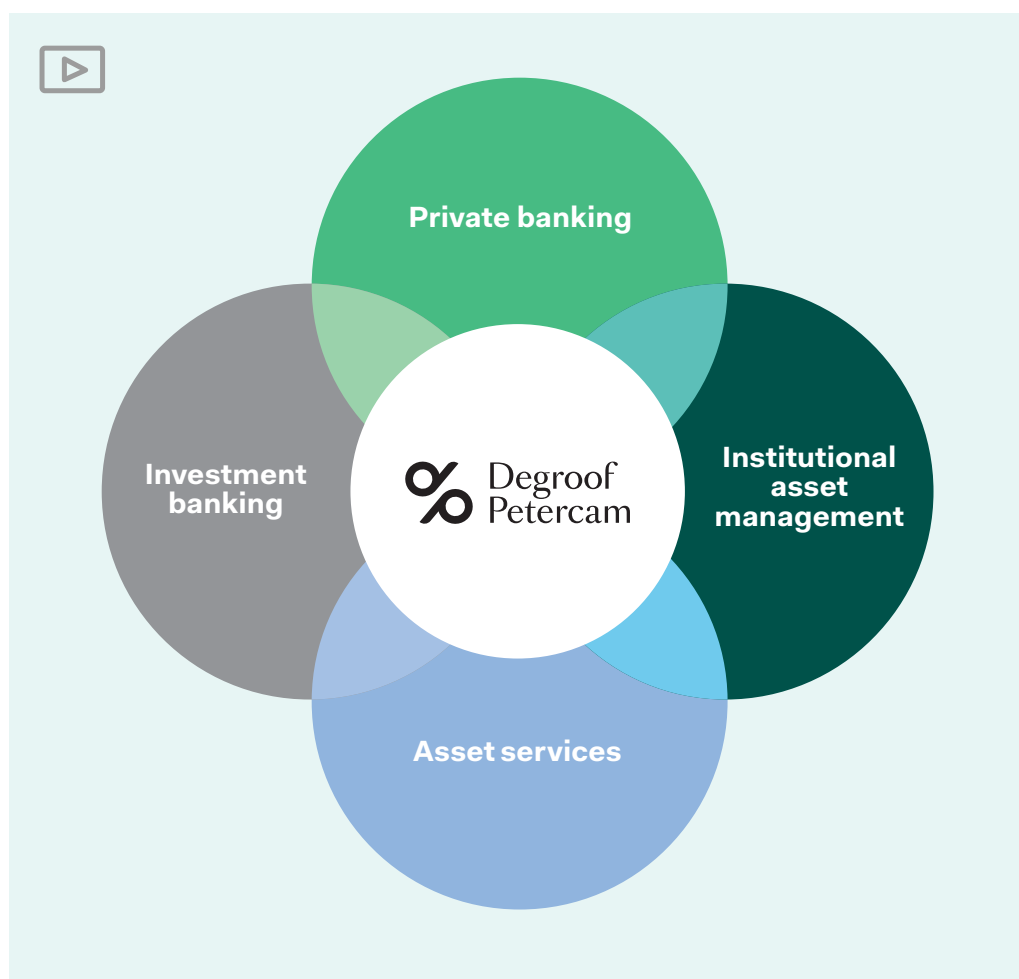
Degroof Petercam at a Glance

Degroof Petercam is a reference financial institution with a history dating back to 1871. As an independent group owned by family shareholders with a long-term commitment, we serve both private and institutional investors. Thanks to our long-term vision, we have the opportunity to have a greater focus on durable shareholder value, which is inherently connected to sustainable practices.

Headquartered in Brussels, we employ over 1 400 professionals through offices in Belgium, Luxembourg, France, Switzerland, Spain, The Netherlands, Germany and Italy.

Our clients benefit from a unique combination of services in Private Banking, Institutional Asset Management, Investment Banking (Corporate Finance and Financial Intermediation) and Asset Services. We offer Asset Management services, as well as administration and custody activities to private investors and families, corporates, pension funds, universities, insurance companies, governmental and non-profit organizations.

At the end of December 2018, total clients assets equaled more than 63 billion euros.





Extra-Financial Report

The Extra-Financial Report Practice

The objective of this extra-financial report is to share Degroof Petercam's main activities related to sustainable development and to analyze the progress and improvements to be implemented. It also reflects our commitment to respecting our people, clients, shareholders, partners, the communities in which we operate, and the planet we all share.

This report is presented in accordance with the Law of September 3, 2017 on the publication of non-financial and diversity information by certain large companies and groups, published in the *Moniteur belge* of September 11, 2017. This law amended Article 119 of the Belgian Company Code by requiring the disclosure of significant information about a company's activities, the policies pursued and due diligence in relation to environmental, social and staff matters, respecting human rights, anti-corruption and bribery matters. Paragraph 2 of this article allows a parent company to prepare this consolidated non-financial statement in a separate report.

Apart from regulatory requirements, this report was drafted on Degroof Petercam's values, from the notion that we must practice what we preach. This is why we take sustainability aspects into account in our decision-making processes when offering a wide range of financial services, ranging from environmental social and governance screening (ESG), social responsible investments, and impact investing to philanthropic advisory.

Prepared by Bank Degroof Petercam nv/sa, the report consolidates extra-financial information from the Belgian parent company, as well as its Belgian subsidiaries. In this respect, the name 'Degroof Petercam' mentioned in the report refers both to the legal entity Bank Degroof Petercam nv/sa as well as to the group of companies of which it is the umbrella company, unless explicitly specified.

Content and Structure of the Report

The extra-financial report is the second of its kind. The structure of this year's report has been slightly adapted compared to last year. Degroof Petercam decided to partially apply the Global Reporting Initiative Standards (GRI) to determine the content of its extra-financial report. The GRI is an international independent standards organization founded in 1997 by the United Nations and the Coalition for Environmentally Responsible Economics (CERES), with the aim to organize reporting on sustainability in a consistent manner. A recent study¹ shows that these standards represent the most widespread framework for Corporate Responsibility worldwide. As this is the first year our organization gets familiarized with these standards, the report is not fully in accordance with them yet. Nonetheless, the principles behind the standards were used to determine some of the content and the documentation supporting the GRI Standards, putting us on the right track to be compliant in the future.

Materiality Assessment

When following the GRI Standards, the materiality of organizational aspects is of primary importance. Material topics are those that may reasonably be considered relevant for reflecting the organization's economic, environmental and social impacts, or influencing the decisions of stakeholders, and therefore, merit inclusion in the report. Materiality is the threshold at which aspects become sufficiently important that they should be reported.²

The internal materiality exercise was performed by extensive desk research and several interviews with key decision-makers inside our organization. We identified several material aspects, which are in line with those of the main players within the Belgian financial sector and relate to our clients, people and society, the environment and our governance.

The reporting on these material topics of our organization is grouped in 4 sections throughout this report:

- A. Topics related to our clients
- B. Topics related to people and society
- C. Topics related to the environment
- D. Topics related to our governance

Topics related to our clients	Topics related to people and society
Product portfolio	Employment, diversity and equal opportunity
Customer privacy	Occupational health and safety
	Training and education
	Supplier social assessment
	Degroof Petercam Foundation
Topics related to the environment	Topics related to our governance
Energy and emissions	Socioeconomic compliance
Effluents and waste	Anti-corruption
Supplier environmental assessment	

¹ The road ahead, The KPMG survey of corporate responsibility reporting 2017

² GRI 101: Foundation 2016



“ The extra-financial report also reflects our commitment to respecting our people, clients, shareholders, partners, the communities in which we operate, and the planet we all share.

Jean-Marc Verbist – Group Chief HR Officer



2018 Report




Topics Related to Our Clients

In this section we describe extra-financial topics which have a direct impact on our clients and our service offering towards those clients. These topics have a group-wide scope, except if specified otherwise.

Our Offering

At Degroof Petercam, we continuously take all environmental, social and governance (ESG) issues related to our Asset Management and Private Banking divisions into account and aim to ensure transparency and consistency in our approach, methodology and services.

In this context, our private and institutional clients can benefit from an extensive offering with different degrees of social impact, illustrated by the figure below:



ESG	SRI	Impact investing	Philanthropy
International acronym that is used by the financial community in order to name environmental, social and governance (ESG) criteria that generally constitute the three pillars of extra-financial analysis and of the social behavior of an issuer.	Investment approach integrating ESG considerations into its management process and in shareholder practices in the conviction that these factors will have an impact on financial performance, particularly on the mid to longer term.	Selection of values on the basis of intentionality to generate social and/or environmental impact combined with financial return.	Selection of projects based on intentionality and potential for social and/or environmental impact. No financial return expected.

Degroof Petercam Asset Management (DPAM): Sustainability Offering

1. Sustainability Offering Embedded in DPAMs History

For many years, DPAM uses ESG factors as the key principles in their fundamental research. The buy-side research and portfolio management teams directly integrate these factors at the start of the investment research and portfolio management construction.

Since the launch of DPAMs first sustainable strategy in 2001, it formalized its main processes and policies (engagement, voting, investments, etc.) and invested significant human and financial resources in it. A major milestone for DPAM was signing the United Nations-backed Principles for Responsible Investment (PRI) in 2011. Over the years, DPAM joined various international sustainable investments forums throughout Europe as illustrated in the figure below.

In 2018, DPAM resolved to divest from tobacco producers for all portfolios it managed. Furthermore, it has adopted a specific formal responsible strategy towards alcohol producers and retailers. Finally, DPAM has adopted a formal strategy to divest from companies which are involved in nuclear weapons for a significant part of their revenues. Furthermore, it is now supporter of the recommendations of the Task Force Climate-related Financial Disclosure (TCFD), which will influence its ESG integration in portfolio management.

2001	2003	2008	2009	2011	2012
<ul style="list-style-type: none"> First sustainable balanced expertise 	<ul style="list-style-type: none"> First sustainable European equities expertise 	<ul style="list-style-type: none"> First proprietary country sustainability model 	<ul style="list-style-type: none"> Founding fixed income sustainability advisory board 	<ul style="list-style-type: none"> Founding Responsible Investment Steering Group UN PRI Signatory 	<ul style="list-style-type: none"> Membership national sustainable investment forum
2018	2017	2016	2015	2014	2013
<ul style="list-style-type: none"> External recognition – Luxflag label Sustainable thematic strategies: food trends and NEWGEMS 	<ul style="list-style-type: none"> ESG factsheets for all investment funds Carbon footprint disclosure of sustainable portfolios 	<ul style="list-style-type: none"> Launch indexed SRI series Second independent research provider 	<ul style="list-style-type: none"> ESG integration for EUR IG credit 	<ul style="list-style-type: none"> Formalization ESG process in global equity Engagement program Best-efforts added to sustainable European equity strategy 	<ul style="list-style-type: none"> Launch sustainable EM debt fund ESG integration in research for European equities First independent research equities Voting policy

2. DPAMs Sustainability Policies and Objectives

DPAM has adopted a formal policy regarding sustainable and responsible investments, describing the process and the resources dedicated to ESG integration and engagement.

Integration: ESG criteria are integrated into the assessment of a company's fundamentals when evaluating the feasibility of a long-term investment. This additional and complementary research is aimed at enabling the research and portfolio management teams to make better-informed investment decisions. In other words, all of the assets managed by DPAM are subjected to an ESG screening prior to each investment decision.

Engagement: for the specific sustainable strategies, ESG criteria are mandatory, as they constitute the screening tool used to build up the eligible investment universe for the relevant sustainable strategies. Furthermore, investments are selected for their appreciable contribution to solving the world's most social and environmental challenges. DPAMs objectives are threefold:

1. Maintaining our position as reference European actor regarding Responsible Investment (cfr. topic Active Ownership).
2. Integrating ESG aspects in clients value proposition and investment management strategies (cfr. results of our sustainable policies).
3. Having more than 25% of DPAM clients' Assets Under Management invested in sustainable strategies.

When looking at the Assets Under Management in specific sustainable strategies, DPAM registered an increase by more than 30% (market effects included) compared to last year.

	30.09.2016	31.12.2017	31.12.2018
(In millions of EUR)			
Equities World Sustainable	375.9	416.91	494.11
Equities Europe Sustainable	32.07	25.39	104.92
L Bonds Government Sustainable	67.14	108.03	335.19
L Bonds Emerging Markets Sustainable	437	1 008.48	1 341.90
L Bonds EUR Quality Sustainable			922.38
Sustainable Food Trends (formerly Agrivalue)	65.86	56.18	59.01
NewGems Sustainable (formerly World)		33.7	141.06
EUR Quality Sustainable	868.31	886.84	
Indexed SRI EMU	58.26	59.69	49.04
Indexed SRI US	31.81	81.41	116.42
Indexed SRI World	46.42	84.86	102.92
Glob Balanced Conservative Sust. (ex-Degroof Ethical)	43.84	52.74	58.35
I.I. equities Europe SRI			19.32
I.I. Global Bonds SRI			12.35
Total	2 026.59	2 814.23	3 756.97

For additional information on the policies used by DPAM in terms of sustainability, we refer to the following documents:

- [Sustainable and responsible investment policy](#)
- [Controversial activities policy](#)
- [Engagement program](#)
- [The Eurosif Transparency code](#) (detailing the approaches and processes for each of the eight active specifically sustainable strategies)

3. Resources Allocated to Sustainability Practices and Offering

Along this learning curve of 17 years, DPAM invested significant financial and human resources in implementing its sustainability approach. Those resources are shown in the figure below and detailed further on.

Substantial resources are currently actively enforcing, assisting and implementing the sustainable strategy and contributing to the sustainable offering of DPAM.

- External research is executed by worldwide leaders in terms of extra-financial rating, which is reflected in over 300 analysts who offer daily insights to the internal research teams of DPAM.
- Internal research is carried out by more than 28 professionals, with a core team of 4 responsible investment specialists (also known as the Responsible Investment Competence Center). These experts guide all initiatives, methodologies and projects related to ESG aspects of investment processes and work closely with the various areas of expertise: bond management, credit research, equity management and equity research.
- The Responsible Investment Steering Group (RISG), headed by the CEO of DPAM is the official advisory board regarding sustainable investments at Degroef Petercam level. The Voting Advisory Board determines the role of DPAM as active owner (additional information can be found in the topic active ownership).



“ Our sustainable objectives are threefold. First, maintaining our position as reference European actor regarding Responsible Investment. Second, integrating ESG aspects in clients value proposition and investment management strategies. Third, having more than 25% of DPAM clients Assets Under Management invested in sustainable strategies.

Ophélie Mortier – Responsible Investment Strategist

- The responsible investment corner consist of internal events on a quarterly basis at which an external expert presents ESG specific topics for Degroof Petercam staff members in order to raise awareness on ESG issues and engage staff members into making informed investment decisions.
- Fixed Income Sustainability Advisory Board (Fisab) is composed of 6 experts among whom 4 external experts which role is to:
 - define the current level of sustainability of each country;
 - provide assistance on criteria and model construction (emerging country model and OECD model);
 - discuss and make recommendations for progress; and
 - approve the methodology and final ranking.
- Finally, throughout our international membership and participation, we are able to be on the forefront of sustainability trends. Recent examples of our participation and membership are [FIR](#) in France, [Spainif](#) in Spain, [FNG](#) in Germany, [PRI](#) by the UN, [TCFD](#) supporter with an international scope, and many more.



4. Active Ownership

Active ownership is the second principle of the UN-backed PRI which DPAM has committed to since 2011. This principle consists in being active owners and incorporating ESG issues into the ownership policies and practices. DPAM adopted a voting policy in 2013 and set up a Voting Advisory Board to ensure its appropriateness and the right implementation through its holdings. DPAMs voting instructions are by default supportive of any environmental shareholder proposal to ensure high adoption of requirements for more climate-related financial disclosure and for climate strategy adoption by the company management.

In terms of corporate governance, the investment funds managed by DPAM have delegated the voting rights attached to their holdings to DPAM. The composition and roles of the Voting Advisory Board can be found in the voting policy of DPAM, which is publically available [here](#).

Moreover, this board is responsible for updating and upgrading the voting policy to ensure its alignment with the latest regulatory changes and best practices in terms of corporate governance.

In 2018, we participated in a total of 538 general and extraordinary meetings for a total of 7 794 resolutions, statistics which are in line with last year. We made our voice heard in 465 companies, mainly in Europe and North America.

Voting activity reports of 2018 have been published on the website, detailing the activity in terms of participation, the geographical sector and market capitalization breakdown of the voting instructions given throughout the year. These reports confirm that the voting policy is:

- **Systematic:** the DPAM Management Board can testify that the voting process is well set up and that it is actively voting in the holdings held by its investment funds.
- **Consistent and coherent:** The Voting Advisory Board can check compliance with the guidelines and the voting policy and justification in case of deviation from this voting policy can be delivered to DPAM Management Board and to the board of directors of the investment funds.

5. Monitoring Process for the Sustainable Practices

In order to ensure the continuous application of DPAMs policies, a thorough monitoring process has been put into place, demonstrated by the figure below.

Eligible universe check	Business involvement screening	Controversy review	Brokers and data providers
<p>Updated quarterly</p> <ul style="list-style-type: none"> • Update of the investable universe and generation of a whitelist. • Distribution of the whitelist to the investment teams and fund administrators to screen the investments within the investable universe. • 4 screening criteria (in line with the sustainable strategy): <ul style="list-style-type: none"> 1. Norm-based screening 2. Controversies screening 3. Exclusions screening 4. Quantitative screening 	<p>Quarterly</p> <ul style="list-style-type: none"> • Analysis of any position involved in the adult entertainment, nuclear weapons, gambling and tobacco sector. • Exclusion of companies exceeding the threshold of maximum 10% of their revenues coming from these sectors. • Active dialogue with the extra-financial rating agencies and the companies with any involvement above 5% of their revenues. 	<p>Bi-weekly</p> <ul style="list-style-type: none"> • Monitoring and follow-up of any evolution of the controversies companies may face. • Thorough controversy review per sector on a yearly basis (for the companies with a controversy score of 4 or 5 according to the Sustainalytics of that year). 	<p>Continuously</p> <ul style="list-style-type: none"> • The members of the Responsible Investment Competence Center as well as the fund managers and buy-side analysts are subscribed to several daily broker and data provider newsletters concerning ESG topics. • When serious controversies are identified, internal decisions are made to either hold or sell the position.

Moreover, we publish quarterly ESG factsheets for any investment fund managed by DPAM to assess the level of compliance regarding the fundamental rights promoted by the UN Global Compact, the severity of controversies specific holdings may face, the level of ESG quality in the portfolio and its carbon footprint. Furthermore, quarterly sustainability reports explain the philosophy and comment any new position in our sustainable strategies as well as their ESG impact in terms of opportunities and risks, notably the carbon footprint and the ESG impact themes breakdown.

6. External Acknowledgement of Our Sustainable Offering

All our sustainable strategies are submitted to an annual internal and external audit. The 2018 audits confirmed that the holdings in our sustainable investment funds have been invested over the year according to the sustainable investment rules.



In 2018, the independent association [Luxflag](#) (Luxembourg Finance Labelling Agency) granted the ESG label to all DPAM sustainability strategies.



As signatory of [UN-backed PRI](#), DPAM has to report every year on its progress to implement the six principles. This report is assessed externally by PRI administration and compared to peers. For the second consecutive year, DPAM has achieved the top highest rating A+, including the commitment from its management to sustainable investing.

Finally, external companies like Morningstar screen investment funds according to their commitment and integration of ESG factors in an independent manner.

Degroof Petercam: Sustainable and Responsible Mandates, Philanthropic Advice and Impact Investing

1. Sustainable and Responsible Mandates and Philanthropic Advice

For private clients who invest in our sustainable offering (Sustainable and Responsible Investments), we combine in-house and third-party expertise. In order to enhance our sustainable conviction, we maintain a strong focus on climate change through specific thematic funds.

We also play a pioneering role in offering our clients philanthropic advice. Created over 10 years ago, the Degroef Petercam Philanthropy department provides sound and structured advice to our clients who wish to leverage their capital and time in order to create a more sustainable world through philanthropic initiatives. Moreover, the collaborative philanthropic platform of the group, [Gingo Community](#), was able to redirect close to 500 000 euros to small-scale philanthropic projects. Our clients that wish to make small donations, can always give a financial backing to the qualitative projects proposed on the online platform.

2. Impact Investing

Impact Investing – Renewable Energy

Degroof Petercam is one of the pioneers in Belgium in impact investing. We launched a first green fund in renewable energy in 2008 and two additional green funds were launched in 2011 and 2015, respectively. These three funds deployed a combined capital of around 150 million euros, which in turn allowed to build and operate more than 750 million euros in renewable energy assets. Through these impact offerings, we enable our high-net-worth clients and institutional clients to invest in renewable energy technology (wind, biomass, hydro) located in France (predominantly), Spain and Belgium.

Impact Investing – Social Housing

In 2011, Inclusio was launched together with Degroef Petercam, Revive and Kois Invest. Inclusio is now the leading privately-funded investment company in Belgium focusing on providing affordable and qualitative rental housing solutions to people in need.

Impact Investing – Regenerative Economy

In February 2018, Degroef Petercam entered into a partnership with Quadia, a Swiss-based asset manager and European leader in impact investing. Since 2010, Quadia developed significant knowhow in impact evaluation and management through its direct investments and dedicated fund advisory mandates.

Within the framework of the partnership, Degroef Petercam acquired a minority equity stake in Quadia, while Quadia brings impact investing expertise to propose new investment opportunities to Degroef Petercam's private and institutional clients.

Degroof Petercam and Quadia are developing a diversified European closed-end impact investment fund to sustain the companies that move towards the regenerative economy. The regenerative economy provides a new framework for an economy that is restorative and regenerative by design, achieving innovation, autonomy, resilience and efficiency.



“ The regenerative economy provides a new framework for an economy that is restorative and regenerative by design, achieving innovation, autonomy, resilience and efficiency. Together with Quadia, a Swiss-based asset manager and European leader in impact investing, Degroof Petercam is developing new impact investing opportunities.

Catherine Champagne – Group Impact Investing Coordinator

Customer Privacy

Data privacy is a key element in today's digital world. Processing and protecting private information in accordance with our clients' expectations and legal constraints is not only a regulatory issue, it is also an ethical duty Degroof Petercam is committing to fulfill.

Degroof Petercam therefore developed a Data Privacy Policy detailing how personal data are managed. A Data Privacy Officer provides advice to the group on how to best ensure the appropriate implementation of the regulation. The Data Protection Officer is in charge of monitoring the regulation and developing controls in order to ensure the respect of the regulation. Degroof Petercam staff members have also been trained and tested to ensure their understanding of the regulation.

It should be noted that Degroof Petercam did not identify any substantial complaints related to privacy in 2018. Additional information on our policy on the protection of personal data or the protection of personal data of our staff members is publically available on a [dedicated section](#) on our website.



Topics Related to the Environment

In this section, we explore our organization's environmental impact. The goal is to evaluate where we stand regarding several indicators related to energy and emissions, and waste and supplier assessment. This evaluation will allow us to further improve these aspects and mitigate our negative environmental impacts year after year. This section is only applicable for the group's activities in Belgium, as exact figures for the other countries are not available yet.

Energy and Emissions

In 2018, we renewed our CO₂ neutral commitment and label through the international certification for climate responsibility in line with the PAS 2060* standard. The label is also validated by Vinçotte and is a guarantee for measurable climate action. Based on the negative impact generated, we support several Gold Standard certified climate projects, in a partnership with CO₂logic. The Saving Trees climate project in Uganda (Africa) and Malawi (Africa) helps to stop deforestation. Next to the CO₂ offset, we continuously take actions to reduce our emissions:

- Renewable energy contracts aiming to achieve 100% renewable energy by 2020.
- The installation of video-conference equipment in all our regional offices, enabling both our staff members and our clients to avoid redundant travelling.
- [BREEAM](#) (Building Research Establishment Environmental Assessment Method) certification of one of our main buildings in Brussels.



Company vehicles are the second biggest source of emissions at Degroof Petercam, after the emissions related to electricity usage. Degroof Petercam's Mobility Plan offers staff members alternative mobility options along their company car, such as public transport passes, (electric) bikes, electric steps, etc. We also give our staff members the possibility to trade cars that emit more than 145 g/km for an electric one. The table on next page shows the increase in hybrid and electric vehicles (amount of cars by type) compared to the year before.

Number of cars in units (Belgian pool)

	2017	2018
Petrol	9	11
Diesel	591	604
Hybrid (petrol)	13	21
Electric	3	12
Total	616	648

As shown in the table below (average CO₂ emission g/km by type of car), the increase in hybrid and electric vehicles by our staff members was not translated in a decrease in the average CO₂ emissions. The increase that we noted is due to the different standards that are being used in defining the emission of fuel combusted cars (NEDC 2.0) which were applied in 2018. The use of these standards induce a higher emission for all fuel combusted cars.

Average CO₂ emission in g/km (Belgian pool)

	2017	2018
Petrol	131	132
Diesel	110	117
Hybrid (petrol)	50	50
Electric	0	0

* PAS 2060 (Publicly Available Specification): Specification for the demonstration of carbon neutrality

Effluents and Waste

This paragraph discusses some key effluents and waste that our organization emits (except for emissions, which has been covered previously) and the measures we take to reduce them. Waste management is crucial as it constitutes a significant portion of our environmental impact.

While we still need to define a comprehensive waste management strategy, we are currently already taking punctual actions to facilitate a more efficient and more sustainable waste management. Hereunder an overview of the actions that were undertaken in 2018:

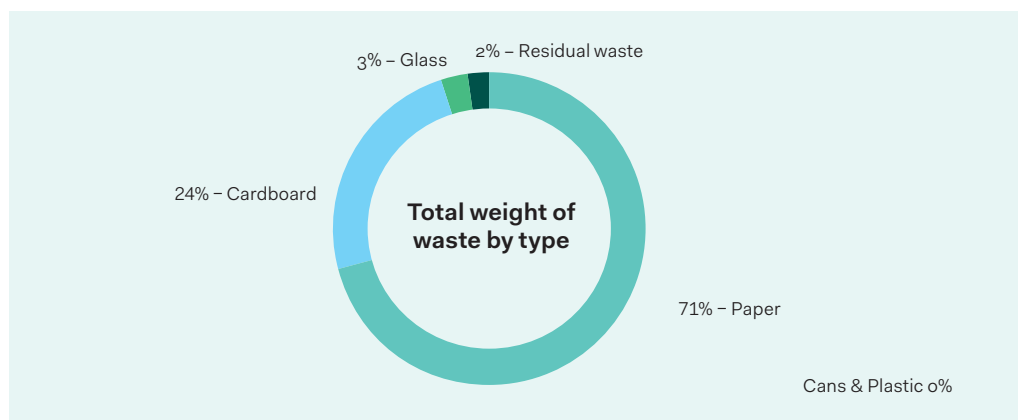
- The daily waste collection of confidential paper has been reduced to once a week by introducing steel containers instead of plastic bags. We try to implement the same principle of confidential paper shredding in our regional offices.
- Our waste disposal is managed in a more environmental friendly way in collaboration with our main waste removal supplier MCA. This supplier is ISO 14001 certified and disposes or recycles the eligible materials including paper, mixed plastics, organic waste, PMD, steel and aluminum cans, glass, toners and ink cartridges and neon lamps.
- Used batteries are fully recycled.
- Plastic spoons at the coffee corners were replaced by wooden spoons.
- Cleaning services use ecological friendly cleaning products whenever possible or with the least abrasive substances.
- The company restaurant in our Brussels head office launched the 'Veggie Thursday' and introduced the use of seasonal vegetables.



“ Instead of a ‘car policy’, Degroef Petercam offers a ‘mobility policy’. This offers staff members alternative mobility options along their company car, such as public transport passes, (electric) bikes, electric steps, temporary cars, etc. We are pleased to see that the number of electric cars among our staff members have quadrupled.

Nico Bécu – Group Head of Facilities Management

The figure below provides the different type of waste generated by the Brussels' office in 2018. These data are only applicable for the waste treated by our supplier MCA.



Based on the table below, the total environmental costs, the total energy and the greenhouse effect for the waste generated by the Brussels' office in 2018 are drastically lower than the figures in 2017.

2018			
	Greenhouse effect (kg of CO2 equivalents)	Total energy (MJ)	Total environmental costs (EURO envi)
Plastic	611	6 953	262
Cans	869	12 860	2 408
PMD	N/A	N/A	N/A
Paper	1 475	129 100	(5 637)
Cardboard	1 657	301 172	(296)
Mixed waste	N/A	N/A	N/A
Glass	783	7 656	478
Toners	56	359	19
Neon lamps	4	106	194
Organic waste	N/A	N/A	N/A
Total 2018	5 454	458 206	(2 572)
Total 2017	9 917	722 089	(3 648)

Supplier Environmental Assessment

Degroef Petercam introduced its first Procurement Policy in 2018, which describes the group's procurement principles. In alignment with the company's vision, we collaborate with our suppliers and partners to reduce our environmental footprint. Therefore, we started embedding environmental criteria (energy, emissions, products and services) in the selection process of our critical suppliers and partners in 2018. We will extend this approach to all externally purchased goods and services where negative impact on the environment can be avoided or mitigated.

In implementing these new sustainable practices in procurement, we started by focusing on products and services generating the most environmental impact, i.e. facility services, catering, office suppliers, paper and company cars.



Topics Related to People and Society

The topics below all relate to people, ranging from our staff members to external stakeholders. Through our activities, we strive to bring out the best in our people, encourage our suppliers to have a sustainable approach and generate a positive impact on society.

Degroef Petercam Foundation Tomorrow's Employment Solutions

The Degroef Petercam Foundation (hereinafter the "Foundation" or "DPF") celebrated its 10th anniversary in 2018 and is now one of Belgium's top 10 largest foundations. Its mission is to support the job creators of tomorrow on their road to growth. The Foundation identifies solutions that create future jobs, invests in the creators of these solutions and supports them by providing them with the resources and networks necessary for their success.

We **support** the **makers** of tomorrow's **employment solutions** on their path of **scale**.

Support	Makers	Solutions	Scale
<ul style="list-style-type: none">• DPF provides makers with a mix of financial and non-financial support services.• Support services are defined based on individual support needs, extend over a sustained period of time, and are partially provided by BDP employees.	<ul style="list-style-type: none">• DPF works with incubators, 'architects', or creators of new employment solutions.• Beneficiaries can be pioneers inside large institutions, or (social) entrepreneurs who independently bring these solutions to the market.	<ul style="list-style-type: none">• DPF supports innovative programs and services with significant impact potential.• Solutions are selected for their ability to help unemployed and/or 'underemployed' citizens land the jobs that fit their path and potential.	<ul style="list-style-type: none">• Despite a focus on innovative solutions, DPF seeks out those models that are ready to scale.• As part of its selection process, makers are asked to prove the effectiveness of their solution as well as their organizational capacity to achieve scale.

The Foundation has defined several objectives to be achieved by 2023. The achievement of these objectives would consist in having:

- Committed 5 million euros in aid
- Contributed to the creation of 3 000 jobs
- Engaged 30% of Degroef Petercam's staff members and clients in the activities of the Foundation

The Foundation in Action

Every year, the Foundation selects one new project that receives a 1 million euros grant and will be supported for 5 years. Next to the financial support, the project will also receive non-financial support and access to the network of the group. At the time of writing, the selection process for the laureate of 2019 was just finished.

The assets of the Foundation are managed by Degroef Petercam. In essence, the Foundation has a societal impact, which means that it must address this theme in all its dimensions, including its assets and investments. The investments of the Foundation are now for 95% invested in Sustainable and Responsible Investments (SRI).

In this respect, the Foundation invests through direct lines of action or via funds with the Sustainable and Responsible Investment (SRI) label. It has a very good offering within Degroef Petercam via DPAMs range of SRI funds, but also makes use of third-party funds. Next to SRI, the Foundation also invests in impact investing and in mission-related investment, such as two Social Impact Bonds.

Occupational Health and Safety

Degroef Petercam wants to create a safe and healthy work environment for its staff members and is engaged to improve the wellbeing of its staff members further with several programs. The group goes beyond its mere obligation by ensuring compliance with the social legislations and sector rules that apply in the field matter. Degroef Petercam informs and consults its staff members' representatives on a regular basis and is in continuous search for improvement.

In this context, Degroef Petercam has developed numerous initiatives to ensure a safe and healthy work environment, where staff members love to work. Major initiatives undertaken in 2018:

- **Regular and professional reporting to the CPPT:** Degroef Petercam organizes monthly meetings with the staff members' representatives in the CPPT (Comité pour la Prévention et la Protection au Travail). The committee's main goal is to identify and define all necessary measures and propose improvements related to the general wellbeing of staff members at work. This committee has been further professionalized during 2018, installing regular reporting on accidents at work, safety exercises and trainings, quarterly visits of the company doctor, the yearly flue vaccination, control visits of our offices, etc. Based on their reports, a yearly global action plan is set up.
- **Internal prevention advisor:** Degroef Petercam has taken the opportunity to convert the role of the internal prevention advisor to a full time in-house role with clearly defined tasks and responsibilities. In addition, the internal prevention advisor is supported by the expertise of an external prevention advisor specialized in offering support with respect to psychosocial risks for staff members.
- **Measures to prevent stress and burn out:** Different measures have been developed to make staff members and/or management aware of problematic symptoms in order to prevent increased stress situations and burn out. Different trainings on the matter have been provided with tips and tricks for identification and prevention. Moreover, leadership trainings offered to team managers envisages better communication and people management skills. Individual coaching with external specialists is offered to certain staff members for prevention. The table hereunder provides an overview of the type of trainings provided on Health & Safety¹.

¹ These numbers are only representative for Belgium.



“

The Foundation has defined 3 main objectives to be achieved by 2023.

The achievement of these objectives would consist in having committed 5 million euros in aid, having contributed to the creation of 3 000 jobs and having engaged 30% of Degroof Petercam's staff members and clients in the activities of the Foundation.

Silvia Steisel – Head of Philanthropy

Type of training on health & safety	Amount of participants	Length of training (h)
Energy management	24	3
Annual study day	2	6
Mindfulness (Resilient Mind)	23	2
Prevention of stress/burnout	1	4
Psychosocial risks and reintegration	1	5
Company first aid	4	5
Company first aid (recyclage)	3	4
Stress Management	26	4
Stress/Burn out	2	4
Grand Total	86	

- **New policy for the reintegration of long-term absentees due to illness:** The group developed a new policy allowing staff members that return to work after a long-term illness to reintegrate in an adapted and gradual manner. Moreover, staff members whose illness has been related to stress at work, can request a free coaching offered by our insurance company in cooperation with the [Centre for Resilience](#) in view of a work reintegration.
- **Access to non-occupational medical services:** In line with last year, staff members receive free yearly flu vaccinations on a voluntary basis. Moreover, the required yearly legal medical checks for certain types of work are offered. For staff members above 35 years a bi-yearly medical check by Medicis is offered on a voluntary basis.

The abovementioned initiatives appear to be effective when looking at the overall degree of absenteeism of 2.92% in 2018, well below sector level and stable compared to the degree of 2017. Nonetheless, 2018 was marked with 17 work-related injuries. Also, no mortal accidents on the work floor have been reported in 2018.

Training and Education

“ Our ‘Summer Academy’ program has been set up again, offering a total of 1 350 courses to 500 staff members. On top of that, our colleagues have access to other talent development programs, such as Leadershift & Next generation, e-learning, technical programs and business certifications.

Jean-Marc Verbist – Group Chief HR Officer

Average yearly training hours per staff member¹: 22.62 hours

In addition to providing its staff members with a competitive compensation, Degroef Petercam strives to provide training programs and opportunities for personal and professional development. Our training policy allows staff members to be trained, both internally and externally, on topics that support the strategy of Degroef Petercam, but also on topics specific to each expertise and each profession.

¹ For the staff members in the offices in Belgium, France and Luxembourg.

Our training efforts focus in particular on regulation, communication, languages, IT tools (especially digital technologies), as well as team management in a context of change. A particular effort has been made on this point, which explains the higher number of hours of training for managers and executives. In 2018, a training effort was made again to integrate new staff members, both at local and at group level.

Emphasis was also placed on aligning the executive committee and strengthening the team coaching management skills of all group leaders. A 4-day training program reached 240 team leaders in the group within 15 months (Q4 2017 - Q4 2018) and supported the transition from expert leader to coach leader. This program has distinguished itself by its innovative nature, combining a bottom-up approach to identify areas for improvement, the strengthening of cross-functionality in group composition and the implementation of peer coaching, and finally, a network of ambassadors for this approach (elected by their peers) who are responsible for linking the program to other initiatives in terms of corporate culture and strategy. Members of the executive committee also participated in the program, as did all other leaders.

Furthermore, a series of e-learning courses on money laundering and GDPR (General Data Protection Regulation) were launched in the group in 2018. We will continue this effort on these themes and new topics in risk management and compliance in 2019.

Finally, it can be noted that our **'Summer Academy'** program has been set up again, covering four weeks of training with free access to all staff members around four chosen themes. This year, the Summer Academy was also made accessible to colleagues from France and Luxembourg (through a reduced local program).

Employment, Diversity and Equal Opportunity

Our Staff Members Are at the Heart of Our Business

As mentioned above, Degroof Petercam aims to provide its staff members with a competitive remuneration, training programs and opportunities for personal and professional development within the group. It wants to be considered as an attractive employer within its environment. With this in mind, Degroof Petercam strives to attract, develop and retain top-level staff members by offering them attractive and stimulating leadership roles that open the way to new development opportunities.

In 2018, a telework program was rolled out across all entities in Belgium. More than 85% of staff members can now work one day a week from home or in one of our regional offices. A similar program will also be rolled out in France in 2019.

Measures concerning the employment of our staff members are supervised by committees of the group, such as the nominator and remuneration committees of Degroof Petercam Belgium and Degroof Petercam Luxembourg.

Degroof Petercam bases its staff member management on social and sectoral legislation and regulations and on its values of humanity and collaboration. Degroof Petercam supports the principle of collective bargaining in a constructive and transparent manner.

As of December 31, 2018, Degroof Petercam offered quality jobs to more than 1 400 staff members in Belgium, Luxembourg and France, in positions as diverse as private banker, financial analyst, asset manager or administrative staff.

	2017				2018			
	BE	LU	FR	Group	BE	LU	FR	Group
%♀/country	40%	42%	41%	41%	40%	41%	41%	40%
%♂/country	60%	58%	59%	59%	60%	59%	59%	60%

Satisfaction of Our Staff Members

In 2018 (as in 2017), a survey on staff member commitment was conducted based on the Willis Towers Watson methodology in all countries of the group and focused on sustainable staff member commitment. In 2018, more than 1 100 staff members (82% of the group) gave their feedback on topics related to employment, personal development, working conditions and corporate values.

The survey results showed clear progress in terms of commitment, in particular when it comes to pride of belonging: 84% of staff members are proud to work for Degroef Petercam and 91% say they work beyond expectations to contribute to the group's success. Among our strengths, 85% of staff members consider Degroef Petercam to be a particularly client-centric organization. 75% of them highly appreciate the proximity of the management. There was also a significant improvement in two of the themes chosen in 2018: 9 points of progress on understanding the strategy and 8 points of progress on staff member training and development. However, further progress is needed to develop commitment beyond the average of national and sectoral reference standards. Degroef Petercam's management will engage in new improvement projects in 2019.

Demographics of Our Staff Members

The percentage of women in Degroef Petercam Belgium, France and Luxembourg is 40%, a slight decline compared to 2017 (41%) with little difference between countries. Within the executive population, the proportion of women is 33%, 59% among staff members and 19% in management roles. There are no significant changes in this distribution compared to 2017.

	2018				Group 2017			
	Spread of ♀	Group of ♂	% ♀	% ♂	Spread of ♀	Spread of ♂	Group % ♀	Group % ♂
Staff	49%	23%	59%	41%	49%	24%	59%	41%
Management & professionals	47%	65%	33%	67%	45%	62%	33%	67%
Senior management	4%	12%	19%	81%	6%	14%	20%	80%

In terms of age distribution, the lowest proportion is found among the youngest staff members (under 30 years of age), with 34%, which is slightly lower than in 2017.

	Group 2018					Group 2017				
Staff member's demographics	♀	♂	Grand Total	% ♀	% ♂	♀	♂	Grand Total	Group % ♀	Group % ♂
<30	7%	10%	9%	34%	66%	7%	8%	7%	36%	64%
30-49	58%	60%	59%	40%	60%	59%	60%	60%	40%	60%
50+	35%	30%	32%	43%	57%	34%	32%	33%	43%	57%

In 2018, Degroef Petercam experienced growth in its employment volume, particularly in Belgium and Luxembourg. The decline in France was mainly due to a lag between departures and recruitments. In 2018, there was a stagnation in the average age.

Social Engagement of Our Staff Members

2018 was the year in which several staff member engagement programs were launched and the existing programs were extended.

Three different action plans are proposed to staff members willing to have a social impact:

First, 340 colleagues were engaged in the **Solidarity Days** organized by Degroof Petercam. During these days, coworkers can voluntarily offer a day of their working time to support various associations. We are glad to disclose that we saw more coworkers taking part this year than last year. In 2018 a total of 2 400 hours were invested and 27 associations received help. Moreover, we were able to extend the Solidarity Days program to our colleagues in Luxembourg. As a response to its success, the Solidarity Days will be expanded from two days to one week in 2019.

Second, we launched a pilot program on **skills-based sponsorship** whereby staff members are able to donate two hours per month of their working time and skills to associations or people in need. Ten colleagues participated to the pilot in Belgium. The program will be open to colleagues in Belgium, France and Luxembourg as from January 2019.

These programs were set out to reach our objective of devoting a budget of 1 day per staff members per year to volunteering by 2022. The figures of 2018 paint a positive picture in reaching this objective.

Third, the **micro-donation program** has been launched, where we encourage our staff members to make a fixed monthly micro-donation that is deducted automatically from their salary. At the end of the year Degroof Petercam doubles the pooled budget and the overall budget is granted to a democratically elected project. In 2018 we launched the program in Luxembourg, where 31 staff members participated and collected a total of 8 000 euros after being doubled by Degroof Petercam. The project has been launched in Belgium in the beginning of 2019.

Supplier Social Assessment

As mentioned in the topic on supplier environmental assessment, 2018 was the year in which Degroof Petercam launched its first Group Procurement Policy. Next to the environmental criteria, it should be noted that the policy also embraces social criteria, i.e. diversity, disadvantaged background, disability, training, mobility. Moreover, all of the group's suppliers shall not engage in or support the use of child labor and shall conform to the following provisions:

- UN Supplier Code of Conduct
- SA8000 (a standard relating to the social accountability developed by Social Accountability International)
- International Labour Organization Convention 138
- United Nation's Convention on the Rights of the Child
- In 2019, we will assess our current mechanisms to further enforce the abovementioned provisions with all our suppliers.



Topics Related to Our Governance

As a substantial financial institution, a strong governance is key for Degroof Petercam. This is why we have an exhaustive anti-corruption policy in place and consistently incorporate new laws and regulations in our activities.

Socioeconomic Compliance

As is the case every year, the ECB, NBB and FSMA in 2018 carried out a series of different audits within the financial sector - including at Bank Degroof Petercam - to assess the sector's compliance with the applicable regulatory framework. Pursuant to these audits Bank Degroof Petercam proceeded to improve and render certain of its internal rules and procedures in compliance with the applicable legal framework, an assignment that it has been carrying out in accordance with the requests of the competent regulators. As at the date of this report, the possible regulatory and financial impacts that may result from any actions the regulator may decide to take cannot be determined.

Anti-Corruption

The board of directors of Degroof Petercam has implemented an internal code of conduct that includes the values and ethical behavior that it wishes its staff members to respect. Some of the aspects defended in the code of conduct are clearly intended to ensure that all staff members maintain their independence at all times. The chapter on the prevention of conflicts of interest and the chapter on the management of gifts given or received from clients are examples of this. For example, the gift policy provides that both staff members and clients can give or accept only modest gifts (with a fixed maximum value stipulated in the policy). This process is embedded in and enforced by an internal tool.

The Compliance Department, dedicated to the prevention and detection of money laundering, has seven full-time staff members, which is a significant increase compared to last year. Detecting corruption is one aspect of their work. Moreover, Degroof Petercam Asset Management nv/sa (DPAM), the group entity in charge of fund management, dedicates a team of two FTEs to this task.

In order to control the origins of our financial flows, systems are in place to identify, report and prevent movements of money from criminal activities. The system is based on different types of actions: i.e. identifying future clients before opening their account and monitoring their transactions. The law requires that special attention is paid to account openings and transactions by politically exposed persons (PEPs). A special mention is therefore added to the electronic file of these clients in order to allow appropriate monitoring of their transactions. If the Degroof Petercam has a suspicion of money laundering related to these criminal activities, it must report it to the Financial Information Processing Unit (CFI)²⁰.

Private Banking
Institutional Asset Management
Investment Banking
Asset Services



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* At 25 April 2019
