Argenta Spaarbank

IFRS Annual Statements 2016

Financial statements for the 2016 financial year of Argenta Spaarbank nv, covering the period from 1 January 2016 to 31 December 2016, prepared in accordance with the International Financial Reporting Standards (IFRS).

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

Content

The Statutory Auditor’s report

Statutory auditor’s report to the shareholders’ meeting of Argenta Spaarbank NV on the consolidated financial statements for the year ended 31 December 2016

As required by law, we report to you in the context of our mandate as the company’s statutory auditor. This report includes our report on the consolidated financial statements together with our report on other legal and statutory requirements. These consolidated financial statements comprise the consolidated balance sheet (before profit appropriation) as of 31 December 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as a summary of the significant accounting policies.

Report on the consolidated financial statements - Unqualified opinion

We have audited the consolidated financial statements of Argenta Spaarbank NV (‘the Company’) and its subsidiaries (jointly ‘the Group’), prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. The total assets in the consolidated balance sheet amount to EUR 36,156,329 (000) and the consolidated profit (group share) for the year then ended to EUR 190,010 (000).

Board of directors’ responsibility for the preparation of the consolidated financial statements

The board of directors is responsible for the preparation of consolidated financial statements giving a true and fair image in accordance with the 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 it deems necessary for the preparation of consolidated financial statements that are free from material misstatement due to fraud or error.

Statutory auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing (ISA). Those standards require that we comply with professional ethicala requirements and plan and perform the audit to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence in respect of the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the statutory auditor’s judgement, including the latter’s assessment of the risk of material misstatement in the consolidated financial statements due to fraud or error. In making these risk assessments, the statutory auditor considers the group’s internal control as relevant to the preparation of consolidated financial statements giving a fair view, in order to design audit activities that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group’s internal control. An audit also includes assessing the appropriateness of the accounting policies used and the resasonableness of the estimates made by the board of directors, as well as the overall presentation of the consolidated financial statements. We have obtained from the group’s employees and the board of directors 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.

Unqualified opinion

In our opinion the consolidated financial statements of Argenta Spaarbank NV give a true and fair image of the group's net equity and financial position as of 31 December 2016, and of its results and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as approved by the European Union and with the legal and regulatory requirements applicable in Belgium.

Report on other legal and regulatory requirements

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

In the framework of our mandate and in accordance with the Belgian standard complementary to the International Standards on Auditing, our responsibility is to verify, in all material aspects, compliance with certain legal and regulatory requirements. On this basis, we make the following additional statement which does not modify the scope of our opinion on the consolidated financial statements:

- The directors' report on the consolidated financial statements includes the information required by law, is consistent with the consolidated financial statements and is free from material inconsistencies with the information available to us in the context of our mandate.

Zaventem, 22 March 2017
The Statutory Auditor

DELOITTE Bedrijfsrevisoren
BV o.v.v.e. CVBA/ SC s.f.d. SCRL
Represented by Dirk Vlaminckx

Consolidated balance sheet (before profit appropriation)

Assets	Note	31/12/2015	31/12/2016
Cash, cash balances at cental banks and other demand deposits	11	512,327,845	905,821,915
Financial assets held for trading	12	28,792,623	9,322,870
Financial assets designated at fair value with valuation changes through profit or loss		0	0
Available-for-sale financial assets	13	8,004,524,288	7,679,040,215
Loans and receivables	15	24,323,502,971	26,521,606,556
Loans to and receivables from credit institutions		15,350,000	0
Loans to and receivables from other customers		24,308,152,971	26,521,606,556
Financial assets held to maturity	14	404,465,119	425,641,792
Derivatives: hedge accounting	16	6,078,917	49,455,484
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	16	304,086,209	310,184,988
Property, plant and equipment	17	37,032,746	13,927,138
Buildings, land, equipment		35,508,011	12,477,129
Investment properties		1,524,735	1,450,009
Goodwill and other intangible assets	18	50,011,324	56,790,960
Goodwill		0	0
Other intangible assets		50,011,324	56,790,960
Tax assets	19	4,917,452	5,982,552
Other assets	20	186,306,131	160,845,281
Assets classified as held for sale	17	0	17,709,200
Total assets		**33,862,045,625**	**36,156,328,951**

Liabilities and equity			
Deposits from central banks	11	0	0
Financial assets held for trading	12	10,317,361	4,434
Financial liabilities designated at fair value with valuation changes through profit or loss		0	0
Financial liabilities measured at amortised cost	21	31,405,282,167	33,487,620,824
Deposits from credit institutions		100,914,580	1,389,829
Deposits from other than credit institutions		29,529,673,674	31,615,282,958
Debt securities, including retail savings certificats		1,372,724,660	1,210,484,036
Subordinated liabilities		401,969,253	660,464,000
Non-current financial liabilities		0	0
Derivatives: hedge accounting	16	496,161,248	557,592,277
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	16	0	0
Provisions	22	10,406,788	12,050,566
Tax liabilities	19	74,941,227	70,017,402
Other liabilities	23	192,120,100	187,783,070
Total liabilities		**32,189,228,891**	**34,315,068,573**
Equity attributable to shareholders of the company	3	1,672,757,633	1,841,199,853
Equity attributable to minority interests	4	59,101	60,525
Total equity and minority interest		**1,672,816,735**	**1,841,260,378**
Total liabilities, minority interest and equity		**33,862,045,625**	**36,156,328,951**
Equity attributable to the shareholders	3	1,672,757,633	1,841,199,853
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Consolidated income statement

Activa	Note	31/12/2015	31/12/2016
Financial and operational income and expenses		**539,929,643**	**571,536,157**
Net interest income	26	558,504,345	578,802,091
Interest income		991,127,882	932,417,064
Interest expenses		-432,623,537	-353,614,973
Dividend income	27	1,125	427,846
Net income from commissions and fees	28	-55,405,059	-58,942,512
Income from commissions and fees		94,055,716	93,499,253
Expenses related to commissions and fees		-149,460,775	-152,441,765
Realised gains and losses on financial assets and liabilities not measured at fair value in the income statement	29	6,660,698	9,041,307
Gains and losses on financial assets and liabilities held for trading	30	-6,289,693	-7,331,988
Gains and losses from hedge accounting	31	6,381,081	4,084,284
Gains and losses on derecognition of assets other than held for sale	32	154,985	482,279
Other operating result	33	29,922,162	44,972,850
Income from operations		37,961,732	51,450,500
Expenses from operations		-8,039,570	-6,477,650
Administrative costs	**34**	**-265,692,632**	**-286,809,060**
Employee expenses		-49,861,708	-58,622,771
General and administrative expenses		-215,830,924	-228,186,289
Depreciation		**-24,000,370**	**-26,585,492**
Property, plant and equipment	17	-5,307,724	-6,223,640
Investment properties	17	-51,377	-37,030
Intangible assets	18	-18,641,269	-20,324,821
Provisions	**22**	**3,301,249**	**-1,643,778**
Impairments	**35**	**-392,969**	**-3,250,733**
Available-for-sale financial assets		-1,935,920	1,779,330
Loans and receivables		1,542,951	-5,030,062
Goodwill		0	0
Result on assets classified as held for sale	17	0	-3,710,057
Net profit or loss		**253,144,920**	**249,537,037**
Income tax expense	36	-60,270,405	-59,516,622
Net profit or loss		**192,874,515**	**190,020,415**
Net profit or loss attributable to shareholders	3	192,866,907	190,010,420
Net profit or loss attributable to minority interests	4	7,608	9,995

Consolidated statement of comprehensive income

Note 'other elements of comprehensive income'	Note	31/12/2015	31/12/2016
Net profit or loss		**192,874,514**	**190,020,415**
Attributable to shareholders		192,866,907	190,010,420
Minority interests		7,608	9,995
Other elements of comprehensive income that can be later reclassified to the income statement			
Revaluation at fair value		-43,888,995	-4,969,791
Available-for-sale financial assets	13	-66,487,833	-8,001,616
Deferred taxes		22,598,838	3,031,826
Cash flow hedging		-549,433	299,088
Fair value of the portfolio	26	-732,577	398,784
Deferred taxes		183,144	-99,696
Total other comprehensive income		**-44,438,428**	**-4,670,703**
Total profit or loss		**148,436,086**	**185,349,712**
Attributable to shareholders		148,428,479	185,339,717
Minority interests		7,608	9,995

Consolidated statement of changes in equity

	Paid-in share capital	Issue premium	Revaluation reserve of available-for-sale financial assets	Cash flow hedging reserves	Retained earnings	Profit of current year	Share-holders' equity	Minority interest	Total equity
Equity 31 December 2014	**579,077,650**	**0**	**137,852,251**	**-13,729,426**	**673,416,409**	**173,058,525**	**1,549,675,409**	**74,294**	**1,549,749,703**
- Capital increase	37,174,500	0	0	0	0	0	37,174,500	0	37,174,500
- Profit (loss)	0	0	0	0	0	192,866,907	192,866,907	7,608	192,874,515
- Declared dividends	0	0	0	0	-62,520,750	0	-62,520,750	0	-62,520,750
Change in revaluation reserve for available-for-sale financial assets									
- Change in fair values	0	0	-66,487,833	0	0	0	-66,487,833	0	-66,487,833
- Change in deferred taxes	0	0	22,598,838	0	0	0	22,598,838	0	22,598,838
- Cash flow hedging	0	0	0	-549,433	0	0	-549,433	0	-549,433
- Other changes	0	0	0	0	0	0	0	-22,803	-22,803
- Transfer to retained earnings	0	0	0	0	173,058,525	-173,058,525	0	0	0
Equity 31 December 2015	**616,252,150**	**0**	**93,963,258**	**-14,278,863**	**783,954,182**	**192,866,907**	**1,672,757,633**	**59,101**	**1,672,816,735**
- Capital increase	45,623,250	0	0	0	0	0	45,623,250	0	45,623,250
- Profit (loss)	0	0	0	0	0	190,010,420	190,010,420	9,995	190,020,415
- Dividends	0	0	0	0	-62,520,750	0	-62,520,750	0	-62,520,750
Change in revaluation reserve for available-for-sale financial assets									
- Change in fair values	0	0	-8,001,616	0	0	0	-8,001,616	-394	-8,002,010
- Change in deferred taxes	0	0	3,031,826	0	0	0	3,031,826	134	3,031,959
- Cash flow hedging	0	0	0	299,088	0	0	299,088	0	299,088
- Other changes	0	0	0	0	0	0	0	-8,310	-8,310
- Transfer to retained earnings	0	0	0	0	192,866,907	-192,866,907	0	0	0
Equity 31 December 2016	**661,875,400**	**0**	**88,993,468**	**-13,979,775**	**914,300,338**	**190,010,420**	**1,841,199,851**	**60,527**	**1,841,260,377**

The change in fair value recognised in respect of the 'revaluation reserve in respect of available-for-sale financial assets' includes several aspects, including the transfer of part of this reserve to income as a result of sales, fair value hedge adjustments and amortisation of a historical AFS reserve.

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

Consolidated cash flow statement

	31/12/2015	31/12/2016
Cash and cash equivalents at beginning of period	**500,103,683**	**527,677,845**
Operating activities		
Net profit or loss	192,874,514	190,020,415
Payable and deferred tax expense recognised in the income statement	60,270,406	59,516,622
Depreciation and amortisation	24,000,370	26,585,492
Net provisions (reversals)	-3,301,249	1,643,778
Net gain (loss) on the sale of investments	-154,985	-482,279
Impairment losses	392,969	6,960,790
Other adjustments (including interest expenses on financing activities)	16,702,818	21,019,900
Cash flows from operating profits before changes in operating assets and liabilities	**290,784,844**	**305,264,719**
Changes in operating assets (except cash and cash equivalents)		
Changes in loans and receivables	-1,129,646,789	-2,218,483,647
Changes in available-for-sale assets	302,033,545	322,293,612
Changes in financial assets held for trading	-2,658,412	19,469,754
Changes in financial assets held to maturity	435,352,061	-21,176,673
Changes in assets - derivatives, used for hedging	-6,078,917	-43,376,567
Changes in cumulative fluctuations in value of covered positions	94,336,477	-6,098,779
Changes in other assets	-40,356,359	24,395,749
Changes in operating liabilities (except cash and cash equivalents)		
Changes in deposits from central banks	0	0
Changes in deposits from credit institutions	-311,987,709	-99,524,752
Changes in deposits from other than credit institutions	1,067,687,068	2,085,609,284
Changes in debt certificates	-237,478,616	-162,240,623
Changes in financial liabilities held for trading	-1,047,408	-10,312,927
Changes in liabilities - derivatives, used for hedging	-111,480,941	61,730,116
Changes in other liabilities	-86,827,263	2,786,936
Changes in working capital, net	-28,153,263	-44,928,517
Cash flow from operational activities	290,784,843	305,264,719
(Paid) Refunded income taxes	-50,062,734	-71,564,413
Net cash flow from operating activities	**212,568,846**	**188,771,790**
Investing activities		
(Cash payments to acquire property, plant and equipment)	-9,207,429	-6,077,389
Cash proceeds from disposal of property, plant and equipment	1,221,396	1,809,410
(Cash payments to acquire intangible assets)	-23,519,345	-27,102,402
Cash proceeds from disposal of intangible assets	0	0
Changes concerning consolidated companies	0	0
Net cash flow from investing activities	**-31,505,378**	**-31,370,381**
Financing activities		
(Paid dividends)	-62,520,750	-62,520,750
Cash proceeds from the issuing of subordinated liabilities	0	497,950,000
(Cash repayments of subordinated liabilities)	-111,417,435	-239,455,253
Interest paid	-16,725,621	-20,854,585
Cash proceeds from a capital increase	37,174,500	45,623,250
Net cash flow from financing activities	**-153,489,306**	**220,742,662**

Cash and cash equivalents at the end of the period	**527,677,845**	**905,821,916**

Components of cash and cash equivalents		
Cash in hand	34,791,854	34,203,673
Cash balances at agents	13,119,502	12,479,557
Cash balances with central banks	7	0
Central bank reserves	363,566,578	832,289,847
Current accounts at other financial institutions	100,849,904	26,848,839
Other advances	15,350,000	0
Total cash and cash equivalents at the end of the period	**527,677,845**	**905,821,916**
Cash flow from operating activities		
Received interest income	991,127,882	932,417,064
Dividends received	1,125	427,846
Paid interest expenses	-432,623,537	-353,614,973
Cash flow from financing activities		
Paid interest expenses	-16,725,621	-20,854,585

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

Components of cash and cash equivalents

The cash in hand, cash balances at authorized agents and cash balances with central banks can be found under the balance sheet item 'cash, cash balances at central banks and other demand deposits' (see Note 11).

The amount of 'loans and receivables' can be found under the balance sheet item 'loans to and receivables from credit institutions' (see Note 15.1). These are term accounts with other financial institutions and the associated pro rata interest amounts.

Cash flows from operating and financing activities

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

Notes

1. General information

Argenta Spaarbank nv (hereinafter ***the Company***, abbreviated to Aspa) is registered in Belgium under Belgian law. Its legal form is that of a public limited liability company having made a public call for savings. The Company has been established for an unlimited term.

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

The Company has the status of a Belgian credit institution. The core activities of the Company consist of attracting funds, offering housing loans to individuals and providing means of payment.

In addition, the Company offers units of Argenta funds and of other local and foreign undertakings for collective investment and structured notes of third parties.

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

BVg has the status of a mixed financial holding company, a parent company which is not a regulated company and which is at the head of a financial conglomerate pursuant to Art. 3, 39 of the Banking Act. The Company consolidates and is responsible for the joint management of its subsidiaries Argenta Spaarbank, a Belgian credit institution, and Argenta Assuranties, a Belgian insurance company. The Company and Argenta Assuranties have in turn various subsidiaries.

The Company has a subsidiary, Argenta Asset Management. This is a Luxembourg company that undertakes the management and central administration of the Argenta UCIs Argenta Fund and Argenta Fund of Funds.

On 27 October 2015, Argenta Netherlands NV, a Dutch SPV for the issuance of debentures, was dissolved. The Company has a branch in the Netherlands and together they constitute the Bank Pool.

Argenta Assuranties holds a shareholding in Argenta-Life Nederland, an insurance company under Dutch law. Together they form the Insurance Pool.

All shareholdings within the Argenta Group are (quasi) 100% shareholdings, so that no (other than purely formal) minority interests need to be reported.

The Bank Pool concentrates primarily on the following activities: attracting funds in the retail market in the form of savings and term accounts, current accounts, and bonds, and reinvesting these funds in mortgage loans.

Besides this, it continues to work on expanding its lending activities to local governments. This activity will help strengthen its local presence, make optimal use of existing knowledge and infrastructure, and diversify the asset base.

A second core activity is offering units in undertakings for collective investment (UCIs).

The Insurance Pool, Bank Pool and BVg are hereinafter collectively referred to as the Argenta Group.

The subsidiaries of the Company

After the cessation of all banking activities in Luxembourg, Argentabank Luxembourg was converted on 31 December 2014 into Argenta Asset Management (AAM), a management company that specializes in managing the collective investment funds of the Argenta Group.

Argenta Nederland, an issuance vehicle incorporated under Dutch law, being no longer active, was dissolved on 27 October 2015. The liquidation balance sheet was still included in the Company's consolidated year-end balance sheet as of 31 December 2015.

The Company's banking activities in the Netherlands are organized in a branch office rather than in a subsidiary. This has since April 2006 been responsible for mortgage production in the Netherlands. It offers mortgages through independent consultants.

To increase the manageability of the mortgage portfolio and to make the IT infrastructure less complex, the two mortgage portfolios outsourced to Stater and Quion were in October 2015 successfully centralized at Quion.

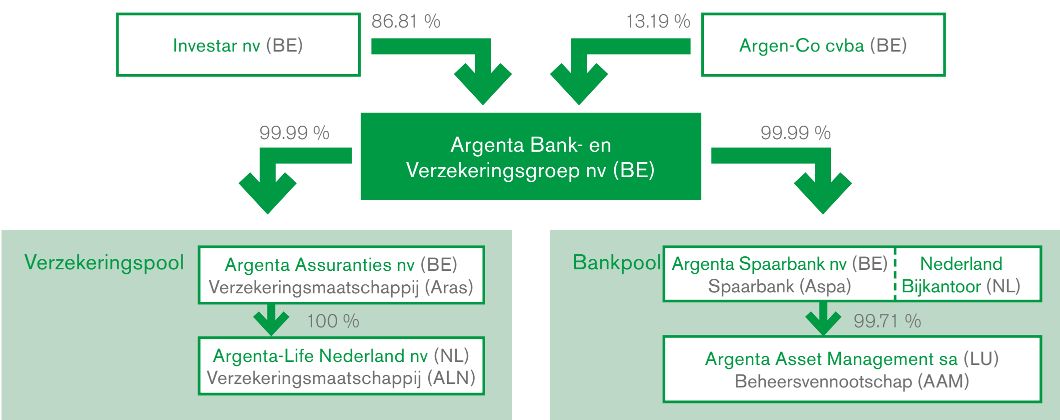
Although the housing market is again on the rise, the Dutch market continues to require particular attention in order to present a competitive product offering, as the signals are that pension funds will continue to focus in the near future on the Dutch mortgage market.

Midway through 2012, the Netherlands branch switched to a direct Internet channel ('Savings Direct'). In this way savers could be Argenta customers in the Netherlands without any intervention of an intermediary. Since late 2015, Argenta Netherlands has offered savings products solely through this online channel, and it is no longer possible to be a customer via an adviser. In 2016 an upgrade was undertaken of the digital bank NL (savings).

In the past two securitisation transactions were performed by which Dutch mortgage loans with an NHG (Nationale Hypotheek Garantie - national mortgage guarantee) were sold to an SPV (Special Purpose Vehicle) called Green Apple (hereafter SPV Green Apple). The 2008 transaction matured on 23 January 2014 and the 2007 transaction was liquidated on 25 January 2016.

Although there is no capital link with the Company, management has decided that the SPV needs to be consolidated, as result of which the transferred loans continue to be recognised on the balance sheet of the Bank Pool. At the end of 2015, the Green Apple 2007 transaction was therefore consolidated for the last time at Bank Pool level.

The presentation below gives an overview of the global structure of the Argenta Group and operational Bank Pool and Insurance Pool.



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

	%	31/12/2015	31/12/2016
Argenta Spaarbank nv		consolidating entity	consolidating entity
Argenta Asset Management (AAM)	99.71%	full consolidation	full consolidation
Argenta Nederland (ARNE)[1]	100%	full consolidation	liquidated
Green Apple bv (SPV)	0%	full consolidation	full consolidation

Note on the the number of personnel

In fiscal 2016, the average number of employees in the Bank Pool as a whole amounted to 731.5 FTE (688.20 FTE in 2015). There were an average of 715.8 FTE employees (669.20 FTE in 2015) and 15.7 FTE senior management staff (19 FTE in 2015).

The above figures for average staff numbers give a somewhat distorted picture because of the existence of a cost-sharing at group level.

The numbers of employees given are those who are effectively on the payrolls of the companies concerned.

A breakdown of personnel costs for the year can be found in note 34.

Development of the Company in 2016

In a context of very low interest rates, limited economic growth and increasing regulatory pressure, the Company continues to present good results.

The consolidated result (excluding minority interests) for the year was EUR 190,010,420 for the 12 months to 31 December 2016 compared with EUR 192,866,907 for 2015.

The balance sheet total rose by 6.77% to EUR 36.1 million.

Investments in available-for-sale assets and 'assets held to maturity' declined slightly. The Company maintains a cautious investment policy, and as part of this approach has in recent years also sought to lend to local and regional governments.

'Loans and receivables from other customers' (which includes mortgage loans) increased by a further 4.83%, reflecting controlled production. The quality of the (mortgage) loan portfolio also remained very good.

At end 2016 a transaction was prepared which involves the Company selling its office office buildings to Investar and renting these back after conversion. These buildings were reported under 'held-for-sale assets and groups of assets to be divested'. As of 31/12/2016 these buildings were on the books with a carrying value of EUR 17,709,200.

Customer deposits (funds on the current, term and savings accounts) increased overall by 3.75% or EUR 1 billion.

With the increase in incoming customer funds the portfolio of retail savings certificates and term accounts continues to decline in favour of savings accounts. This transition reflects the continuing very low interest rates that are discouraging customers from committing their money for longer terms.

[1] ARNE was dissolved on 27 October 2015 but the liquidation balance sheet was still included in the end-2015 consolidation.

In May 2016 the Company issued a subordinated Tier 2 loan with a nominal value of EUR 500 million. This issue was placed with institutional investors.

This issue was done pro-actively under the new European BRRD (Bank Recovery and Resolution Directing) legislation and in particular the MREL (Minimum Requirement for Eligible Liabilities and own funds) to meet obligations and to further strengthen the S&P rating (A-stable).

The bank's profit has remained strong, falling only slightly from last year's good result, despite significant investments and the further expansion of the Company.

With the adding of the entire profit of the year to reserves, equity continues to rise. In this way the Company amply meets all regulatory ratios.

2. Financial reporting principles

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

General

In accordance with the stipulations of the Royal Decree, the Company's consolidated financial statements are prepared in accordance with the IFRS standards - including the *International Accounting Standards* ***(IAS)*** and interpretations - as of 31 December 2016, as accepted by the European Union.

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

Critical estimates and key sources of estimation uncertainty

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

Accounting estimates are made principally in the following areas:
- Accounting estimate of the recoverable amount of impairments;
- Assessment of the fair value of unlisted financial instruments;
- Assessment of the expected useful life of tangible and intangible assets;
- Accounting estimate of the existing liabilities resulting from past events in the recognition of provisions.

Assumptions are made principally in the following areas:
- Classification of financial instruments;
- Level of hierarchical attribution of financial instruments;
- Existence of active markets for financial instruments;
- Existence of loss events and impairment triggers;
- Existence of obligations resulting from past events (provisions);
- Existence of control over companies.

Management has also decided that the Green Apple SPV needs to be consolidated and that consequently the transferred loans should remain on the group's balance sheet.

2.1. Changes in accounting policies

The accounting policies used for preparing these 2016 consolidated financial statements are consistent with the policies applied as of 31 December 2015.

The following standards and interpretations came into application during 2016:
- Improvements to IFRS (2010-2012) (applicable for annual reporting periods commencing on or after 1 February 2015)
- Improvements to IFRS (2012-2014) (applicable for annual reporting periods commencing on or after 1 January 2016)
- Amendments to IFRS 10, IFRS 12 and IAS 28 – *Investment entities: Application of the Exemption from Consolidation* (applicable to financial years commencing on or after 1 January 2016)
- Amendments to IFRS 11 - *Joint Arrangements - Processing of acquisitions of interests in joint operations* (effective for annual periods commencing on or after 1 January 2016)
- Amendments to to IAS 1 – *Presentation of Financial Statements - Initiative on disclosures* (effective for annual periods commencing on or after January 2016)
- Amendments to IAS 16 and IAS 38 - *Property, Plant and Equipment and Intangible Assets - Clarification of Acceptable Methods of Depreciation and amortisation* (effective for annual periods commencing on or after 1 January 2016)
- Amendments to IAS 16 and IAS 41 - *Property, Plant and Equipment and Biological Assets - Bearer Plants* (effective for annual periods commencing on or after 1 January 2016)
- Amendments to IAS 19 *Employee Benefits - Employee contributions* (effective for annual periods commencing on or after 1 February 2015)
- Amendments to IAS 27 Equity Method in Separate Financial Statements (effective for annual periods commencing on or after 1 January 2016).

The application of these new provisions had no material impact on the Company's results for the 2016 financial year or on equity or on the presentation of the financial statements.

Standards and Interpretations published but not yet effective for the annual period commencing on 1 January 2016:

- IFRS 9 *Financial Instruments* and subsequent amendments (effective for annual periods commencing on or after 1 January 2018)
- IFRS 14 *Regulatory Deferral Accounts* (effective for annual periods commencing on or after 1 January 2016, but not yet approved in the European Union)
- IFRS 15 *Revenue from Contracts with Customers,* (effective for annual periods commencing or or after 1 January 2018
- IFRS 16 *Leases* (effective for annual periods commencing on or after 1 January 2019, but not yet approved in the European Union)
- Improvements to IFRS (2014-2016) (effective for annual periods commencing on or after 1 January 2017 or 2018, but not yet approved in the European Union)
- Amendments to IAS 2 *Classification and Measurement of Share-based Payment Transactions* (effective for annual periods commencing on or after 1 January 2018 (but not yet approved in the European Union)
- Amendments to IFRS 4 *Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'* (effective for annual periods commencing on or after 1 January 2018 (but not yet approved in the European Union)
- Amendments to IFRS 10 and IAS 28 - *Sale or transfer of assets between investor and the associated participation or joint venture* (effective date postponed for an indefinite period, but not yet approved in the European Union)
- Amendments to IAS 7 - *Presentation of Financial Statements - Initiative on Disclosures* (effective for annual periods commencing on or after 1 January 2017 but not yet approved in the European Union)
- Amendments to IAS 12 - *Recognition of Deferred Tax Assets for Unrealised Losses* (effective for annual periods commencing on or after 1 January 2017, but not yet approved in the European Union)
- Amendments to IAS 40 *Transfers of Investment Property* (effective for annual periods commencing on or after 1 January 2018, but not yet approved in the European Union)
- IFRS 22 *Foreign Currency Transactions and Advance Consideration* (effective for annual periods commencing on or after 1 January 2018, but not yet approved in the European Union).

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

IFRS 9 imposes new obligations for (a) the classification and measurement of financial instruments; (b) risk estimation and the creation of impairments and makes (c) adjustments in hedge accounting.

To arrive at a proper classification and measurement of financial instruments, the BM (business model) and SPPI (solely payments of principal and interest) tests are performed. This entire process will also be described in the appropriate policy documents.
The main change brought about by the IFRS 9 standard concerns the recording of impairments. Each entity must set up impairment provisions for ECL (expected credit losses) based on a three-stage approach The definition of the ECL depends partly on the size of the 'significant increase' of the credit risk since initial recognition.

The Group applies mainly the portfolio hedge of interest rate risk. This can still be applied. This means that until further order this aspect of the IFRS 9 standard is without impact.

Based on current simulations, the financial impact appears to be limited and it is mainly the operational process that is work-intensive.

In the fourth quarter of 2015, an analysis and assessment were carried preparatory to an IFRS 9 implementation project which since got under way in early 2016. The implementation project was monitored during the year by a specially-installed IFRS steering group, in consultation with the Executive Committee, the Risk Committee and the Board of Directors.

In addition, IFRS 15 Revenue comes into effect from 2018. This standard specifies the conditions that must be met before revenue may be recognised in the income statement. Since most Insurance Pool income falls within the scope of IFRS 4/IFRS 17 and IAS 39/IFRS 9 and is required to be processed in accordance with these standards, the introduction of IFRS 15 has a rather limited impact on the result.

For IFRS 16 Leases, a project will be launched in 2017 to embed the whole in the Argenta Group. Contracts that can potentially fall within the scope of IFRS 16 include car leasing contacts and software licensing contracts.

2.2. Accounting policies – accounting rules

Consolidation principles

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

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

The Subsidiaries are consolidated using the full consolidation method.

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

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

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

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

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

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

Operating segments

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

Foreign currencies

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

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

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

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

Transaction date and settlement date accounting

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

Purchases and sales of financial assets settled by according to standard market conventions (spot transactions) are taken into the Company's balance sheet on the settlement date.

Netting

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

Assets are recognised after deduction of any impairments.

Financial assets and liabilities

All financial assets and liabilities – including derivatives – are recognised according to the IFRS classification system. Each classification is subject to its own specific measurement rules.

The following classifications exist for financial assets: (a) loans and receivables, (b) held-to-maturity assets, (c) financial assets designated at fair value through profit or loss and (d) available-for-sale assets.

(a) Loans and receivables: all non-derivative financial assets with fixed or determinable payments that are not listed on an active market.

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

Where necessary, impairment losses are charged.

(b) Held-to-maturity assets: all non-derivative financial assets with fixed maturities and fixed or determinable payments that the Company fully intends and is able to hold to maturity.

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

Where necessary, impairment losses are charged.

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

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

These are measured on acquisition at fair value, excluding transaction costs, and subsequently at fair value, with all changes in value recognised in the income statement.

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

(d) Available-for-sale financial assets: all non-derivative financial assets that are not classified as (a) loans and receivables, (b) held-to-maturity assets or (c) financial assets designated at fair value through profit or loss.

These assets are designated at fair value, with all fair value changes being recognised on a separate line in equity until the assets are sold or until they are impaired. In this case, the cumulative fair value changes are transferred from equity to profit or loss for the financial year.

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

The changes in fair value of these securities, which are recognised on a separate line in equity, are the result of calculating the changes between (a) their acquisition price (including transaction costs) plus or minus the portion of the difference mentioned above that is taken to the result and (b) the fair value.

Financial liabilities are designated as (a) financial liabilities designated at fair value through profit or loss and (b) other financial liabilities.

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

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

These are measured on acquisition at fair value, excluding transaction costs, and subsequently at fair value, with all changes in value recognised in the income statement.

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

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

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

Income and expenses arising from financial instruments measured at amortised cost and from fixed-income securities classified in 'available-for-sale financial assets' are recognised in the income statement using the effective interest method.

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

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

Cash and cash equivalents

'Cash and cash equivalents', as used in the cash flow statement, include cash in hand, freely available balances at central banks and other non-derivative financial assets with a maturity of less than or equal to three months from the date of acquisition.

Property, plant and equipment

Property, plant and equipment

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

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

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

Investment properties

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

Specific valuation rules

Land and buildings

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

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

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

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

IT equipment

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

Other equipment (including vehicles)

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

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

Goodwill and intangible assets

Goodwill

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

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

Intangible assets

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

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

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

Other intangible assets are amortised at 10% per annum.

Impairment losses

The Company tests all its assets at each balance sheet date for indications of impairment.

The carrying amount of an impaired asset is reduced to its estimated recoverable value, and the amount of the change during the current reporting period is recognised in the income statement.

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

Financial assets

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

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

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

Investments in equity instruments

A significant or long-term fall in the fair value of an investment in an equity instrument below the cost price constitutes an objective indication for impairment.

This situation will be assessed individually in each case, but in the absence of additional assessment elements, the Company considers an unbroken period of 24 months as long-term, and a fall of at least 30% as significant.

Where one of the criteria is met, a quantitative and qualitative analysis of the relevant position shall be undertaken to judge whether an impairment exists.

Impairments recognised in the income statement on investments in equity instruments classified as available for sale cannot be reversed via the income statement.

Investments in non-equity instruments

Impairments are applied in cases of sustained capital loss or loss of value attributable to the financial difficulties of the debtor.

Assets go into 'default' status where the arrears (of interest and/or capital) have reached 90 days or repayment is unlikely.

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

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

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

- Available-for-sale financial assets

Where a fall in the fair value of an available-for-sale financial asset has been recognised directly in equity, and there are objective indications that the asset has suffered impairment, the accumulated loss that has been directly booked to equity is transferred to the income statement, even though the financial asset has not been removed from the balance sheet.

The amount of the cumulative loss that is reclassified from equity to the income statement is equal to the difference between the acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment losses on that asset that have been previously taken into the income statement.

If the fair value of an available-for-sale debt certificate increases in a subsequent period, and the increase can be objectively related to an event that occurred after the impairment was recognised in the income statement, the impairment must be reversed, with the amount of the reversal recognised in the income statement.

- Loans and receivables - individual impairments

Specific measurement rules for mortgage loans, investment loans, instalment sales and loans

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

The list of mortgage loans, investment loans, sales and instalment loans in default status is produced monthly.

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

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

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

If, however, if the mortgage loan granted in the Netherlands is covered by an NHG guarantee, the impairment will not exceed the amount of the annuity reduction in the guarantee amounts.

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

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

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

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

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

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

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

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

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

- Loans and receivables - collective value adjustments

In addition to individual impairments, collective - portfolio-based - value adjustments are recorded in the form of an IBNR (*incurred but not reported*) provision.

An 'incurred but not reported' value adjustment on loans is recognised for mortgage receivables that are not in default and on which no impairment losses have been recorded on an individual basis (*performing loans*).

This collective evaluation of impairment losses includes the application of a a *'loss confirmation period'*.

This '*loss confirmation period'* represents a time interval (expressed in months) between the occurrence of the impairment-causing event (i.e. a 'loss event') and the time it is identified in the entity's credit system.

The application of the '*loss confirmation period'* zensures that impairments that have already de facto occurred but have not yet been identified as such, are included in the provisions.

The '*loss confirmation period'* is continuously evaluated and can be changed depending on market developments (including house prices, transactions, taxation), portfolio characteristics and macro-economic indicators (such as unemployment, GDP growth, debt, divorce rates).

The IBNR provision is calculated and set up for all retail credit portfolios based on adapted IRB models used to determine the minimum prudential capital requirements. These adjustments relate essentially to the introduction of the above-mentioned loss confirmation period and an economic adjustment that reflects the actual losses on the portfolio in place of the average historical losses. The loss confirmation period amounts here to at least 3 months for the different risk categories.

In addition to the IBNR provision, an impairment is also recognised for collectively assessed financial assets. This portfolio-based impairment is recorded solely for an mortgage-backed securities (MBS) portfolio classified under loans and receivables.

Other assets

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

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

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

Annual goodwill impairment test

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

Derivatives

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

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

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

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

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

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

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

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

Held-for-trading derivatives are recognised on the balance sheet at fair value on the transaction date. Subsequently, they are valued at fair value, with fluctuations in the fair value recognised in the profit or loss for the financial year.

Held-for-trading derivatives with a positive fair value are recorded on the asset side of the balance sheet, and those with a negative fair value on the liabilities side.

Embedded derivatives

Financial assets or liabilities can include derivatives embedded in a contract. Such contracts are referred to as 'hybrid instruments'.

If the host contract of the hybrid financial instrument (1) is not carried at fair value with changes in value taken through profit or loss and (2) the characteristics and risks of the embedded derivative are not closely related to those of the host contract, the embedded derivative should be separated from the host contract and designated at fair value as a separate derivative.

Fair value changes are recognised in the income statement. The host contract is accounted for and measured by applying the rules for the relevant category of the financial instrument.

If (1) the host contract is carried at fair value through profit or loss; or if (2) the characteristics and risks of the embedded derivative are closely related to those of the host contract, the embedded derivative is not separated from the host contract and the hybrid instrument is measured at fair value as a single derivative.

Fair value of financial instruments

The fair value is the price that would be received/paid on the sale of an asset or transfer of a liability in an "orderly" transaction between market participants at the reporting date.

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

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

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

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

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

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

Lease contracts

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

Repurchase agreements

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

Securitisation

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

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

Employee benefits

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

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

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

Provisions

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

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

Income taxes

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

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

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

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

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

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

Equity attributable to the shareholders

Share capital
No shares have been repurchased by the Company.

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

Other equity components
Other elements recognised in shareholders' equity include those related to the available-for-sale assets.

3. Equity attributable to the shareholders

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

The IFRS equity attributable to the shareholders as of 31 December 2016 is EUR 1,841,199,851, compared to EUR 1,672,757,633 as of 31 December 2015. The increase in equity is the combined result of several factors.

Overview IFRS equity	31/12/2015	31/12/2016
Paid-in capital	616,252,150	661,875,400
Revaluation reserves on available-for-sale assets	93,963,258	88,993,468
Retained earings	783,954,182	914,300,338
Profit current year	192,866,907	190,010,420
Cash flow hedge reserves	-14,278,863	-13,979,775
Equity attributable to the shareholders	1,672,757,633	1,841,199,851
Minority interests	59,101	60,527
	1,672,816,735	**1,841,260,378**

Equity has increased as a result of, inter alia, the addition of the profit for the year of EUR 190,010,420, a limited decline due to a cash out of EUR 16,897,500 by way of interim dividend and a decrease in the 'revaluation surplus on available-for-sale assets'. The elements of the IFRS equity are further discussed in the text below.

Paid-in capital

The fully paid-in capital, represented by 168,975 no par shares, is EUR 661,875,400 (EUR 616,252,150 as of 31 December 2015).

The increase is the result of a capital increase of EUR 45,623,250, which took place at the end of November 2016. This capital increase involved no issue of new shares and was subscribed by existing shareholders. In 2015, there was a capital increase of EUR 37,174,500.

Revaluation reserves on available-for-sale assets

Available-for-sale (AFS) financial assets are measured at fair value, with all fluctuations in fair value recognised on a separate line in equity until the assets are sold or until an impairment occurs.

The reported fluctuations in fair value are found in shareholders' equity under 'revaluation reserve for available-for-sale financial assets'. This reserve (after offsetting of deferred taxes and the transfer of the latent value recorded in the context of micro hedges) evolved from EUR 93,963,258 at 31 December 2015 to 88,993,468 at 31 December 2016.

	31/12/2015	31/12/2016
Total unrealised gains and losses on fixed-income securities	236,941,126	233,796,877
Latent value included in the context of the micro hedges	-86,873,644	-93,208,307
Total latent taxes on fixed-income securities	-51,007,938	-47,786,054
Total unrealised gains and losses on non-fixed-income securities	-625	312,382
Latent tax on valuation of non-fixed income securities	0	-1,287
Unrealised loss on reclassified assets	-7,719,530	-6,241,695
Latent taxes on reclassified assets	2,623,868	2,121,552
Total revaluation reserve	**93,963,258**	**88,993,468**

A total result of EUR 6,660,698 was realised in 2015 on the latent values of the 'available-for-sale assets'. In fiscal 2016, EUR 9,041,307 was realised (more details on this realised income can be found in note 29).

The total revaluation reserve consists in this way of a 'revaluation reserve in respect of available-for-sale assets' and a so-called 'frozen revaluation reserve for a limited MBS portfolio' that in 2011 was reclassified to the loans and receivables portfolio.

Composition of revaluation reserve	31/12/2015	31/12/2016
Revaluation reserve for available-for-sale financial assets	99,058,920	93,113,611
Frozen revaluation reserve, reclassified assets	-5,095,662	-4,120,143

Note 15.3 contains further information on the 'latent capital loss on reclassified assets' and the frozen AFS reserve.

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

Cash flow hedging

The Company has concluded an interest rate swap in the context of hedge accounting, which is treated as a cash flow hedge. In this way the effective portion of the changes in market value of the swap (net of tax) is shown in a separate line in equity. This cash flow hedge is described in greater detail in Note 25.

Retained earnings

The reserves position EUR 914,300,338 as of 31 December 2016 contains the statutory reserves of the parent company of the Bank Pool, i.e. the Company.

Profit from the current year

The consolidated result (excluding minority interests) for the year ending on 31 December 2016 was EUR 190,010,420, compared with EUR 192,866,907 for the year ending on 31 December 2015.

Dividend proposal for the financial year

In October 2015, an interim dividend of EUR 62,520,750 (EUR 370 per share) was paid to shareholders. Subsequently a capital increase in the same amount in the Company took place, subscribed by the two shareholders.

In December 2016, an interim dividend of EUR 62,520,750 (EUR 370 per share) was paid to shareholders. Subsequently a capital increase of EUR 45,623,250 in the Company took place, subscribed by the two shareholders.

The Company's Board of Directors will submit a proposal to the general meeting of shareholders not to distribute any further dividend in respect of the 2016 financial year.

4. Minority interests

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

These shares are held directly by the coordinating holding company of BVg.

The minority interests also include the entire capital (EUR 18,000) of the Green Apple SPV. Even though there is no capital link with the Company, this company is nonetheless consolidated on the basis of the IFRS rules (SIC 12).

In 2016 there was a profit attributable to the minority interests of EUR 9,995 compared to EUR 7,608 in 2015.

The revaluation surplus on available-for-sale assets attributable to minority interests amounted to EUR 0 at the end of 2016, as the Company's subsidiaries not longer had their own securities portfolios.

There are also no minority interests in the 'other elements of the total result', as AAM has no securities portfolio and no derivatives.

5. Risk management

Professional, comprehensive risk management is an essential prerequisite for achieving sustainable, profitable growth. The Argenta Group recognises this and considers risk management as one of its core activities.

The risk management framework is constantly being updated and adapted in response to new regulations, daily experience and changes in Argenta's activities. Demonstrating that adequate risk management procedures are in place is a key condition for acquiring and retaining the trust of all stakeholders: customers, investors, branch managers, supervisory authorities, as well as directors, management and employees.

The strategy and long-term policy of all entities within the Argenta Group are determined by the Executive Committee and Board of the parent company BVg. The two main subsidiaries, the Company and its sister entity Argenta Assuranties, are responsible for operational management within their own areas of competence as established in the Memorandum of Internal Governance.

Risk management at the Company

General

The executive committees of the Company, Argenta Assuranties and BVg are integrated, with a number of members in common: the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Risk Officer (CRO). The Chief Operating Officer (COO), Chief Commercial Officer (CCO) and Chief Information Officer (CIO) work for both Argenta Spaarbank and Argenta Assuranties, but not for BVg.

This unity of management highlights the importance of a commercial, risk and financial strategy that is harmonised group-wide, with an emphasis on the long-term relationship with both customers and the self-employed branch managers.

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

A direct relationship exists between the RAF risk indicators and i) the ICAAP for the Bank Pool and ii) the policy documents, via the further translation into operational risk limits. This has resulted in the daily embedding of risk awareness in first line management and in better and leaner risk management processes.

Risk management has evolved from risk management 'by design' (policies) and risk management 'in practice' (embedding) to 'cost effective' risk management.

The Argenta Group continued in 2016 to develop its cautious and transparent risk management.

The operation of these risk committees was assessed in 2016, with optimizations agreed upon in order to further improve the whole.

A clear and well-functioning Risk Appetite Framework (RAF) exists, which is embedded as an active steering tool in the organization:

- Quarterly reporting of quantitative and qualitative RAF at the Risk Committees, with feedback to the Boards;
- Embedding of the RAF in the business plan cycle (proactive, risk check of business plan, etc..);
- The indicators themselves are also assessed annually as to their continuing suitability and calibration (and replaced/adjusted if necessary), with discussion at the Risk Committees and approval by the Boards;
- Argenta's risk mapping was updated and approved by the Risk Committees;
- Increased attention to ORM KRIs (key risk indicators) and internal control maturity within the qualitative RAF.

As well as optimizing risk governance, the risk metrics were also improved in this context. In the process, the RAF risk parameters were refined and expanded with the addition of a number of RAF indicators.

The following quantitative Risk Appetite Framework indicators were added for the Bank Pool:

- Common Equity Tier 1 ratio according to Internal Rating Based;
- Total Capital Ratio according to Internal Rating Based;
- Investment properties Average Portfolio Rating according to Moody's rating factors;
- Mortgages broken down into Belgian and Dutch mortgages: risk score following the one-year default probability of the internal rating models;
- Net Interest Income margin: interest margin (Year-To-Date, annualized) compared to the limits required for 8% ROE and 0% ROE taken from the Business Plan.

In 2016 the limits of the following RAF indicators in the Bank Pool were recalibrated: Leverage Ratio, Risk Score mortgages, Liquidity Coverage Ratio, concentration limit Non Investment Grade, Asset Encumbrance Ratio and the RAF indicators for the various categories of the APR bonds (excl. LRG).

ICAAP / SREP

The results of the ICAAP (Internal Capital Adequacy Assessment Process), being the internal assessment of the risks and required capital, were compared with the SREP (Supervisory Review and Evaluation Process), which is the assessment of the risk and capital requirement by the NBB/JST according to their own internal methodology.

RRP (Recovery and Resolution Plan)

The obligation for banks to draw up recovery plans is part of the structural reforms initiated by the G-20 after the banking crisis.

In 2016 the Company submitted an updated recovery plan to regulators. This recovery plan gives an accurate picture of the robustness and resilience of the Argenta Group's financial position in a financial crisis. The 2016 Recovery Plan is the third of its kind that Argenta has produced. In the updated recovery plan, the Argenta Group once again demonstrates a very strong capital and liquidity position, enabling it to withstand severe crises.

The foundations of this financial resilience are to be found in the Argenta Group's banking-insurance model, the geographical distribution of the core activities across Belgium and the Netherlands, and the construction of a liquid and well-diversified investment portfolio. Also examined here were the interactions at overarching group level between the Bank and Insurance pools.

The recovery plan also emphasizes the importance of an effective monitoring framework so that any deterioration in the financial condition is quickly picked up and addressed in a timely fashion. A timely reaction not only increases the success and effectiveness of the recovery options but also broadens the range of possible options, including proactive options.

In 2016, Argenta delivered to the National Resolution Authority the requested information that will be incorporated in the drafting of a resolution plan. A resolution plan is a high-level plan that among other things defines the various resolution options, assesses the Argenta Group' ability to continue to settle its business and contains an action plan to safeguard operational and business continuity.

Single Supervisory Mechanism (below: 'SSM')

The ECB has since the end of November 2014 taken over the prudential supervision of the Argenta Group from the NBB. With the setting up a SSM , whereby supervision of financial institutions is transferred to the ECB, a step has been taken towards establishing a fully-fledged banking union in Europe. The intention is for the SSM to help ensure financial stability within the euro zone and facilitate cross-border banking.

Since the beginning of 2015 this monitoring is effectively carried out by the ECB's so-called Joint Supervisory Team (which also includes members of the NBB). This supervision is exercised by means of inspections, workshops, interviews, and the requesting of various reports. After the transition year 2015 the new supervision focused inter alia on the ICAAP/ILAAP and the SREP dossier, approached in 2016 from a new European perspective.

Single Resolution Board (SRB)

In 2016, a new regulator was introduced: the Single Resolution Board. This institution which, like the ECB and EBA, is now also part of the Single Supervision Mechanism, is required to ensure that an adequate plan exists for all systemic banks, when all other means have been exhausted, to be allowed to go into bankruptcy without (financial) intervention by governments (and taxpayers).

To this end Argenta transferred all the data requested in 2016 to the SRB, in charge of drawing up the so-called "resolution plan". In this context, Argenta Savings Bank, specifically in order pro-actively to meet its MREL (Minimum Requirement for own funds and Eligible Liabilities) obligations and continue to improve its S&P rating (A-stable), successfully made an issue of EUR 500 million of Tier 2 capital in 2016.

ECB stress tests

In the first half of 2016, Argenta, along with a large group of European banks underwent the stress test of the European Central Bank. The purpose of the stress test is twofold: first, the regulator wants to assess the resilience of the European banking system, second, the results of the stress tests at individual banks are incorporated into the assessment of the financial health, risk profile and sustainability of the banks' business models. The stress test results are included in the Supervisory Review and Evaluation Process and end up in the definition of the Pillar II requirement and recommendation. The European Central Bank intends to calculate such a stress tests every two years.

The 2016 stress test consisted of a base scenario and an adverse or stress scenario, both with a three-year time horizon. The assumptions regarding the macroeconomic variables in the baseline scenario were in line with the European Commission's autumn 2015 economic forecast. The adverse scenario, drawn up by the European Systemic Risk Board, is a hypothetical scenario that reflects the systemic risks that are deemed to constitute the most significant threat to the stability of the European banking sector. Obviously, the stress scenario is by far the most important scenario in which the main risk factors to which the banking sector is exposed are included in the calculations, including credit, market, interest rate, operational and behavioural risks and non-interest-related impacts on income and expenditure.

The stress test was calculated at the level of Argenta Bank en Verzekeringsgroep, CRR level, applying the Danish Compromise and IFRS valuation rules. The starting point was the 2015 year-end figures.

The results of the stress test demonstrate the strength and resistance of Argenta's capital position under stress. Before and after the calculation of the stress tests Argenta remains among the strongest capitalized banks in Europe[2]. The robustness of Argenta's recurring business and the health of the loan portfolio with limited losses under stress are important parameters explaining this result.

Governance of risk management

Group risk management takes place, in addition to the independent Internal Audit and Compliance control functions, mainly at Argenta Group level. The Risk Management Charter defines the Risk Management function as the independent second-line function that controls general risk management within Argenta.

The Risk Management function supervises and controls the first line in respect of risk management and provides supporting risk advice. This function is performed by the Risk & Validation department and the ORM & ECB Office department under the hierarchical responsibility and supervision of the CRO.

First-line risk management is organised and handled autonomously within each entity, and hence comes under the auspices of the various group companies' management bodies.

In 2016 the independent Credit Risk Policy (CRP) department, the knowledge centre for modelling and analysis of retail credit risk, was further expanded and the vision implemented, with the CRP evolving from a product and regulatory focus to a customer and Argenta model. As a second-line support department, this knowledge centre plays a fundamental role in the Argenta Group's risk management by providing specifically retail credit portfolio-focused information and advice, among other things via the Retail Credit Risk Committee.

The Risk & Validation department and the ORM & ECB Office department:

- Provide the independent second-line control;
- Have as their basic principle: 'identify, measure, report and mitigate' for all material risk factors, which are then integrated into the ICAAP for the Bank Pool. In this way the department also controls the (economic) capital management;
- Have a 'radar' function of pro-active identification of not yet fully identified risks;
- Play an important role in the policy for and validation of risk modelling;
- Undertake the required formal risk checks, and in this capacity play an active role in, among others, the Group Risk Committee (GRC) and the Asset & Liability Committee;
- Provide the Executive Committees, Boards of Directors and Risk Committees with independent advice on the risk management process in the Argenta Group.

Risk management is not just a second-line function, but an organization-wide activity, aligned with the business strategy.

The monthly umbrella GRC covers economic capital and retail and non-retail credit risk issues and operational risk.

Validation

Along with second line control, risk model validation is one of the core activities of the Risk & Validation department The regulator requires financial institutions to have the risk models they develop confirmed by an independent validator.

The Company's risk profile

This annual report discusses the activities of the Bank Pool. As required by Article 119.5 of the Belgian Companies Code, a summary is provided below of the objectives and the policy governing the management of the banking risks.

The Company's risk management policy and attendant organizational structuring are designed to ensure that the known risks are always properly identified, analysed, measured, monitored and managed.

The Company's activities expose it to various risks. The Company's risk management distinguishes here between, inter alia, the following risk categories: market risk, liquidity risk, credit risk, operational risk and other risks.

A failure to maintain control over these risks can negatively affect the Argenta Group's financial performance and reputation.

5.1. Market risk

Market risk is the risk of a negative financial impact as a direct or indirect result of the volatility of market prices of assets, liabilities and financial instruments. Within this market risk the following 4 risks are relevant: interest rate risk, spread-widening risk, equities risk and real estate risk.

It should be noted that the Bank Pool operates only in the Benelux countries and does not make investments in currencies other than the euro, as a result of which it is not exposed to any currency risk. Nor is there any intention to invest in non-euro currencies.

5.1.1. Interest rate risk

The single largest market risk to which the activities of the Bank Pool and thus particularly Argenta Spaarbank are exposed is interest rate risk. This is caused primarily by changes in market prices, unexpected changes in investment returns and changes in the correlation of interest rates between different financial instruments.

The Company's results and capital position display a certain sensitivity to changes in interest rates. This is because a principal component of the business strategy consists of attracting short to medium-term funds via savings and term deposits and reinvesting these in loans and investments of various kinds. Via the interest rate differentials between the various maturities this gives rise to a transformation result.

The gross value of the business (the difference between the investments measured at market value and the cost of financing them) is affected by the fluctuations in these interest rates. The intensity of these is determined by the size of the tolerated market value sensitivity. This parameter serves as a benchmark for the interest mismatch, through which the interest rate sensitivity can to a large extent be adjusted.

In its risk management procedures, the Company pays much attention to having a consistent internal structure, enabling it to perform these activities judiciously, objectively and efficiently and to provide the competent management bodies with timely, comprehensive reporting. First among these is the Asset and Liability Committee (hereinafter "ALCO"). This carries specific responsibilities for monitoring the daily management of the financial position, on which it reports to the Executive Committee. It has a permanent remit to maintain both the income sensitivity of the net interest income and the market-value sensitivity of equity within set limits.

In its risk measurement and management, ALCO takes into account the various components of the interest rate risk contained in the balance sheet of the Argenta Group. These include the repricing risk (risk from interest rate mismatch between assets and liabilities), the yield curve risk (risk from non-parallel movement of the yield curve), the option risk (risk from the implicit and explicit options on the balance sheet) and the basic risk.

The latter risk arises, inter alia, from the use of various reference indices as a basis for repricing asset and liabilities products, for example Belgian mortgages on the basis of the OLO reference index. In the ALM these risks are monitored and managed by means of scenario analysis.

[2] Limited to banks of which the stress test results were published on the EBA website.

As with any other risk, the interest rate risk requires a risk buffer in the form of equity capital. Although neither European nor Belgian legislators nor regulatory authorities have to date laid down precise capital requirements for the interest rate within Pillar 1, the Company specifies a certain volume of required own capital in its Internal Capital Adequacy Assessment Process (ICAAP).

The Company's earnings quality remained at an adequate level in 2016 thanks to an efficient ALM policy and wise commercial policy. The current European interest rate environment, the refinancing of a portion of the mortgage portfolio and the sharp fall in bond yields are exercising negative pressure on the interest margin.

The combination of endogenous and additional exogenous ALM hedging ensures that Argenta's commercial strategy fits entirely within the approved RAF.

In order to keep market sensitivity within the risk appetite approved by the Company's Board of Directors and not to exceed the NBB's warning light levels, additional interest rate swaps and caps were concluded in 2016 These instruments complement the portfolio of derivative instruments (caps and swaps) that were used in the past to hedge interest rate risk. This exogenous hedging serves to supplement the permanent aim of a maximally endogenous management of the balance sheet.

With the help of a capped interest rate hedge, the pricing of savings accounts can partially keep step with a potential future interest rate increase, whereas without a hedge this would be difficult because of the less frequent repricing of assets.

On the other hand, it has to be possible to give the long-term fixed-rate assets a floating character when interest rates are rising. Using an interest rate hedge, the projected long-term fixed-interest mortgage business can be given a floating rate character in the event of any future rise in interest rates. This provides protection in terms of both income and value.

Under IFRS, strict regulations are applicable to the financial accounting for hedging. Moreover, not every economic hedge that is used to hedge the interest rate risk is regarded as a hedge under IFRS, potentially adding a degree of volatility to the IFRS result.

Further information on the applied fair value hedges for covering the interest rate risk of a portfolio and on the other hedges can be found in Notes 12, 15 and 24.

Sensitivity analysis – interest rate risk in the banking book

The structural interest rate risk of the balance sheet is monitored using various risk management tools including economic value and net interest income-based risk benchmarks. The norms are set in the financial policy based on the maximum acceptable loss in the event of a 1% (100 basis points) change in interest rates.

The following table shows, at 31 December 2016, the interest rate sensitivity of the results over 12 months and of the equity of the Company in the event of a a parallel interest rate shock of 100 bp, comparing this with a similar simulation as of the end of 2014. The interest rate shock is assumed to take place in four stages of 25bp: immediately, after 3 months, after 6 months, and after 9 months.

	31/12/2015		31/12/2016	
	+100bp	-100bp	+100bp	-100bp
Effect on earnings over 12 months	16,732,927	34,786,161	17,722,162	-4,349,534
	3.35%	*6.96%*	*3.75%*	*-0.92%*
Impact on equity	-109,469,718	155,218,044	-32,813,630	72,614,271
	-7.30%	*10.35%*	*-1.67%*	*3.69%*

Calculations are performed using a standard hypothesis, assuming a static balance sheet, with the outstanding positions and balance sheet mix at 31 December being held constant.

In the simulations, the following elements are taken into account:

- Loan prepayments (impact of interest rates on the expected Constant Prepayment Rate and the reinvestment fee to be received);
- Expected draw-downs of approved, but not yet fully drawn-down credit facilities at position date;
- Interest rate caps and floors on loans with revisable interest rates;
- Call options in the securities portfolio (weighted average life);
- value variations of interest rate derivatives to which hedge accounting does not apply (fair value through P & L);
- A floor of 0% or the current interest rate if negative.

The positive impact on the result over 12 months of an interest rate cut of 100bp was nullified because the interest rate on regulated savings deposits had reached the statutory floor of 0.11%.

The sensitivity of equity to an interest rate increase of 100bp reduced in 2016 owing to the fall and flattening of the yield curve, as a result of which the modelled expected prepayment behaviour increased and embedded caprisk in the Belgian variable mortgage portfolio fell.

Through the exogenous hedging strategy the bank was steered towards a desirable structural interest rate positioning for the present low interest rate climate.

5.1.2. Spread widening risk

The return on the investment portfolio is largely determined by the credit spread earned on the investments made. The evolution and fluctuations of the credit spread are often market driven and determined by factors other than those relating to the creditworthiness of the issuer. These market risk factors induce spread widening risk.

These market risk factors induce spread widening risk. Alongside the pure interest rate, they are the main driver of asset returns and the economic value of the investment portfolio. In addition, the market value of the investment portfolio is included in the calculation of the bank's prudential capital base (CRD IV). For the latter there exist a phasing-in period and a certain amount of national discretion in determining the extent to which unrealised gains and losses on the AFS portfolio affect the capital base.

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

The conduct of sound investment policy is guided by a strict investment framework that determines, based on the creditworthiness of the issuer, the permissible investment level and maximum maturity. This investment policy is shaped by a thorough analysis of the credit sectors and investment files and an active screening of market opportunities.

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

5.1.3. Equities risk

The Bank Pool decided in 2015 to build up a limited exposure to real estate and PPP (Public Private Partnership)-related equities with a view to developing a wider diversification of the investment portfolio, and to complement the existing bond portfolio.

From a strategic allocation perspective, equities complement the existing bond and loan portfolios and are intended to optimize the risk return profile of the portfolio. Within a limited investment framework (real estate and PPP sectors) and subject to compliance with strict investment criteria, the Company has the possibility to take equity positions into its investment portfolio.

As of 31 December 2016, the Company had a portfolio of EUR 63,138 in shareholdings and property shares in four companies for an amount of EUR 2,096,558.

5.1.4. Property risk

The evolution of real estate prices has an influence on lending to individuals and also influences the credit risk through the giving of property as collateral. The Company has here a concentration in lending to private individuals in Belgium and the Netherlands, more particularly in the form of retail mortgage lending. This makes the company dependent on developments in the housing market.

The possibility has existed in the Company since 2015 to develop a limited portfolio of indirect real estate investments. This is allowed only under strict conditions, both with regard to the type of investments and in terms of the concentration risks.

The Company has here a limited investment space, which can include (indirect) real estate investment under strict conditions, in terms of both investment type and concentration risks. Within this limit, a number of loans were made to real estate counterparties.

Further information on this limited portfolio can be found in Note 17.

5.2. Liquidity risk

Liquidity risk is the risk of loss, or of adverse change in the financial situation, as a direct or indirect consequence of insufficient liquidity being available to meet financial obligations. This may be the result of:
- An unexpected prolongation of the outstanding receivables, e.g. a loan default;
- The risk, in the Bank Pool, of a greater portion of credit lines being drawn down or more savings deposits being withdrawn;
- The risk that the necessary financing transactions cannot be undertaken (or can be undertaken only at disadvantageous conditions);
- The risk that assets can be liquidated only at a severe mark-down, owing to a shortage of interested counterparties on the market.

Like any bank-insurer, Argenta Group plays particular attention to monitoring liquidity risk.

The inability of a financial institution to anticipate and take into account unforeseen falls or changes in its sources of financing can affect its ability to fulfil its obligations when they fall due.

The Asset and Liability Committee monitors the liquidity ratios on a permanent basis. The management framework is clearly defined and detailed in the financial policy.

For measuring, monitoring, checking and reporting on the liquidity risk, the Company has a specially adapted management information system (MIS), including a contingency plan, in order to be able to adequately manage its liquidity in both normal and exceptional circumstances.

Liquidity at the bank

The inability of a financial institution to anticipate and take into account unforeseen falls or changes in its sources of financing can affect its ability to honour its obligations when they fall due.

Liquidity management is central to overall bank management and bank supervision. The integration of specific liquidity standards within the new capital regulations endorses the importance of robust liquidity management in the banking sector. The Company therefore takes liquidity policy very seriously.

The liquidity risk appetite is managed in the Bank Pool's RAF by flashing light levels on three risk indicators, namely:

- The LCR (Liquidity Coverage Ratio) tests the liquidity buffer against a pre-defined outflow of financial liabilities over a 1 month period;
- The NSFR (Net Stable Funding Ratio) compares available liquidity against the liquidity required over one-year period;
- The AER (Asset Encumbrance Ratio) compares the amount of unencumbered assets with the volume of protected deposits.

The RAF sets a minimum LCR limit of 105%, but in practice a ratio of at least 125% is sought so as to ensure that Argenta maintains a comfortable liquidity situation at all times.

In 2016, the NBB established minimum thresholds, the height of which is a function of the importance of protected deposits within a bank's overall funding structure. As a category 3 bank, the Company is required to respect a minimum threshold of 80% (recovery plan) and 85% (flashing light) within the strict application of the AER.

The daily liquidity management, the definition of additional Early Warning Indicators and the organisation of stress tests are included in the Liquidity Contingency Plan.

Daily reports on the funding situation are distributed amongst a broad target audience within Argenta Group, including all members of the Executive Committee. In other words, senior management is involved in liquidity management on a continuous basis.

For the SSM a dossier is compiled on the Internal Liquidity Assessment Process (ILAAP). This dossier has both a qualitative and a quantitative section and is part of the Supervisory Review and Evaluation Process (SREP).

The qualitative section consists essentially, in the first place, of a self-assessment template in which activities are required to be scored on the basis of the 13 'sound principles of liquidity risk management' as published by the BCBS. This has also to be supported by a variety of back-up documentation (including policies, contingency plans, business plans, RAF) which give the SSM an insight into the liquidity risk (management).

In addition, there is a quantitative part aimed primarily at quantifying the liquidity situation and risks. This is achieved by adding all sorts of attachments to this dossier, for example the liquidity stress tests and results of other measures.

The Company's liquidity model can be summarized as follows:

- A sizeable base of customer deposits;
- Total funding independence from the interbank market;
- A low loan to deposit ratio;
- A liquid securities portfolio.

In this way the Company does not have to go to the interbank and professional market to fund itself. It has, however, developed the capabilities to do this, if either i) yield considerations make it appropriate to do so, or ii) new legal requirements are imposed in the future to have certain types of debts on the balance sheet.

Repurchase agreements are concluded as and when appropriate as part of liquidity management or to take advantage of investment opportunities in the financial market. More information on repos can be found in Notes 11 and 21.1.

Sources of liquidity

Funding policy is directed at obtaining funding from retail customers through issuing current and savings accounts, term deposits and savings certificates. Customer deposits constitute the most important primary funding source of the Bank Pool's banking activities.

These deposits can be considered as both sources of liquidity and sources of liquidity risk. Amounts held in private individuals' current and savings accounts can be withdrawn on demand or at short notice, but nevertheless provide an important contribution to the stability of the long-term funding base. This stability therefore depends on maintaining the account holders' confidence in the Company's solvency, profitability and risk management.

Sources of funding	2015	2016
Deposits from central banks	0.00%	0.00%
Deposits from credit institutions	0.31%	0.00%
Retail customer deposits	91.74%	92.13%
Bank savings certificates sold to retail customers	4.26%	3.53%
Bonds sold to retail customers	0.00%	0.00%
Bonds sold to institutional investors	0.00%	0.00%
Subordinated debt sold to retail customers	1.03%	0.44%
Subordinated debt sold to institutional investors	0.22%	1.49%
Other liabilities	2.44%	2.41%
Total liabilities	100.00%	100.00%
Total liabilities in EUR:	**32,189,228,891**	**34,315,068,573**

Maturity analysis

Notes 13 and 14 give further details of the residual maturities of the available-for-sale financial assets and loans and receivables. The following table shows a maturity analysis for the financial liabilities held for trading, the financial liabilities measured at amortised cost, derivatives used for hedging purposes and other liabilities.

2015 financial year	< 3 months	< 12 months	1-5 years	> 5 years
Deposits from central banks	0	0	0	0
Financial assets held for trading	0	0	0	0
Financial liabilities at amortised cost				
- Deposits from credit institutions	100,914,580	0	0	0
- Retail funding - deposits with no fixed term	26,995,007,072	0	0	0
- Retail funding - fixed-term deposits	128,024,145	290,497,197	1,859,232,418	256,912,842
- Retail funding - savings certificates	44,780,323	105,403,056	1,222,541,281	0
- Debt certificates - bonds	0	0	0	0
- Subordinated loans	103,847,704	144,916,024	153,205,525	0
Derivatives for hedging purposes	34,857,363	104,572,089	376,036,469	245,864,286
Other liabilities	48,030,025	144,090,074	0	0
Total	**27,455,461,212**	**789,478,440**	**3,611,015,693**	**502,777,128**

2016 financial year	< 3 months	< 12 months	1-5 years	> 5 years
Deposits from central banks	0	0	0	0
Financial assets held for trading	0	0	0	0
Financial liabilities at amortised cost				
- Deposits from credit institutions	1,389,829	0	0	0
- Retail funding - deposits with no fixed term	28,604,515,155	0	0	0
- Retail funding - fixed-term deposits	209,721,961	543,910,425	1,899,912,202	357,223,215
- Retail funding - savings certificates	60,659,878	425,410,939	724,413,218	0
- Debt certificates - bonds	0	0	0	0
- Subordinated loans	10,330,735	54,704,402	595,428,863	0
Derivatives for hedging purposes	65,466,436	86,692,881	419,348,826	379,192,006
Other liabilities	46,945,768	140,837,303	0	0
Total	**28,999,029,761**	**1,251,555,950**	**3,639,103,109**	**736,415,221**

The interest streams of the swaps posted under 'financial liabilities held for trading', and 'derivatives for hedging purposes' are included in the totals. The fixed and variable rates as of 31 December 2016 are used in calculating this interest for the respective fixed and variable parts of the interest rate swaps concerned.

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

The bulk of the 'subordinated liabilities' as of 31 December 2016 consists of the EUR 500 million Tier 2 loan offered to institutional investors. The balance consists of subordinated certificates arriving at maturity and purchased earlier by retail customers.

Reporting to the supervisory authority

The table below shows the liquidity ratios and liquid financial assets of the Bank Pool as reported to the supervisory authority.

	31/12/2015	31/12/2016
LCR	180%	178%
NSFR	143%	145%
Breakdown of liquid financial assets		
Cash and cash equivalents with (central) banks	512,327,845	905,821,915
ECB-eligible securities	8,784,054,827	7,368,718,444
Securities that can be liquidated through sale	751,355,153	777,236,923
Balance sheet total	33,862,045,625	36,156,328,951

5.3. Credit risk

General

Credit risk is defined as the risk of loss, or of adverse change in the financial situation, as a direct or indirect result of a decline in the creditworthiness of issuers (or guarantors) of securities, of counterparties and of any debtor to whom the institution is exposed. This risk arises in both traditional lending and in investment activities. It is inextricably linked to a large part of Argenta's activities.

A weakening of the credit quality of the Company's borrowers and counterparties, a general deterioration of Belgian, Dutch or global economic situation or a decrease caused by systemic risks can affect the recoverability of outstanding loans and the value of the Company's assets, requiring an increase of the provision for non-performing and doubtful loans, as well as other provisions.

The management of credit risk is governed by means of appropriate and regularly updated policies.

All entities and departments have adequate measuring instruments, guidelines and procedures with which to manage credit risk. These include a fully independent loan approval process with set limits for creditworthiness, monitoring procedures, and overall indicators of the quality of the retail loan portfolio, the investment portfolio and the local and regional government lending portfolio.

Governance is also supported by a number of (consultation) committees like the Rating Consultation, the Investment Consultation, the Retail Credit Risk Committee, the Asset & Liability Committee and the Group Risk Committee.

Credit risk management in 2016

For the Argenta Group there are essentially three sub-areas of importance for credit risk: the market for mortgage lending to individuals (in both Belgium and the Netherlands), the investment portfolio, and the portfolio of loans to local and regional authorities. Credit risk management is therefore focused on these three segments.

Argenta was highly successful in 2016 with its acceptance and (pre-)legal recovery policy for retail loans and in further diversifying its investment portfolio while maintaining high asset quality. In 2016, attention was again paid to expanding lending to and investments in local and regional authorities.

The credit risk-related factors included in the RAF were fine-tuned in 2016 in the retail portfolios by the separating out the limits for the Dutch and Belgian mortgage portfolios. With respect to the investment portfolio the RAF was expanded with an indicator for monitoring indirect property investments and loans to public entities. In 2016, a prudent acceptance and investment policy was again a permanent focus. Such an approach is still considered to be the most efficient first line of defence par excellence.

For retail credit portfolios, an enhanced reporting dashboard was developed following the revision of the retail credit risk policy in 2016.

The non-retail investment framework remains focused on strong counterparty quality. As in 2015, so too in the course of 2016, in part as a reaction to the low interest rate environment, the Company continued to diversify selectively into companies investing indirectly in property and into securities of or loans to local authorities.

In the context of an appropriate and prudent risk management, all banking and corporate counterparties were subjected during 2016 to primary analysis over a one-year time span.

The application and practical implementation of the investment policy is also supported by the Investment Consultation, in which representatives of the Executive Committee, Treasury and Investment Management and the Credit Risk Analysis department in the first line, and Risk in the second line, discuss and decide on investment issues.

The results of rating reviews are discussed in the monthly Rating Consultation, that reports to ALCO. This consultation ratifies proposed ratings or decides on the assignment of internal ratings, following a well-defined governance framework and with two separate decision levels.

Internal ratings or rating indications are also assigned to counterparties catalogued as local and regional authorities. These are relevant in the acceptance context and are also used for monitoring.

For regulatory capital calculations, Argenta Group continues, as agreed with the regulatory authority, to apply the standardized approach to governments. For bank and corporate counterparties it uses the FIRB approach.

Also within the stated FIRB governance framework, banks and corporates were in 2016 again subjected to annual reviews following the FIRB models. The internal rating models are subjected to appropriate critical internal analysis on an annual basis.

Further attention was paid to the development and progress of the economic capital calculations for credit risk.

In each quarter of 2016, the investment portfolios were subjected to the customary thorough analysis, including a risk assessment, with specific attention to the further portfolio diversification that took place in 2016.

This analysis forms the basis of regular reporting to, and discussion within, ALCO, the Executive Committee and the Risk Committee of the Board of Directors.

Credit risk and the Basel Capital Accord

The Bank Pool has many years' experience in granting and managing mortgage loans to retail customers, resulting in a history of low loan losses.

Retail customers include private individuals and self-employed professionals having their customary place of residence in Belgium (the Belgian activities) or the Netherlands (the Dutch activities) and that use the Company for their normal non-professional credit needs.

On the basis of this policy option and its above-mentioned long experience, the Bank Pool has therefore opted to perform its mortgage lending under the Basel Capital Accord, on the basis of internal ratings and to calculate the capital adequacy requirements according to the IRB method, subject to exceptions that are not material. This means that a risk category is assigned to each loan when granted. To this end, the Company has, where applicable, itself developed one or more models. In 2016, important steps were taken in the further development of internal models for the Dutch mortgage portfolio.

A distinction is made between PD (probability of default) and LGD (loss given default) models. For the retail credit portfolios, for which an internal rating based system has been selected, both a PD model and an LGD model have been developed. Every month, the PD and LGD models are applied to the total mortgage loan portfolio in order to calculate the capital requirement for unforeseen losses.

Loans and receivables in arrears and amounts in arrears

The Company constantly reviews its portfolio for payment arrears. The following table summarizes the financial assets in the 'loans to and receivables from other customers' heading on which payment arrears have been ascertained but for which no impairments have been recognised on an individual basis.

The figures here relate to the total amount of outstanding loans (total exposure) rather than the total amount of arrears. These amounts also include loans which are only one or two days in arrears or which are temporarily in arrears due to the possible delayed operational processing of instalment payments (including by direct debit).

As of 31/12/2015	<= 90 days	90 days <> 180 days	180 days <> 1 year	> 1 year
Consumer loans	5,589,853	270,057	76,271	25,444
Mortgage loans	918,915,810	41,059,189	23,086,941	25,739,956
Long term loans	17,183,240	713,516	8,908	282,586
Demand deposits	2,656,151	58,013	49,873	1,823,647
Other loan receivables	0	0	0	0
	944,345,054	**42,100,775**	**23,221,993**	**27,871,633**

As of 31/12/2016	<= 90 days	90 days <> 180 days	180 days <> 1 year	> 1 year
Consumer loans	4,398,888	110,654	16,391	18,416
Mortgage loans	854,814,085	35,237,657	15,899,939	10,521,660
Long term loans	14,449,851	141,125	476,955	5,918
Demand deposits	2,281,635	87,309	55,708	1,174,160
Other loan receivables	0	0	0	0
	875,944,459	**35,576,745**	**16,448,993**	**2,250,654**

The above loans and receivables were either not yet considered as in default or there were sufficient guarantees that no impairments needed to be recognised on an individual basis.

Effective arrears (capital and interest)

The tables below summarize the effective arrears (principal and interest), in other words, which arrears are effective (i.e. without mentioning the total amount of the loan in question).

The ‘demand deposits/advances’ category consists primarily of overdraft facilities for which the entire amount goes into arrears if the credit line is exceeded.

As of 31/12/2015	<= 90 days	90 days <> 180 days	180 days <> 1 year	> 1 year
Consumer loans	285,111	17,754	3,583	699
Mortgage loans	7,546,833	813,142	621,966	1,654,904
Long term loans	192,646	6,781	873	10,081
Demand deposits	2,656,151	58,013	49,873	1,823,647
Other loan receivables	0	0	0	0
	10,680,741	**895,690**	**676,295**	**3,489,331**

As of 31/12/2016	<= 90 days	90 days <> 180 days	180 days <> 1 year	> 1 year
Consumer loans	384,324	4,793	1,963	1,098
Mortgage loans	8,662,737	923,793	783,623	877,571
Long term loans	187,208	8,936	12,162	1,438
Demand deposits	2,281,635	87,309	55,708	1,174,160
Other loan receivables	0	0	0	0
	11,515,904	**1,024,831**	**853,456**	**2,054,267**

There are no arrears in any other categories of financial assets or the sub-categories distinguished within them.

Impairments determined on an individual basis

The following table gives the asset categories in which individually determined impairments have been recognised, along with the respective amounts.

	Gross book value of impaired assets	Individually assessed impairments on assets in 2015	Gross book value of impaired assets	Individually assessed impairments on assets in 2016
Available-for-sale financial assets				
Fixed-income securities	6,189,450	1,935,920	2,066,971	124,650
Public institutions	0	0	0	0
Credit institutions	0	0	0	0
Securities of other counterparties	6,189,450	1,935,920	2,066,971	124,650
Non-fixed-income securities	0	0	0	0
Total for available-for-sale financial assets	**6,189,450**	**1,935,920**	**2,066,971**	**124,650**
Loans and receivables				
Consumer loans	2,547,519	2,613,224	1,994,982	2,019,249
Mortgage loans	179,527,924	24,930,739	187,415,469	22,394,762
Long-term loans	3,793,525	339,962	3,415,567	398,600
Advances/overdrafts	1,602,296	1,277,134	1,060,064	938,951
Other loan receivables	899	899	0	0
Total loans and advances	**187,472,163**	**29,161,958**	**193,886,083**	**25,751,562**

At the end of 2015, EUR 29,161,958 of impairments had been recorded on individual items in the loans and receivables portfolio. At the end of 2016, EUR 25,751,562 of impairments had been recorded on individual items in the loans and receivables portfolio. There was also one individual impairment of EUR 124,650 for one counterparty in the AFS portfolio.

The following tables show the changes to the individual impairments for the 2015 and 2016 financial years. Further details on the overall earnings impact (including direct write-downs and recoveries) are to be found in Note 35.

	Opening balance 31/12/2014	Increase via P&L	Decrease via P&L	Closing balance 31/12/2015
Available-for-sale financial assets				
Fixed-income securities	0	1,935,920	0	1,935,920
Public institutions	0	0	0	0
Credit institutions	0	0	0	0
Securities of other counterparties	0	1,935,920	0	1,935,920
Non-fixed-income securities	0	0	0	0
Total for available-for-sale financial assets	**0**	**1,935,920**	**0**	**1,935,920**
Loans and receivables				
Consumer loans	3,468,991	717,161	1,572,928	2,613,224
Mortgage loans	33,446,959	20,999,048	29,515,268	24,930,739
Long-term loans	1,068,149	89,081	817,268	339,962
Advances/overdrafts	2,869,065	-1,462,432	129,499	1,277,134
Other loan receivables	105,415	0	104,516	899
Total loans and advances	**40,958,579**	**20,342,858**	**32,139,479**	**29,161,958**

	Opening balance 31/12/2015	Increase via P&L	Decrease via P&L	Closing balance 31/12/2016
Available-for-sale financial assets				
Fixed-income securities	1,935,920	0	1,779,330	156,590
Public institutions	0	0	0	0
Credit institutions	0	0	0	0
Securities of other counterparties	1,935,920	0	1,779,330	156,590
Non-fixed-income securities	0	0	0	0
Total for available-for-sale financial assets	**1,935,920**	**0**	**1,779,330**	**156,590**
Loans and receivables				
Consumer loans	2,613,224	235,689	829,664	2,019,249
Mortgage loans	24,930,739	18,509,713	21,045,689	22,394,763
Long-term loans	339,962	344,556	285,918	398,600
Advances/overdrafts	1,277,134	-1,178,726	-840,544	938,952
Other loan receivables	899	0	899	0
Total loans and advances	**29,161,958**	**17,911,232**	**21,321,626**	**25,751,564**

Impairments determined on a portfolio basis

Collective IBNR impairments are calculated and recognised for all retail credit portfolios for which Basel credit risk models have been developed.

The table below gives an overview of the exposure at default (EAD) and the collective impairments (IBRN) recognised at year-end.

Portfolio	31/12/2015		31/12/2016	
	EAD	IBNR	EAD	IBNR
Port. Aspa Belgium	8,714,321,534	1,258,535	9,937,803,067	1,414,297
Port. Aspa Netherlands	13,380,730,800	4,875,207	15,457,089,202	8,236,332
Green Apple	1,113,369,721	346,487	0	0
Port. CBHK	367,349,714	395,471	300,604,257	346,454
Total		**6,875,700**		**9,997,083**

The IBNR impairments have risen from EUR 6,875,700 as of 31 December 2015 to EUR 9,997,083, reflecting the higher mortgage loan portfolio.

In addition to the IBNR provision, an impairment is also recognised, where necessary, for collectively assessed financial assets. This portfolio-based impairment has been recognised solely for an MBS portfolio classified under 'loans and receivables'.

Finally, a provision of EUR 860,000 million was set up in 2015, reflecting a best estimate of the additional impairments to be recognised on loans as a result of further refinements to the internal processes for determining impairments to ensure full compliance with the EBA regulation here. As of 31 December 2016 this provision had fallen to EUR 0 because the impairments in question were automatically calculated and are contained in the other impairments.

Collateral

Security in the form of personal guarantees or material collateral is always required when granting mortgage loans. The lower a borrower's creditworthiness, the more the security required from the customer. Under the foreclosure policy, it occasionally happens that certain collateral item is acquired and is recorded in the balance sheet.

For such collateral (here, the properties on which a mortgage or mortgage mandate is registered), new individual estimates are made whenever loans to which the collateral is attached are deemed in default. All material collateral is reviewed periodically using a statistical method.

Foreclosure policy

Whenever all other means of obtaining financial settlement for a loan in default have been exhausted, the Company will, when property is available, proceed to a private or public sale.

There were 222 private and public sales in 2016 (compared with 342 in 2015), including sales relating to loans with an NHG guarantee in the Netherlands, of which the sale proceeds did not cover the full amounts receivable. The total remaining debt amounted here to EUR 4,641,850 (compared with EUR 3,854,757 in 2015).

Thanks to the conservative loan policy and the strict monitoring strategy, loan losses in the Company's various fields of activity have been low in recent years.

Forbearance

At the end of 2014, based on the EBA definition of forbearance, the necessary policy documents were developed and adjustments made to the internal credit systems for better recording of the files concerned. This relates to refinancings and extensions in response to arrears situations.

The table below gives the figures reported to the regulator. This is a snapshot of the situations as of 31 December 2015 and 31 December 2016.

	31/12/2015	31/12/2016
Total exposures with forbearance measures	15,981,879	45,830,530
Performing exposures with forbearance measures	9,060,992	23,163,109
Non-performing exposures with forbearance measures	6,920,887	22,667,421
Accumulated impairments and provisions	677,922	2,194,635
Collateral received on exposures with forbearance measures	14,121,224	43,023,379

The increase in total exposures is due mainly to the more precise recording of forbearance in the credit systems.

The forbearance files designated as non-performing are always subject to 'individual assessment'.

This table includes, for all forbearance files, the amount of collateral received. This demonstrates the existence here of significant collateral back-up.

Credit exposure

The total credit risk exposure comprises the carrying value of financial assets on the balance sheet (the major part of the asset side of the balance sheet), the calculated exposure to financial derivatives, and specific off-balance-sheet items (including financial guarantees and loan commitments) as specified in the equity legislation (Basel).

Total exposure to credit risk	31/12/2015	31/12/2016
Total on-balance sheet	33,764,584,249	35,996,526,393
Total off-balance sheet	2,071,892,201	1,787,783,451
Total derivatives	167,530,969	185,611,883
	36,004,007,419	**37,969,921,727**

Further information on off-balance sheet items can be found in Note 38. A more detailed explanation on the outstanding credit risk can be found in the Basel Pillar 3 disclosures that are placed annually on the Company website (www.argenta.be).

Concentration of credit risk

This concentration may consist of various elements including a concentration in lending to an individual counterparty or group of inter-related counterparties (single name concentration or counterparty concentration). Concentration of lending can also arise through an uneven distribution among sectors or countries/regions (sector concentration).

The latter risk may arise due to significant exposure to groups of counterparties where the probability of default is driven by common underlying factors.

The retail credit risk policy includes limits for concentration risk. These limits are systematically monitored and reported on. One of these limits relates to the maximum exposure per counterparty in retail lending, and stipulates that this maximum exposure to a single retail counterparty may never exceed EUR 1 million.

Larger credit amounts are granted only by explicit decision of the Credit Committee and the Executive Committee.

The table below shows the percentage distribution of the different types of loans and receivables within the 'loans and receivables from other customers' heading. The 'other loan receivables' contains a limited MBS portfolio.

	2015		2016	
	Carrying values	Percentage distribution	Carrying values	Percentage distribution
Consumer loans	97,424,542	0.40%	97,669,919	0.37%
Mortgage loans	23,842,271,931	98.08%	26,024,523,154	98.13%
Long-term loans	335,622,758	1.38%	374,179,424	1.41%
Advances/overdrafts	5,808,705	0.02%	3,633,163	0.01%
Other loan receivables	27,025,034	0.11%	21,600,896	0.08%
	24,308,152,971	**100.00%**	**26,521,606,556**	**100.00%**

Potential concentration risks resulting from being present on just two mortgage markets (Belgium and the Netherlands) are mitigated by a limitation of the credit risk per individual dossier, as well as a strict monitoring of developments on the Dutch and Belgian mortgage and residential real estate markets.

In addition, the risk is diversified by granting a large number of loans of limited amounts, spread across Belgium and the Netherlands (and separate regions). The spreading of lending in time (with loans granted every week / monthly) has the effect of tempering risks, in that loans are granted in both strong and weak economic periods.

The basis for the quantitative assessment of the concentration risk is provided by the analysis of the composition of the portfolio (balance) by economic sectors (governments & public authorities, credit institutions, other loans including corporate bonds, mortgage lending and other retail lending) and countries.

Investment portfolio

The Company classifies most of the investment portfolio as 'available-for-sale financial assets'. The main part of this portion of the investment portfolio consisted at 31 December 2016 (estimated based on the A-classification of the Belgian statutory scheme which is applied at the unconsolidated level) of bonds of 'public authorities' (40.76% in 2016 versus 45.12% in 2015) . The 'credit institutions' category represents 22.80% at 31 December 2016. The 'securities – other counterparties' category has risen from 31.90% to 36.41%.

	2015		2016	
	Carrying values	**Percentage distribution**	**Carrying values**	**Percentage distribution**
Fixed-income securities				
- public authorities	3,611,365,958	45.12%	3,130,232,096	40.76%
- credit institutions	1,839,635,416	22.98%	1,750,588,189	22.80%
- securities other counterparties	2,553,261,386	31.90%	2,796,060,234	36.41%
Non-fixed-income securities				
- investment funds/equities	261,528	0.00%	2,159,696	0.03%
	8,004,524,288	**100.00%**	**7,679,040,215**	**100.00%**

In the investment portfolio, concentration risk can affect credit risk. Concentration risk may arise due to a large overall positions to individual counterparties, or a large overall position in a number of positively correlated counterparties (i.e. parties that will default together under similar circumstances). Avoidance of concentrations is an important factor in the Company's credit risk strategy.

The following table shows the geographic breakdown (%) of the government bonds classified as 'available-for-sale'. The table below documents a large exposure to Belgium (Company head office location).

	31/12/2015	31/12/2016
Belgium	57.27%	57.16%
Ireland	8.55%	9.91%
Spain	5.27%	6.65%
Poland	3.97%	4.70%
Italy	3.77%	0.00%
Austria	2.81%	3.28%
Netherlands	2.81%	4.36%
Slovakia	2.75%	0.67%
Slovenia	2.44%	2.12%
Latvia	2.37%	2.16%

	31/12/2015	31/12/2016
Lithuania	1.95%	2.62%
Czech Rep.	1.75%	1.94%
Iceland	1.46%	1.20%
Germany	1.40%	1.60%
Sweden	0.69%	0.81%
Romania	0.32%	0.36%
Bulgaria	0.21%	0.23%
Mexico	0.20%	0.24%
Total	**100.00%**	**100.00%**

The table below shows the rating level of the entire 'available-for-sale assets' portfolio. More than 98.62% of the portfolio has an 'investment grade' rating. Additional information on this portfolio can be found in Note 13.

	31/12/2015	31/12/2016
Investment grade	98.87%	98.62%
Below investment grade	1.12%	1.38%
Not rated	0.01%	0.00%
Total	**100.00%**	**100.00%**

The ‘held-to-maturity assets’ item contains securities amounting to EUR 425,641,792 (EUR 404,465,119 at 31 December 2015), issued mainly by the Belgian federal and regional authorities.

The financial policy referred to above establishes which bonds and which ratings may be considered for investment. The ratings of all fixed-income securities are then systematically monitored. If, after purchase, the rating of a bond drops below the set minimum rating requirement, the bonds concerned will be discussed again by ALCO and the Rating Consultation (RC). ALCO, and consequently the Company’s Executive Committee, must then make an explicit judgement on whether or not to maintain the position. The positions maintained are also reported to the Risk Committee of the Board of Directors.

Note on encumbered assets

By circular 2015/03 the Belgian regulator brought into effect in the Belgian prudential framework the guidelines of the European Banking Authority (EBA) of 27 June 2014 on the disclosure of encumbered and unencumbered assets. This disclosure is not about the Company’s credit risk from its debtors, but a general disclosure of its encumbered assets.

The institutions are required, on an advancing basis, to disclose basic information on the previous twelve months based on median values of at least quarterly data.

Below is an overview of the encumbered assets at the Company as reported as of 31 December 2015 and 2016, together with the average for 2016.

	31/12/2015		31/12/2016		Average 2016	
	Nominal value	Market value	Nominal value	Market value	Nominal value	Market value
Collateral for derivatives (caps and swaps)	419,032,000	485,653,196	559,469,000	623,109,656	541,443,167	607,061,611
Collateral for repo transactions	85,594,000	99,876,707	0	0	23,267,471	24,996,340
Collateral for Bank Card Company	35,000,000	35,123,886	31,000,000	33,118,285	31,000,000	33,683,674
Total given collateral	**539,626,000**	**620,653,789**	**590,469,000**	**656,227,941**	**595,710,638**	**665,741,625**
Collateral NBB credit line	250,000,000	272,322,206	250,000,000	261,525,000	250,000,000	263,776,250

In this way, at the end of 2015, a nominal EUR 504,626,000 was encumbered in the context of derivatives and repos and a nominal EUR 35 million in connection with the use of credit cards by the Company’s customers. Cash amounts of EUR 15.35 million were paid in the framework of the collateral management of derivatives. No cash was received in the respect of executed repo transactions.

As of end-2016, a nominal EUR 559,469,000 was encumbered in respect of derivatives and a nominal EUR 31 million in connection with the use of credit cards by the Company’s customers. In addition, EUR 28.9 million of cash was paid and EUR 29.5 million cash received in respect of collateral management.

The Company has not issued covered bonds. The Company has a line of credit with the NBB of EUR 250 million, for which securities will be encumbered if and when this credit line is used.

5.4. Operational risk

All businesses carrying out activities of any kind have to contend with an operational risk. Financial institutions and groups are no exception.

The Company's activities depend on the ability to process a very large number of transactions efficiently, accurately and in compliance with policies and regulations. Operational risks and losses result from inadequate or failed internal processes (such as processes not aligned with the legal requirements), human actions (including fraud and employee errors) and systems (such as system failure) or due to external events (such as natural disasters or malfunctions of external systems, including those of the Company's suppliers or counterparties). The impact may consist of financial or reputational loss. This risk also includes legal and compliance risk.

The Company's fairly limited number number of products and services allows the operational risks to be kept limited. Although the Company has taken measures to control the risks and limit any losses, as well as earmarking substantial funds for the development of efficient procedures and staff training, it is impossible to implement procedures that allow Argenta to exclude these operational risks in a completely effective manner. However, within the overall risk appetite framework, these risks too are managed in a structured way.

Meeting quarterly as part of the Group Risk Committee, the Operational Risk Committee focuses on the key risk indicators, the RCSAs (Risk & Control Self Assessments) and operational losses.

Each year, a very extensive internal audit report is drawn up and presented to the Audit Committee, the Board of Directors and the NBB/ECB. This report assesses the adequacy and effectiveness of the existing control measures according to the COSO methodology.

It is generally assumed that operational risks in enterprises are gradually increasing, as is regulators' attention to this type of risk. Reasons for this include the rapidly changing technological environment, the expanding corpus of regulations, the increasing complexity and proliferation of products and also the general trend towards outsourcing non-core activities.

In 2016 work concentrated on the following structural and substantive OR domains.

Structural:
- ORM mission, vision and strategy developed and presented to the Risk Committee;
- Structural cooperation with ORM contact persons in the business;
- Structural alignment with the MTs (management teams);
- Structural cooperation with ICT and on strategic projects;
- Structural cooperation with ORM Netherlands and AAM Luxembourg;
- Accelerando path within the ORM department itself.

As regards the ORM mission, Argenta wants a widely accepted risk story that is part of the DNA of Argenta as a whole and of each of its employees. In this way Argenta can continue to grow in a sustainable fashion.

The mission of the overall operational risk management at Argenta (across all levels and parts of the organization) is to support, by means of sound, anchored-in-the-business management of operational risks, the stability, profitability and sustained growth of Argenta, at minimal additional cost (policy-setting).

First and second-line ORM conduct, in partnership, a risk policy that contributes maximally to the business goals with minimal additional cost. Second-line supports the organization in applying this policy in an increasingly self-reliant manner (support to first line).

Additionally, second-line ORM supports healthy decision-making at all levels of the company by giving all stakeholders an accurate picture of the extent to which the current operational risks are covered (giving assurance / reporting).

Content-wise, special priority was given in 2016 to:

- Developing and updating a number of policies, among others in connection with business continuity, segregation of functions, and internal controls;
- Developing a framework for embedding the risk culture, in cooperation with both business and other risk departments;
- Various data security initiatives;
- Screening and optimization of the Corporate Insurance contracts;
- Improved operability and broadened scope of the crisis management team;
- A structural revision of the Internal Control Annual Report.

5.5. Other risks

With no attempt to be exhaustive, this section mentions certain other risks. In recent years, Argenta has continued to invest in a renewed group-wide risk assessment of all identifiable risks and in the economic capital models of the ICAAP, in particular in developing an integrated risk cartography, and stress, scenario and forward-looking testing.

Along with the economic capital calculations (complemented with capital allocations) based on simulation models, these offer the Argenta Group a complete picture of all material risks. The results play an important role in the income and value control models.

5.5.1. Strategic risk

Strategic risk is the risk of loss or of adverse change in the financial situation as a direct or indirect result of business decisions, implementation of decisions, or lack of responsiveness to changing market conditions (both commercial and financial).

Argenta Group makes resources available for achieving the strategic objectives as defined in the business strategy. These resources include communication channels, systems, human resources, networks, and management time and skills. The strategic goals are defined by the Executive Committee, approved by the Board of Directors, and monitored on a regular basis.

The ultimate fulfilment of the business strategy depends on the adequacy of the resources made available and on the way these resources are used.

5.5.2. Business Risk

Business risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from changes in the business as a result of an external event having an impact on current and future earnings and capital. This risk also includes a poor diversification of earnings or the inability to maintain a reasonable level of profitability. The income sensitivity indicator in the RAF already incorporates the business risk of the non-maturity deposits and fees business by calculating an additional risk premium.

In order to cushion optimally the business risk that the Argenta Group faces, the company has taken the strategic option of selling fee-generating products in addition to its traditional activities. This activity should, alongside Savings & Payments, Lending, and Insurance produce a more diversified earnings generation.

Funds transfer pricing on an economic basis is used for determining the profit contribution per product when pricing the Company's products.

5.5.3. Reputational risk

The Argenta Group is constantly exposed to the risk of loss or of adverse change in its financial situation resulting, directly or indirectly, from changes in its reputation or standing caused by an altered perception its image by its various stakeholders (including customers, counterparties, shareholders and regulators).

This is a second-order risk; in other words, a risk that derives from another risk but which has its own impact. The Argenta Group considers this as a vertical risk, in the sense that it is a risk that interlinks with all other risks. By monitoring and managing the other risks, reputational risk is also kept under control.

5.5.4. Regulatory risk

The regulatory risk is the risk of loss or adverse change in the financial situation, as a direct or indirect result of future legislative or regulatory changes. Wherever it operates, the Company is subject to the laws, regulations, administrative measures and policy regulations governing the provision of financial services.

Changes in the supervisory framework and regulations may affect the activities, products and services that the Argenta Group offers or the value of its assets. Although the Argenta Group collaborates closely with the supervisory authorities and keeps constant watch on the situation and future changes in regulations, fiscal policy and other policy areas can be unpredictable and are beyond the Group's control.

European legislation and regulations have required much much additional attention in recent years and will continue to do so, The European Commission has a strong preference for maximum harmonization of European legislation and regulations. By contributing to a level playing field for all market players, maximum harmonization of legislation and regulations is in the interest of the financial sector.

As regards taxation, the Argenta Group's structure ensures that that deposits (including with the Branch Office in the Netherlands) fall entirely under the Belgian deposit guarantee scheme, with a resultant sensitivity to changes in bank levies.

When it comes to the rules of conduct governing investment products, these are defined in the first instance at European level and then transposed by the different countries into their own legislation. Argenta markets investment products in Belgium. For the practical implementation of the legislation in Belgium by the FSMA, Argenta relies on the interpretations of Febelfin and Assuralia. In the Netherlands, attention is paid to the broad-based 'customer interest first' focus promoted by the AFM (Financial Markets Authority).

National and international rules on tax topics also continue to change periodically in response to local or international economic factors.

The capital requirements imposed on credit institutions, the so-called Capital Requirements Regulation and the Capital Requirements Directive (together 'CRD IV package') are still the subject of legislative developments and therefore impact the Argenta Group. The implementation of new IFRS standards also has a potential (operational) impact.

Midway through 2016 the ECB initiated, for all systemic banks, a new specific review, in the form of the so-called TRIM (Targeted Review Internal Models). This review examines the internal models used by the banks in calculating their capital requirement with respect to credit risk. Based on the outcome at all institutions involved, additional requirements can follow and further calibration can be required.

6. Solvency and capital management

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

6.1. Capital management

The dynamic growth of the financial markets and the increasing use of more complex banking products have brought about changes in the Company's business environment. These challenges require appropriate personnel, processes and systems for the limiting and targeted control of the Company's risk position.

Apart from describing methods for calculating the regulatory capital requirements (quantitative requirements), the Capital Requirement Regulation (CRR) and Capital Requirement Directive (CRD) of the European Union (EU) place increased emphasis on risk management and integrated group-wide management (qualitative requirements). The Company is obliged to implement adequate procedures and systems to guarantee its long-term capital adequacy, while taking into account all material risks.

Internationally, these procedures are referred to as the Internal Capital Adequacy Assessment Process (ICAAP), which has been mentioned already.

The goal of the Company's risk management is to achieve the best possible capital structure and risk control, on a par with that of the major market players, while continuing to meet the statutory and internally-set capital requirements.

Implementing the business plan, with the attendant need to ensure that sufficient capital is available at all times to pursue the group's growth plans, is a key focus here.

The Company has always pursued a policy of self-financing. To retain a level of capital that provides sufficient scope for growth and to be able to carry the financial and operational risks, the Company aims to meet the potential capital requirements by (a) retained earnings, (b) capital increases and (c) subordinated loans. Additional measures can include shrinking the balance sheet through securitisation of part of the retail loans portfolio.

The table below shows the qualifying own funds at year-end.

Composition of regulated qualifying own funds	31/12/2015	31/12/2016
Tier 1 capital	1,560,986,822	1,734,414,028
Tier 2 capital	24,713,388	496,111,404
Total qualifying own funds	**1,585,700,210**	**2,230,525,432**

The Basel Pillar 3 guidelines (which can be found on the Argenta website) provide more detailed information on, among other things, own funds for accounting purposes, qualifying own funds and the reconciliation of the two, along with the regulatory requirements.

The table below shows the reconciliation of the IFRS accounting own funds with the qualifying Tier 1 own funds.

Composition of qualifying own funds	31/12/2015	31/12/2016
Equity attributable to the shareholders	1,672,757,633	1,841,199,853
Minority interests	59,101	60,525
Total equity	1,672,816,735	1,841,260,378
Prudential filters		
Intangible assets	-33,052,784	-37,510,847
Deferred values AFS portfolio	-93,963,258	-88,993,470
Cash flow hedge	14,278,863	13,979,775
Prudent valuation deduction	-1,749,789	-2,671,859
Own credit risk (DVA) deduction	-4,127,637	-10,016,279
Inclusion of latent values	6,843,793	18,426,855
Non-inclusion of minority interests	-59,101	-60,525
Total qualifying own funds sensu stricto	1,560,986,821	1,734,414,028

In this way the Company's financial risk policy takes into account, in addition to its own management decisions, also the prudential ICAAP.

ICAAP and economic capital

The risks to which the Company is exposed require a risk buffer in the form of equity. The ongoing development of its business as a traditional savings bank, which includes converting short-term customer deposits into longer-term investments, calls for the continuous monitoring and, where necessary, supplementing of this required equity.

ICAAP incorporates all the bank's procedures and calculations used to ensure:

- The correct identification and measuring of risks;
- The maintenance of adequate internal capital in line with the bank's risk profile;
- The use, and continuous development of risk management systems.

This means that in all circumstances (stress scenarios), the equity requirements of the Bank Pool and all its component parts are met with an adequate degree of certainty. This is expressed in the form of the economic capital, in which the various risks are taken into account.

The calculations according to the Basel rules (Pillar 1) for capital management are reported to the supervisory authority and used internally, but the so-called 80% floor for the required regulatory capital remains the legal basis even after 2011. In its ICAAP under Pillar 2, Argenta calculates the required economic capital based on Basel IRB risk parameters.

In addition, all material risk factors are modelled in ICAAP so that the total ICAAP provides a more comprehensive picture of the capital requirement, which can eventually lie higher than the Pillar 1 80% floor.

The SREP (Supervisory Review and Evaluation Process, annual global evaluation) by the ECB resulted in 2016 in a capital decision imposing a P2R (Pillar 2 capital requirement) of 2%: this means that Argenta needs under the IRB (internal rating based) method to meet a CET1 (common equity Tier 1) of 8.25% (9.75% including alternative Tier 1 substitution) and TCR (total capital ratio) of 11.75%, also taking into account the phasing in of the combined capital buffers. In the SREP, the JST also pays attention to the internal monitoring of liquidity as well as ICT risk control / operational risk management.

6.2. Regulations and solvency

All the Company's entities are required to comply with the guidelines of the various supervisory authorities in the countries and sectors where they operate. These guidelines require financial institutions to maintain minimum equity relative to their credit commitments, both on and off the balance sheet.

The total regulated CET 1 qualifying own funds rose from EUR 1,560,986,821 at end-2015 to EUR 1,734,414,028 at end-2016.

The Company calculates its capital ratios in accordance with the prevailing Basel rules, consisting of three pillars. Information on pillar 1 (minimum capital requirements) and pillar 2 (SREP process, including details of interest rate, liquidity and concentration risk) is included in these financial statements.

The pillar 3 disclosures supplement the first two pillars and are intended to provide market operators with the opportunity to assess the capital adequacy of a financial institution through access to more extensive information. These pillar 3 disclosures are published separately on the Company's website, with part of this information taken from the present financial statements.

The following table shows the most important capital requirements, calculated according to the applicable Basel (pillar 1) rules.

Composition of regulated own funds	31/12/2015	31/12/2016
Total qualifying own funds	1,585,700,210	2,230,525,432
Application IRB floor, transitional period	80% rule	80% rule
Total required after applying Basel I floor	670,037,143	732,282,775
Core Tier 1 ratio	18.64%	18.95%
Tier 1 ratio	18.64%	18.95%
TCR (total capital ratio)	18.93%	24.37%

The calculations as of 31 December 2016 take into account the specific Basel rules for calculating weighted risks for which the Company has obtained approval. The Company uses the IRB method for the retail mortgage portfolios, the MBS portfolio and the 'corporates and institutions' portfolio, and the standard STA method for the remaining exposure.

As a result of the Basel rules applicable to the transition from the STA to the IRB method, the qualifying own funds need to be at least be 80% of the required capital, calculated according to Basel I principles. In this way the required capital as of 31 December 2016 is EUR 732,282,775, compared with EUR 670,037,143 as of 31 December 2015.

The Tier 1 ratio of 18.95% as of 31 December 2016 is obtained by dividing the own funds sensu stricto - Tier 1 own funds by the weighted risk volume (EUR 9,153,534,688 as of 31 December 2016).

Since as of 31 December 2016 there are only core Tier 1 own funds and no additional Tier 1 own funds, the core Tier 1 ratio is also 18.95%. Under the IRB method, the Company has a CET1 ratio of 25.70% compared with 25.47% at end-2015.

In 2015 and 2016, the total regulatory qualifying own funds was at all times greater than the requirements, so that the Company complied fully with all capital requirements.

7. Remuneration of directors

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

7.1. Composition of the Boards of Directors

The Boards of Directors of the Company and of the other companies of the Argenta Group have similar structures. They include in each case:

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

The number of directors for every Board of Directors should preferably not exceed fifteen.

Members of the board of directors must be natural persons. In principle, directors' mandates are for six years and are renewable.

The following age limits apply for directors:

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

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

The Boards of Directors are composed in such a way that none of the three distinct groups in them (the directors representing the shareholders, the independent directors, and the directors on the Executive Committee) has a majority. The majorities of the Boards are always formed by non-executive directors.
Independent directors are appointed with a view to attracting competencies in the Argenta Group's core activities, namely banking and insurance. Independent directors need to demonstrate broad experience in at least one of these core fields on the basis of their former or current activity. They must meet all the requirements stipulated in Article 526ter of the Companies Code.

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

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

With a view to the appropriate representation of Argen-Co, the cooperative company owned by Argenta branch managers and customers, which holds a capital participation of more than 13% in the Argenta Group, Ms. Cynthia Van Hulle was appointed on 14 October 2015 as a director of the Company, BVg and Argenta Spaarbank. Mrs Van Hulle has sat since 23 June 2015 as an independent director on the board of Argen-Co.

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

The ‘Suitability of Key Executives’ charter, produced for the Argenta Group, including foreign subsidiaries ALN and AAM, describes the governance and structured framework Argenta has developed to ensure the suitability of key executives.

‘Suitability’ means that the person in question has the expertise (fit) and professional integrity (proper), as specified in the NBB Circular of 17 June 2013 on the ‘expertise’ and ‘professional integrity’ required of executive committee members, directors, heads of independent control functions and effective senior managers of financial institutions.

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

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

During 2015 a comprehensive and externally facilitated evaluation of the functioning of the Executive Committee took place. A new and comprehensive evaluation of the functioning and performance of the entire board took place in 2016, following on the one performed in 2013.

Each director is encouraged to organize his personal and professional activities in such a way as to avoid conflicts of interest with the Argenta Group (in line with Article 523 of the Companies Code.) The boards of directors of the Argenta Group companies have in their internal rules of procedure established policies, including organizational and administrative arrangements (including keeping information on the application of the same), and procedures for identifying and forestalling conflicts of interest or, where this is not reasonably possible, managing the conflicts of interest without harming the interests of customers.

The table below gives the composition of the Boards of Directors of the Bank Pool companies.

Board of Directors AAM:
Chair: M. Lauwers and members: S. Duchateau, A. Coppens and G. Wauters

Board of Directors ASPA:
Chair: J. Cerfontaine and members: G. Ameloot, A. Brands (from 6/01/2017), A. Coppens, J. Heller (until 29/04/2016), C. Henriksen, M. Lauwers (from 1/09/2016) , D. Van Dessel (until 23/01/2017), C. Van Hulle, W. Van Pottelberge, B. Van Rompuy, D. Van Rompuy, R. Vanderstichele, E. Walkiers and G. Wauters.

7.2. Remuneration of executive management

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

Remuneration of the non-executive directors

The remuneration of the non-executive members of the Board of Directors of the Argenta Group companies consists solely of a fixed remuneration established by the respective general meetings. This remuneration is the same for all independent directors and directors representing the shareholders.

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

The chair of the respective Boards of Directors is a director representing the family shareholder. He receives a fixed remuneration which differs from that of the other non-executive directors.

Remuneration of executive directors

Executive directors receive a fixed annual remuneration. They do not receive variable remuneration of any kind. In this way their pay does not contain elements that could encourage the pursuit of short-term objectives inconsistent with the Argenta Group's long-term objectives. The remuneration meets the provisions of the CBFA Regulation of 8 February 2011 concerning the remuneration policies of financial institutions, as well as the provisions of the Banking Act. The remuneration is the same for all members of the Executive Committees, with the exception of the Chairman.

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

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

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

In 2016 Johan Heller (CEO of the Argenta Group and Chairman of the Executive Committees of the Company, BVg and Argenta Assuranties), whose mandate ended on 29 April 2016, received remuneration of EUR 167,262. The base salary of Marc Lauwers (Argenta CEO and Chairman of the Executive Committees of the Company, BVg, and Argenta Assuranties), appointed with effect from 1 September 2016, is EUR 600,000 a year. The contribution to the supplementary pension and disability group policies in respect of John Heller was EUR 57,665.

In 2016, the total direct remuneration of the executive directors/Executive Committee members of the Argenta Group (excluding that of the CEO), amounted to EUR 1,325,045 (EUR 1,505,684 in 2015).

Contributions to the group supplementary pension and disability policies in respect of the Executive Committee members, excluding those of the CEO, amounted to EUR 214,325 (EUR 241,532 in 2015).

The median base salary in the Company in 2016 amounted to EUR 53,138.03. The median salary increase compared to 2015 amounts to 3.11%.

In 2016 severance payments totalling of EUR 656,130 were made to Executive Committee members (EUR 474,525 in 2015).

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

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

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

8. Remuneration of the statutory auditor

The fees of the statutory auditor and of entities related to the statutory auditor are monitored at consolidated level by the Audit Committee. Additional audit and consultancy assignments are approved by the Audit Committee pursuant to Article 133.6 of the Companies Act when they exceed the total amount of compensation of the audit mandate.

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

The remuneration received by Deloitte (excluding VAT) for 2015 and 2016 breaks down (in accordance with Article 134 of the Companies Code) into:

- Fees for audit assignments: this includes the fees for the auditing of the statutory (unconsolidated) and consolidated financial statements and other reporting assignments: (EUR 299,627 in 2016 and EUR 299,790 in 2015).
- Fees for other assignments:
  EUR 415,513 in 2016 in respect of additional auditing activities, tax-related work and smaller ad hoc assignments
  EUR 460,860 in 2015 in respect of additional auditing activities, tax-related work and smaller ad hoc assignments

The fees of the statutory auditor and of entities related to the statutory auditor are monitored at consolidated level by the Audit Committee. Additional audit and consultancy assignments are approved by the Audit Committee pursuant to Article 133.6 of the Companies Act when they exceed the total amount of compensation of the audit mandate.

9. Related party transactions

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

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

2015 balance sheet	Parent companies	Managers in key positions	Other related parties
Assets: loans and advances			
Demand deposits	0	0	0
Instalment loans	0	0	0
Consumer loans	0	0	299,014
Mortgage loans	0	151,883	0
Other receivables	62,869	0	3,792,250
Total assets	**62,869**	**151,883**	**4,091,264**
Liabilities: financial liabilities measured at amortised cost			
Deposits	75,698,871	669,972	391,303,111
Debt certificates	0	0	6,851,500
Subordinated liabilities	0	0	0
Other liabilities	462,892	0	0
Total liabilities	**76,161,763**	**669,972**	**398,154,611**
Guarantees issued by the group	0	0	0
Guarantees received by the group	47,100	0	0

2016 balance sheet	Parent company	Managers in key positions	Other related parties
Assets: loans and advances	0	0	0
Demand deposits	0	0	0
Instalment loans	0	0	148,438
Consumer loans	0	0	0
Mortgage loans	0	166,551	156,390
Other receivables	61,080	0	3,898,765
Total assets	**61,080**	**166,551**	**4,203,593**
Liabilities: financial liabilities measured at amortised cost			
Deposits	85,133,013	1,145,169	412,675,847
Debt certificates	0	0	998,500
Subordinated liabilities	0	0	0
Other liabilities	873,248	0	0
Total liabilities	**86,006,261**	**1,145,169**	**413,674,347**
Guarantees issued by the group	0	0	0
Guarantees received by the group	0	0	0

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

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

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

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

2015 income statement	Parent company	Managers in key positions	Other related parties
Expenses			
Interest expenses	348,164	3,778	147,388
Fees and commissions	0	0	5,260,354
Insurance premiums	0	0	31,735
Provision of services	0	0	7,259,089
Other	16,214,211	0	6,969,568
Total expenses	**16,562,375**	**3,778**	**19,668,134**
Income			
Interest income	3,387	3,054	2,135,865
Fees and commissions	0	0	0
Other	598,459	0	23,181,647
Total income	**601,846**	**3,054**	**25,317,512**

2016 income statement	Parent company	Managers in key positions	Other related parties
Expenses			
Interest expenses	204,735	2,637	66,964
Fees and commissions	0	0	10,582,663
Insurance premiums	0	0	0
Provision of services	0	0	1,989,753
Other	6,903,497	0	1,089,428
Total expenses	**7,108,232**	**2,637**	**13,728,808**
Income			
Interest income	2,889	2,787	211,233
Fees and commissions	0	0	0
Other	637,482	0	29,395,244
Total income	**637,482**	**2,787**	**29,606,477**

No impairment losses were recognised in 2015 and 2016 on balance sheet items involving related parties.

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

Since 2013 credit transfers have taken place between the Company and sister entity Aras. This is covered by a framework agreement, and a RACI (Responsible – Accountable – Consulted – Informed) has been established. Based on this RACI the transfers are coordinated and all relevant parties are systematically involved so that transactions take place at arm's length. In 2016, a specific procedure was approved by the Executive Committee.

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

Note on guarantees received and given

At the end of 2015 there was just one remaining guarantee given for EUR 47,100. This no longer existed at the end if 2016.

Note on compensation – executive directors

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

Remuneration of the executive directors	2015	2016
Severance compensation	474,525	656,130
Salaries and directors' fees	1,937,556	1,639,262
Total	**2,412,081**	**2,295,392**

10. Operating segments

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

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

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

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

The Bank Pool delivers services under the heading of 'retail banking'. Until further notice this is treated in the internal reporting as a single operational segment. In 2016, further steps were taken in lending to local and regional authorities. These loans are considered as an additional investment (asset) category.

Under the IFRS 9 standard (to come into effect from 1 January 2018), the business models are a factor in determining the 'classification and measurement'. The breakdown by geographical areas listed below provides no insight into the business models applied.

Information on geographical regions

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

2015 Consolidated balance sheet	Belgium	Netherlands	Luxembourg	Consolidation eliminations	31/12/2015
Assets					
Cash, cash balances at cental banks and other demand deposits	394,771,365	115,841,799	1,714,681	0	512,327,845
Financial assets held for trading	18,324,423	10,468,200	0	0	28,792,623
Financial assets designated at fair value with valuation changes through profit or loss	0	0	0	0	0
Available-for-sale financial assets	8,004,524,288	0	0	0	8,004,524,288
Loans and receivables	10,830,574,053	13,483,256,144	9,672,774	0	24,323,502,971
Derivatives, hedge accounting	6,078,917	0	0	0	6,078,917
Financial assets held till maturity	404,465,119	0	0	0	404,465,119
Fair value changes of the hedged items	304,086,209	0	0	0	304,086,209
Buildings, land, and equipment	34,707,597	755,806	44,608	0	35,508,011
Investment properties	1,524,735	0	0	0	1,524,735
Goodwill and other intangible assets	49,478,540	333,098	199,686	0	50,011,324
Tax assets	4,888,549	28,903	0	0	4,917,452
Other assets	113,380,923	82,368,972	5,431,232	-14,874,996	186,306,131
Total assets	**20,166,804,718**	**13,693,052,922**	**17,062,981**	**-14,874,996**	**33,862,045,625**

Liabilities and equity 2015	Belgium	Netherlands	Luxembourg	Conslidation eliminations	31/12/2015
Deposits from central banks	0	0	0	0	0
Financial assets held for trading	9,128	10,308,233	0	0	10,317,361
Financial liabilities measured at amortised cost	28,711,734,247	3,845,489,585	0	-1,151,941,665	31,405,282,167
Derivatives used for hedging	496,161,248	0	0	0	496,161,248
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	0	0	0	0	0
Provisions	10,406,788	0	0	0	10,406,788
Tax liabilities	50,155,731	24,348,087	437,409	0	74,941,227
Other liabilities	132,529,747	57,317,798	2,272,554	0	192,120,099
Total liabilities	**29,400,996,889**	**3,937,463,703**	**2,709,963**	**-1,151,941,665**	**32,189,228,890**
Equity attributable to shareholders	1,010,369,140	648,076,577	14,311,917	0	1,672,757,634
Equity attributable to the minority interests	0	180	41,101	0	59,101
Total equity and minority interest	**1,010,369,140**	**648,094,577**	**14,353,018**	**0**	**1,672,816,735**
Total liabilities, minority interest and equity	**30,411,366,029**	**4,585,558,280**	**17,062,981**	**-1,151,941,665**	**33,862,045,625**

2016 Consolidated balance sheet	Belgium	Netherlands	Luxembourg	Consolidation eliminations	31/12/2016
Assets					
Cash, cash balances at cental banks and other demand deposits	865,250,844	40,346,874	224,197	0	905,821,915
Financial assets held for trading	9,322,870	0	0	0	9,322,870
Financial assets designated at fair value with valuation changes through profit or loss	0	0	0	0	0
Available-for-sale financial assets	7,679,040,215	0	0	0	7,679,040,215
Loans and receivables	10,956,528,232	15,550,594,705	14,483,619	0	26,521,606,556
Derivatives, hedge accounting	49,455,484	0	0	0	49,455,484
Held-to-maturity investments:	425,641,793	0	0	0	425,641,792
Fair value changes of the hedged items	310,184,988	0	0	0	310,184,988
Buildings, land, and equipment	11,881,894	564,050	31,186	0	12,477,129
Investment properties	1,450,009	0	0	0	1,450,009
Goodwill and other intangible assets	56,790,960	0	0	0	56,790,960
Tax assets	1,305,542	4,659,925	17,085	0	5,982,552
Other assets	124,869,242	30,098,889	5,888,476	-11,325	160,845,281
Available-for-sale assets	17,709,200	0	0	0	17,709,200
Total assets	**24,024,658,501**	**12,111,037,215**	**20,644,563**	**-11,325**	**36,156,328,951**

Liabilities and equity 2016	Belgium	Netherlands	Luxembourg	Conslidation eliminations	31/12/2016
Deposits from central banks	0	0	0	0	0
Financial assets held for trading	4,434	0	0	0	4,434
Financial liabilities measured at amortised cost	30,677,065,635	2,822,717,445	0	-12,162,256	33,487,620,824
Derivatives used for hedging	538,952,576	18,639,700	0	0	557,592,276
Fair value changes of the hedged items in a portfolio hedge of interest rate risk	0	0	0	0	0
Provisions	12,050,566	0	0	0	12,050,566
Tax liabilities	52,520,075	17,127,752	369,575	0	70,017,402
Other liabilities	137,719,066	46,783,328	3,280,676	0	187,783,071
Total liabilities	**31,418,312,352**	**2,905,268,225**	**3,650,251**	**-12,162,256**	**34,315,068,573**
Equity attributable to shareholders	1,032,122,513	794,267,166	14,810,174	0	1,841,199,853
Equity attributable to the minority interests	0	18,000	42,525	0	60,525
Total equity and minority interest	**1,032,122,513**	**794,285,166**	**14,852,699**	**0**	**1,841,260,378**
Total liabilities, minority interest and equity	**32,450,434,865**	**3,699,553,391**	**18,502,950**	**-12,162,256**	**36,156,328,951**

2015 income statement	Belgium	Netherlands	Luxembourg	Year to 31/12/2015
Financial and operational income and expenses				
Net interest income	273,156,986	285,346,937	422	558,504,345
Dividend income	1,125	0	0	1,125
Net income from commissions and fees	-62,894,093	157,204	7,331,830	-55,405,059
Gains and losses on financial assets and liabilities held for trading	6,660,698	0	0	6,660,698
Gains and losses on financial assets and liabilities measured at fair value with valuation changes through profit or loss	14,649,426	-20,939,119	0	-6,289,693
Result from hedge accounting	6,381,081	0	0	6,381,081
Gains and losses on derecognition of assets other than held for sale	154,985	0	0	154,985
Other net operating income	29,444,073	444,536	33,551	29,922,160
Administrative costs	-226,644,918	-37,150,920	-1,896,794	-265,692,632
Depreciation and amortisation	-22,899,461	-1,067,900	-33,009	-24,000,370
Provisions	3,301,249	0	0	3,301,249
Impairment losses	-1,280,324	887,355	0	-392,969
Total profit before taxes and minority interest	**20,030,827**	**227,678,093**	**5,436,000**	**253,144,920**
Tax on profits	-8,078,694	-51,112,233	-1,079,478	-60,270,405
Total profit after tax and before minority interest	**11,952,133**	**176,565,860**	**4,356,522**	**192,874,515**

2016 income statement	Belgium	Netherlands	Luxembourg	Year to 31/12/2016
Financial and operational income and expenses				
Net interest income	332,559,254	246,209,855	32,982	578,802,091
Dividend income	427,846	0	0	427,846
Net income from commissions and fees	-75,959,350	9,741,290	7,275,548	-58,942,512
Gains and losses on financial assets and liabilities held for trading	9,041,307	0	0	9,041,307
Gains and losses on financial assets and liabilities measured at fair value with valuation changes through profit or loss	-5,078,135	-2,253,853	0	-7,331,988
Result from hedge accounting	4,084,285	0	0	4,084,285
Gains and losses on derecognition of assets other than held for sale	482,279	0	0	482,279
Other net operating income	44,031,755	926,122	14,973	44,972,850
Administrative costs	-243,275,003	-41,281,020	-2,253,037	-286,809,060
Depreciation and amortisation	-26,055,563	-459,373	-70,556	-26,585,492
Provisions	-1,643,778	0	0	-1,643,778
Impairment losses	1,198,360	-4,449,093	0	-3,250,733
Result on assets classified as held for sale	-3,710,057	0	0	-3,710,057
Total profit before taxes and minority interest	**36,103,200**	**208,433,928**	**4,999,910**	**249,537,038**
Tax on profits	-5,542,124	-52,472,843	-1,501,655	-59,516,622
Total profit after tax and before minority interest	**30,561,076**	**155,961,085**	**3,498,255**	**190,020,416**

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

Information on products and services

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

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

Information about important customers

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

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

Notes to the consolidated balance sheet

11. Cash, cash balances at central and other demand deposits

This heading includes all cash and current account balances with central and other banks.

	31/12/2015	31/12/2016
Cash	47,911,356	46,683,230
Current accounts with central banks	363,566,585	832,289,847
Current accounts with other financial institutions	100,849,904	26,848,839
Total	**512,327,845**	**905,821,915**
of which cash and cash equivalents:	512,327,845	905,821,915

As of 31 December 2015 there was EUR 363,566,585 with central banks. The figure of EUR 832 289 847 is exceptional and not representative for the whole year. A part of this amount consists of the monetary reserves that every financial institution is required to hold with the central bank. During the last three months of the year, there was also a larger amount in anticipation of the allocation for securities or for the granting of loans.

In 2015 and 2016, there were no deposits from central banks.

12. Financial assets and liabilities held for trading

The financial assets held for trading are composed as follows:

(Unlisted) financial assets	no,	Notional	31/12/2015	no,	Notional	31/12/2016
Interest rate options - caps	31	7,850,000,000	16,338,018	17	4,300,000,000	9,322,870
Swap securitization transactions	1	1,115,591,100	10,312,762		0	0
Values based on measurement techniques			26,650,780			9,322,870
Secondary bonds	4	2,002,000	2,141,843		0	0
Total financial assets			**28,792,623**			**9,322,870**

(Unlisted) financial assets	no,	Notional	31/12/2015	no,	Notional	31/12/2016
Interest rate options - caps	3	1,000,000,000	9,128	4	550,000,000	4,434
Swap securitization transactions	1	1,115,591,100	10,308,233		0	0
Values based on measurement techniques			10,317,361			4,434

Not listed (OTC) - caps

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

These interest rate options, purchased over-the-counter (OTC) from other financial institutions, are always entered into in the framework of economic hedges, though hedge accounting is not applied to them. Note 25 contains further information on the cylinder caps.

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

No new caps transactions were done in 2016.

Not listed (OTC) - swaps (securitisation transaction)

The heading covers the swaps (on the asset side those with a positive fair value and on the liabilities side those with a negative market value) that are not accounted for using hedge accounting principles.

In the context of the securitization transaction, two swaps were concluded per transaction. The difference between the market value of the two swaps is always recognised in the income statement. In January 2016 the last securitization transaction was settled following a call. The related swaps have therefore also been terminated.

Secondary bonds

Alongside primary bond issues (at the time of first issue) the Company also offers already listed bonds that are traded on the secondary market.

This limited portfolio is considered by IFRS as a portfolio held for trading so as to be able to offer its content continuously to the Company's customers. With interest rates so low, there is little interest from retail customers in buying these bonds. The position in 'secondary bonds' was therefore sold entirely ath the end of the year.

13. Available-for-sale financial assets

Most of the Company's securities portfolio (equities and bonds) is recorded under this heading.

	31/12/2015	31/12/2016
Total	**8,004,524,288**	**7,679,040,215**
of which hedged via micro hedges (notional amount)	955,569,300	955,569,300
Fixed-income securities		
Public institutions	3,611,365,958	3,130,232,096
Credit institutions	1,839,635,416	1,750,588,189
Other loans	2,553,261,386	2,796,060,234
Non-fixed-income securities	**261,528**	**2,159,696**

	31/12/2015	31/12/2016
Geographical breakdown		
Belgium	2,781,299,674	2,662,687,285
European Monetary Union	3,673,334,675	3,424,341,486
Rest of the world	1,549,889,939	1,592,011,444
Breakdown into fixed vs. variable interest securities		
Variable	3,108,146,041	3,190,281,925
Fixed	4,896,116,721	4,486,598,595
Undefined (equities)	261,527	2,159,696
Breakdown by residual term or maturity date:		
Up to 1 year	1,135,200,381	1,209,235,568
Between 1 and 2 years	1,214,203,919	1,002,615,239
Between 2 and 3 years	932,925,081	1,339,411,802
Between 3 and 4 years	1,235,943,703	1,512,637,606
Between 4 and 5 years	1,265,714,169	665,079,019
More than 5 years	2,220,275,508	1,947,901,286
Undetermined	261,527	2,159,696
By earliest interest rate revision or maturity date		
Up to 1 year	3,806,812,687	4,231,203,097
Between 1 and 2 years	1,024,156,256	686,029,397
Between 2 and 3 years	695,516,306	720,696,903
Between 3 and 4 years	657,538,040	994,723,898
Between 4 and 5 years	975,689,198	292,598,968
More than 5 years	844,550,274	751,628,257
Undefined	261,527	2,159,696
Impairment losses	-1,935,920	-156,590
Effective interest rate of the portfolio at 31/12	1.58%	1.24%
Used as collateral (notional amount)	539,626,000	590,469,000
Encumbrance in the event of utilization of the NBB credit line	250,000,000	250,000,000

Further information on the hierarchy level of the external fair values used is given in Note 24.

Due to the limited ownership of shares and bonds of British origin, Argenta expects that Brexit will have a limited impact on the Argenta group.

A nominal EUR 590,469,000 of securities were encumbered as part of the collateral management of derivative instruments and of repos and as surety for the credit cards issuer. The Company also has a line of credit with the NBB of EUR 250 million, for which securities are encumbered as and when this credit line is used.

In 2011, a limited MBS (mortgage backed securities) portfolio was reclassified from 'available-for-sale financial assets' to 'loans and receivables'. Further details on this reclassification are given in Note 15.3.

The fair value and amortised cost and the related unrealised gains or losses on the 'available-for-sale' assets at 31 December are as follows:

2015 financial year	Amortised cost	Pro rata interest portion	Unrealised results	Impairment losses	Fair values
Fixed-income securities					
- Public authorities	3,364,384,101	46,312,695	200,669,162	0	3,611,365,958
- Credit institutions	1,807,202,910	11,408,299	21,024,207	0	1,839,635,416
- Securities of other counterparties	2,528,655,055	11,294,493	15,247,758	-1,935,920	2,553,261,386
Non-fixed-income securities					
- Equities	199,655	0	-1,163	0	198,492
- Investment funds / Other	62,498	0	538	0	63,036
	7,700,504,219	**69,015,487**	**236,940,502**	**-1,935,920**	**8,004,524,288**

2016 financial year	Amortised cost	Pro rata interest portion	Unrealised results	Impairment losses	Fair values
Fixed-income securities					
- Public authorities	2,911,248,231	39,039,903	179,943,963	0	3,130,232,097
- Credit institutions	1,725,612,025	6,269,602	18,706,562	0	1,750,588,189
- Securities of other counterparties	2,750,192,882	10,877,589	35,146,352	-156,590	2,796,060,233
Non-fixed-income securities					
- Equities	1,784,817	0	311,741	0	2,096,558
- Investment funds / Other	62,498	0	640	0	63,138
	7,388,900,453	**56,187,094**	**234,109,258**	**-156,590**	**7,679,040,215**

The breakdown into public authorities, credit institutions and 'securities other counterparties' or 'other debt securities' is that of prudential reporting at bank-only level.

14. Held-to-maturity assets

This heading contains the purchased bonds that the Company is sure that it will hold to maturity.

	31/12/2015	31/12/2016
Total	**404,465,119**	**425,641,792**
Fixed-income securities		
Public authorities	392,833,843	407,869,374
Credit institutions	0	0
Other loans	11,631,276	17,772,418
Non-fixed-income securities	**0**	**0**

	31/12/2015	31/12/2016
Geographical distributions		
Belgium	381,332,922	402,519,118
EMU	23,132,197	23,122,674
Breakdown into fixed or variable interest rate		
Variable	101,364,041	99,911,727
Fixed	303,101,078	325,730,065
Breakdown by residual term by maturity date:		
Up to 1 year	0	0
Between 1 and 2 years	0	217,617,894
Between 2 and 3 years	217,100,810	26,337,459
Between 3 and 4 years	26,337,220	28,194,074
Between 4 and 5 years	22,550,398	1,001,057
More than 5 years	138,476,691	152,491,309
By earliest interest rate revision or maturity date		
Up to 1 year	101,364,042	99,911,727
Between 1 and 2 years	0	217,617,894
Between 2 and 3 years	217,100,810	26,337,459
Between 3 and 4 years	26,337,220	16,693,627
Between 4 and 5 years	11,049,478	1,001,057
More than 5 years	48,613,569	64,080,028
Total public and regional authorities (sovereign)	392,833,843	407,869,374
Total other sectors (other MBS, real estate)	11,631,276	17,772,418
Impairment losses	0	0
Effective interest rate of the portfolio at 31/12	2.35%	2.33%

15. Loans and receivables

15.1. Loans to and receivables from credit institutions

Loans and advances to credit institutions are composed as follows:

	31/12/2015	31/12/2016
Total loans and advances to credit institutions	15,350,000	0
Of which cash and cash equivalents:	15,350,000	0
Impairment losses	0	0
Effective interest rate of the portfolio at 31/12	-0.16%	0.00%

As of 31 December 2015 there was under this heading an amount received in the context of collateral management. It involved a receivable from a credit institution in Belgium with a residual maturity of less than three months.

The other receivables from credit institutions - excluding the purchased securities - are found under 'cash and cash balances with (central) banks'.

15.2. Loans to and receivables from other customers

Loans to and receivables from other customers are composed as follows:

	31/12/2015	31/12/2016
Total loans to customers	**24,308,152,971**	**26,521,606,556**
Breakdown by residual term		
Up to 1 year	803,236,362	901,889,182
1 to 5 years.	2,966,564,024	3,453,362,836
> 5 year	20,538,352,586	22,166,354,538
Impairment losses	36,897,658	35,808,312
Breakdown by loan type		
Consumer loans	97,424,542	97,669,919
Mortgage loans	23,842,271,931	26,024,523,154
Instalment loans	335,622,758	374,179,424
Advances/overdrafts	5,808,705	3,633,163
Other loan receivables - MBS portfolio	27,025,034	21,600,896
Effective interest rate on portfolio as of 31 December	3.32%	2.89%

The mortgage loan portfolio was increased by the additional lending to the Company's retail customers, both in Belgium and the Netherlands.

15.3. Note on the reclassification of the MBS portfolio

In 1 October 2011, an MBS portfolio with a carrying value of EUR 72,886,764 was reclassified from 'available-for-sale assets' to 'loans and receivables' (under 'other loan receivables'). The reason for this reclassification lay in the absence of an active market.

The securities were reclassified at their fair value. At the time of the reclassification, after calculation of the potential tax liability, there was a EUR 15,953,789 negative revaluation reserve in equity.

As of 31 December 2015, a negative revaluation reserve amounting to EUR 5,095,662 remained in equity (other elements of comprehensive income). Without reclassification, this would have amounted to EUR 1,216,859. In the IFRS balance sheet, these securities are carried under 'loans and receivables' in an amount of EUR 27,025,034.

As of 31 December 2016 this negative revaluation reserve amounted still to EUR 4,120,143 (included in equity under 'under other elements of comprehensive income'). Without reclassification, this would have amounted to EUR 760,910. In the IFRS balance sheet, these securities are carried under 'loans and receivables' in an amount of EUR 21,600,896.

Note 24.1 gives information on the current market value of this portfolio (under 'other credit receivables - MBS portfolio').

In 2016, EUR 5,437 of interest income was received from the securities in question (EUR 73,861 in 2015). There were no indications for proceeding to record impairments on individual items.

The decrease in this portfolio is due mainly to the maturing of securities and/or partial redemptions of the relevant securities.

16. Derivatives used for hedging

This section contains, inter alia, additional information on the balance sheet headings 'derivatives used for hedging' and 'cumulative fluctuations in the value of the hedged positions when hedging the interest risk'.

General explanation

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

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

Note on macro hedges

First and foremost, the Company applies IAS 39, which has been authorised by the EU, because it reflects best the way in which the Company manages its activities.

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

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

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

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

What we have here is a fair value hedge, whereby the hedged risk consists of the benchmark (euribor), which is the interest rate component of the fixed-rate mortgage loans. The gains or losses (changes in fair value) on the hedged positions as a result of the hedged risk, and the gains or losses (changes in fair value) on the hedging instruments are recognised in the income statement (see Note 31).

The changes in fair value of the hedged positions (in this case a hedged portfolio of mortgage loans) can be found under the heading 'cumulative fluctuations in the value of the hedged positions when hedging the interest risk' and amount to EUR 310,184,988 as of 31 December 2016. What we have here are macro fair value hedges of the interest rate risk on a hedged mortgage portfolio.

Note on micro hedges

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

For the time being this category consists of swaps concluded in order to hedge securities that are all classified as available-for-sale assets (AFS micro hedge). The changes in the fair value of the fixed rate legs of these swaps are offset by opposite changes in the fair value of the hedged positions.

In this way, part of the change in fair value of the 'available-for-sale' securities in question is not recognised on a separate line in equity, but is treated in the income statement in the context of hedge accounting. As of 31 December 2016, this involved an amount of EUR 93,208,307.

In 2011, a swap was concluded that was recognised in IFRS as a cash flow hedge . This involved a forward starting swap (start date 31 May 2016 and end date 31 May 2021) for a notional amount of EUR 100 million to hedge the interest rate risk on a future portfolio of term products. Meanwhile, the placement of the term products concerned was also realised. The swap in question had a negative market value of EUR 21,107,784 as of 31 December 2016.

Note on the fair value hedges

The table below summarizes the swaps used for hedging and accounted for as fair value hedges. The cash flow hedge swap is not included in this list.

Macro hedge - fair value hedging	no.	Notional	31/12/2015	no.	Notional	31/12/2016
Change in the fair value of hedged positions (L&R)			304,086,209			310,184,988
Derivatives with negative market value (clean price)	27	3,350,000,000	-314,952,280	36	5,250,000,000	-361,975,359
Derivatives with positive market value (clean price)	8	1,000,000,000	6,309,906	22	2,100,000,000	51,261,177

Macro hedge - fair value hedging	no.	Notional	31/12/2015	no.	Notional	31/12/2016
Change in the fair value of hedged positions (AFS)			86,873,644			93,208,307
Derivatives with negative market value	7	955,569,300	-87,024,878	7	955,569,300	-93,302,229

The ‘number’ in the above table refers to the number of contracts, and ‘notional’ to the notional amounts of the concluded swaps. Columns 4 and 7 give the clean price of the derivatives involved and the change in the hedged positions.

Note on totals of derivatives used for hedging

The table below shows the derivative instruments as recognised in the balance sheet, giving additionally the total market value recognised under the applicable IFRS hedge accounting rules.

Market values (dirty price) of derivatives used for hedging	31/12/2015		31/12/2016	
Derivatives used for hedging (assets side)		6,078,917		49,455,484
Derivatives used for hedging (liabilities side)		496,161,248		557,592,277
Fair value macro-hedges	379,642,320		432,634,134	
Fair value micro-hedges	97,480,444		103,850,359	
Cash flow hedge	19,038,484		21,107,784	

17. Property, plant and equipment

The property, plant and equipment (measured using the cost price model) as of 31 December 2015 and 31 December 2016 were as follows:

	31/12/2015	31/12/2016
Buildings, land, equipment	35,508,011	12,477,129
Investment properties	1,524,735	1,450,009
Total	**37,032,746**	**13,927,138**
Fair value of investment properties	1,930,527	1,537,465

The portfolio of real estate investments changes mainly as a result of the purchasing and reselling of properties under the mortgage lending foreclosure policy. The real estate investments also include a number of car parks.

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

2015	Land Buildings	IT	Other	Total	Investment property
Opening balance as of 1/1/2015	**22,455,306**	**3,774,628**	**6,415,458**	**32,645,392**	**1,605,437**
- Investments	636,729	3,483,169	4,719,569	8,839,467	367,962
- Disposals	-21,260	0	-647,864	-669,124	-397,287
- Depreciation	-1,149,161	-2,495,865	-1,662,698	-5,307,724	-51,377
- Transfers	0	0	0	0	0
- Other changes	0	0	0	0	0
Closing balance as of 31/12/2015	**21,921,614**	**4,761,932**	**8,824,465**	**35,508,011**	**1,524,735**

2016	Land Buildings	IT	Other	Total	Investment property
Opening balance as of 1/1/ 2016	**21,921,614**	**4,761,932**	**8,824,465**	**35,508,011**	**1,605,437**
- Investments	541,419	2,049,267	3,109,968	5,700,654	376,735
- Disposals	0	-88	-794,027	-794,115	-535,268
- Depreciation	-1,525,718	-2,591,971	-2,105,951	-6,223,640	-37,030
- Transfers	-21,596,057	0	0	-21,596,057	0
- Other changes	1,006,308	3,182	-1,127,213	-117,722	40,135
Closing balance as of 31/12/2016	**347,566**	**4,222,322**	**7,907,242**	**12,477,130**	**1,450,009**

The amount of land and buildings has decreased significantly with the scheduled sales of the majority of these buildings. The assets in question were recorded at the end of 2016 under ‘available for sale assets’.

The Board of Directors and Executive Committee of Argenta Spaarbank decided in the fourth quarter of 2016 to initiate the sale of the group of ‘land and buildings’ in question on Belgiëlei 49-53 and 55 and Lamorinièrestraat 39 and 58 .

The decision was taken by the appropriate governing bodies to open exclusive talks with Investar NV and the necessary steps were undertaken to launch the sales process:

- The assets were identified (based on the accounting inventories);
- An independent party (PwC) was appointed to determine the market value of the assets;
- Negotiations were started between Argenta Spaarbank and Investar.

The sale will more than likely be completed in 2017. The price range within which negotiations are taking place is in line with the market value as contained in the valuation report. Investar’s intention includes the renovation/reconstruction of new office buildings and parking spaces for letting on an unfinished (‘shell’) basis. The finishing and fittings will be financed (and accounted for) by the Argenta Group and the two parties will conclude a contract for the ‘shell’ buildings.

18. Goodwill and other intangible assets

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

As of 31 December, the other intangible assets (capitalized using the cost model) were:

	Internally developed software	Other intangible assets	Goodwill	Total
Opening balance as of 1/1/2015	**42,057,050**	**3,076,198**	**0**	**45,133,248**
- Separately acquired additions	21,631,945	1,887,400	0	23,519,345
- Retirement and disposal	0	0	0	0
- Recorded amortisation	-17,490,333	-1,150,936	0	-18,641,269
- Impairments	0	0	0	0
- Other changes	-333,514	333,514	0	0
Closing balance as of 31/12/2015	**45,865,148**	**4,146,176**	**0**	**50,011,324**

	Internally developed software	Other intangible assets	Goodwill	Total
Opening balance as of 1/1/ 2016	**45,865,148**	**4,146,176**	**0**	**50,011,324**
- Separately acquired additions	23,447,501	3,654,901	0	27,102,402
- Retirement and disposal	0	0	0	0
- Recorded amortisation	-18,725,833	-1,598,988	0	-20,324,821
- Impairments	0	0	0	0
- Other changes	639,711	-637,655	0	2,056
Closing balance as of 31/12/2016	**51,226,526**	**5,564,433**	**0**	**56,790,960**

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

The amount of EUR 20,324,822 for 2016 can be found in the income statement under the amortisation of the assets concerned.

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

19. Tax assets and liabilities

The tax position can be summarised as follows:

	31/12/2015	31/12/2016
Current tax assets	4,917,451	1,322,627
Deferred tax assets	0	4,659,925
Total tax assets	**4,917,452**	**5,982,552**
Current tax liabilities	29,545,117	17,497,327
Deferred tax liabilities	45,396,110	52,520,075
Total tax liabilities	**74,941,227**	**70,017,402**

Under deferred tax liabilities the most important item at the end of 2015 is the deferred tax on the positive delta market value of the 'available-for-sale assets' (EUR 51,007,938). In addition, there are further tax amounts of EUR -2,623,868 (L&R reclassification), EUR -4,759,621 (cash flow hedge), EUR -18,052,741 (in respect of the impact of the market value of the swaps and caps) and EUR 23,176,329 (related to the amortisation of transaction costs).

In 2016 there is a deferred tax amount of EUR 47,787,341 on the positive delta market value of 'available-for-sale assets', a negative item of EUR -2,121,552 relating to the L&R reclassification and EUR -4,659,925 in connection with the cash flow hedge.

Deferred taxes by type of timing difference	31/12/2014	Change via revaluation reserve	Change via P&L	31/12/2015
Tax assets related to cash flow hedging	4,576,476	183,145	0	4,759,621
Tax assets related to reclassified assets	3,276,254	-652,386	0	2,623,868
Tax asset related to valuation of swaps and caps	25,045,448	0	-6,992,707	18,052,741
Tax asset associated with non-deductible expenses under local accounting rules	5,447,274	0	-2,478,422	2,968,852
Tax asset in respect of other small items	0	0	383,075	383,075
Total decompensated tax assets	**38,345,452**	**-469,241**	**-9,088,054**	**28,788,157**
Tax liability on available-for-sale assets	74,259,161	-23,251,223	0	51,007,938
Tax liability out of valuation at amortised cost	23,741,286	0	-564,957	23,176,329
Tax liability in respect of other small items	253,654	0	-253,654	0
Total decompensated tax liabilities	**98,254,101**	**-23,251,223**	**-818,611**	**74,184,267**
Compensated tax debts	**59,908,649**	**-22,781,982**	**8,269,443**	**45,396,110**

Deferred taxes by type of timing difference	31/12/2015	Change via revaluation reserve	Change via P&L	31/12/2016
Tax assets related to cash flow hedging	4,759,621	-99,696	0	4,659,925
Tax assets related to reclassified assets	2,623,868	-502,316	0	2,121,552
Tax receivable related to valuation of swaps and caps	18,052,741	0	-4,255,922	13,796,819
Tax asset associated with non-deductible expenses under local accounting rules	2,968,852	0	1,469,743	4,438,595
Tax asset in respect of other small items	383,075	0	-383,075	0
Total decompensated tax assets	**28,788,157**	**-602,012**	**-3,169,254**	**25,016,891**
Tax liability on available-for-sale assets	51,007,938	-3,220,597	0	47,787,341
Tax liability out of valuation at amortised cost	23,176,329	0	1,684,402	24,860,731
Tax liability in respect of other small items	0	0	228,969	228,969
Total decompensated tax liabilities	**74,184,267**	**-3,220,597**	**1,913,371**	**72,877,041**
Compensated tax debts	**45,396,110**	**-2,618,585**	**5,082,625**	**47,860,150**

Note 36 provides further information of the impact of corporate taxes on the Company's result.

20. Other assets

The other assets break down as follows:

	31/12/2015	31/12/2016
Prepaid expenses	14,343,574	3,290,740
Other assets in the context of lending	67,478,417	31,064,617
Other assets in the context of securities transactions	6,557,243	5,546,443
Other assets in the context of payment traffic	55,316,494	58,389,519
Suspense accounts	42,610,403	62,553,962
Total other assets	**186,306,131**	**160,845,281**

'Suspense accounts' contains amounts awaiting definitive allocation.

21. Financial liabilities measured at amortised cost

In summary form (see references in the individual lines)	31/12/2015	31/12/2016
Deposits from credit institutions (see 21.1)	100,914,580	1,389,829
Retail funding deposits (see 21.2)	29,529,673,674	31,615,282,958
20.3 Retail funding - debt certificates - retail savings certificates (see 21.3)	1,372,724,660	1,210,484,036
Debt certificates – bonds (see 21.4)	0	0
Subordinated liabilities (see 21.5)	401,969,253	660,464,000
Total	**31,405,282,167**	**33,487,620,824**

21.1. Deposits from credit institutions

The deposits from credit institutions are composed as follows:

	31/12/2015	31/12/2016
Deposits from credit institutions	**100,914,580**	**1,389,829**
Geographical breakdown		
Belgium	908,234	695,847
Other EMU countries	100,006,346	693,982
Rest of the world	0	0
Breakdown by residual term		
Up to 1 year	100,914,580	1,389,829
Breakdown by type		
Demand deposits	928,443	716,060
Repos	99,986,137	0
Collateral from financial institutions	0	673,769
Effective interest rate on portfolio as of 31 December	-0.20%	-0.18%

At end 2015 there was one repo amounting to EUR 99,986,137 in the IFRS balance sheet. On this repo - which expired on 14 January 2016 - a negative interest rate was obtained. At end 2016, there were no outstanding repos.

21.2. Retail funding – deposits

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

	31/12/2015	31/12/2016
Deposits from other than credit institutions	**29,529,673,674**	**31,615,282,958**
Breakdown by type		
Demand deposits	2,801,613,286	3,547,650,924
Fixed-term deposits	2,534,666,602	3,010,767,803
Regulated savings deposits	21,825,332,441	22,757,401,893
Mortgage-linked deposits	404,852,910	438,063,472
Other deposits	1,963,208,435	1,861,398,867
Breakdown of fixed-term deposits by residual term		
Up to 1 year	418,521,342	753,632,386
Between 1 and 5 years	1,859,232,418	1,899,912,202
More than 5 years	256,912,842	357,223,215
Effective interest rate of the portfolio at 31/12	0.66%	0.34%

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

The latter item involves the placement of the savings - built up in group entity ALN - by that entity with the Company.

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

21.3. Retail funding - debts certificates - retail savings certificates

The debt certificates break down as follows:

	31/12/2015	31/12/2016
Debt certificates – retail savings certificates	**1,372,724,660**	**1,210,484,036**
Breakdown by residual term		
Up to 1 year	150,183,379	486,070,818
Between 1 and 5 years	1,222,541,281	724,413,218
More than 5 years	0	0
Effective interest rate of the portfolio as of 31/12	2.54%	2.52%

The downward trend of recent years in this portfolio continues as a result of the low interest rates on this type of funding, but also because the Company has decided to stop promoting retail savings certificates and to shift to term accounts that de facto present the same characteristics.

21.4. Debt certificates – bonds

This heading used to contain the bonds and notes issued by ABL (now AAM) and ARNE. As all securities issued have reached maturity, no additional explanation is needed.

21.5. Subordinated liabilities

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

The subordinated liabilities are composed as follows:

	31/12/2015	31/12/2016
Subordinated liabilities	**401,969,253**	**660,464,000**
Breakdown by residual term		
Up to 1 year	248,763,728	65,035,137
Between 1 and 5 years	153,205,525	595,428,863
More than 5 years	0	0
Breakdown by type		
Subordinated loans (retail funding)	332,485,004	150,645,429
Tier 1 loan (corporate funding)	69,484,249	0
Tier 2 loan (corporate funding)	0	509,818,572

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

On 31 October 2016 the right (call option) to prepay the Tier 1 loan was exercised. After this, the entire loan was repaid.

In the second quarter of 2016, a Tier 2 loan was very successfully issued and placed with institutional investors. This was an issue for a nominal amopunt of EUR 500 million.

22. Provisions

The changes in the provisions during the year are:

	Current legal disputes	Other provisions	Totals
Opening balance 1/1/2015	1,017,832	12,690,205	13,708,037
Additions	0	639,098	639,098
Amounts used and reversals	-488,478	-3,451,869	-3,940,347
Closing balance 31/12/2015	529,354	9,877,434	10,406,788
Additions	0	1,993,778	1,993,778
Amounts used and reversals	-350,000	0	-350,000
Closing balance 31/12/ 2016	179,354	11,871,212	12,050,566

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

The ‘other provisions’ item relates mainly to provisions for VAT. Consultations are under way with the suppliers to which the provisions relate in order to settle the matters in question. For disputed issues, a provision is systematically set up, so that there will never be a negative impact but only a positive one if the legal decision or settlement is positive for the Company.

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

Note on group insurance

The overwhelming proportion of the supplementary pension schemes are paid out as a one-off capital payment, but there is also the possibility to opt for regular pension payments.

The Company offers an occupational pension scheme of the defined contribution type for its employees. These defined contribution plans are funded solely by the employer through a group insurance, in which the insurer guarantees a minimum return. In the Netherlands a defined benefit plan is offered.

Under Article 24 of the Law of 28.04.2003 on Supplementary Pensions (the so-called ‘WAP/LPC’), the employer is required to guarantee a minimum return for defined contribution plans. The legal minimum guaranteed return which the employer is required to pay in respect of employer contributions was until 31 December 2015 set at 3.25%. The guaranteed return was recently amended by the Law of 18.12.2015. Since then a variable guaranteed return has applied, linked to the yield on the 10-year OLO; with a minimum of 1.75%

and a maximum of 3.75%. However, the cumulative contributions up to 31 December 2015 remain subject to the 3.25% guaranteed return until employees leave the Company's pension plan (the 'horizontal' approach).

Because of the legally imposed minimum guaranteed return, Belgian defined contribution plans are considered as plans with an objective to reach (the so-called 'defined benefit plans).

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

The mathematical reserves of these pension plans amounted to EUR 26, 728,887 as of 31/12/2015 and EUR 32,424,804 as of 31/12/2016.

23. Other liabilities

The other liabilities are composed as follows:

	31/12/2015	31/12/2016
Social security charges	5,262,210	6,221,475
Accrued charges	6,485	7,299
Supplier accounts	30,898,351	31,447,141
Debts – other group companies	22,820,752	24,420,033
Debts – agents	29,229,173	26,102,219
Credit items in suspense	16,346,324	30,007,593
Payment traffic items in suspense	28,027,357	38,241,282
Investment items in suspense	8,875,297	8,208,144
Various taxes	3,969,717	3,342,709
Other	46,684,433	19,785,177
Total other liabilities	**192,120,100**	**187,783,070**

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

24. Fair value of financial instruments

24.1. Financial instruments not recognised at fair value

The following information should be interpreted with due caution.

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

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

The fair value is the price that would be received/paid on the sale of an asset or transfer of a liability in an 'orderly' transaction between market participants at the reporting date.

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

The fair value shown is the full fair value including accrued interest, since this is also processed under the respective headings.

The calculation of the fair value of financial instruments, the fair values of which are not obtained externally, can be summarised as follows:

(1) For debt instruments redeemable in the short term or on demand (including current accounts, savings accounts) the fair value approximates the carrying value;
(2) For other instruments, the Discounted Cash Flow (DCF) method is used, with the discount rate based on a reference rate plus a margin standard for the market.

This DCF method includes, among other things, a cost of capital and a cost of credit. The interest rate curves are analogous to those used in the sensitivity analysis of interest rate risk (see risk section 5.1).

The resulting market values are also required to be displayed according to the fair value hierarchy of IFRS 13. The level of the fair value depends on the type of input used to measure the financial instruments.

Level 1 involves quoted (unadjusted) prices in active markets (externally available, observable fair values of financial instruments on liquid markets).

Level 2 includes all fair values that can be obtained directly or indirectly using models, starting from observable parameters (or non-observable parameters (input) of which the impact is insignificant).

Finally, level 3 relates to fair values calculated on the basis of non-observable parameters (input) and having significant impact.

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

It does not include the fair value of 'assets held to maturity' and of non-financial instruments such as tangible fixed assets and other intangible assets that were briefly discussed in the respective notes.

	31/12/2015		31/12/2016	
	Carrying value	Fair value	Carrying value	Fair value
Cash and cash balances and deposits with (central) banks	512,327,845	512,327,845	905,821,915	905,821,915
Loans and receivables				
Loans to and receivables from credit institutions				
Current accounts:	0	0	0	0
Term deposits	0	0	0	0
Reserves with central banks	0	0	0	0
Collateral with financial institutions	15,350,000	15,350,000	0	0
Loans to and receivables from other customers				
Consumer loans	97,424,542	103,548,159	97,669,919	102,320,337
Mortgage loans	23,842,271,931	26,614,464,533	26,024,523,154	29,215,508,369
Instalment loans	335,622,758	338,485,834	374,179,424	385,245,205
Advances/overdrafts	5,808,705	5,808,705	3,633,163	3,633,163
Other loan receivables - MBS portfolio	27,025,034	32,901,117	21,600,896	26,749,540
Financial assets held till maturity	404,465,119	425,123,089	425,641,792	444,507,388
Total financial assets	**25,240,295,935**	**28,048,009,282**	**27,853,070,263**	**31,083,785,917**
Financial liabilities measured at amortised cost				
Deposits from credit institutions	100,914,580	100,914,580	1,389,829	1,389,829
Deposits from other than credit institutions				
Demand deposits	2,801,613,286	2,801,613,286	3,547,650,924	3,547,650,924
Fixed-term deposits	2,534,666,602	2,690,923,665	3,010,767,803	3,194,270,466
Deposits of a special nature	1,963,208,435	1,963,208,435	1,861,398,867	1,861,398,867
Regulated savings deposits	21,825,332,441	21,825,332,441	22,757,401,893	22,757,401,893
Mortgage-linked deposits	404,852,910	404,852,910	438,063,472	438,063,472
Deposit protection scheme	0	0	0	0
Debt certificates, including retail savings certificates				
Retail savings certificates	1,372,724,660	1,454,953,761	1,210,484,036	1,273,456,312
Bonds	0	0	0	0
Subordinated debts				
Subordinated loans	332,485,004	349,947,848	150,645,429	160,270,571
Tier 1 loan	69,484,249	73,591,612	0	0
Tier 2 loan	0	0	509,818,572	523,515,000
Total liabilities	**31,405,282,167**	**31,665,338,538**	**33,487,620,824**	**33,757,417,332**

IFRS 13 requires a level to be allocated to all market values. The table below shows the fair values of the listed IFRS classifications schematically by hierarchy level.

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

Data as of 31/12/2015	Fair value	Level 1	Level 2	Level 3
Cash and cash balances and deposits with (central) banks	512,327,845	0	512,327,845	0
Loans and receivables	27,110,558,348	0	42,155,420	27,068,402,928
Financial assets held till maturity	425,123,089	223,499,621	115,266,325	86,357,142
Financial liabilities measured at amortised cost	31,665,338,538	0	27,095,921,652	4,569,416,887

Data as of 31/12/2016	Fair value	Level 1	Level 2	Level 3
Cash and cash balances and deposits with (central) banks	905,821,915	0	905,821,915	0
Loans and receivables	29,733,456,614	0	20,693,474	29,712,763,140
Financial assets held till maturity	444,507,388	219,097,422	162,721,961	62,688,005
Financial liabilities measured at amortised cost	33,757,417,332	0	28,605,904,985	5,151,512,347

Cash, cash balances and deposits with (central) banks are measured at level 2 fair values (given their short-term nature). Loans and receivables measured at level 3 fair values relate primarily to mortgage loans to individuals for which Argenta has calculated a market valuation based on a DCF model. In so doing, certain assumptions are applied with respect to spread and prepayment rate.

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

The financial liabilities included in Level 3 are retail savings certificates, subordinated loans and deposits with fixed maturities.

24.2. Financial instruments recognised at fair value

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

The fair values of the 'available-for-sale' assets come from the same external sources as in previous years, that is Bloomberg and Euroclear (the Company's largest clearing and custody counterparty). To support the level attributions, the Company has itself calculated market values where necessary.

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

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

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

For the valuation of the CMS swap/caps and the Green Apple swaps, non-unobservable data (Level 3 input) are also used. Based on the sensitivity of these on-observable parameters it was decided to assign these values a Level 3 valuation.

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

Data as of 31/12/2015	Level 1	Level 2	Level 3
Assets recorded at fair value	6,120,755,343	1,854,279,067	64,362,418
Assets held for trading	2,141,843	9,647,762	17,003,018
Available-for-sale financial assets	6,118,613,500	1,838,552,388	47,358,400
Derivatives used for hedging	0	6,078,917	0
Liabilities recorded at fair value	0	477,128,660	29,349,949
Liabilities held for trading	0	5,896	10,311,465
Derivatives used for hedging	0	477,122,764	19,038,484

Data as of 31/12/2016	Level 1	Level 2	Level 3
Assets recorded at fair value	5,898,937,443	1,816,586,088	22,295,038
Assets held for trading	0	7,239,219	2,083,651
Available-for-sale financial assets	5,898,937,443	1,759,891,385	20,211,387
Derivatives used for hedging	0	49,455,484	0
Liabilities recorded at fair value	0	536,484,520	21,112,190
Liabilities held for trading	0	28	4,406
Derivatives used for hedging	0	536,484,492	21,107,784

In the ‘available-for sale’ portfolio we encounter sporadic changes between Level 1 and Level 2 as a result of changes (e.g. more providers) in market values. Such changes in level are individually documented, are required to conform to policies, and are reported quarterly to the Alco.

The following table provides a reconciliation of Level 3 fair values between 1 January 2015 and 31 December 2016. It refers to the derivative instruments (under ‘assets and liabilities held for trading’ and under ‘derivatives used for hedging’) and to the securities held under ‘available-for-sale assets’.

	Derivatives, asset side	Derivatives, liabilities side	AFS portfolio - fixed income securities	AFS portfolio - non-fixed income securities
Opening total as of 1/1/2015	**22,120,576**	**-29,466,177**	**79,109,392**	**27,152**
Purchases / new contracts	0	0	9,962,256	0
Expired instruments	0	0	-38,557,614	0
(Partial) repayments	0	0	0	0
Changes to other levels	0	0	0	0
Changes from other levels	0	0	0	0
Other changes (including value changes)	-5,117,558	116,228	-3,217,086	34,300
Closing balance as of 31/12/2015	17,003,018	-29,349,949	47,296,948	61,452
Purchases / new contracts	0	0	20,149,935	0
Expired instruments	0	0	-20,059,942	0
(Partial) repayments	0	0	0	0
Changes to other levels	0	0	-27,237,006	0
Changes from other levels	0	0	0	0
Other changes (including value changes)	-14,919,367	8,237,759	0	0
Closing balance as of 31/12/2016	**2,083,651**	**-21,112,190**	**20,149,935**	**61,452**

As can be seen from the table, there is only a limited amount of level 3 fair values in the financial instruments involved.
The total of the fixed-income securities and equities measured at level 3 fair values is just EUR 20,149,935 as of 31 December 2016 (compared to EUR 47,296,948 at end-2015). The decline recorded in 2016 can be explained among other things by the fact that more market prices were available for the relevant securities, enabling them to be measured at Level 2 fair values.

Level changes have no P&L impact. The delta market values of the 'available-for-sale assets' are included in Other Comprehensive Income (OCI) under equity.

As of 31 December 2015 there was a negative impact of EUR 495,369 from this level 3 in the OCI, and as of 31 December 2016 a positive impact of EUR 33,001.

Note on the credit risk in the fair value of derivatives

Since 2014 and in line with market practices, a CVA (Credit Valuation Adjustment) and a DVA (Debt Valuation Adjustment) have been taken into account in establishing the market value of derivatives. The combined impact of both elements was very limited, amounting to EUR 0.2 million in 2015 and EUR 1.2 million in 2016.

25. Derivatives

Besides derivatives embedded in contracts, the Company has two types of derivatives (derived financial instruments) on its balance sheet on 31 December 2016: interest rate options (purchased and sold caps) and swaps.

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

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

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

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

In 2015 and 2016 no offsetting was undertaken in processing the derivatives both on and off the balance sheet, so that no information on this was given in accordance with the descriptions of IFRS 7 on this subject.

Interest rate options

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

In order to reduce the cost of hedging, caps were from time to time simultaneously bought and written for the same notional amount and the same term. The strike prices of the caps sold are higher than the strike prices of the purchased caps, so that the risk of the combined bought and sold caps concerned is limited to the net premium paid (cylinder caps).

As of 31 December 2016 the Company still had 21 caps (35 at end-2015) standing on its balance sheet in a notional amount of EUR 4.85 billion (EUR 8.85 billion at end-2015). Of these 21 caps, 5 were bought and sold cap combinations (10 caps in total, to hedge the interest rate risk of the liabilities side) and 11 were caps to hedge the interest rate risk of the mortgage lending.

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

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

Interest rate swaps

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

The following table provides an overview of all swaps recognised at year-end, the hedged positions and the IFRS processing method.

			2015
Number	**Notional**	**Hedge type**	**Treatment in IFRS**
27	4,350,000,000	interest rate risk on loan portfolio	macro portfolio fair value hedge
7	955,569,300	interest rate risk on individual AFS securities	micro fair value hedge AFS instruments
1	100,000,000	interest rate risk on retail savings certificates portfolio	micro hedge - cash flow hedge
2	2,231,182,200	interest rate risk on securitized loans	held for trading

			2016
Number	**Notional**	**Hedge type**	**Treatment in IFRS**
58	7,350,000,000	interest rate risk on loan portfolio	macro portfolio fair value hedge
7	955,569,300	interest rate risk on individual AFS securities	micro fair value hedge AFS instruments
1	100,000,000	interest rate risk on retail savings certificates portfolio	micro hedge - cash flow hedge

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

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

As of 31 December 2015, the swap concerned had a negative market value of EUR 19,038,484 and, after offsetting of an unrealised tax claim of EUR 4,759,621, an amount of EUR 14,278,863 was recorded under ‘cash flow hedge’ in equity.

As of 31 December 2016, the swap concerned had a negative market value of EUR 18,639,700 and, after offsetting of an unrealised tax claim of EUR 4,659,925, an amount of EUR 13,979,775 was recorded under 'cash flow hedge' in equity.

Embedded derivatives

Derivatives embedded in contracts are required to be segregated (hence recognised as separate derivatives on the balance sheet) when there is no close relationship between their economic characteristics and risks and those of the host contract.

No such derivatives needed to be separated out and classified under this category.

Notes to the consolidated income statement

26. Net interest income

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

	31/12/2015	31/12/2016
Interest income		
Available-for-sale financial assets	140,024,812	109,878,804
Loans to and receivables from credit institutions	473,963	124,413
Loans to and receivables from other customers	832,626,674	809,363,165
Held-to-maturity investments	12,473,431	9,269,273
Derivatives, hedge accounting	5,529,002	3,781,409
Interest expenses		
Deposits from credit institutions	206	695,788
Deposits from other than credit institutions	235,263,909	147,429,407
Debt certificates, including retail savings certificates	41,242,551	36,073,680
Subordinated liabilities	16,725,621	20,854,585
Derivatives, hedge accounting	139,391,250	148,561,512
Net interest income	**558,504,345**	**578,802,091**
Interest income from impaired financial assets	512,219	395,661

27. Dividend income

Dividends received are specified below.

	31/12/2015	31/12/2016
Dividends from equity instruments from available-for-sale financial assets	1,125	427,846

In 2016 an extraordinary dividend was received from Visa Card Company.

28. Net income from commissions and fees

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

	31/12/2015	31/12/2016
Net commission and fee income	94,055,716	93,499,253
Securities: buy and sell orders and other	15,804,023	11,218,753
Management fees received	45,079,733	57,515,000
Payment services	12,006,452	12,514,322
Commissions on hospitalization insurance	11,681,737	3,199,740
Other items	9,483,772	9,051,438
Expenses related to commissions and fees	-149,460,775	-152,441,765
Acquisition costs (commissions and/or transaction costs)	-116,144,230	-125,632,148
Custody	-2,039,251	-1,671,323
Commissions on hospitalization insurance	-10,184,746	-2,785,318
Payment services	-19,373,382	-20,550,340
Other items	-1,719,167	-1,802,636
Net commission result	**-55,405,059**	**-58,942,512**

29. Realised gains and losses on financial assets and liabilities not measured at fair value in the income statement

The realised gains and losses on available-for-sale assets on the one hand and on financial liabilities measured at amortised cost on the other, can be shown as follows:

	31/12/2015	31/12/2016
Realised gains		
Available-for-sale financial assets		
Gains on fixed-income securities	8,017,258	10,158,881
Gains on non-fixed-income securities	0	0
Financial liabilities measured at amortised cost	0	0
Realised losses		
Available-for-sale financial assets		
Losses on fixed-income securities	-1,356,560	-1,115,321
Losses on non-fixed-income securities	0	-2,253
Financial liabilities measured at amortised cost	0	0
Total net realised result	**6,660,698**	**9,041,307**

A detailed breakdown of the unrealised gains and losses of the 'available-for-sale financial assets' category can be found in Note 13.

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

In 2015 a total gain of EUR 6.7 million was produced by the 'available-for-sale assets. In 2016 this gain amounted to EUR 9 million.

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

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

	31/12/2015	31/12/2016
Gains and losses on swaps	-134,695	-351,213
Gains and losses on caps	-6,214,111	-7,010,456
Gains and losses on bonds	59,113	29,681
Total result interest rate instruments	**-6,289,693**	**-7,331,988**

Under the net result can be found the gains and losses on interest rate options, swaps and a very limited portfolio of bonds (which are offered to customers).

Under the ALM policy, all the swaps and caps concerned are concluded for the account of the Company. For the swaps the amount shown is the final impact of the swaps concluded in the context of a securitization operation (which was called in 2016). The result of the caps consists of the further amortisation of the premiums paid and the market value changes.

31. Gains and losses from hedge accounting

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

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

	31/12/2015	31/12/2016
Portfolio hedge of interest rate risk portfolio		
Changes in the fair value of the hedging instruments	100,359,009	-2,071,807
Changes in the fair value of hedged items	-94,336,476	6,098,779
Hedging of the interest rate risk of individual financial instruments		
Changes in the fair value of the hedging instruments	-15,517,767	6,334,663
Changes in the fair value of hedged items	15,876,315	-6,277,351
Gains and losses from hedge accounting	**6,381,081**	**4,084,284**

In the case of the swap processed as a cash flow hedge, there was no ineffectiveness in 2015 and 2016, leaving no movements in connection with this swap under this heading.

32. Gains and losses on derecognition of assets other than held for sale

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

	31/12/2015	31/12/2016
Gains on derecognition of property, plant and equipment	199,829	417,743
Gains on derecognition of investment properties	26,803	112,382
Losses on derecognition of property, plant and equipment	-52,428	-47,846
Losses of derecognition of investment properties	-19,219	0
Total net gain or loss	**154,985**	**482,279**

33. Other operating result

Other net operating income consists of:

	31/12/2015	31/12/2016
Total other operating income	**29,922,162**	**44,972,850**
Operating income		
Rental income from investment properties	70,167	126,131
Cost-sharing, group companies	23,181,647	29,892,349
Portfolio acquisition fee from agents	3,551,142	2,701,830
Reversal of guarantee system commission	2,045	0
Received from renting out of printers & ICT infrastructure	6,903,475	7,206,652
Other fees income	4,253,256	11,523,537
Operating expenses		
With respect to rented-out investment properties	0	0
Cost-sharing, group companies	-7,603,933	-6,263,779
Other fee expenses	-435,637	-213,871

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

34. Administrative expenses

Employee expenses consist of the following components:

	31/12/2015	31/12/2016
Total employee expenses	**49,864,708**	**58,622,771**
Wages and salaries	35,113,921	40,402,458
Social security charges	9,588,293	10,792,747
Pension expenses	2,300,856	5,256,841
Share-based payments	0	0
Other	2,858,638	2,170,726
Average number of employees in FTE	688.2	731.5
Managerial staff	19	15.70
Clerical staff	669.2	715.80
Manual staff	0	0

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

A calculation was made by an independent actuary using the calculation method for DB schemes. As no shortfall was determined, no addition expense and liability were recorded as of 31/12/2016.

There are no ‘share-based payments’ at the Company.

General and administrative expenses can be specified as follows:

	31/12/2015	31/12/2016
Total general and administrative expenses	**215,830,924**	**228,186,289**
Marketing expenses	3,376,407	3,971,536
Professional fees	39,363,056	51,820,306
IT expenses	40,172,977	43,731,674
Rents	6,676,800	7,480,046
Business taxes and bank taxes	69,604,809	60,271,934
Other	56,636,876	60,910,793

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

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

The rents relate mainly to the rent paid for office buildings (EUR 5,645,000 compared to EUR 4,713,448 for the year to 31 December 2015) used by the tied agents (branch managers). This rent is recovered from the latter. The average remaining term of these lease contracts is 5.9 years.

35. Impairment losses

The changes in impairments can be broken down as follows:

Impairments on assets not designated at fair value through P&L	31/12/2015	31/12/2016
Available-for-sale financial assets	1,935,920	-1,779,330
Loans and receivables	-1,542,951	5,030,062
Goodwill	0	0
Total impairments	**392,969**	**3,250,733**

Under AFS assets, a provision for a bond issued by Petrobras was reversed in 2016. On balance, there was also a negative impact on the loans and receivables of EUR 5 million.

Outstanding impairments on financial assets measured on an individual basis	31/12/2015	31/12/2016
Available-for-sale assets (fixed income securities)	1,935,920	124,650
Loans and receivables		
Consumer loans	2,613,224	2,019,249
Mortgage loans	24,930,739	22,394,762
Instalment loans	339,962	398,600
Advances/overdrafts	1,277,134	938,951
Other loan receivables - reclassification MBS	899	0
Total loans and advances	29,161,958	25,751,562
Total impairments recognised	**31,097,878**	**25,876,212**

The tables of changes below show the composition of impairments measured on an individual basis in the 'loans and receivables' category as of 31 December 2015 and 31 December 2016.

At end-2015, the overall impact of impairments recognised on both an individual and a portfolio basis on 'loans and receivables' was EUR 1,542,951.

As of 31/12/2015 Loans and receivables	Opening balance 1/1/2015	Increase through P&L	Reversal through P&L	Closing balance 31/12/2015	Recoveries through P&L	Direct write-offs	Collective provision	Total P&L impact
Consumer loans	3,468,991	717,161	-1,572,927	2,613,225	-188,035	683,540	0	-360,261
Mortgage loans	33,446,959	20,999,048	-29,515,269	24,930,738	-207,716	10,155,498	-1,383,484	48,077
Instalment loans	1,068,149	89,081	-817,269	339,961	-3,571	99,953	0	-631,806
Advances/overdrafts	2,869,065	-1,462,432	-129,500	1,277,133	-510,371	1,707,898	0	-394,405
Other loan receivables	105,415	0	-104,515	900	-10,101	169,518	-259,458	-204,556
Total loans and advances	**40,958,579**	**20,342,858**	**-32,139,480**	**29,161,957**	**-919,794**	**12,816,407**	**-1,642,942**	**-1,542,951**

At end-2016, the overall impact of impairments recognised on both an individual and a portfolio basis on 'loans and receivables' was EUR -5,030,062,

As of 31/12/2016 Loans and receivables	Opening balance 1/1/2016	Increase through P&L	Reversal through P&L	Closing balance 31/12/2016	Recoveries through P&L	Direct write-offs	Collective provision	Total P&L impact
Consumer loans	2,613,225	235,689	-829,664	2,019,250	-207,428	344,045	0	-457,358
Mortgage loans	24,930,738	18,509,713	-21,045,689	22,394,762	-1,086,104	6,569,803	3,186,358	6,134,081
Instalment loans	339,961	344,556	-285,918	398,599	-228,546	178,815	0	8,907
Advances/overdrafts	1,277,133	-1,178,726	840,544	938,951	-775,743	462,537	0	-651,388
Other loan receivables	900	0	-900	0	-4,179	899	0	-4,180
Total loans and advances	29,161,957	17,911,232	-21,321,627	25,751,562	-2,302,000	7,556,099	3,186,358	5,030,062

36. Income tax expenses

The details of current and deferred taxes are shown below:

Income tax expenses	31/12/2015	31/12/2016
Current tax liabilities for the financial year	58,772,686	51,734,051
Current liabilities in respect of prior periods	-7,408,388	1,290
Deferred taxes related to timing differences	2,478,422	468,991
Deferred taxes related to derivatives	6,992,730	4,299,470
Deferred taxes relating to amortised cost calculations	-565,044	3,012,820
Total P&L impact of income taxes	60,270,406	59,516,622
Reconciliation of statutory and effective tax rate		
Net profit before tax	253,144,920	249,537,037
Statutory tax rate	33.99%	33.99%
Income tax calculated using statutory rate	86,043,958	84,817,639
Tax effect of different tax rates in other countries	-17,785,105	-20,102,385
Tax effect of non-taxable income	-235,042	6,185
Tax effect of non-tax-deductible expenses	2,155,258	3,932,997
Tax benefit not previously recognised	-2,392,297	-6,546,390
Prior period taxation	-7,408,390	1,290
Other increase (decrease) in statutory taxation	-107,977	-2,592,713
Total income tax expenses	**60,270,405**	**59,516,623**
Effective tax rate	23,81%	23,85%

As reflected in the table above, the effective tax rate was 23.85% in 2016 and 23.81% in 2015.

Other notes

37. Securitisation policy

The operational framework and the policies for undertaking securitization transactions were developed mid 2007, resulting in two successful issues in the following years.

Both involved the securitisation of a portfolio of Dutch residential mortgage loans via the Green Apple SPV. At the end of 2013 the call was exercised at the Green Apple 2008 transaction, causing it to mature on 23 January 2014.

At the end of 2015 the call was exercised on the 2007 Green Apple transaction, causing it to mature in January 2016.

Under its investment policy, the Company also has a number of ABSs and MBSs in its investment portfolio. The portfolio is given below by exposure, indicating the type and country of issue.

Type	Country	Exposure 31/12/2015	Exposure 31/12/2016
MBS	Belgium	29,049,148	26,599,622
MBS	Spain	33,327,856	27,842,590
MBS	France	44,142,592	43,123,402
MBS	Ireland	19,702,910	17,925,571
MBS	Netherlands	768,260,625	711,773,598
MBS	Great Britain	7,515,418	14,795,160
ABS	Germany	0	18,449,202
ABS	Spain	27,915,601	27,128,442
ABS	United States of America	12,157,516	9,521,057
ABS	France	19,536,021	22,142,983
ABS	Ireland	17,481,317	18,881,806
ABS	Luxembourg	51,431,042	59,582,144
ABS	Netherlands	20,281,855	24,256,347
Total securitization positions		**1,050,801,901**	**1,022,021,924**

38. Off-balance sheet liabilities

The Bank Pool has issued guarantees against its own financial assets. The summary below gives the reasons for these and the nominal values of the assets concerned, which can all be found under ‘available-for-sale assets’.

		31/12/2015	31/12/2016
Collateral given			
For repos	Nominal value	85,594,000	0
For swaps and caps	Nominal value	419,032,000	559,469,000
For Bank Card Company	Nominal value	35,000,000	31,000,000
Collateral received		28,428,798,197	32,333,852,987

The collateral received relates to the collateral received in return for lending (including mortgage registrations and pledged securities).

Note 9 provides further information on the 'group' guarantees issued and received (see table below).

	31/12/2015	31/12/2016
Financial guarantees issued	4,251,895	4,225,620
Financial guarantees received	47,100	0

Finally, there are credit lines granted and received. The credit lines granted relate to notified credit lines and credit offers for retail lending.

The credit lines received relate to the credit lines received from other financial institutions on the Company's accounts with these institutions.

	31/12/2015	31/12/2016
Credit lines granted	1.452.788.465	1.152.435.508
Credit lines received	250.000.000	250.000.000

The Company has a EUR 250 million credit line with the NBB, for which securities will be encumbered as and when this credit line is used.

39. Contingent liabilities

The Company is defendant in a number of disputes within the context of standard business operations.

The Company sets aside provisions for disputes when, in management's opinion and after consultation with its legal advisers, it is probable that the Company will have to make payments and the payable amount can be estimated with sufficient reliability.

For further claims and legal proceedings against the Company of which the management is aware (and for which, in accordance with the principles described above, no provision has been set aside), management believes, after obtaining professional advice, that these claims have no chance of success, or that the Company can defend itself successfully against them, or that the outcomes of these cases are not expected to result in a significant loss in the income statement.

40. Events after the balance sheet date

No material events have occurred since the balance-sheet date that require an adjustment of the Company's consolidated financial statements as of 31 December 2016.

On 21 March 2017, the Board of Directors reviewed the financial statements and gave its approval for their publication. The financial statements will be presented to the General Meeting of Shareholders on 28 April 2017.

Additional Information

The Company's IFRS financial statements are published in Dutch and English. The English version is a translation of the original Dutch version and is published as a courtesy to stakeholders. In the event of any disparity between the two versions, the Dutch language version takes precedence. Questions related to the distribution of these reports should be directed to:

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Complaints Management

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