International Card Services Annual Report 2017

For the year ended

31 December 2017

Content

1. Report of the Statutory Board of Directors

International Card Services (ICS) is the leading Dutch credit card issuer in terms of the number of cards issued. We are dedicated to offering our customers payment and credit products at the best service levels, a mission we have fulfilled for more than 30 years. Our cards offer our customers a secure, convenient payment method all over the world and supplementary insurance to cover contingencies. More than three million ICS cards are currently in circulation, which have either been issued directly or in collaboration with co-branded partners. With three million cards, ICS' share in the Dutch credit card market is approximately 45%.

The economic recovery continued in 2017. Total retail sales grew significantly and once again the number of online purchases increased sharply compared with previous years. Dutch consumers are increasingly purchasing online and a growing proportion of those purchases is made by credit card.

The number of credit card transactions that ICS processed in 2017 increased to an all-time high of 89 million (+10% from the previous year) and turnover increased by 5% to €7.3 billion (+ €0.4 billion). ICS' credit portfolio decreased during the year under review. This trend is expected to continue.

In 2017, ICS has rolled out a redress scheme for certain issues related to granting loans above the customers borrowing capacity, as identified in 2015 (please see Section 2.5 Redress scheme for more detailed information).

1.1. Business model

ICS has two primary product lines: Payments and Consumer credit.

1.1.1. Payments

Our core Payments proposition is a charge card that allows customers to complete transactions within their card limit and offers them the flexibility of a limited deferred payment up to 21 days. ICS facilitates a broad spectrum of payment services which includes credit, pre-paid, mobile, Point Of Sale and online. The business model for our Payments product line is volume driven. We deliver mass customized payment solutions to large customer segments. As a value-added service we offer our customers interest from savings on their positive card balance. This service falls under the scope of the (Dutch) Deposit guarantee scheme (DGS).

ICS offers commercial customers a proposition for Payments, helping companies improve their cash flow management and declaration processes.

1.1.2. Consumer credit

ICS is a specialised niche player in the Dutch consumer credit market and operates in the German credit market through a branch in Germany. We also operate revolving credit lines, mostly below €5.000,-, that offer our customers short-term flexible credit for consumer purchases. Part of our customers has a credit facility in addition to their credit card, allowing them to repay in instalments ("Spread Payment Facility"). We aim to both manage our credit risk and to ensure our products are in our customers best interest.

1.2. Changing Financial Sector

The financial sector is changing at an ever faster pace. The most important changes for ICS relate to three mainstreams: Customers interest & behaviour, Digitalisation & Innovation and Regulatory environment.

1.2.1. Customers interest & behaviour

The consumer's expectations play a decisive role in both the changes in the financial sector and the pace at which these changes take place. This has consequences for the manner in which ICS provides its services. For this reason, management has been focusing on the creation of sustainable value for its customers by adapting its products and services to accommodate the changing environment and consumer behaviour, always with due regard for the customers' interests. In order to ensure customer centricity, ICS has furthermore introduced a range of culture programmes that fosters a transparent corporate culture.

In 2017 we adopted the Net Promoter Score (NPS) as an approach to measure customer satisfaction and help us to improve customer satisfaction and experience. In this first NPS survey ICS scored +18, which not just qualifies as "Good", it also is above market average. (for more information, please see Section 2.1 Customer Satisfaction).

1.2.2. Digitalisation & Innovation

Digitalisation is imposing increasingly stringent requirements on the ICT platforms of all organisations, in particular on financial institutions. ICS, in its role as payments enabler, also notices and acts on the effects of these changes. Flexibility and versatility – or omni-channel, the ability of a customer to be in constant contact with a company through multiple channels at the same time – is key. For innovations ICS co-operates with its partners Visa and mastercard.

1.2.3. Regulatory environment

In the field of laws and regulations, ICS prepared itself in multidisciplinary project teams during the past year for the impact of two significant changes that will become effective in 2018, as well as for the opportunities they offer. These are the Payment Services Directive II (PSD II), which gives new parties access to the payments market; and the General Data Protection Regulation (GDPR), which replaces the Personal Data Protection Act (Wet bescherming persoonsgegevens) and entails tighter privacy laws. This is discussed in greater detail in Section 5 Regulatory environment.

1.3. Business strategy

ICS anticipates changes by carrying out regular strategy reviews and by maintaining an efficient and flexible organisation. This is furthered by means including increased digitalisation and the adoption of agile work processes. This enables us to rapidly accommodate market opportunities and changing customer expectations, for example in the field of contactless and mobile payment systems.

1.3.1. Separation between Payments and Credit

Key to ICS' business strategy is that we choose to make a clear separation between our Payment and Credit products. We avoid cross-subsidization between the two product lines. To realize the separation of Payments and Credit, we are developing separate processes and policies for acceptance, management and collections. ICS will extend its portfolio management to include preventive monitoring and managing of potential default risk. We see this as an integral part of both our credit risk management and our duty of care to our customers.

1.3.2. Strategic building blocks

The medium-term business strategy of ICS can best be outlined by four principal building blocks:

Payment product at its best – Following our strategic decision to separate Payment- and Credit products, we are actively seeking new ways to keep these core products relevant. We help shape the future of card payments by introducing customer-centric innovations such as contactless payment, and mobile and biometric payment including fingerprint and face recognition. Moreover we expand our Commercial Card portfolio and turn it into an even more relevant proposition for the Small and medium-sized enterprises (hereafter: SME) market.

Responsible credit – Continuous monitoring enables us to grant credit in a responsible manner and to protect our customers against overcrediting. In addition to our focus on responsible lending, we are investigating and developing new forms of credit products.

Efficient and agile – Today's dynamic and competitive (financial) landscape requires us to be agile and flexible, respond swiftly to market developments and digitalise manual processes as much as possible. ICS believes in the mix of personal contact and digital services with a reliable product that offers convenience, and exceeds customer expectations.

Financially sound and future-proof – In order to remain a major player in the (Dutch) payment market and secure our future it is vital that we continue to be financially sound. We underline the importance of being cost-conscious and efficient, both to offset the decline in credit volumes and to fund for investments in the improvement of systems, processes, products and people.

1.4. Key Financials

The following table presents the key financials for the years 2016 and 2017.

(in millions, €, unless otherwise stated)

	2017	adjusted 2017*	2016	adjusted 2016*
Net profit	110	69	104	76
Operating income	297	220	281	227
Operating expense	(143)	(121)	(130)	(114)
Impairments	(6)	(6)	(11)	(11)
Cost/income ratio (CIR)	48.3%	55.0%	46.4%	50.2%
Turnover	7,349	7,349	6,974	6,974
# of card transactions	89	89	81	81
Portfolio	1,184	1,184	1,235	1,235
# cards in circulation	3.016	3.016	3.047	3.047

*adjusted for one-off items Visa sale (2016-2017), redress scheme (2016-2017), restructuring plan (2017)

1.4.1. Financial Results

In 2017, net profit was €110 million, an increase of 6% (€6 million) compared with 2016. Significant one-off items were recognised in both years.

2017 was positively impacted by the sale of ICS' Visa Inc. Class A Shares which resulted in a gain of €114 million. This was partly offset by a provision of €24 million formed to cover the financial impact of the restructuring plan (See Section 3 Human Resources) and change in legal provision to cover the financial impact of the redress scheme - €36 million - (please see Section 2.5 Redress scheme).

In 2016, ICS' result was positively impacted by a gain from the sale of ICS' interest in Visa Europe Ltd. (€101 million), which was partly offset by a legal provision of €63 million formed to cover the financial impact of the redress scheme.

After adjustment for these one-off items, net profit in 2017 was €69 million, €8 million (or 10%) lower than in 2016.

Operating income improved due to the positive net impact of the aforementioned one-off items. In 2017, the adjusted operating income decreased by €7 million from 2016, largely due to a decline in the revolving credit portfolio which had a negative impact on interest income. Higher commission and fees was driven by increased Consumer turnover (+5%) due to higher transactions volume.
Operating expenses increased mainly due to the formation of the provision for the restructuring plan. In 2017, adjusted operating expenses increased by €7 million from the previous year, largely due to higher personnel expenses and other general and administrative expenses. A new (defined contribution) pension scheme caused an increase in personnel expenses (please see Note 9.10) and higher agency expenses resulted in higher other general and administrative expenses (please see Note 9.11).

As a result of higher operating expenses, the cost-to-income ratio deteriorated to 48.3%. The adjusted cost-to-income ratio increased from 50,2% in 2016 to 55.0% in 2017.

The loan impairments declined by €5 million from 2016. Lower portfolio outstanding and an update on the point in time model inputs resulted in lower Loan Loss Reserves (LLR). Furthermore, net credit loss decreased, largely due to lower gross losses and bailiff expenses.

The nominal tax burden has remained unchanged.

1.4.2. Financial Position

Total assets were €2.4 billion, an increase of €6 million compared with 2016. Higher balances at credit institutions and a slight increase in balances at Central Banks due to the need to maintain a higher liquidity buffer within the scope of the Basel III framework (liquidity risk requirements) were partially offset by the de-recognition of investments available for sale due to the sale of Visa Inc. Class A shares. ICS' portfolio, excluding provisions, has decreased since 2014. The total portfolio was €1.2 billion at year-end 2017, a small decrease of €51 million compared with 2016.

Total equity was €381 million, €8 million higher than in 2016. The positive effect of the 2017 profit was tempered by the 2016 dividend payment and the 2017 realisation of unrealised gains as a result of the sale of Visa Inc. Class A shares.

Total liabilities (excluding shareholders equity) decreased by €24 million to €2.0 billion in 2017. The decrease is mainly due to lower funding requirements due to a lower consumer loans portfolio, partially offset by an increase in provisions and balances due to customers.

At 31 December 2017, the LCR was 114% and the NSFR 135%. The Total Capital Ratio (22%) and the Leverage Ratio (8%) were also well above the regulatory requirements (for more information, please see Note 9.33 and 9.34).

1.5. Structure and Management

ICS, a limited liability company, is a wholly-owned subsidiary of ABN AMRO Bank N.V. with its registered office in the Netherlands. ICS also has a branch in Germany. ICS' Board of Directors has two statutory directors, the CEO, Maurice Koot, and the CRFO, Vincent Bouwens.

In November 2017, Gijs Wildeboer announced that he would be stepping down as CEO of ICS. On March 1st 2018 Maurice Koot took over in the position of CEO.

Pursuant to its gender diversity ambition, ICS intends to appoint women to at least 40% of the seats on the Supervisory Board, the Statutory Board of Directors and the management team. Although this ambition has yet to be fulfilled for the Statutory Board of Directors, currently comprising two male members, ICS remains committed to its gender diversity ambition at all levels in the future.

The members of ICS' Supervisory Board are senior managers at our shareholder, ABN AMRO Bank N.V. In 2017, Mr F. Woelders was given an honourable discharge as a member of the Supervisory Board as of 1 October 2017. In January and February 2018 there have been changes in the composition of the Supervisory Board, please see Section 6.1 Supervisory Board for more detailed information.

1.6. Corporate values

Together with our staff and our stakeholders, we are building a company that is ready for the future. We strive to both balance the interests of our stakeholders and offer more relevant services in interests of the customers, good employment practices, a healthy result and a contribution to society. We are fulfilling this last ambition by working together with organisations in the public and private sectors, jointly deploying resources, knowledge and competences in achieving objectives of societal relevance.

One of the themes to which we are committed is that of secure payment transactions. Apart from preventing fraud for our own customers, we have also stepped up, as a large financial services provider, to take on our social responsibility in this area. We do so, for instance, by taking part in the Electronic Crimes Task Force and as a partner of SafeCin. (please see Section 2.3 Security & Fraud prevention).

1.7. Non-financial review

The following sub-sections are based on the reporting requirements set out in Section 2:391, paragraphs 1 and 5, of the Dutch Civil Code (Burgelijk Wetboek) pertaining to non-financial information.

1.7.1. Employee engagement, talent and development

Our people are our most valuable asset at ICS. A talented and committed workforce is key to our ability to optimally serve our cardholders, co-branders and other clients and business partners. We conducted our second Employment Engagement Survey (EES) in December 2017. With almost 444 employees (internal and external staff) completing the survey, the response rate was 68%, thus making the results representative.

Scores in the areas of 'Respect & Integrity', 'Training', 'Quality', and 'Pay & Employment conditions' were high and exceeded industry benchmarks. The 2017 EES did, however, show a decline in 'Engagement' compared to 2016. Based on employee explanations, the lower score was mainly due to the upcoming organisational restructuring resulting in employee unrest (for more information on the restructuring plans, please see Section 3 Human Resources). Scores for senior management decreased compared to 2016. Employees were also critical of senior management's decisiveness, priority setting and forward planning. We will look closely at these issues and take measures. For more information on 'Talent and development', please see Section 3 Human Resources.

1.7.2. Prevention of corruption, bribery, fraud and cybercrime

CORRUPTION AND BRIBERY

One of the key risks to ICS is the risk of becoming involved in, or becoming a vehicle for, criminal activities, such as money laundering, bribery and corruption. The products and services offered by ICS could potentially be attractive to those who would use the financial services industry and financial systems for criminal purposes. Honest and trustworthy relations between ICS and its stakeholders, including clients, employees, suppliers and shareholders and society in general, are therefore essential.

Third party integrity

ICS' Third-Party Anti-Bribery and Corruption Risk Policy provides principles for due diligence and measures to mitigate the risk of third parties exposing ICS to being associated with corrupt practices or acts of bribery. A risk assessment must be performed before ICS enters into a contract or informal relationship. If the outcome of the risk assessment is that entering into a contract with the third party exposes ICS to bribery or corruption risk, further due diligence will be conducted. Due diligence may include reference checks, direct interrogative enquiries, interviews with relevant staff and desk research. ICS will in general, as a risk-mitigating measure, delegate responsibility to assess the risks concerning bribery and corruption and to perform adequate measures and controls to each third party with which it works.

Client integrity

To ensure that ICS remains an honest financial institution, it adheres to sound policies on Customer Due Diligence (CDD) for the acceptance of natural persons and legal entities for consumer and commercial products, Anti-Money Laundering (AML) and Sanctions policy. It furthermore takes into account the rules laid down by mastercard, Visa, ABN AMRO Bank and ICS.

Organisational and employee integrity

All staff members undergo mandatory training by means of an online training tool so they can recognise red flags of bribery or corruption and are able to make the right decisions. It is ICS' policy for all actual or suspected incidents, irregularities or breaches involving possible bribery and corruption to be reported immediately. Employees are encouraged to first discuss this with their manager if possible. If, for any reason, this is undesirable, they should make use of the organisation's whistle-blowing channels.

FRAUD AND CYBERCRIME

One of the themes to which ICS is committed is that of secure payment transactions. We have an information security framework in place that defines management and staff responsibilities and sets out security directives that apply to ICS, its vendors and third parties with whom we exchange information. The fraud risk management department systematically monitors client transactions in order to detect fraudulent transactions, raise awareness and mitigate fraud risks. ICS raises awareness among clients and employees on how to recognise potential cybercrime, for instance by means of phishing e-mails.

In recognition of the importance of continually protecting our client and organisation's information and data, we have established a structured approach to information security so as to ensure the confidentiality, integrity and availability of information. As part of this approach, we constantly monitor cybercrime threats and adapt our defences where necessary.

Apart from preventing fraud for our own customers, we have also stepped up, as a large financial services provider, to take on our social responsibility in this area. We do so, for instance, by taking part in the Electronic Crimes Task Force and as a partner of SafeCin (please see Section 2.3 Security and Fraud prevention).

1.7.3. Sustainability

SOCIAL & ENVIRONMENTAL RISKS AND HUMAN RIGHTS

In our role as a lender, ICS recognises that we may be exposed to environmental, social and ethical (ESE) risks through the direct activities of our clients. We aim to minimise the adverse social and environmental impact of our activities and those of our clients and suppliers. To manage these sustainability risks, ICS supports ABN AMRO's sustainability risk policy framework and acts in accordance with it. Management of human rights risks in line with the UN guiding principles on business and human rights is a focus area within this framework.

OTHER INITIATIVES

WakaWaka Foundation – ICS held its annual customer satisfaction survey (please see Section 2.1 Customer Satisfaction) in 2017. The more customers participate, the better we understand what moves them and how we can better tailor our services to them. As an extra motivation for participation, we therefore made available a donation of 2 euros to the WakaWaka Foundation for each completed survey. The WakaWaka Foundation is committed providing safe and sustainable energy and lighting solutions for the more than one billion people worldwide who do not currently have access to these services. The customer satisfaction survey generated a large response and ICS decided to double the donation amount to a total of € 10,000. ICS wholeheartedly supports the work of the WakaWaka Foundation and we are happy to be able to contribute in this way.

Forgotten Child Foundation – ICS donated 1,600 WakaWaka powerbanks to the Forgotten Child Foundation (Stichting Het Vergeten Kind) in 2017. The Forgotten Child Foundation is committed to supporting children who grow up in families with multiple problems such as addictions, intellectual disabilities, psychological problems and/or living below the poverty line. The WakaWaka powerbank, which doubles as a solar-powered lamp, comes in handy during the children's and teenage camps organised by The Forgotten Child Foundation. ICS greatly appreciates the work of The Forgotten Child Foundation and is happy to contribute.

1.8. Outlook

The world around us, and the financial sector in particular, is changing at a continually accelerating pace. Shifts in consumer behaviour, technology and legislation all provide a need for a new and improved business strategy.

1.8.1. Customer interest & behaviour

In 2018, as an element of its strategy, ICS continues to put the customer and its needs and interests at the centre, a focus that has been further intensified since 2016. The company's efforts are focused not only on the customer's needs, but also – and above all – on what is beneficial to the customer and what is compatible with the customer's financial situation.

1.8.2. Digitalisation and innovation

Driven by the changes in the market, we are also looking at our role in the market and at our revenue models. Our focus in the years ahead (2018-2021) will be on digitalisation, to continue to match our customers' demands and to work more efficiently, on developing new revenue and service models, and on cost reductions. The majority of investments and innovations are made in ICT, as ICS focuses on further improving its services, efficiency, compliance and risk management. These developments also have an impact on our workforce, the number of FTEs at ICS are expected to decrease and positions will change. This is discussed in greater detail in Section 3 Human Resources.

1.8.3. Regulatory environment

Digitalisation, financial innovation and the role of FinTechs remain at the top of the agendas of national and EU legislators and supervisors in 2018. In addition, many initiatives to integrate European financial markets have resulted in a substantial number of proposals for implementing measures under European legislation in 2018. These include GDPR, PSD II and AMLD IV. ICS carefully monitors the changes in the regulatory environment and the consequences they may have for our processes and for the way in which we conduct our business.

1.8.4. Corporate culture

ICS has reviewed and detailed its culture and core values in the 'DNA 2.0' corporate culture programme. This is laid down in our 'achieving more together' manifesto, which pivots on 'openness' and 'working in co-creation'. These are applicable in our organisation and in our contacts with our broad range of stakeholders, including our customers and business partners. For the achievement of this objective, ICS has specified four values: open, surprising, dedicated and entrepreneurial. These values jointly form a combination of the strength and ambition that we will convey in the future.

ICS is facing the challenges of a declining credit portfolio and decreasing interest income. We are fully aware of this as well as all other challenges we observe and are actively engaged in preparing ICS for the future. ICS, a financially sound company that has been successful in its business for more than 30 years, is committed to achieving more together by taking that extra step with each other, and with our customers and partners. Despite all our challenges and changes within the financial sector, we look forward to the future with confidence.

Diemen, 31 May 2018

Maurice Koot
Vincent Bouwens

2. Customer Centricity

2.1. Customer Satisfaction

Our organisation's success is largely dependent on the loyalty of our customers and, consequently, on the quality of the products and services that we offer. This means that our staff's involvement with our customers and their focus on quality is essential. For this reason, our continual endeavours to achieve an excellent customer experience in combination with the staff's quality awareness have both been pillars of our strategy and business operations for many years.

The quality of our services is once again awarded a high rating in the year under review. The customer satisfaction survey conducted amongst consumers in June 2017 demonstrated that the majority of these customers are satisfied with the quality of our services. In 2017 ICS adopted a new approach to measure the Net Promotor Score (NPS), the score can therefore not be compared with previous years. In the past active ICS customers were interviewed about their experiences with ICS. In the new approach the less active customers were also included to attain a more complete view. Given the value of this additional insights it is ICS' intention to continue with this new approach. The NPS score was +18, which qualifies as 'good'.

2.2. The Customer's Interest

In 2017, as an element of its strategy, ICS continued to put the customer and the customer's needs and interests at the centre, a focus that has been intensified since 2016. The company's efforts are focused not only on the customer's needs, but also – and above all – on what is beneficial to the customer and what is compatible with the customer's financial situation. This in turn gives shape to a permanent change of conduct within ICS, not only in terms of the strategy, policy and processes, but also in terms of the intrinsic attitudes and behaviour of the staff as a vital component of our corporate culture.

The duty of customer care is a base fundament for ICS, and accordingly our business pivots on serving the customer's interest. For example, during the past year the conditions for the acceptance of new customers were made more stringent. In addition, the monitoring frequency of existing customers was increased to enable us to identify indications of a specific customer's financial situation that give cause for concern, such as late payment.

2.2.1. Monitoring & Support

The value stream Monitoring & Support started in 2017. The aim of this value stream is assuring the continuing suitability of products for our customers and early detection of potential payment difficulties, with a purpose to ultimately reducing the number of customers with payment arrears. The Monitoring & Support team focuses especially on vulnerable groups of customers, such as customers who have found themselves in a 'locked-up' situation or are at risk of becoming 'locked-up'. They are contacted pro-actively in order to reach a suitable solution. The goal is for customers to speed up the repayment of their outstanding balance, while ensuring that the level of the amounts involved is acceptable both for the customer and for ICS.

2.2.2. Zerotage

Zerotage was introduced in 2017. Zerotage means that customers cannot transition immediately from an outstanding balance on their charge card to a credit card with a credit facility. First, the outstanding balance on the charge card needs to be repaid in full. Zerotage creates a clear separation between a payment- and credit product and thus prevents the automatic roll-over from a charge card with an existing outstanding balance to a credit card with a credit facility.

2.2.3. AFM Dashboard

As in the preceding year, in 2017 Dutch Authority for the Financial Markets (AFM) conducted the benchmark 'Customer Interests Dashboard module Consumer Credit' ('Klant-belang Dashboard module Consumptief Krediet') in which ICS participated for its credit product. In this module, participating 11 parties have been assessed on 6 components, with scores ranging from 1 (minimum) to 5 (maximum). Overall, ICS achieved a score of 2.0, a slight improvement compared with the previous year (1.7). The average overall score of all participants declined from 2.6 to 2.4.

2.3. Security and Fraud prevention

As a large financial services provider, we believe we have a social responsibility to deploy our knowledge and expertise to promote safe payment transactions and to protect consumers and businesses. ICS therefore monitors payments that are made with our Cards on a 24/7 basis. If the fraud detection system identifies potentially suspect transactions, we contact the Cardholder immediately.

ICS also deploys its knowledge and expertise within a range of social responsibility platforms in the area of safety. For instance, we take part in the Electronic Crimes Task Force, in which the police, the judiciary and banks work closely together to combat internet fraud. ICS is also a partner of SafeCin, the party behind the fraud help desk, to which consumers and web stores can turn with questions and notifications concerning fraud.

Phishing is an approach often used by criminals to obtain information that they use to carry out fraudulent transactions, for instance. ICS monitors this continually and each month around 300 deceitful websites from which phishing emails are sent are eliminated.

2.4. Continuous Improvement

ICS' Continuous Improvement programme has been adopted to integrate in our day-to-day operations.

The Continuous Improvement programme enables ICS' staff to learn how to make use of customer feedback and the principles in adopting a structured approach to working on improvements. The methodology is based on the Lean and Six Sigma methodology.

In 2016, ICS set up a Knowledge Centre with trained specialists to guide the implementation of the Continuous Improvement programme. In 2017, ICS expanded the number of experts and continued the integration of the Continuous Improvement programme in day-to-day operations, with the ultimate objective of further increasing the focus on the interests of the client.

2.5. Redress scheme

In 2015, ICS identified certain past issues related to the granting of credit to customers that had resulted in certain customers being granted loans above their borrowing capacity. This was reported to the AFM. In 2016, ICS drafted a redress scheme that addresses remedial measures for the customers who were affected. This scheme includes financial compensation for specific customers.

In 2017, the redress scheme was rolled out according to plan. In addition, the AFM imposed a fine of €2.4 million on ICS for irresponsible lending between June 2012 and March 2015. A legal provision for both the implementation of the redress scheme and the fine had already been recognised in 2016. The legal provision exceeded the fine and handling cost, resulting in a release of €3.6 million in 2017.

In the course of carrying out the redress scheme the scope has been expanded, resulting in additional customers qualified as affected and thus included within the redress scheme. Consequently, an additional financial impact is expected and an additional legal provision has been taken for €10 million in 2017. These compensations will be inserted in the current redress scheme. We are committed to carrying out in full the redress scheme and recover every client rightfully entitled to compensation.

ICS has analysed and evaluated the redress scheme for the clients with an unknown lending capacity and concluded that an additional €30 million is needed to compensate all clients within scope of the redress scheme. This resulted in an addition to the legal provision to cover for the financial impact.

We are committed to carrying out in full the redress scheme and recover every client rightfully entitled to compensation.

3. Human Resources

The world around ICS is in a strong state of flux and the pace of change is accelerating. ICS is facing the challenge of accommodating this changing world. A challenge that can be met only with a responsible, flexible and efficient organisation to remain a financially robust and future-proof organisation. To optimally support the strategic direction, the Human resources strategy focuses on a number of priorities that contribute to an agile workforce with the right capabilities.

The fundament is a **culture with core values** that support these priorities. The first requirement for using all knowledge and expertise within the organisation is multidisciplinary **cooperation**. This leads to synergies and optimisation of the organisation's results. **Continual employability** enables employees to move in step with the developments in today's changing world. If they are to take responsibility for their own employability, employees need to be suitably incentivised and be 'empowered' to take control of their own performance, expertise and personal development. **Leadership** that inspires, stimulates and motivates by leading by example and the involvement and coaching of employees gives them the scope and the confidence to take on those responsibilities.

3.1. Corporate Culture

3.1.1. Culture and Core Values

ICS has reviewed and detailed its culture and core values in the 'DNA 2.0' corporate culture programme. This is laid down in our 'achieving more together' manifesto, which pivots on 'openness' and 'working in co-creation'. These are applicable in our organisation and in our contacts with our broad range of stakeholders, including our customers and business partners.

For the achievement of this objective, ICS has specified four values: open, surprising, dedicated and entrepreneurial. These values jointly form a combination of the strength and ambition that we will convey in the future.

The new core values are implemented and interpreted in an interactive manner by a programme that was initiated in 2017 and will continue in 2018. This interactive, continuing programme focuses on increasing awareness of the culture and core values and the associated change in behaviours. Significant steps relating to the core values 'cooperation' were taken in 2017, by means of applying new forms of multidisciplinary cooperation in value streams and 'openness' by continually prioritising transparency in both internal communication and in the physical redesign of the ICS office.

3.1.2. Putting Customers' interest first

In 2017, the theme of putting the customers' interest first (klantbelang centraal – KBC) was further embedded in the organisation by giving all employees an active role in it. Sessions were systematically held throughout the organisation to discuss KBC dilemmas highlighted by employees. In many departments, discussing dilemmas has since become a recurring item on the agenda of team meetings, ensuring that putting the customers' interests first is actively and systematically assured and incorporated in policy, processes and behaviours. This effect is amplified by the fact that a personal KBC KPI has been established in the performance management for all employees in the organisation. The theme of KBC likewise has a central role in taking the banker's oath, for which a KPI of 100% participation is mandated.

3.2. Organisation

3.2.1. Cooperation: Lean & Agile

To act with both greater speed and flexibility on innovations and threats in the sector, ICS is looking at new ways of cooperation that are suitable for this. Multidisciplinary cooperation in which knowledge, expertise, skills and strengths within the organisation are combined delivers added value and synergy.

Initiatives, launched in 2016 and 2017, are aimed at continuous improvement by means of the Agile & Lean method. This improves the quality of the work, creates more efficient processes, reduces completion times and decreases costs, and thus positively impacts customer satisfaction, employee involvement and earnings.

HR offers various workshops, training courses and coaches to support the organisation in becoming increasingly Agile and Lean. In 2017, 144 employees took a Lean training and, in addition, numerous coaching sessions and workshops in the field of Agile were held. Those training courses will be further expanded in 2018 in line with the organisation's requirements.

A major pilot project was also started relating to Agile working with the associated value streams, such as monitoring & support (please see Section 2.2.1 Monitoring & Support), and on-boarding. Based on the success of this pilot project, an Agile Design team will assess which steps are required to further roll out this Agile way of working in the organisation. Agility is the central theme with a view to being able to move in step with changes in the market and society. An agile organisation requires flexible employees who are able to act in anticipation of ceaseless changes. ABN AMRO assists ICS in incorporating Agile working in our organisation.

3.2.2. Restructuring plans

The rapid changes in customer requirements, laws and regulations and increasing competition mean that an agile, flexible and continually employable workforce is essential to being able to move in step with those developments. In order to map what the workforce will need to look like going forward in order to achieve the organisation's goals, a start was made in 2017 on Strategic Personnel Planning. In conjunction with the business management, the HR Business Partners identified in outline, using a 9-grid, what capabilities are currently available and how these relate to the capabilities needed for the future. These insights can only be described on a high level basis at this stage, but they do offer a significant initial insight into the future.

These insights have been incorporated in gauging the personnel impact of the measures that ICS intends to take in the years ahead. Driven by the changes we face in the areas of Digitalisation & innovation, Regulatory environment and Customers interest & behaviour, ICS announced in the 4th quarter of 2017 significant restructuring plans for the years ahead.

As the proposed changes are believed to be minimum requirements for creating an agile and future-proof ICS, they were laid down, including their personnel impact, in an overall request for advice in November 2017. From 2018, the measures that are still only described in outline at present will be further specified and follow-up steps will also be taken in the area of strategic personnel planning. This information will be presented in the form of more specific sub-requests for advice to the Works Council of ICS in the period 2018-2021.

3.3. Recruitment & Employment

3.3.1. Recruitment

One of the central topics in 2017 was the recruitment of new employees, with the capabilities to enhance and advance the future of ICS. A record number of vacancies was open in 2017, following the organisational changes in 2016, both for new positions and for existing positions that became vacant due to internal changes. With 45 vacancies filled externally and 35 vacancies filled internally in 2017, recruitment played a crucial role in the organisation. Given the many changes in the organisation, recruitment focuses not only on applicants' suitability for the specific vacancy concerned but also on ensuring a match with the changing organisational culture and core values. The recruitment strategy is therefore going through a transition from a focus on cost per hire to quality of hire. In a tightening labour market, employer branding and a positive candidate experience are critical elements in being able to guarantee this. Those themes will accordingly be central within recruitment in 2018.

3.3.2. Leadership

A continually changing world requires a style of leadership aimed at the future and the transition ICS is going through, in which employees – including the managers themselves – can continually develop and achieve ambitions. To implement this, ICS has developed a vision with an associated programme for leadership called 'Continual Leadership', which commenced in 2017.

The leader of the future ICS puts the customer's interest first, inspires, provides direction, room and support, takes ownership, seeks connection and cooperation, is transparent, motivates others by continually learning and continual feedback and looks from the outside to the inside. Good leadership translates into success for the entire organisation. Successful leadership results in effective, driven and agile employees who are energised by their work, committed to the business and who strive to continually improve and develop.

The 'Continual Leadership' programme comprises a 360-degree development scan for managers and the formulation of a personal leadership plan. By means of training, workshops, peer assessment and coaching, managers are supported in their leadership development. In 2017, 81 out of 85 (95%) managers actively used the 'Continual Leadership' programme. This demonstrates a clear positive trend in leadership style. The development of the programme will be advanced further in 2018 in line with the organisation's requirements.

3.3.3. Continual employability

The HR policy focuses on the continual employability of employees. Employees must continually have the opportunities and conditions they need to continue to function in their current and future work while maintaining their vitality, knowledge and skills. Effectively deployable employees are better able to respond to changes in their duties, changes in their career and developments in the organisation.

HR developed and introduced an online platform in 2017 that centres on development in the broadest sense of the term: the ICS Careers Service Centre, called Sam. Sam supports, facilitates and stimulates the ICS employees in their personal and functional development to take control of their own career, expertise, vitality and self-development. In 2017, 440 employees (71%) made use of Sam. In 2018, Sam will be developed further in line with the organisation's requirements and changes.

3.3.4. Employment terms and conditions

HR aims to ensure that employment terms and conditions are not just in line with laws and regulations, but also match the requirements and interests of existing and future employees. The strongly increasing need for control and flexibility in employees' work and employment terms and conditions have been translated into the project 'Working differently' ('Anders werken') that was launched in 2017. A multidisciplinary perspective is adopted in that project to look at the possibilities for shaping the developments in the field of digitalisation and flexibility for employees. The interdependencies and the impact of this project are significant and it is therefore still in the analysis stage. The intention is to develop a design for the future in 2018.

Changes are also continually occurring in the fields of employment terms and conditions and employment law. As a result of adjustments arising from the Remuneration Policy Financial Enterprises Act (Wet beloningsbeleid financiële ondernemingen), ICS revised its remuneration policy in 2017 with the assistance of ABN AMRO. Further steps were also taken in terms of the policy for temporary hiring in fine-tuning the application of the Assessment of Employment Relationships Deregulation Act (DBA) (Wet Deregulering Beoordeling Arbeidsrelaties), which has been effective since 2016 and has continued to develop since then. Hence, expertise in the field of employment law and reward expertise are absolutely essential. ICS cannot safeguard the required expertise internally and therefore depends on external expertise. That expertise is available at ABN AMRO, together with process-based safeguards for timely anticipation of developments in legislation. Therefore we have started an impact analysis to look at the options for moving from the Collective Labour Agreement for Banks, which currently applies to ICS, to the ABN AMRO Collective Labour Agreement. After analysis a decision will be taken.

4. Risk Management

ICS is committed to being a well-capitalised bank with sufficient liquidity which focuses on delivering sustainable value to its stakeholders. ICS is committed to a sound risk/reward and an overall moderate risk profile. ICS continually carries out thorough evaluations of the long-term risk and return implications of its operations.

ICS has adopted an Enterprise Risk Management framework to create a uniform risk governance structure throughout ICS. Risk management policies and procedures and an organisational structure have been adopted to ensure that key risks are (1) identified, (2) assessed, (3) mitigated, (4) monitored and (5) reported.

In 2017, ICS made changes to its risk governance structure. The scope of several committees was broadened. Furthermore a Change Board was established to support the Board of Directors to manage and control significant changes that ICS is facing.

4.1. Risk Taxonomy

ICS' risk taxonomy is the classification of risks into risk types to which ICS is, or could be, exposed. The taxonomy is reviewed and updated once a year to ensure that all material risks are identified, defined and included in the risk governance framework. The taxonomy creates a common risk vocabulary, provides a checklist of types of risks for use in risk assessments, and assists in ensuring that all material risks are managed and that the requisite roles and responsibilities are identified. The following risk types are identified by ICS:

- Credit risk (please see Note 9.34.1)
- Market risk (please see Note 9.34.2)
- Liquidity risk (please see Note 9.34.3)
- Operational risk (please see Note 9.34.4)
- Business risk (please see Note 9.34.5)
- Other risks (please see Note 9.34.6)

4.2. Risk Appetite

Risk Appetite refers to the magnitude of the risk ICS is prepared to accept in its pursuit of value. ICS' risk appetites are aligned with ABN AMRO's corporate strategy, which results in an overall moderate risk profile.

The risk appetites take all identified risk types in the risk taxonomy into account and are reviewed annually and approved by the Enterprise Risk Committee.

4.3. Risk Culture

Risk culture is an important building block in ICS' Enterprise Risk Management framework. Risk knowledge is disseminated in risk training courses, and risk awareness is embedded by means of the specification of risk standards and procedures and the assignment of clear unambiguous roles and responsibilities.

4.4. Risk Governance

ICS has adopted the Three Lines of Defence model to ensure that sound risk governance is embedded throughout the organisation.

The First Line of Defence has ownership, responsibility and accountability for assessing, controlling and mitigating risks, as well as the assignment of basic control and risk management responsibilities.

The Second Line of Defence consists of risk and control officers who are responsible for laying down risk frameworks, rules, monitoring and reporting on performance, risk management and risk control. They also ensure that the First Line assumes its risk ownership.

The Third Line of Defence consists of the internal audit function, which is responsible for risk assurance. The Internal Audit Department evaluates the effectiveness of risk governance, risk management and control processes, and makes recommendations on improvements that may be necessary.

4.5. Risk Committees

The Board of Directors is responsible for the balanced assessment of ICS' commercial interests and the risks to be taken within the boundaries of the risk appetite.

The Board of Directors is assisted by four risk committees in its risk decision-making.

4.5.1. The enterprise Risk Committee (ERC)

The ERC has been tasked by the Board of Directors with assessing and managing the risk profile of ICS. The ERC is responsible for reviewing and monitoring the development of risk management and compliance policies and informs the Board of Directors of its activities.

4.5.2. The Balance Sheet Monitoring Committee (BSM)

The BSM monitors liquidity and capital developments in the balance sheet and advises the ERC and Board of Directors on these developments. This includes developing and maintaining sound capital and liquidity management to ensure adequate levels of capital to withstand a range of stress events.

Liquidity Management

The BSM meets once a month to specify the liquidity management goals for the coming period. ICS has implemented an Internal Liquidity Adequacy Assessment Process (ILAAP) to assess its liquidity position. The performance and quality of the ILAAP are monitored on a yearly basis.

Capital Management

ICS' Capital Management ensures that the capital adequacy requirements are met and that sufficient capital is available to support the strategy. ICS has implemented an Internal Capital Adequacy Assessment Process (ICAAP) to assess its capital position. The performance and quality of the ICAAP are monitored on a yearly basis.

4.5.3. Program Lending Committee (PLC)

The PLC monitors, reviews and validates the allocation of credit provisions and impairment of the credit portfolio. Furthermore, the PLC monitors and advises the ERC on credit risk models and ensures that products and services offered are within the boundaries as set by business model and risk profile.

4.5.4. Change Board committee

The Change Board Committee supports the Board of Directors in managing and controlling significant changes that ICS is facing. It validates the readiness of change proposals, prioritises them and validates the value increments.

4.6. Risk Measurement

ICS uses risk models to quantify the risks designated in the risk taxonomy. The models for credit, market, operational and liquidity risks are widely used and suitable for the determination of risk levels. The models support day-to-day decision-making and the periodic monitoring and reporting on developments in ICS' portfolio and activities.

Pursuant to the Basel framework, banks are required to hold capital to cover the financial risks confronting the bank. For Pillar 1, the capital requirement is based on the aggregated risk-weighted assets (RWA) for the three major risk types (credit, operational and market risk). The capital requirements are expressed as a percentage (set by the regulators) of the RWA.

4.6.1. Regulatory capital

Regulatory capital and the risk measurement approach are discussed in Note 9.34.

Furthermore, ICS holds an additional buffer that serves as a cushion for other risk types (i.e. business risk, remaining Interest Rate Risk of the Banking Book and Intersecting Risks) and as an extra safeguard for the development and full implementation of all the risk mitigation measures required from a capital perspective. The measures include the further development and improvement of the Capital Plan, the Capital Stress Test and local Economic Capital standards. The additional buffer will be reassessed on the basis of the aforementioned developments and improvements in 2017. The modifications will include further specification and could result in an increase or a decrease in the additional buffer.

4.6.2. Economic capital

Economic Capital is not calculated specifically for ICS, but through consolidation at ABN AMRO Bank consolidated level (including ABN AMRO Bank diversification factors). ICS uses stress testing as an important risk management instrument. Stress testing assists us in identifying our risks and vulnerabilities and, consequently, promotes risk awareness throughout ICS. This testing is also intended to safeguard business continuity by means of proactive management and the review of potential future scenarios. Our stress testing takes account of the effect of plausible, but improbable, material events and developments on the bank. These events could be systemic (e.g. multi-year macroeconomic stress) or specific to ICS, and could relate to capital or liquidity.

4.7. Outlook

The forecasts indicate that adequate liquidity and capital positions will be maintained in 2018 and in the following years. ICS expects that it will be compliant with future regulatory capital and liquidity requirements. By maintaining a long-term maturity profile and holding a solid liquidity buffer, ICS maintains a prudent liquidity profile.

5. Regulatory Environment

In 2017 the main regulatory developments affecting ICS involved potential amendments to the Basel framework, strengthening the Banking Union, finalising post-crisis European legislation, and supporting the European Single Market.

5.1. Basel Committee proposal

On 7 December 2017, the Basel Committee of Banking Supervisors (BCBS) announced an agreement on the completion of the global regulatory reforms of banking supervision after the financial crisis, the so-called Basel III agreement (also referred to in the market as Basel IV). In line with the initial BCBS proposals, the final Basel III standard limits the use of internal models in calculating the required capital to be set aside for unexpected losses in credit, market and operational risk. On the one hand this is achieved by constraining the use of internal credit risk models to exposure classes for which more (default) data is available. As a result, advanced internal models can only be applied to retail, small corporate and specialised lending exposures and are subject to tighter modelling constraints. On the other hand this is achieved by flooring the outcome of capital requirements based on internal models to 72.5% of the outcome based on standardised approaches. At the same time, the final Basel III standard was completed with a revised standardised approach for calculating credit risk related capital requirements, a revised CVA risk framework, a single risk-sensitive standardised approach for calculating operational risk capital requirements and a revised leverage ratio framework.

5.2. Retail financial services

The Green Paper on retail financial services sets the course for the future of the cross-border provision of retail financial products. This Green Paper identifies digitalisation and FinTechs as key enablers for further integration of EU markets for retail financial products and further proliferation of cross-border financial services. In March 2017, the European Commission published its Action Plan for retail financial services. The focus for the coming years should be on increasing consumer trust and empowering consumers when buying services at home or from other Member States, the reduction of legal and regulatory obstacles affecting businesses when providing financial services abroad and supporting the development of an innovative digital world which can overcome some of the existing barriers to the Single Market.

5.3. Focus on digitalisation and financial innovation

Digitalisation, financial innovation and the role of FinTechs remained at the top of the agendas of national and EU legislators and supervisors in 2017. In March 2017, the European Commission invited market parties to respond to its FinTech consultation, as part of its Action Plan for Retail Financial Services. The European Commission will further develop its policy approach towards technological innovation in financial services on the basis of input received on this consultation.

The European Parliament issued a resolution in 2016 with respect to the desired regulatory approach to virtual currencies such as bitcoin and associated distributed ledger technology (blockchain), and the European Banking Authority issued a consultation paper on big data and the use of consumer data. These regulatory developments did not result in more specific legislation in 2017. Furthermore, the European Banking Authority launched a detailed consultation on FinTech in August 2017.

5.4. Other developments

Many initiatives to integrate European financial markets have resulted in a substantial number of proposals for implementing measures under European legislation. These include GDPR, PSD II and AMLD IV.

5.4.1. GDPR

The EU General Data Protection Regulation (GDPR) replaces the existing EU Data Protection Directive and its implementation in member states' laws (Wet bescherming persoonsgegevens in the Netherlands). It aims to reinforce the data protection rights of individuals and facilitate the free flow of personal data in the digital single market. The GDPR will apply as of 25 May 2018.

5.4.2. PSD II

A proposal for the act implementing the Payment Service Directive II (PSD II) was published in 2016. One of the main objectives of PSD II is to create a level playing field for payment service providers (including new players). Under PSD II, access to accounts is given by payment service users to third parties (payment initiation service providers and account information service providers) possibly giving these parties a larger role in the payment system.

The other main objective of PSD II is to enhance consumer protection and to improve the security of payment services by introducing Strong Customer Authentication (SCA) and secure communication. The Dutch act implementing PSD II is delayed. Implementation was to occur by 13 January 2018, but will now probably take place in the Netherlands in the first half of 2018. The Regulatory Technical Standards by EBA, implementing SCA, are expected to become effective as of September 2019.

5.4.3. AMLD IV

Implementation of the fourth EU anti-money laundering directive (“AMLD IV”) in national legislation by the EU Member States should have occurred on 26 June 2017 at the latest. The Dutch legislator did not meet this deadline. Implementation will probably take place in the first or second quarter of 2018. Some changes foreseen in AMLD IV have a moderate to substantial impact on the bank’s operational processes.

Meanwhile, in light of the Panama Papers revelations and in direct response to recent terrorist attacks in Europe in July 2016, the European Commission proposed further European anti-money laundering and prevention of terrorism financing legislation: AMLD V. This draft directive contains, amongst other things, rules for virtual currencies such as bitcoin and ether and trading platforms relating thereto.

The act on transparent supervision, published in 2017, aims to make the supervision of the financial markets more transparent by amending the section on publication powers of the Act on Financial Supervision. The powers of the Dutch Central Bank (De Nederlandsche Bank, DNB) and the Dutch Authority for the Financial Markets (Autoriteit Financiële Markten, the AFM) will be extended to issue public warnings. DNB and AFM will be able to respond to statements made by financial institutions relating to supervisory activities and a legal basis for DNB is introduced to publish key figures of banks.

6. Corporate Governance

6.1. Supervisory Board

Members of the Supervisory Board do not receive remuneration and act in accordance with the interests and continuity of ICS, taking account of the relevant interests of the company's stakeholders.

The responsibilities and duties of the Supervisory Board are laid down in the Supervisory Board regulations. These regulations supplement the responsibilities and duties assigned to the Supervisory Board by Dutch law and by the ICS Articles of Association.

The Supervisory Board has set up one regular committee, namely the Risk & Audit Committee. All members of the Supervisory Board are members of this Committee with Mr Smeets as chairman.

The Supervisory Board meets at least four times a year and carries out annual evaluations of its performance and the performance of its members. In 2017, two additional meetings took place.

In 2017 Mr F. Woelders, was given honourable discharge as a member of the Supervisory Board as of 1 October 2017. In the second half of 2017, prospective appointment notifications where forwarded to the DNB/ECB for two new Supervisory Board members.

As of 15 January Ms E.E. Kostelijk has been appointed as a Supervisory Board member. In February 2018 Ms C.M. Dumas was given an honourable discharge as a member of the Supervisory Board as of 14 February 2018 and as of 14 February Mr J.G. Ter Avest has been appointed as a Supervisory Board member.

As of February 2018 the Supervisory Board consists of three, of which two new members. An overview of the members of the Supervisory Board at 31 May 2018 is enclosed in Section 7 Management.

6.2. Statutory Board of Directors

The Statutory Board of Directors is accountable to the Supervisory Board and the shareholder for the performance of its duties. The Board's responsibilities and duties are laid down in Dutch law, the ICS Articles of Association and the regulations governing the Statutory Board of Directors.

The members of the Statutory Board of Directors participate in ABN AMRO's lifelong learning programme. This programme is designed to keep members' expertise up to date and to broaden and deepen their knowledge where necessary.

The Statutory Board of Directors meets with ICS' Works Council on a bi-monthly basis.
There were no changes in the membership of the Statutory Board of Directors in 2017. In November 2017, Gijs Wildeboer announced that he would be stepping down as CEO of ICS. On March 1st 2018 Maurice Koot took over in the position of CEO.

6.3. Shareholder

All shares in International Card Services B.V. are held by ABN AMRO Bank N.V..

An Annual General Meeting is held at least once a year in May for the adoption of the Annual Financial statements.

6.4. ICS' Corporate Governance

ICS is committed to high standards of Corporate Governance, business integrity and professionalism in all its activities. Integrity, transparency and accountability are key elements of ICS' Corporate Governance. These key elements provide assurances for the implementation and appropriate performance of the controls and supervision required for effective risk management, compliance with the regulations and the accurate and complete disclosure of information to the shareholder.

6.4.1. Dutch Banking Code

ICS applies the principles of the Banking Code. An explanation of the manner in which ICS, as subsidiary of ABN AMRO, complies with the Dutch Banking Code is published on:

https://www.abnamro.com/en/about-abnamro/our-company/corporate-governance/corporate-governance-codes/index.html

In 2017, the Management Board conducted a self-assessment regarding 2016. Various learnings were derived from the assessment and subsequent evaluation, such as the continued need for education when operating in a rapidly changing ecosystem with high-quality internal information and communication channels. These learnings were converted into management actions, were followed up later in 2017 and will also be in scope of the self-assessment to be conducted in 2018.

6.4.2. Banker's Oath

All ICS staff, the members of the Statutory Board of Directors and the members of the Supervisory Board have signed the declaration of moral and ethical conduct (the "Banker's Oath") as required by Dutch law.

6.4.3. Internal Audit Department

ICS' Internal Audit Department reports to the CEO and has a reporting line to the Senior Audit Manager of ABN AMRO Group Audit and the Risk & Audit Committee.

6.4.4. Remuneration policy

We conduct a prudent, controlled and sustainable remuneration policy that has an explicit focus on long-term interests and on our strategy, limited risk appetite, objectives and our values. The remuneration policy was evaluated and adapted in 2017 based on the latest applicable guidance and legislation and with the assistance of ABN AMRO. Additional mid- and long-term requirements have been introduced for identified staff with regard to variable compensation, including a claw-back arrangement. For more information please see Note 9.30.1.

7. Management

Members of the Boards at 31 May 2018

Supervisory Board

Ms E.E. Kostelijk, Member

Mr J.G. Ter Avest, Chairman

Mr J.M.A.J. Smeets, Member

Statutory Board of Directors

Mr M.M.W. Koot, Chief Executive Officer (CEO)

Mr J.C.V.M. Bouwens, Chief Risk & Finance Officer (CRFO)

8. Company Annual Financial Statements 2017

8.1. Company income statement

(in thousands, €)

	Note	2017	2016
Income			
Interest income		70.701	74.158
Interest expenses		(3.317)	(5.159)
Net interest income	**9.7**	**67.384**	**68.999**
Fee and commission income		160.459	150.310
Fee and commission expenses		(46.713)	(40.542)
Net fee and commission income	**9.8**	**113.746**	**109.768**
Dividend and other operating income	9.9	115.429	102.446
Operating income		**296.559**	**281.213**
Expenses			
Personnel expenses	9.10	(69.731)	(43.520)
General and administrative expense	9.11	(70.781)	(84.270)
Depreciation of tangible assets	9.20	(822)	(814)
Amortisation of intangible assets	9.21	(1.557)	(578)
Rebilling expenses	9.12	(365)	(1.063)
Operating expenses		**(143.256)**	**(130.245)**
Impairment charges on loans and other receivables	9.13	(6.046)	(10.712)
Total expenses		**(149.302)**	**(140.957)**
Profit before tax		**147.257**	**140.256**
Income tax expenses	9.14	(37.504)	(36.222)
Profit for the year		**109.753**	**104.034**

The accounting policies and Notes on pages 32 to 78 form part of, and should be read in conjunction with, these financial statements.

8.2. Company statement of comprehensive income

(in thousands, €)

	Note	2017	2016
Profit for the year	**8.1**	**109.753**	**104.034**
Items that will be reclassified to the income statement			
Unrealised gains/(losses) on investments	9.19	27.475	3.867
Unrealised gains/(losses) on Investments- deferred tax	9.23	(6.869)	(967)
		20.606	2.900
Items that are reclassified to the income statement			
Realised gains/(losses) on investments	9.19	(110.073)	(100.052)
Realised gains/(losses) on investments - deferred tax	9.23	27.519	25.013
		(82.555)	(75.039)
Comprehensive income (and losses)		**47.805**	**31.895**
Attributable to:			
Equity holders of ICS		47.805	31.895
Comprehensive income (and losses)		**47.805**	**31.895**

The accounting policies and Notes on pages 32 to 78 form part of, and should be read in conjunction with, these financial statements.

8.3. Company statement of financial position

Before appropriation of results:

(in thousands, €)

	Note	31 December 2017	31 December 2016
Assets			
Cash and balances at central banks	9.15	223.330	211.404
Loans to banks	9.16	901.166	767.708
Loans to customers	9.17	1.171.509	1.217.358
Other assets	9.18	38.824	34.285
Investments	9.19	25.093	121.404
Property and equipment	9.20	2.427	1.261
Intangible assets	9.21	2.922	4.479
Deferred company tax assets	9.23	148	1.285
Total assets		**2.365.419**	**2.359.184**
Liabilities			
Due to customers	9.24	285.064	249.133
Due to banks	9.25	1.455.065	1.532.972
Other liabilities	9.26	101.202	74.185
Current company tax liabilities	9.22	36.483	35.545
Deferred company tax liabilities	9.23	3.504	24.653
Provisions	9.27	103.277	69.676
Total liabilities		**1.984.595**	**1.986.164**
Equity			
Share capital	8.4	45	45
Other reserves	8.4	264.978	200.945
Result for the year	8.1/8.4	109.753	104.034
Unrealised gains and losses investments	8.4/9.19	6.048	67.996
Total equity	**8.4**	**380.824**	**373.020**
Total liabilities and equity		**2.365.419**	**2.359.184**

The accounting policies and Notes on pages 32 to 78 form part of, and should be read in conjunction with, these financial statements.

8.4. Company statement of changes in equity

(in thousands, €)

	Note	Share capital	Other reserves	Result current year	Available-for-sale reserve	Total
Balance at 1 January 2016		**45**	**230.946**	**30.519**	**140.135**	**401.645**
Addition to other reserves		-	30.519	(30.519)	-	-
Net income of the year	8.1	-	-	104.034	-	104.034
Paid out dividend		-	(60.520)	-	-	(60.520)
Changes in available for sale reserve		-	-	-	(72.139)	(72.139)
Balance at 31 December 2016		**45**	**200.945**	**104.034**	**67.996**	**373.020**
Addition to other reserves		-	104.034	(104.034)	-	-
Net income of the year	8.1	-	-	109.753	-	109.753
Paid out dividend	8.5	-	(40.000)	-	-	(40.000)
Changes in available for sale reserve	9.19	-	-	-	(61.948)	(61.948)
Balance at 31 December 2017		**45**	**264.978**	**109.753**	**6.048**	**380.824**

The accounting policies and Notes on pages 32 to 78 form part of, and should be read in conjunction with, these financial statements.

8.5. Company statement of cash flows

(in thousands, €)

		2017	2016
Cash flows from operating activities			
Operating profit before taxation	8.1	147.257	140.256
Depreciation and amortisation	9.20/9.21	2.379	1.392
Provisions and impairments losses	9.17/9.27	80.241	86.655
Adjustments on non-cash items included in profit		82.620	88.048
Adjustment for investment income*	9.9/9.19	(114.415)	(101.336)
Changes in operating assets and liabilities			
Loans to banks	9.16	(35.307)	163.995
Loans to customers	9.17	26.759	36.726
Other assets	9.18	(7.941)	13.955
Due to banks	9.25	(77.907)	34.241
Due to customers	9.24	35.930	8.179
Other liabilities	9.26	(28.697)	(2.052)
Net changes in all other operational assets and liabilities	9.18/9.26	31.565	13.230
Changes in operational assets and liabilities		**(55.598)**	**268.275**
Income taxes paid	9.14/9.22/9.23	(35.928)	(23.501)
Net cash generated by operating activities		**23.936**	**371.741**
Cash flows from investing activities			
Investments in financial assets available for sale	9.19	128.128	84.307
Purchases of fixed assets	9.20	(1.988)	(258)
Cash flows from investing activities		**126.140**	**84.050**
Cash flows from financing activities			
Dividends paid to shareholders	8.4	(40.000)	(60.520)
Cash flows from financing activities		**(40.000)**	**(60.520)**
Change in cash and cash equivalents		**110.076**	**395.271**
Cash and cash equivalents at 1 January	9.15/9.16	738.928	343.657
Cash and cash equivalents at period end	9.15/9.16	849.004	738.928

* As from 2017 the cash proceeds from investment income, related to the sale of the Visa shares, have been presented as cash proceeds from investing activities. The 2016 comparative figures have been adjusted accordingly

Supplementary disclosure of operating cash flow information

Interest paid	8.1	(3.317)	(5.159)
Interest received	8.1	70.701	74.158
Dividend received from investments	9.9	929	1.079

(in thousands, €)

		2017	2016
Cash and cash at central banks	9.15	223.330	211.404
Loans to banks (1)	9.16	625.674	527.524
Total Cash and cash equivalents		**849.004**	**738.928**

(1) Loans to banks with an original maturity less than 3 months is included in loans to banks (See Note 9.16)

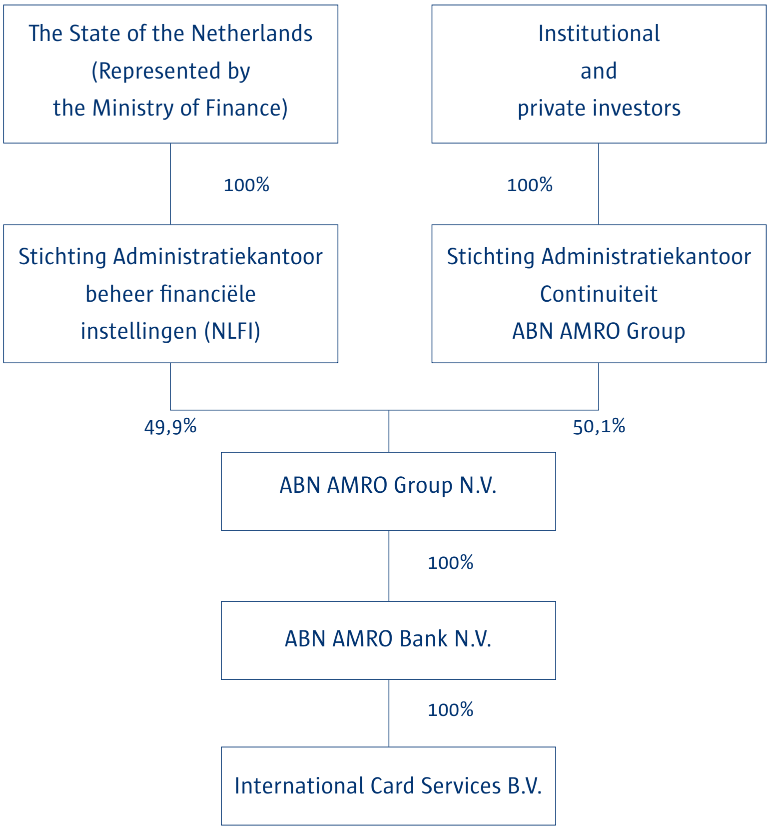
The accounting policies and Notes on pages 32 to 78 form part of, and should be read in conjunction with, these financial statements.

9. Notes to the annual Financial Statements

9.1. Corporate information

International Card Services B.V. (hereafter called “ICS”, “ICS Netherlands” or the “Company”), together with its branch in Düsseldorf, Germany, primarily offers card services in the Netherlands and Germany. ICS is engaged in issuing, promoting, administrating and processing of Visa and mastercard credit cards. Furthermore, ICS offers its customers various financial services such as insurances and revolving loans, which are an integrated part of its operational activities.

ICS is a limited liability company domiciled in the Netherlands seated at Wisselwerking 32, 1112 XP Diemen, registered at the Chamber of Commerce, trade register Amsterdam No. 33.200.596 and a 100%-subsidiary of ABN AMRO Bank N.V. The current structure is shown in the following graphic.



The financial statements for the year ended 31 December 2017 were prepared by the Statutory Board of Directors and authorised for issue in accordance with a resolution by the Supervisory Board and the Statutory Board of Directors on May 31, 2018.

9.1.1. Branches

The German branch (“ICS Germany”), of which the office is registered in Düsseldorf, Germany, is ICS’ only branch.

9.2. Accounting policies

This section describes ICS' significant accounting policies and critical accounting estimates or judgements relating to the Annual Financial Statements. If an accounting policy or critical accounting estimate relates to a specific Note, it is included within the relevant Note.

9.2.1. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU). They also comply with the financial reporting requirements included in Title 9 of Book 2 of the Dutch Civil Code, as far as applicable.

9.2.2. Basis of preparation

The financial statements have been prepared on the basis of a mixed valuation model as follows:

- Available-for-sale financial assets are measured at fair value through other comprehensive income (OCI);
- Other financial assets (including loans and receivables) and liabilities are measured at amortised cost less any impairment, if applicable;
- Non-financial assets and liabilities are generally stated at historical cost;

ICS' management is not aware of any material uncertainties that may cast significant doubt on the ICS' ability to continue as a going concern. Therefore, the Annual Financial Statements are prepared under the going concern assumption. The Financial Statements are presented in Euro, which is ICS' reporting currency, rounded to the nearest thousand (unless stated otherwise).

9.2.3. Presentation of Financial Statements

ICS presents its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non–current) is presented in Note 9.28.

Netting is not applicable, financial assets and financial liabilities are reported gross in the statement of financial position.

9.3. Changes in accounting policies

During 2017 ICS adopted the following amendments to IFRS: IAS 7 Statement of Cash Flows: Disclosure Initiative. The amendments of IAS 7 require enhanced disclosures about changes in liabilities arising from financing activities. ICS complies with this requirement in the statement of financial position and several audited Notes to the Financial Statements.

IAS 12 Income taxes: Recognition of Deferred Tax Assets for Unrealised losses. The amendment clarifies how to account for deferred tax assets related to debt instruments measured at fair value. The impact of this amendment for ICS is negligible.

Annual Improvements to IFRS Standards 2014-2016 Cycle. This cycle of annual improvements comprises three amendments, one of which became effective on 1 January 2017. This amendment relates to IFRS 12 Disclosure of Interests in Other Entities and provides clarifications to the scope of the standard, the amendment does not have a significant impact on the Annual Financial Statements. The other two amendments became effective on 1 January 2018. Neither amendment, IFRS 1 relating to First-Time adoption and IAS 28 relating to Investments in Associates and Joint Ventures, do not have a significant impact on the Annual Financial Statements.

9.3.1. New standards, amendments and interpretations not yet effective

The following new or revised standards and amendments have been issued by the IASB, but are not yet effective. These standards will be implemented by ICS. Note that only the alterations which are relevant to ICS are discussed below.

IFRS 9: Financial Instruments

IFRS 9 Financial instruments was endorsed by the EU in November 2016. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and includes new requirements for the classification and measurement of financial instruments and impairment of financial assets. ICS will apply the principles of IFRS 9 retrospectively from 1 January 2018 onwards. In line with the transitional provisions of the standard, ICS will not restate comparative figures.

The IASB issued amendments to IFRS 9 which allows to measure instruments with symmetric prepayment options at amortised cost or at fair value through other comprehensive income. These amendments was endorsed by the EU in March 2018. As ICS currently does not have financial instruments with these features, these amendments do not impact ICS.

CLASSIFICATION AND MEASUREMENT

The classification and measurement of financial assets under IFRS 9 is determined by the business model in which the asset are held and whether the contractual cash flows are solely payments of principal and interest (SPPI). Under IFRS 9, financial assets can be measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). These categories replace the IAS39 classifications of loans and receivables, Available-for-sale (AFS), FVTPL, and held-to-maturity.

The business model in which a financial asset is held is determined at portfolio level. Portfolios are based on how groups of financial assets are managed together to achieve a particular business objective. Financial assets can only be classified at amortised cost or FVOCI when the contractual cash flows are SPPI.

ICS' analysis of the business models and contractual cash flows of financial assets did not result in classification changes in loans to banks, loans to customers and other assets.

ICS has chosen to measure all equity securities at FVTPL under IFRS 9, whereas the equity instruments were classified as AFS under IAS 39.

There were no other significant changes in the classification and measurement of financial instruments as at 1 January 2018.

IMPAIRMENTS

IFRS 9 replaces the 'incurred loss' model by the 'expected credit loss (ECL) model', which is designed to be forward-looking. The IFRS 9 impairments requirements are applicable to financial assets measures at amortised cost, as well as to loan commitments. These assets will be divided into three groups, depending on the status of credit risk deterioration:

1. Stage 1: financial assets without significant increase in credit risk. The portion of the lifetime expected credit losses associated with default events occurring in the next twelve months (12M ECL) is recognised. Interest revenue is recognised, based on the gross carrying amount;
2. Stage 2: financial assets with significantly increased credit risk. Lifetime expected credit loss (LECL) is recognised. Interest revenue is recognised, based on the gross carrying amount;
3. Stage 3: credit-impaired financial assets. There financial assets are defaulted and consequently a LECL is recognised. Interest revenue is recognised, based on the amortised cost.

ICS has chosen to apply the same default definition under IFRS 9 as it currently uses for credit risk management pruposes (please see Note 9.34.1). The key quantitative metric determining when a financial asset is tranferred to stage 2 is the detoriation of the lifetime probability of default (LPD) from the date of origination to the reporting date. The LPD represents the likelihood that a counterparty will default during the lifetime of the financial instrument and depends on credit risk drivers duch as characteristics of the financial asset, the financial condition of the borrower, the number of days past due, the geographical region and future developments in the economy.
The key qualitative triggers chosen by ICS to identify when a transfer of a financial asset to stage 2 is forbearance on a financial obligation. As a backstop, 30 days past due leads to a transfer to stage 2.

CALCULATION METHOD FOR CREDIT LOSS ALLOWANCES

ICS uses only one type of calculation method for credit loss allowances:

- Collective 12M ECL and LECL for non-credit-impaired (stage 1 and 2) financial assets and collective LECL for credit-impaired (stage 3) insignificant, individual financial assets that have similar credit risk characteristics, that are clustered in portfolios and that are collectively assessed for impairment losses.

ICS has introduced new models to qualify the Probability of Loss (PL), Loss Given Loss (LGL) and Exposure at Loss (EAL) for calculating the collective 12M ECL and LECL for these financial assets. In addition the Lifetime Probability of Default (LPD) is calculated in order to determine whether a counterparty has experienced a significant increase in credit risk compared with the date of origination. Forward-looking information is incorporated by means of three different, probability-weighted macroeconomic scenarios, alongside the stress-testing processes and methodologies.

DISCLOSURE

The revised disclosures as required by IFRS 7 'Financial Instruments: Disclosures' will be included in the 2018 financial statements.

TRANSITIONAL IMPACT OF IFRS 9

With the introduction of IFRS 9, allowance levels will increase due to the additional provisioning for especially clients with a significantly increased credit risk (stage 2) that did not meet the criteria for having an allowance under IAS 39. This is only partially offset by the release of the current IAS 39 allowance for incurred but not identified (IBNI) losses. Overall this will result in a decrease in equity. ICS does however not expect that the decrease in equity due to the application of IFRS 9 requirements will result in a material impact on its equity ratios or on other key regulatory ratios. Additionally, transitional arrangements published by EU for 'mitigating the impact of IFRS 9 Impairment requirements on banks own funds (CET1 capital)' will not be applied.

IFRS 15: Revenue from Contracts with Customers

This new standard establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise. The standard was endorsed in October 2017 and is effective for annual periods beginning on or after 1 January 2018. Besides a possible reclassification of expenses (customer incentives) from Marketing expenses to Commission expenses, ICS foresees no financial impact from IFRS15.

IFRS 16: Leases

The new standard on leases was issued by the IASB in January 2016 and will become effective on 1 January 2019. In October 2017, IFRS 16 Leases is endorsed by the EU. IFRS 16 replaces IAS 17 Leases and removes the distinction between 'Operational' and 'Financial' lease for lessees. The requirements for lessor accounting remain largely unchanged. ICS is currently assessing the impact of the new standard.

9.3.2. New standards, amendments and interpretations not yet endorsed

There are revised standards and amendments that have been issued by the IASB, but have not yet been endorsed by the European Union and are therefore not open for early adoption. However, there are no amendments to IFRSs that are relevant for ICS.

9.4. Critical accounting judgments, estimates and assumptions

The preparation of ICS' financial statements requires management to exercise its judgment in the process of applying ICS' accounting policies and to make estimates and assumptions concerning the future. The estimates and associated assumptions are based on historical experience and various other factors that are considered reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates and assumptions. Accounting policies for the most significant areas requiring management judgment and/or estimates that affect reported amount and disclosures are made in de following sections:

- Impairments losses on loans to customers
  Note 9.17
- Fair value of financial instruments
  Note 9.6
- Deferred tax assets
  Note 9.23
- Impairment of available-for-sale investments
  Note 9.19
- Provisions
  Note 9.27

9.5. Summary of significant accounting policies

9.5.1. Foreign currency translation

The financial statements are stated in Euro, which is ICS' functional and presentational currency.

Transactions in foreign currencies are translated into euros at the rate prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the spot exchange rate at the date of recognition.

Foreign exchange differences arising on translation are recognised in the income statement, except for those non-monetary items whose fair value change is recorded as a component of equity.

9.5.2. Financial assets and liabilities

The classification of financial assets and liabilities at initial recognition depends on their purpose and characteristics and the management's intention when acquiring them (IAS 39).

Classification of financial assets

Financial assets are classified as financials investments or loans and receivables and are based on the criteria in IAS 39 Financial Instruments: Recognition and measurement. The measurement and income recognition depends on the classification of the financial assets. The following two groups are identified:

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They generally arise when money or services are directly provided to a customer with no intention of trading or selling the loan. These are initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortization recorded in the income statement;
- Available-for-sale financial assets are those assets that are otherwise not classified as loans and receivables. They are initially measured at fair value with subsequent changes recognised in other comprehensive income. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement, in other income. Dividends earned whilst holding the available-for-sale financial assets are recognised in the income statement as other income (Please see Note 9.19 for detailed information on the unrealised gains and/or losses and Note 9.9 for other income). Upcoming changes due to the implementation of IFRS 9 are included in Section 9.3 (Changes in accounting policies – IFRS 9).

Classification of financial liabilities

Financial liabilities are classified as liabilities held for trading, and other liabilities. Their measurement and recognition in the income statement depends on the classification of the financial liabilities. The following group is identified:

- Other financial liabilities include financial liabilities that are neither held for trading nor designated 'at fair value through profit or loss'. These are initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest method, with the periodic amortization recorded in the income statement.

Other liabilities includes due to banks, due to customers and other borrowings.

Statement of cash flows

For the purposes of the cash flow statement, cash and balances at central banks comprise of cash on hand, freely available balances with central banks and other banks, net credit balances on current accounts with other banks, with less than three months maturity from the date of acquisition. The statement of cash flows, based on the indirect method of calculating operating cash flows, gives details of the source of cash and cash equivalents which became available during the year and the application of these cash and cash equivalents over the course of the year. The cash flows are analysed into cash flows from operations, including banking activities, investment activities and financing activities. Movements in loans and receivables and interbank deposits are included in the cash flow from operating activities. Investment activities comprised of acquisitions, sales and redemptions in respect of financial investments, as well as investments in, and sales of, subsidiaries and associates, property and equipment. The borrowing and repayment of long-term funds are treated as financing activities. Cash flows arisen from foreign currency transactions are translated into euros using the exchange rates at the date of the cash flows.

The Effective Interest Rate method

The Effective Interest Rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if ICS revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change is recorded as 'Interest income' for financial assets and 'Interest expenses' for financial liabilities.

ICS' EIR methodology recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgment regarding the expected behaviour and life-cycle of the instruments, as well expected changes to ICS' base rate and other fee income/expense that are integral parts of the instrument.

Recognition and derecognition

Loans and advances to customers are recognised when they are acquired or funded by ICS and derecognised when settled. Due to customer deposits are recognised when the cash is deposited with ICS. Other financial assets and liabilities are initially recognised on the trade date, i.e., the date that ICS becomes a party to the contractual provisions of the instrument.

Financial assets are generally derecognised when ICS loses control and the ability to obtain benefits over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or substantially all risk and rewards are transferred. Financial assets are also derecognised if ICS has neither transferred nor retained substantially all risks and rewards of ownership, but control has passed to the transferee.

On de-recognition of a financial asset, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

Financial liabilities are derecognised when the obligation under the liability has been settled, has expired or has been extinguished. Where an existing financial liability is replaced by new liability with the same lender on substantially different terms, qualitative and quantitative is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the former carrying amount and the consideration paid is recognised in the income statement.

Impairment of financial assets

ICS assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset, or a group of financial assets, is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Loans at risk are primarily exposures for which signals have been detected indicating that the counterparty's exposure may become impaired in the future. Loans at risk are classified into different risk categories for individual counterparties and arrears buckets for groups of aggregated counterparties in order to optimise monitoring and review of these loans. Loan impairments are based on IAS 39 regulation. As of 2018 IAS 39 will be replaced by IFRS 9, please see Note 9.17 for more details.

9.6. Fair value of Financial instruments

Accounting policy for Fair value of financial instruments

The fair value is defined as the price that would be received when selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

For financial instruments that are actively traded and for which quoted market prices or market parameters are readily available, the fair value is determined in a highly objective manner. However, when observable market prices and parameters do not exist, management judgment is necessary to estimate fair value.

For financial instruments where no active liquid market exists, or quoted prices are unobtainable, recent market transactions are used or the fair value is estimates using a variety of valuation techniques – including reference to similar instruments for which market prices do exist, or to valuation models such as discounted cash flow calculation or option pricing models.

Unobservable inputs are estimated using a combination of management judgment, historical data, market practice and benchmarking to other relevant observable market data. Where inputs to the valuation of a new transaction cannot be reliably determined, the transaction is initially recognised at its transaction price. Subsequent changes in fair value as calculated by the valuation model are reported as profit or loss or in equity.

In order to determine a reliable fair value, where appropriate, management applies valuation adjustments to the pricing information derived from the above sources. These adjustments reflect management's assessment of factors that market participants would consider in setting a price, to the extent that these factors have not already been included in the information from the above sources. Judgments and estimates to determine the fair value include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. We believe our estimates of the fair value are adequate.

9.6.1. Fair value hierarchy

In order to show how fair values have been derived, financial instruments are classified based on valuation techniques, as summarised below:

ICS analyses fair value financial instruments in the three categories described below. Level 1 financial instruments are those that are valued using unadjusted quoted prices in active markets for identical financial instruments.

Level 2 financial instruments are those valued using techniques based primarily on observable market data. Instruments in this category are valued using quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

Level 3 financial instruments are those valued using a valuation technique where at least one input, which has a significant effect on the instrument's valuation, is not based on observable market data. The effect of fair value adjustments on the instrument's valuation is included in the assessment.

ICS recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change occurred.

The following table presents the valuation methods used in determining the fair value of financial instruments.

(in thousands, €)

	Carrying value	Quoted market prices in active markets	Valuation techniques observable inputs	Valuation techniques significant unobservable inputs	Total fair value
31 December 2017					
Assets					
Cash and balances at central banks	223.330	223.330	-	-	223.330
Loans to banks	901.166	-	-	901.166	901.166
Loans to customers	1.171.509	-	-	1.171.509	1.171.509
Investments	25.093	-	25.093	-	25.093
Total Financial assets	**2.321.098**	**223.330**	**25.093**	**2.072.675**	**2.321.098**
Liabilities					
Due to banks	1.455.065	-	-	1.455.065	1.455.065
Due to customers	285.064	-	-	285.064	285.064
Total Financial liabilities	**1.740.129**	**-**	**-**	**1.740.129**	**1.740.129**
31 December 2016					
Assets					
Cash and balances at central banks	211.404	211.404	-	-	211.404
Loans to banks	767.708	-	-	767.708	767.708
Loans to customers	1.217.358	-	-	1.217.358	1.217.358
Investments	121.404	102.713	18.691	-	121.404
Total Financial assets	**2.317.874**	**314.117**	**18.691**	**1.985.066**	**2.317.874**
Liabilities					
Due to banks	1.532.972	-	-	1.532.972	1.532.972
Due to customers	249.133	-	-	249.133	249.133
Total Financial liabilities	**1.782.105**	**-**	**-**	**1.782.105**	**1.782.105**

During 2017, ICS reclassified cash and balances at central banks from level 2 to Level 1 due to reassessed interpretation. The comparative figures have been adjusted accordingly.

Transfers between levels 1 and 2

There were no material transfers between levels 1 and 2 during the year.

Transfers from levels 1 and 2 into 3

There were no material transfers from levels 1 and 2 into 3 during the year.

Other Transfers

There were no other material transfers during the year.

9.6.2. Fair value of financial instruments carried at fair value

Equity instruments

The equity instruments that are actively traded on public stock exchange are valued using the readily available quoted prices and there classified as Level 1. For equity instruments for which no active liquid market exists, a valuation model with reference to similar equity instruments for which market prices do exist is used. Therefore these instruments are classified as Level 2.

9.6.3. Fair value of financial instruments not carried at fair value

The methods and significant assumptions described have been applied to estimate the fair values for financial instruments carried at amortised cost. The fair values were calculated for disclosure purposes only.

Cash and balances at central banks

Cash and balances at central banks are classified as Level 1 as an active market is available for these assets and no fair value adjustments are made to the carrying amounts.

Loans to banks and customers

The fair value of variable rate financial instruments and financial instruments with a fixed rate maturing within six months of the reporting date are assumed to be a reasonable approximation of their carrying amounts, which are net of impairment.

Due to banks and customers

The fair value of demand deposits (included under Due to customers) with no specific maturity is assumed to be the amount payable on demand at the reporting date and therefore a reasonable approximation of their carrying amounts. The carrying amount of due to banks maturing within a period of less than 3 months or that have no contractual maturity are assumed to be a reasonable approximation of their fair value. Amounts in time deposits with a maturity of three years can vary monthly, depending on ICS' funding needs. We therefore assume the carrying amount is a reasonable approximation of the fair value.

9.7. Net interest income

Accounting policy for net interest income

Interest income and interest expenses are recognised on an accrual basis in the income statement for all interest-bearing instruments, using the EIR, as set out in IAS 39. The calculation takes into account all of the contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. ICS also holds financial assets and liabilities with negative interest rates. Interest paid on assets with a negative interest yield is classified as interest expense. Interest received for liabilities with negative interest yield is classified as interest income.

The breakdown of Interest income and expenses by type of product for the years ended 31 December is specified in the following table.

(in thousands, €)

	Notes	2017	2016
Interest income			
Other receivables	9.18/9.19	241	-
Loans to banks		5.102	5.504
Loans to customers - revolving loans		3.273	3.912
Loans to customers - credit cards		59.397	62.714
Negative interest on interest bearing liabilities		2.688	2.028
		70.701	74.158
Interest expenses			
Due to banks		(703)	(2.072)
Due to customers		(1.119)	(1.663)
Other liabilities		(586)	(599)
Negative interest on interest bearing assets		(909)	(825)
		(3.317)	(5.159)
Net interest income		**67.384**	**68.999**

To compensate customers for issues in its credit portfolio, ICS provided for undue interest payments. Loans to customers – credit cards, part of interest income 2017, holds a compensation for these undue payments of €38.0 million. In 2016, part of interest income includes a compensation to the amount of €46.8 million (please see Note 9.11 and 9.27).

9.8. Net fee and commission income

Accounting policy for net fee and commision income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to ICS and the revenue can be reliably measured (IAS 18). The following specific recognition criteria must also be met before revenue is recognised. Fees and commissions are recognised as the services are provided. ICS identifies the following categories:

- Service fees are recognised on a straight-line basis over the service contract period; portfolio and other management advisory and service fees are recognised based on the applicable service contracts;
- Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised upon completion of the underlying transaction. Commission revenue is recognised when the performance obligation is complete.

Net fee and commission income for the years ended 31 December is specified in the following table.

(in thousands, €)

	2017	2016
Fee and commission income		
Payment services	92.702	86.591
Service fees	65.570	60.711
Insurance fees	2.187	3.008
	160.459	150.310
Fee and commission expenses		
Payment services	(37.948)	(32.161)
Service fees	(2.551)	(2.409)
Insurance fees	(5.588)	(5.972)
Other service fees	(626)	-
	(46.713)	(40.542)
Net fee and commission income	**113.746**	**109.768**

Payment services refer directly to credit card turnover. Payment service income includes interchange generated by credit card and charge card transactions. Payment service expenses include charges from Visa, mastercard and other third parties. Service fee income includes annual fees and processing fees. Service fee expenses refer to banking costs. Insurance fees relate mainly to cardholder insurances. Other service fee expenses relate to ICS' undrawn amount of the funding agreement with ABN AMRO Bank. 2017 is the first year ICS has been charged for these expenses.

9.9. Dividend, sale of investments and other operating income

Accounting policy for dividend, sale of investments and other operating income
Available-for-sale investments are held at fair value. Income related to those positions includes realised gains and losses arising from changes in the fair value of Available-for-sale investments, dividends received from Available-for-sale investments and related funding costs. Dividend income from Available-for-sale investments is recognised when entitlement is established. Unrealised gains or losses are recognised in the statement of other comprehensive income and should be recycled to the income statement when the available-for-sale asset is de-recognised. (IAS 39).

Dividend, sale of investments and other operating income for the years ended 31 December is specified in the following table.

(in thousands, €)

	2017	2016
Dividend income	929	1.079
Gains on sale investment	114.415	101.336
Other	85	31
Total results from dividend and other operating income	**115.429**	**102.446**

Dividend income reflects the year's dividend payments received on ICS' shares in Visa Inc..

In 2017 all Visa Inc. common class A-shares have been sold, the gain represents the net result before taxation (please see Note 9.19 for details).

In 2016 Visa Inc. executed a share buyback program. To settle the value of the Visa Europe Ltd. Shares, ICS received an initial- and a deferred cash payment as well as Visa Inc. Preferred class C-shares (please see Note 9.19). The gain reflects the net result.

9.10. Personnel expenses

Accounting policy for personnel expenses
Salaries and wages, social security charges and other salary related costs are recognised over the period in which the employees provide the services to which the payments relate.

ICS sponsors pension schemes in the Netherlands. All schemes classify as defined contribution plans. The beneficiaries of the plans are in the Netherlands. Determined by a fixed method, ICS pays annual contributions towards the pension scheme. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Actuarial and investment risk are for the account of the participants in the plan.

Personnel expenses for the years ended 31 December is specified in the following table.

(in thousands, €)

	2017	**2016**
Salaries and wages	31.794	31.031
Social security charges	4.484	4.781
Defined contribution plan expenses	6.726	3.870
Other	26.727	3.838
Total personnel expenses	**69.731**	**43.520**

Other 2017 includes the costs for a staff restructuring provision to the amount of €24.2 million (2016: €2.4) (please see Note 9.27).

As at 31 December 2017 the following FTEs were employed by ICS:

Costs included in personnel expenses, permanent staff:
- International Card Services B.V. (Netherlands) employed 494 FTE (2016: 523 FTE);
- International Card Services B.V. (Germany) employed 13 FTE (2016: 13 FTE).

Costs included in General and administrative expense, temporary staff:
- International Card Services B.V. (Netherlands) employed 114 FTE (2016: 110 FTE);
- International Card Services B.V. (Germany) employed 0 FTE (2016: 3 FTE).

9.11. General and administrative expenses

Accounting policy for General and administrative expenses
Costs are recognised in the period in which services were provided and to which the payment relates. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

General and administrative expenses for the years ended 31 December is specified in the following table.

(in thousands, €)

	2017	2016
Housing	1.098	1.119
Marketing and public relations costs	9.922	9.686
Information technology costs	22.433	21.968
Post and telephone	5.056	5.546
Agency, staff and consultancy costs	18.432	16.493
Provisions	(1.887)	12.872
Fraud losses	3.061	3.884
Other	12.666	12.702
Total General and administrative expenses	**70.781**	**84.270**

Agency staff and consultancy costs includes the costs for temporary staff (please see Note 9.10) and strategic programs.
A specification of the provision expenses is as follows:

(in thousands, €)

	Note	2017	2016
Litigation	9.27	(1.625)	16.300
Co-branders	9.27	(193)	(3.170)
Other	9.27	(69)	(258)
Total provisions		**(1.887)**	**12.872**

In 2016 legal provisions were formed to compensate certain customers for issues in the credit portfolio. These provisions were split in undue interest payments (please see Note 9.7) and incremental operational costs. The amount of €16.3 million relates to the estimated costs for the (additional) operational effort and a penalty for non-compliance with laws and regulatory responsibilities.

For the redress scheme, as set out in 2016, the provision, as recognised in 2016, exceeded the incremental operational costs, resulting in a release of €2 million in 2017. Furthermore, in 2017 the AFM imposed a fine for non-compliance with laws and regulatory responsibilities, which has been paid. The provision, as recognised in 2016, exceeded the fine, resulting in a release of €1.6 million (please see Notes 9.27 and 9.7). During 2017, in the course of carrying out the redress scheme, the scope was expanded and an additional amount has been recognised to cover this extension of the redress scheme. As in 2016, the legal provision is split in undue interest payments (please see Note 9.7) and incremental operational costs. The estimated costs for the (additional) operational effort for the scope expansion amount to €2 million.

The co-branders line relates to the sale of the EMS interest in 2015. The release is due to unused provisions. For more details on provisions please see Note 9.27.

A specification of fees paid to EY is as follows:

(in thousands, €)

	2017	2016
Financial statement audit fees	198	145
Audit related fees	25	-
Total auditor's fee	**223**	**145**

Total fees paid to EY are included under Agency staff and consultancy costs and amount to €223 thousand (2016: €145 thousand). Audit-related fees comprise other assurance services related to the audit of the prudential reporting statements to DNB. Additionally, our external auditor performs audit procedures related to ICS for the purposes of the group audit of ABN AMRO Bank The costs for these procedures are borne by ABN AMRO Bank and are therefore not included. The external auditor does not provide tax advisory services or other non-audit services.

9.12. Rebilling expenses

Accounting policy for rebilling expenses

Costs are recognised in the period in which services were provided and to which the payment relates. Rebilling expenses for the years ended 31 December is specified in the following table.

(in thousands, €)

	2017	2016
Rebilling	365	1.063
Total Rebilling expense	**365**	**1.063**

Rebilling expenses relate to group charges for IT, corporate insurance and management costs.

9.13. Impairment charges on loans to customers

Impairment charge on loans to customers for the years ended 31 December is specified in the following table.

(in thousands, €)

	Note	2017	2016
Impairments charges on:			
Loans to customers	9.17/9.27	6.046	10.712
Total impairment charges on loans		**6.046**	**10.712**

Please see Notes 9.17 and 9.27 for more details on the impairments on loans to customers.

9.14. Income tax expenses

Accounting policy for income tax expenses, current and deferred tax assets and liabilities

ICS applies IAS 12: Income taxes in accounting for taxes on income. ICS form part of a fiscal unity with ABN AMRO Bank N.V. for corporate income tax purposes. As a consequence, ICS receives a tax allocation from the parent company. Tax is allocated by ABN AMRO Bank in such matter that tax in the ICS financial statements reflects the situation if the fiscal unity did not exist. All the members of the fiscal unity become jointly and severally liable for the corporate income tax liabilities of the fiscal unity. ICS has a branch in Germany and files separate tax returns for its activities in Germany.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the parent company. The parent company settles with the taxation authorities. The tax rates and tax laws used to allocate or compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where ICS operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.
Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

All temporary differences are recognised as tax expense in the income statement, except from temporary differences due to investments, which are recognised in the statement of comprehensive income.

Income tax expenses in the income statement for the years ended 31 December is specified in the following table.

(in thousands, €)

	Note	2017	2016
Current tax expense			
Current tax expense on year under review		36.916	35.835
Adjustment for current tax of prior years		(50)	155
		36.866	35.990
Deferred tax expense	**9.23**		
Deferred taxes arising from current period		(501)	232
Deferred taxes arising from write-down (or reversal) of deferred tax assets		1.139	-
		638	232
Total tax expense		**37.504**	**36.222**
Effective tax rate		25,5%	25,8%

	2017	2016
Nominal tax rate Netherlands	25,00%	25,00%
Nominal tax rate Germany	31,23%	29,65%

For more information on the deferred taxes arising from write-down (ore reversal) of deferred tax assets, please see Note 9.23.
The following table specifies the reconciliation between expected income tax and the actual income tax.

(in thousands, €)

	2017	2016
(Profit)/loss before taxation (profit) / loss	(147.257)	(140.256)
Applicable tax rate	25,0%	25,0%
Expected income tax expense	**36.815**	**35.064**
Increase (decrease) in taxes resulting from:		
Disallowed operating and administrative expenses	(400)	1.000
Disallowed bank tax	-	42
Write-down and reversal of write-down of deferred tax assets	1.139	-
Tax rate differential branch offices	-	(39)
Adjustments for current tax of prior years	(50)	155
Total increase (decrease)	689	1.158
Actual income tax expenses	**37.504**	**36.222**

9.15. Cash and balances at central banks

In accordance with IAS 39 cash and balances at central banks are held at amortised cost. Cash and balances at central banks comprises cash on hand and non–restricted current accounts with central banks. In the cash flow statement, these are part of "Cash and cash equivalents".

Cash and balances at central banks for the years ended 31 December is specified in the following table.

(in thousands, €)

	Average Interest Rate 2017	31 December 2017	31 December 2016
Cash at hand	0,00%	3	4
Balances with central bank	-0,40%	223.327	211.400
Balance at the end of period		**223.330**	**211.404**

Balances with central banks consist of balances other than mandatory reserve deposits and are readily convertible in cash. The balances relate to deposits for LCR requirements as set out by the Dutch Central Bank (please see Note 9.34.3).

9.16. Loans to banks

Accounting policy for loans to banks and customers

Loans to banks and loans and advances to customers are held at amortised cost using the EIR methodology, less allowance for impairment, i.e. fair value at initial recognition adjusted for repayment and amortization of coupon, fees and expenses to present the effective interest rate of the asset. Therefore, ICS recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of the loan, hence, recognizing the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (prepayments, penalty interest and charges).

If expectations are revised the adjustment is booked as a positive or negative adjustment to the carrying amount in the balance sheet with an increase or reduction in interest income.

In the cash flow statement, amounts due from banks on demand or with an original maturity of three months or less are included in “Cash and cash equivalents”.

Loans to banks for the years ended 31 December is specified in the following table.

(in thousands, €)

	Average Interest Rate 2017	31 december 2017	31 december 2016
Current accounts - credit institutions	0,00%	625.674	527.524
Interest bearing deposits	1,67%	275.492	240.184
Balance at the end of period		**901.166**	**767.708**

Current accounts – credit institutions relate to balances on current accounts with banks. The resources are freely available to ICS to perform payments for its services and activities.

Interest bearing deposits are issued to ABN AMRO Bank N.V.. In cooperation with their department Asset and Liability Management the average customer savings (both consumer and commercial, please see Note 9.24) are placed in deposits. The interest bearing deposits are based on a 1 month term and a fixed interest rate.

9.17. Loans to customers

Accounting policy for loans to customers

The accounting policy for loans to customers is included in “Loans to banks”, please see Note 9.16.

Loans to customers for the years ended 31 December is specified in the following table.

(in thousands, €)

	Average interest rate 2017	Year of maturity	31 december 2017	31 december 2016
Consumer				
Revolving loans	8,76%	indefinite	33.919	41.331
Credit card - current accounts	0,00%	2018	366.584	324.867
Credit card - interest bearing	12,67%	indefinite	685.766	771.825
Allowance for impairment losses			(12.052)	(17.105)
			1.074.217	1.120.918
Commercial				
Loans to financial institutions - Interest bearing	0,00%	2018	46	13
Credit card - current accounts	0,00%	2018	93.311	91.444
Credit card - interest bearing	11,80%	indefinite	4.037	5.272
Allowance for impairment losses			(102)	(289)
			97.29 2	96.440
Balance at the end of period			**1.171.509**	**1.217.358**

Loans to customers are differentiated in Consumer and Commercial loans.

9.17.1. Consumers

Consumer loans contain outstanding amounts both interest bearing, non-interest bearing on credit cards and charge cards and revolving loans.

9.17.2. Commercial

Loans to financial institutions are contributions made to the Single Resolution Board for the European Single Resolution Fund. These contributions are non-interest bearing and revocable at a maturity of 1-7 days. Credit cards include all outstanding amounts on commercial credit cards.

9.17.3. Impairments

Accounting policy for impairments on loans to customers

Forbearance of loans to customers

It could be more beneficial, for ICS, as well as for the client, to restructure the loans rather than to recover the loans. The contracts of such clients may be modified at non-commercial terms to avoid foreclosure. The process of making concessions for clients, with the purpose of keeping them afloat, is referred to as 'forbearance'. The objective is to give the counterparty the time and financial flexibility to solve its financial problems and to bring the counterparty back within its payment capacity, by doing so, to maintain a sustainable relationship between ICS and the counterparty. In case of termination of the relationship, the asset is not considered forborne.

ICS considers a forborne asset to be a contract under which the counterparty experiences (or is about to face) financial difficulty and for which the terms and conditions of the contract have been modified or the contract has been refinanced by ICS due to these financial difficulties on such terms that ICS would not have agreed to (concession) if the counterparty had been financially healthy.

Forbearance measures can be applied to a contract that has defaulted on its obligations as well as to a contract that is still performing. A contract that is in the process of being recovered and for which the client relationship will be discontinued is not considered forborne, irrespective of the application of restructuring measures.
A forborne asset will only cease to qualify as forborne once all of the following conditions are met:

- the contract is considered performing;
- a minimum probation period of two years has passed from the date the forborne contract was considered performing;
- regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period;
- the counterparty does not have any contract that is more than 30 days past due at the end of the probation period.

If a forbearance measure is applied to a performing client, the client stays forborne for at least two years. If a forbearance measure is applied to a non-performing client, the client stays forborne for at least three years. During this period, the asset will continue to be reported as forborne.

Past due of loans to customers

A financial asset is past due if counterparty fails to make a payment on the contractual due date or if the counterparty has exceeded an agreed limit. ICS starts counting days past due from the first day that a counterparty is past due on any financial obligation, regardless of the amount.

When counterparty's loan is past due or exceeds its credit limit, all loans and receivables in the related credit arrangement with this counterparty are considered past due.

Impairment of loans to customers

Triggers for impairment include, but are not limited to, events such as significant financial difficulty, likeliness that the client will enter bankruptcy or financial reorganization, negative equity, regular payment problems, improper use of credit lines and legal action by other creditors.

ICS' impairment methodology for Loans to customers, carried at amortised costs, comprises collective impairment of:

- Individual not significant exposures: Assets with similar credit risk characteristics are clustered in portfolios. The assets in the portfolios are collectively assessed for impairment. In general, when payments (interest or principal) are 90 days past due, the loan is identified as impaired. These allowances are included in the Loan Loss Reserve (LLR). The impairment assessment is based on historical loss experience adjusted for current economic conditions. Factors that are taken into account are average life, past loss experience and portfolio trends;
- Incurred but not yet identified (IBNI) losses: IBNI impairment losses are recognised for impairment losses that have been incurred, but still have to be identified at the balance sheet date. Specific or collective impairment assessment has therefore not yet taken place. All financial assets that have not yet been assessed for impairment are included in the IBNI Impairments loss calculation. All related off-balance items such as credit commitments are also included. The IBNI calculation combines the Basel II concept of expected loss on a one-year time horizon adjusted for IFRS elements by applying al loss emergence period (LEP) and a cycle adjustment factor (CAF), or is based on specific Point-in-Time models. The IBNI impairment loss is calculated for the entire non-impaired portfolio.

Upcoming changes due to the implementation of IFRS 9 are included in Section 9.3 Changes in accounting policies – IFRS 9).

Write off of loans to customers

When a loan is deemed no longer collectible, it is written off against the related loan loss allowance. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the income statement.

Forbearance

The following table provides an overview on the forborne assets.

(in thousands, €)

		Performing assets		Non-performing assets			
	Gross carrying amount	Modifications in terms & conditions	Refinancing	Modifications in terms & conditions	Refinancing	Total forborne assets	Forbearance ratio
Loans to customers						**31 December 2017**	
Consumer loans	1.086.269	15.878	-	51	-	15.929	1,47%
Loans to customers						**31 December 2016**	
Consumer loans	1.138.023	15.729	-	40	-	15.769	1,39%

Past due and Impaired loans

The following table shows the changes in the impairments to consumer and commercial loans.

(in thousands, €)

		Carrying amount		Days past due			
	Gross	Assets not classified as impaired	<=30 days	>30 days & <=60 days	>60 days & <=90 days	Total past due but not impaired	Past due ratio
Loans to customers						**31 December 2017**	
Consumer loans	1.086.269	1.068.527	56.474	14.768	5.943	77.186	7,2%
Commercial loans	97.348	97.217	504	104	30	639	0,7%
	1.183.617	**1.165.744**	**56.978**	**14.872**	**5.973**	**77.825**	**6,7%**
Loans to customers						**31 December 2016**	
Consumer loans	1.138.023	1.117.569	62.419	16.417	5.722	84.558	7,6%
Commercial loans	96.716	96.591	670	186	105	961	1,0%
	1.234.739	**1.214.160**	**63.089**	**16.603**	**5.827**	**85.519**	**7,0%**

For more details on the mutation in IBNI related to the undrawn amount of the credit commitments to cardholders, please see Note 9.27.

(in thousands, €)

Overview			2017			2016
	Consumer	Commercial	Total	Consumer	Commercial	Total
IBNI	3.130	88	3.218	3.912	175	4.087
Loan loss reserve	8.922	14	8.936	13.193	114	13.307
Total	**12.052**	**102**	**12.154**	**17.105**	**289**	**17.394**

Breakdown IBNI			2017			2016
	Consumer	Commercial	Total	Consumer	Commercial	Total
Balance at 1 January	3.912	175	4.087	4.857	351	5.208
Change in IBNI	(782)	(87)	(869)	(945)	(176)	(1.121)
Balance at the end of period	**3.130**	**88**	**3.218**	**3.912**	**175**	**4.087**

Loans identified as impaired			2017			2016
	Consumer	Commercial	Total	Consumer	Commercial	Total
Total impaired outstanding balance	**17.742**	**131**	**17.873**	**20.454**	**125**	**20.579**

Breakdown Loan loss reserve			2017			2016
	Consumer	Commercial	Total	Consumer	Commercial	Total
Balance at 1 January	13.193	114	13.307	14.345	407	14.752
Unearned interest	(10)	-	(10)	(42)	-	(42)
Addition	7.189	413	7.602	11.567	795	12.362
Write off	(23.645)	(685)	(24.330)	(25.715)	(1.268)	(26.983)
Recoveries	12.195	172	12.367	13.038	180	13.218
Balance at the end of period	**8.922**	**14**	**8.936**	**13.193**	**114**	**13.307**

Critical accounting judgements, estimates and assumptions

Impairments on loans to customers include an element of management's judgment, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the changing of which can result in different levels of allowances.

Additionally, judgments around the inputs and calibration of the collective and IBNI models include the criteria for the identification of smaller homogenous portfolios, the effect of concentrations of risks and economic data (including levels of unemployment, repayment trends, country risk and the performance of different individual groups, and bankruptcy trends), and for determination of the emergence period. The methodology and assumptions are reviewed regularly in the context of actual loss experience.

9.18. Other assets

Other assets for the years ended 31 December is specified in the following table.

(in thousands, €)

	31 december 2017	31 december 2016
Accrued other income	14.775	16.152
Prepaid expenses	7.156	9.180
Other receivables	14.430	4.352
Other current assets	2.463	4.601
Balance at the end of period	**38.824**	**34.285**

Accrued income relates to co-branded partners Visa, mastercard and the Visa Inc. deferred cash consideration (please see Note 9.19 for details). The other receivables mainly relate to general accounts receivable and to contractual agreements with ABN AMRO Bank N.V. with regard to the sale of European Merchant Service (EMS) in 2015.

9.19. Investments

Accounting policy for investments

Available-for-sale investments comprises of equity investments, which are held at fair value with unrealised gains and losses recognised directly in Other Comprehensive Income (OCI), net of applicable taxes.

Equity investments held without significant (20%) influence which are not held for trading or not designated at fair value through profit or loss are classified as available-for-sale.

Impairments recognised in the income statement for an investment in an equity instrument classified as available-for-sale are not reversed through the income statement.

In the case of equity investments classified as available-for-sale, objective evidence includes:

- A ‘significant’ or ‘prolonged’ decline in the fair value of the investment below its cost, or
- Other information about the issuer that may negatively affect an equity issuer’s performance.

ICS treats ‘significant’ generally as 30% and ‘prolonged’ generally as greater than twelve months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is removed from equity and recognised in impairment losses on financial investments in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised in other comprehensive income.

Investments for the years ended 31 December is specified in the following table:

(in thousands, €)

Investments Available for sale	Ownership	31 december 2017	31 december 2016
- Shares Visa Inc.	<1%	24.863	121.400
- Shares Visa Belgium	<1%	230	4
- Wireless Interactive & NFC Accelerator 2013 B.V.	10%	-	-
Balance at the end of period		**25.093**	**121.404**

Unrealised gains/(losses) Available for sale	Fair Value	Historical value	Gross unrealised gains/(losses)
Balance at 31 December			
2016	121.404	30.742	90.662
2017	25.093	17.029	8.064
Change in investments			(82.598)
Realised gains/(losses) reclassified to income statement	123.786	(13.713)	110.073
Unrealised gains / (losses) of current period			**27.475**

Breakdown Available for sale

	Visa Inc.	Visa Belgium	WIN B.V.	Total
Balance at 1 January	121.400	4	-	121.404
Acquisition(s)	-	-	-	-
Revaluations	27.249	226	-	27.475
De-recognition due to sale	(123.786)	-	-	(123.786)
Balance at the end of period	**24.863**	**230**	**-**	**25.093**

In 2017 ICS sold all Visa Inc. common Class A-shares, resulting in a realised gain before taxation of €114 million of which €110 was already recognised as unrealised gain in the statement of comprehensive income. The sale is settled with a cash settlement.

In 2016 Visa Inc. executed a buyback program for its Visa Europe Ltd. shares, resulting in a (partially deferred) cash settlement and the issue of convertible Visa Inc. preferred Class-C shares. The deferred cash consideration is due in 2019 and bears interest. For these preferred Class-C shares three restrictions apply:

1. Conversion into ordinary shares may take up to twelve years after deal closure. The number of preference shares to be converted per tranche will be determined by Visa Inc..
2. For these shares only trading between other holders of preference shares is allowed. This restriction applies for the full lifetime of the preference shares.
3. The conversion rate may be adjusted by Visa Inc..

To adjust the value for these restrictions a discount rate of 4% is taken into account.

Wireless Interactive & NFC Accelerator 2013 B.V. (WIN) is a 10% interest. Acquisition was in 2013 and immediately impaired because expectations were that WIN will not be profitable in the near future.

Critical accounting judgement, estimates and assumptions
ICS reviews its available-for-sale investments at each reporting date to assess whether they should be impaired. This assessment, including estimated future cash flows and other inputs in to the discounted cash flow model and in the case of equity instruments, the interpretation of what is 'significant' or 'prolonged' requires judgment.

In making this judgment, ICS evaluates, among other factors, historical share price movements, and the duration and extent to which the fair value of an investment is less than its cost.

9.20. Property and equipment

Accounting policy for property and equipment
Property and equipment is stated at cost less accumulated depreciation and any amount for impairment. Subsequent costs are capitalised if these result in an enhancement to the asset. ICS recognises in the carrying amount of property and equipment the cost of replacing part of such an asset when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the company and the cost of the item can be determined reliably. All other costs are recognised in the income statement as an incurred expense.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property and equipment, and of major components that are accounted for separately. ICS generally uses the following useful lives in calculating depreciation:

- Computer hardware: 4 years;
- Other furniture and fittings: 5 years;
- Installations (durable): 10 years.

Property and equipment for the years ended 31 December is specified in the following table.

(in thousands, €)

	Furniture & Mechanical equipment	Hardware	Total
Balance at 1 January 2016	**343**	**1.473**	**1.816**
Additions	49	210	259
Depreciation	(141)	(673)	(814)
Balance at 31 December 2016	**251**	**1.010**	**1.261**
Additions	1.672	316	1.988
Depreciation	(233)	(589)	(822)
Balance at 31 December 2017	**1.690**	**737**	**2.427**
Cost as at the end of period	2.997	4.454	7.451
Cumulative depreciation as at the end of period	(1.307)	(3.717)	(5.024)

9.21. Intangible assets

Accounting policy for intangible assets

Intangible assets include separately identifiable items arising from acquisition of customer relationships and similar items. ICS' intangible assets relate to acquired credit card portfolios. Intangible assets are stated at cost less any accumulated amortization and any accumulated impairment losses if, and only if, it generates future economic benefits and if the cost of the asset can be measured reliably. Amortization is monthly calculated, on a straight-line basis over the estimated useful lives of the portfolios. ICS estimates 15-20 years as useful life in calculating depreciation. Amortization rates, the residual value and the useful life of intangible assets are reviewed at each year-end to take into account any change in circumstances.

Intangible assets for the years ended 31 December is specified in the following table.

(in thousands, €)

	31 December 2017	31 December 2016
Balance at 1 January	4.479	5.058
Amortisation expenses	(1.557)	(578)
Balance at the end of period	**2.922**	**4.479**
Cost as at the end of period	11.864	11.864
Cumulative amortisation as at the end of period	(8.942)	(7.385)

Intangible assets relate to acquired credit card portfolios.

9.22. Current company tax assets and liabilities

Accounting policy for current tax assets and liabilities

The accounting policy for current tax assets and liabilities is included in "Income tax expenses", please see Note 9.14).

Current company tax assets and liabilities for the years ended 31 December is specified in the following table.

(in thousands, €)

	Total
Balance as 31 December 2016	
Assets	-
Liabilities	(35.545)
Total	**(35.545)**
Balance as 31 December 2017	
Assets	-
Liabilities	(36.483)
Total	**(36.483)**

The tax liability relates to the accrual for taxes to be paid on income realised in the respective years. Due to cumulative losses in Germany, this is only applicable for the Dutch activities.

9.23. Deferred company tax assets and liabilities

Accounting policy for current tax assets and liabilities

The accounting policy for current tax assets and liabilities is included in "Income tax expenses", please see Note 9.14). The following table shows deferred tax recorded in the statement of financial position and changes recorded in the income statement as tax expense or statement of comprehensive income.

(in thousands, €)

	Total
Balance as 31 December 2016	
Assets	1.285
Liabilities	(24.653)
Total	**(23.368)**
Balance as 31 December 2017	
Assets	148
Liabilities	(3.504)
Total	**(3.356)**

Specification deferred tax assets	Movement	Total
Balance at 1 January 2016		1.130
Property, plant and equipment	P&L	24
Other intangible asset	P&L	8
Deferred income and accrued expenses	P&L	(3.290)
Provisions	P&L	(20)
Tax loss carry forward	P&L	747
Balance at 31 December 2016		**1.285**
Property, plant and equipment	P&L	2
Other intangible assets	P&L	18
Provisions	P&L	(16)
Tax loss carry forward	P&L	(1.141)
Balance at 31 December 2017		**148**

Gross deferred tax assets as at the end of period	1.703
Cumulative write down as at the end of period	(1.555)
Net deferred tax assets as at the end of period	**148**

Specification deferred tax liabilities	Movement	Total
Balance at 1 January 2016		**48.312**
Investments	OCI	(24.046)
Other intangible assets	P&L	144
Accrued income and deferred charges	P&L	243
Balance at 31 December 2016		**24.653**
Investments	OCI	(20.650)
Other intangible assets	P&L	(75)
Accrued income and deferred charges	P&L	(424)
Balance at 31 December 2017		**3.504**

The decline in tax assets due to carry forward losses relate to Germany. The total carry forward losses were €4.2 million per 31 December 2017, generating a deferred tax asset of €1.1 million. The oldest forward loss originated in 2010. The tax losses do not expire under current German tax legislation and the position is settled directly with the German tax authorities. However, under IAS 12 a deferred tax asset should be recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. In 2017, analysis pointed out that the probability of future taxable profit declined significantly, which justifies the write off of the deferred tax asset.

The remaining deferred tax assets and all deferred tax liabilities relate to the Dutch activities and are settled with the parent company. The Dutch deferred tax assets do not relate to Dutch carry forward losses.

Critical accounting judgement, estimates and assumptions

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Although, in Germany, tax losses can be utilised indefinitely judgement is required to determine the amount of deferred tax assets that can be recognised, based on the probable timing and level of future taxable profits, together with future tax-planning strategies.

9.24. Due to customers

Accounting policy for due to banks and customers

In accordance with IAS 39, amounts due to banks and customers are held at amortised cost. That is, fair value at initial recognition adjusted for repayment and amortization of coupon, fees and expenses to present the effective interest rate of the instrument.

Due to customers for the years ended 31 December is specified in the following table.

(in thousands, €)

	Average interest rate 2017	Year of maturity	31 december 2017	31 december 2016
Demand deposits	0,41%	on demand	285.064	249.133
Balance at the end of period			**285.064**	**249.133**

Demand deposits due to customers include customer balances on both consumer and commercial credit cards. The commercial deposits contain €34 million of collateral (2016: €28 million).

9.25. Due to banks

Accounting policy for due to banks

The accounting policy for due to banks is included in “due to customers”, see Note 9.24.

Due to banks for the years ended 31 December is specified in the following table.

(in thousands,€)

	Average interest rate 2017	Year of maturity	31 december 2017	31 december 2016
Time deposits - credit institutions - Short-term	-0,40%	2018	679.817	678.602
Time deposits - credit institutions - long term	0,09%	2020	747.492	823.077
Other deposits - credit institutions - Short-term	0,00%	on demand	-	31.292
Demand deposits - credit institutions	0,00%	on demand	27.756	1
Balance at the end of period			**1.455.065**	**1.532.972**

Funding is obtained from ABN AMRO Bank by means of cash loans (time deposits). Time deposits are based on a mix of fixed interest rates on a 1-3 month base and 3 years base.

9.26. Other liabilities

Other liabilities for the years ended 31 December is specified in the following table.

(in thousands, €)

	31 december 2017	31 december 2016
Accrued fees and charges	32.079	28.395
Accounts payable and sundry creditors	69.123	45.790
Balance at the end of period	**101.202**	**74.185**

Accounts payable and sundry creditors include amounts to be settled with Visa and mastercard. The increase for the years ended 31 December 2017 compared to 2016 mainly relates to a timing issue.

9.27. Provisions

Accounting policy for provisions

A provision is recognised in the balance sheet when ICS has a present obligation (legal or constructive) as a result of past event, and it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, ICS determines the level of provision by discounting the expected future cash flows at a pre-tax rate reflecting the current market rates and, where appropriate, the risks specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

A provision for restructuring is recognised when an obligation exists. An obligation exists when ICS has approved a detailed plan and has raised a valid expectation in those affected by the plan by starting to implement the plan or by announcing its main features. Future operating costs are not provided for.

Provisions for the years ended 31 December is specified in the following table.

(in thousands, €)

	31 december 2017	31 december 2016
Provision for consumer loans	2.492	3.178
Provision for co-branders	432	929
Provision for legal matters	74.230	63.100
Provision restructuring staff	23.918	1.340
Provision jubilee	941	884
Provision holiday rights	1.088	-
Provision other	176	245
Balance at the end of period	**103.277**	**69.676**

(in thousands, €)

	Consumer loans	Co-branders	Legal	Restructuring	Jubilee	Holiday	Other rights	Total
Balance at 1 January 2016	**3.707**	**4.394**	**200**	**-**	**960**	**-**	**304**	**9.565**
Increase of provisions	-	-	63.100	2.371	46	-	-	65.517
Use of provisions	(529)	(295)	(200)	(1.028)	-	-	-	(2.052)
Release of unused provisions	-	(3.170)	-	(3)	(122)	-	(58)	(3.353)
Balance at 31 December 2016	**3.178**	**929**	**63.100**	**1.340**	**884**	**-**	**245**	**69.676**
Increase of provisions	240	-	41.500	24.236	57	1.088	-	67.121
Use of provisions	-	(304)	(26.745)	(1.648)	-	-	-	(28.697)
Release of unused provisions	(926)	(193)	(3.625)	(10)	-	-	(69)	(4.823)
Balance at 31 December 2017	**2.492**	**432**	**74.230**	**23.918**	**941**	**1.088**	**176**	**103.277**

Provision for undrawn amounts relate to the undrawn amount of the limit commitments to consumer cardholders. The release is included in the impairments (please see Note 9.13 and 9.17).

Co-branders provision relate to the sale of EMS in 2015, for ICS to honour existing agreements with co-branders, specifically on processing fee expenses. In 2017 part of the provision was release (please see Note 9.11) and utilised.

Legal provisions arise out of issues in the credit lending portfolio. Certain customers have been provided with a loan above their lending capacity. To compensate its affected customers, ICS drafted a redress scheme program in 2016 (please see Note 9.7 and 9.11).

In 2017 this redress scheme was rolled out according to plan, €26.7 million was utilised for compensated customers and for additional operational costs. In addition, the AFM imposed a fine of €2.4 million. The legal provision, recognised in 2016, exceeded this fine and the expected (additional) operational costs, resulting in a release of €3.6 million in 2017.

In the course of carrying out the redress scheme the scope has been expanded, resulting in an extension of the redress scheme and an incremental amount of € 10 million to recognise as a legal provision to cover the financial compensation (please see Note 9.7 and 9.11).

ICS has analysed and evaluated the redress scheme for the clients with an unknown lending capacity and concluded that an additional €30 million is needed to compensate all clients within scope of the redress scheme. This resulted in an incremental amount to recognise as a legal provision to cover for the financial impact (please see Note 9.7).

Additionally ICS accounted for a legal provision amounting €1.5 million to compensate customers who are overcharged for collections fees.

A restructuring provision of €23.9 has been formed to cover the financial impact of significant reorganisation plans for the years ahead (please see Section 3. Human Resources).

The jubilee provision has been formed to compensate for expected future jubilee payments to staff.

Critical accounting judgement, estimates and assumptions

ICS has the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, ICS does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, ICS takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgment is required to conclude on these estimates. Provisions for litigations are based on the best estimated available at year-end.

9.28. Maturity analysis of assets and liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

(in thousands, €)

	Within 12 months	After 12 months	Total
Assets			
Cash and balances at central banks	223.330	-	223.330
Loans to banks	901.166	-	901.166
Loans to customers	675.747	495.762	1.171.509
Investments	25.093	-	25.093
Property and equipment	-	2.427	2.427
Intangible assets	632	2.290	2.922
Deferred company tax assets	-	148	148
Other assets	38.542	282	38.824
Total asset	**1.864.510**	**500.909**	**2.365.419**
Liabilities			
Due to banks	956.789	498.276	1.455.065
Due to customers	285.064	-	285.064
Current company tax liabilities	-	36.483	36.483
Deferred company tax liabilities	-	3.504	3.504
Provisions	80.735	22.542	103.277
Other liabilities	98.350	2.852	101.202
Total liabilities	**1.420.938**	**563.657**	**1.984.595**
Net	**443.572**	**(62.2748)**	**380.824**

9.29. Related parties

Parties related to ICS with significant influence include STAK NLFI (the Dutch State), STAK AAG, ABN AMRO Group N.V., ABN AMRO Bank N.V., the Statutory Board of Directors and the Supervisory Board. ICS has applied the partial exemption for government-related entities as described in IAS 24 paragraphs 25-27.

Based on article 403 of the Dutch Civil Code, ABN AMRO Bank N.V. is liable for ICS' liabilities, by depositing a declaration in favour of ICS. Furthermore ABN AMRO Bank N.V. finances all activities of ICS at 31 December 2017 at arm's length.

The following table specifies the reconciliation of transactions and position between ICS and ABN AMRO Bank N.V. (excluding the tax position as allocated by ABN AMRO Bank N.V. and disclosed in note 9.5.12).

(in thousands, €)

	2017	2016
Income statement		
Interest income	7.790	7.533
Interest expense	(1.274)	(2.671)
Rebilling	(365)	(1.063)
Other operating expenses	(2.987)	(2.110)
Balance sheet (as per end of period)		
Due from banks	898.768	763.158
Other assets	1.000	3.000
Due to banks	(1.455.065)	(1.532.971)
Other liabilities	(98)	(337)

9.30. Compensation of the key management personnel

Key management personnel are those individuals who have the authority and responsibility for planning and exercising power to directly or indirectly control the activities of ICS and its employees. ICS considers the members of the Statutory Board of Directors to be key management personnel for the purposes of IAS 24 Related Party Disclosures. The following table specifies a breakdown of the remuneration.

(in thousands, €)

	2017	2016
Short-term employee benefits	884	823
Post-employment pension (defined contribution)	153	120
Total	**997**	**943**

For the year ending 31 December 2017 the Statutory Board of Directors consists of two statutory directors. As per 31 December 2016 the Statutory Board of Directors consisted of two statutory directors.

ICS does not operate a share incentive scheme. Accordingly, there were no options granted to the Statutory Board of Directors either in 2017 or 2016. ICS' statutory board members are not granted any form of variable compensation.

Members of the Supervisory Board do not receive remuneration.

9.30.1. Remuneration policy

We conduct a prudent, controlled and sustainable remuneration policy that has an explicit focus on long-term interests and on our strategy, limited risk appetite, objectives and our values.

ICS carries out periodic evaluations of its remuneration policy. In view of the need for all members of the Supervisory Board to be continually aware of their remuneration responsibilities, instead of appointing a Remuneration Committee the Supervisory Board regularly discusses this issue during its meetings.
For ICS' Statutory Board of Directors, as per 31 December 2017, different remuneration policies are applicable. The CEO is employed by ABN AMRO, the CRFO is employed by ICS. Accordingly their remuneration is in line with respectively ABN AMRO's or ICS' remuneration policy.

Pursuant to ABN AMRO's Global Reward Policy, our board members may not be granted any form of variable compensation. Although general and specific targets are being part of their appraisal, the members did not receive any variable compensation in 2017.

9.31. Commitment and contingent liabilities

9.31.1. Off balance obligations

The undrawn amount of limits issued to cardholders in 2017 amounted to €7.5 billion (2016: €7.9 billion). This amount includes ICS Netherlands and ICS Germany. The open to buy limits are revocable at ICS' discretion.

ICS has entered into a lease agreement for its office. This lease has a remaining life span of approximately 3 years with a renewal option. The total lease obligation amounts to €1.9 million of which €0.8 million expires within one year.

Furthermore ICS has multiple (IT related) contracts. The total financial obligation amounts to € 12 million of which €5 million expires within one year.

The total contingent liabilities can be specified as follows:

- Less than one year €7.5 billion
- Between one and five years €8.5 million
- More than five years nil

9.31.2. Off balance rights

Received bank guarantees from ABN AMRO Bank N.V. amounted to €0.4 million in 2017 (2016: €0.4 million). These guarantees relate to the rental agreements.

9.32. Licenses

ICS uses the following licenses:

- International Card Services B.V. is Principal Member of Visa International.
- International Card Services B.V. is Principal Member of mastercard.
- International Card Services B.V. has a full general banking license (Act on Financial Supervision).

No obligations other than periodic reporting and capital adequacy related to the licenses exist. With regards to the banking license ICS is required to pay contributions to a fund of the Dutch Deposit Guarantee Scheme. If the fund is insufficient, the remaining costs will be apportioned among the banks in line with the present system. As of 1 October 2012 banks are required to pay bank tax. ICS is also required to contribute to the Single Resolution Fund.

9.33. Capital

ICS maintains an actively managed capital base to cover risks inherent in the business and is meeting the capital adequacy requirements of the local banking supervisor, the Dutch Central Bank. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) and adopted by the Dutch Central Bank in supervising ICS.

ICS has complied in full with all its externally imposed capital requirements over the reported period.

9.33.1. Capital management

The primary objectives of ICS' capital management policy are to ensure that ICS complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

ICS manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, ICS may adjust the amount of dividend payment to its shareowner, return capital to its shareowner or attract capital from its shareowner to cover a deficit.

No changes have been made to the objectives, policies and processes from the previous years, except for an update of the Capital Management Policy which was more aligned with ABN AMRO's framework of policies. Other objectives, policies and processes are under constant review by the Board.

Regulatory capital

(in thousands, €)

	2017	**2016**
Regulatory Capital		
Equity IFRS	380.824	373.020
Adjustments	(133.373)	(207.115)
Common Equity Tier 1 Capital	247.451	165.905
Total Tier Capital	**247.451**	**165.905**
Risk weighted assets		
Credit Risk	772.284	718.987
Operational Risk	331.679	361.745
Market Risk	25.093	121.404
Individual scope (1)	1.129.056	1.202.136
Adjustments to Consolidated scope	75.976	95.327
Consolidated scope	1.205.032	1.297.463
Capital ratios		
Individual CET1 Ratio (1)	21,9%	13,8%
Individual Total Capital Ratio (1)	21,9%	13,8%
Consolidated CET1 Ratio	20,5%	12,8%
Consolidated Total Capital Ratio	20,5%	12,8%

Regulatory capital consists of CET 1 capital, which comprises share capital, retained earnings including current year profit and unrealised gains and losses available-for-sale less accrued dividends. Certain adjustments are made to IFRS–based results and reserves, as prescribed by the Dutch Central Bank. Adjustments include unaudited profit, reversal of unrealised gain, IRB Provision Shortfall and an adjustment for insignificant holdings in financial sector entities.

9.34. Risk management, funding and capital management

9.34.1. Credit risk

Definition

Credit risk is the risk that the value and/or the earnings of ICS decline due to uncertainty in counterparty's ability or willingness to repay a loan or meet the terms of a contractual obligation. The potential maximum exposure to credit risk that ICS faces amounts to aforementioned outstanding balances due from customers plus unused credit facilities.

Credit risk appetite

QUALITY OF NEW PRODUCTION

The quality of the new production could be an indication for potential shift in the quality of the total credit portfolio. Measured 12 months after application (charge cards, revolving credit (advances) and credit cards with spread payment facilities (GBF)) the account is checked for being in default (> 90 days past due), on a monthly basis.

COSTS OF RISK

ICS monitors the quality of credit assets by ICS monitors the quality of credit assets by the cost of risk. The cost of risk is defined as the sum of the annualised impairment charges on loans and other receivables (net of recoveries and expenses) and additions to credit provisions, divided by the average loans and receivables. The cost of risk is a main driver of (future) earnings and, therefore capital generation and erosion are a key component in determining the credit risk quality of the lending portfolio.

$$\frac{\textbf{gross write-off + bailiff expenses + dotation credit provisions – recoveries}}{\textbf{Average outstanding balances.}}$$

It is assumed to move around the long term average credit losses (ICS 0.93% 3 years average).

ICS' exposure to credit risk is largely diversified; the total portfolio is constituted by a large number of clients that bear modest balances. A concentration of credit risk is only present regarding the geographic distribution of outstanding claims, as most of the outstanding balances are originated in the Netherlands.

The credit risk of the portfolio is managed by the department Product & Solution Management. In all possible stages of the account lifecycle (credit granting, credit review, early collections and impairment) sets of policies and procedures apply to try to ensure an optimal allocation of credit risk on an account level.

Credit Risk measurement

As of 1 January 2008, ICS applies Basel II advanced methodology (AIRBA) for estimating its credit risk. Designated and yearly calibrated statistical models are applied to estimate the default probability (PD), exposure at default (EAD) and loss given default (LGD) on both account and consolidated level and are component in all stages of the credit risk management process.

Part of the portfolio is originating from a migration of the former ABN AMRO Consumer Finance B.V. (AACF) card systems. These exposures are exempted from the IRB-methodology and are thus reported under standardised approach (SA) as the time span for which performance information is available is insufficient for the development of compliant IRB models. Because of the low materiality of the (Dutch) corporate portfolio and the German portfolio, these are reported under standardised approach as well.

For the impaired portfolio the LGD is calculated on a bucket level and based upon a long term average of flow through rates with a conservative deduction for recoveries after write off.

The risk profile of the portfolio can be categorised through application of the internal risk model that classifies customers by their probability of default rating. The probability of default (PD) is the likelihood that a counterparty will default within a one-year time horizon and is expressed in an internal uniform counterparty rating (UCR), ranging from 1 to 8. A PD percentage is also attached to each UCR grade. We consider a default to have occurred when:

- The counterparty is overdue by more than 90 days, or;
- ICS considers the customer to be unlikely to meet its contractual obligations.

This internal ratings can be mapped to equivalent Standard & Poor's rating categories as listed below (as at 31 December 2017). The rating only applies to customers within the main portfolio in the Netherlands, because information regarding the probability of default in such detail is not available for the SA-portfolio's mentioned above.

(in thousands, €)

	Neither Past due nor impaired					Sub total	Past Due	Impaired	Total
	AAA/AA-	A+/A-	BBB+/BBB-	BB+/BB-	B+/B-		CCC+/C-	D	
Low PD%	0,000%	0,035%	0,127%	0,465%	2,225%		16,971%		
High PD%	0,035%	0,127%	0,465%	2,225%	16,971%		100%		
Main portfolio	3.840	141.216	298.349	318.033	126.715	888.153	16.649	15.902	**920.704**
Unrated portfolio						199.812	61.176	1.971	**262.959**
						1.087.965	**77.825**	**17.873**	**1.183.663**

Maximum credit risk exposure

The table below reflects ICS' maximum exposure to credit risk.

(in thousands, €)

	31 December 2017	31 December 2016
Assets		
Balances at central banks	223.327	211.400
Loans to banks	901.166	767.708
Loans to customers	1.171.509	1.217.358
Total assets	**2.296.002**	**2.196.466**
Liabilities		
Commitments and undrawn limits	7.525.052	7.867.725
Total liabilities and commitments	**7.525.052**	**7.867.725**
Total credit risk exposure	**9.821.054**	**10.064.191**

Credit risk mitigation

ICS has implemented a credit risk management framework to manage and mitigate credit risk. Mitigating activities are embedded in processes of the credit cycle of ICS which can be divided into:

1. Credit approval phase; and
   - Product planning
   - Credit acquisition
2. Credit monitoring phase
   - Account maintenance
   - Collections
   - Loan loss provision and write off

CREDIT APPROVAL

ICS assesses credit risk applications on qualitative and quantitative aspects in detail before approval. Information must be provided on matters such as the purpose, details and structure of the proposed credit facility, information about the obligor and a financial and non-financial analysis. Credit decision is based on independent assessment. The extent and limitations of the approval mandate of authorised persons and/or committees is dependent on the authority delegated to them.

To reduce credit risk on commercial loans ICS approves and issues limits requests based on either (external) credit insurance or collateral. Per year end 2017, 93 % of the total commercial limit issued is secured by credit insurance. For the remainder, 5% of the limit issued is fully secured with collateral and 2% of the limit issued is at risk of ICS. The credit insurance covers for 90% of the balance at default. For the consumer loans, very limited collateral is received.

CREDIT MONITORING

Monitoring activities are designed to safeguard ICS' positions in relation to all risks associated with the counterparty or portfolio. Monitoring allows ICS to identify at an early stage any development in the counterparty's or portfolio's position that might trigger an increase in its risk profile. The monitoring process consists mainly of credit reviews, monitoring of outstanding positions, early notice of limit excesses and monitoring of collateral.

9.34.2. Market risk

Definition

Market risk for ICS consists of the risk of movements in market variables, such as interest rates, stock prices and foreign exchange rates. Market risk either arises through positions in trading books or through the banking (non-trading) book positions.

Market risk appetite

ICS does not, nor has the intention to trade and therefore no trading book related risk is applicable to the company. ICS has no appetite for risk in the trading book. ICS has a low appetite for market risk in its banking book.

Interest rate risk banking book

For ICS the main risk of the assets and liabilities in the banking book consist of interest rate risk related to its credit portfolio. Interest rate risk in the banking book is to a large extent transferred to the ABN AMRO BANK Asset and Liability Management department via the funds transfer pricing framework. In this framework ICS' assets and liabilities are matched to the extent that it is possible for ICS to take management actions in case divergence is detected. Consequently, no capital charge is directly accounting for the Interest Rate Risk Banking Book (IRRBB), but an additional buffer is in place.

Foreign exchange risk

ICS is only active within the European Union and has therefore limited foreign exchange (FX) risk. Clearing and settlement of financial positions is done on a daily basis in Euro. By policy, speculative positions are prohibited and therefore not held. ICS has no disposal of derivate financial instruments. FX risk in the banking book is related to transactions of Cardholders. However, FX rates in the banking book are settled with cardholders without any FX risk for ICS. FX risk in the trading book is related to holding strategic financial investments (Visa Inc. Preferred Class C shares) which are denoted in US Dollar and therefore foreign exchange risk concerning this investment does exist (please see Note 9.33). The ALM department of ABN AMRO is responsible for managing the FX risk in relation to the capital adequacy positions. An increase (or decrease) of 1% in the (euro-dollar) exchange rate results in an €0.19 million change in reported value of the total available-for-sale investment through the OCI (please see Note 9.34.2).

Market risk measurement

ICS uses the standardised approach to calculate the capital charge for market risk. Interest rate risk is the risk of losses in the economic value of equity or the ICS' net interest income due to unfavourable yield curve developments. Interest rate risk arises from holding assets that have a longer average behavioural maturity than the liabilities. The overall objective of interest rate risk management is to protect and stabilise current and future earnings as well as the economic value of equity. Interest rate risks on the outstanding financial assets and liabilities will not be hedged, because interest rate risks at ICS are limited as most financial assets and liabilities are short-term or with a variable interest rate. ICS covers most of its interest rate risk by including a stipulation in its general terms and conditions that interest percentages with regard to credit advances on credit cards can be adjusted, depending on developments in the capital market. Interest chargeable to customers is capped by legal boundaries. From 1 January 2015 this rate has been 14%. Time deposits in reference to consumer credit due to ABN AMRO Bank N.V. have a fixed rate on a one month base. Time deposits due from credit institutions are related to outstanding consumer savings. These deposits have a fixed rate on a one month base.

The following table provides more details concerning the most significant interest bearing financial assets and liabilities.

	Notes	Average interest rate 2017	Maturity	Rate
Current accounts - credit institutions	9.16	0,00%	Indefinite	Variable
Interest bearing deposits - credit institutions	9.16	1,67%	1 month	Fixed
Credit card interest bearing - customers	9.17	12,67%	Indefinite	Variable
Revolving loans - consumers	9.17	8,76%	Indefinite	Variable
Loans to financial institutions - Interest bearing	9.17	0,00%	1-7 days	Fixed
Time deposits - credit institutions - short term	9.25	-0,40%	1-3 months	Fixed
Time deposits - credit institutions - long term	9.25	0,09%	3 years	Fixed
Demand deposits - customers	9.24	0,41%	Indefinite	Variable

Market risk sensitivity analyses

The table below reflects ICS' sensitivity to the aforementioned market risks.

(in thousands, €)

	Interest rate risk				Foreign exchange risk				Other price risk			
	+100bp of IR		-100bp of IR		+1%		-1%		+3%		-3%	
	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Interest result	3.123	-	(3.123)	-	-	-	-	-	-	-	-	-
Foreign exchange	-	-	-	-	-	191	-	(185)	-	-	-	-
Other price	-	-	-	-	-	-	-	-	-	560	-	(576)

The following assumptions apply:

- For interest rate risk a parallel market interest rate shift of 100 base points (bp) is assumed.
- For foreign exchange risk a currency shift of 1% is assumed.
- For other price risk (Visa Inc.) stock exchange shows a shift of 3%

Market risk mitigation

As per the elaboration above, interest rate risk in the banking book is mitigated by transferring this risk to the ABN AMRO ALM department via the funds transfer pricing framework.

Also, the risk related to FX rates in the banking book is mitigated by means of settlements with cardholders without any FX risk for ICS. FX risk in the trading book is related to holding strategic financial investments (Visa Inc. preferred Class C-shares) which are denoted in US Dollar, is not specifically managed or mitigated and the residual risk is identified as an accepted risk.

9.34.3. Liquidity risk

Definition

Liquidity risk is the risk that actual and potential payments cannot be met on a timely basis, or only at excessive costs. ICS liquidity risk is the risk of not being able to accommodate both expected and unexpected current and future cash outflows and collateral needs because insufficient cash is available.

Liqudity risk management framework

Liquidity risk management is integrated into the Enterprise Risk Management (ERM) framework of ICS. Liquidity risk is identified as a main risk category for ICS. Furthermore, ICS has a liquidity risk management framework in place that helps maintain a moderate risk profile and safeguards ICS' reputation from a liquidity perspective in line with ABN AMRO's moderate liquidity risk appetite, and as a result of its strategic position oriented towards credit card activities. This framework ensures that even under severe adverse conditions the bank can meet its payment obligations at reasonable cost. ICS has formulated a set of liquidity risk metrics and limits to manage its liquidity position and ensure compliance with regulatory requirements at all times. A primary objective of the ICS liquidity risk management framework is to ensure that ICS is in a position to address its daily liquidity obligations and withstand a period of liquidity stress affecting funding.

Liquidity risk appetite

Liquidity risk tolerance for ICS is regularly reviewed and approved by the Balance Sheet Monitoring Committee (BSM) and through the Enterprise Risk Committee (ERC) as per the Local Risk Appetite Statement (LRAS). The LRAS articulates ICS' appetite for liquidity risk and tolerances, which is deemed appropriate to the nature, scale and complexity of ICS' operations. The LRAS is aligned with the ABN AMRO Bank wide risk appetite statement and the Business line Risk Appetite Statements (BRAS) of ABN AMRO and is consistent with the overall moderate risk profile of ABN AMRO. The LRAS of ICS has been approved in 2017 by the ERC and the Statutory Board of Directors, Supervisory Board and the Business Risk Committee Retail of ABN AMRO. The internally approved Key Risk Indicators (KRI's) that are applicable and used for liquidity risk management purposes are:

Liquidity Coverage Ratio (Delegated Act)	Limit ≤ 105%; checkpoint ≤110%
Net Stable Funding Ratio (inscope for 2018)	Limit ≤ 100%; checkpoint ≤105%

Contingency planning

ICS has a Contingency Funding Plan (CFP) in place. The CFP provides a set of strategies for addressing potential liquidity shortfalls in emergency situations. In addition the CFP describes the various roles and responsibilities, contact details of members of the Liquidity Contingency Team (LCT) including delegates and describes the decision-making process. The Liquidity Contingency Team is established and will come into force in a liquidity contingency situation. ICS defined several indicators to enable identification of a contingency situation at an early stage based on the daily monitoring of early warning indicators.

Liquidity buffer management

Liquidity buffer management is aimed at providing a cushion for the organization if severe stress hits the markets or hits ICS in particular. The buffer acts as a counterbalancing capacity in situations of stress to compensate for unforeseen cash outflows or reduced cash inflows during a specific time period in order to meet obligations timely. The liquidity buffer(s) consist of deposits at the Dutch Central Bank (DNB). The "survival period" and the related liquidity buffer do not supersede or replace other measures taken to manage the net funding gap and funding sources. Therefore, the survival period is only intended to be the period during which ICS can continue operating without needing to generate additional funds and still meet all its payments due under the assumed stress scenarios. ICS manages the liquidity buffer to be able to survive a minimum of 30 days during a significant stress scenario. Furthermore, ICS challenges the buffer during the local liquidity stress test by means of various stress scenarios by which ICS aims for a survival period of 12 months under severe market conditions.

Liquidity ratios

The Basel III framework includes two liquidity ratios: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The objective of the LCR is to promote the short-term resilience of banks by ensuring sufficient high-quality liquid assets to survive a significant stress scenario lasting 30 calendar days. The objective of the NSFR is to promote resilience over a longer time horizon by creating additional incentives for banks to fund their activities with stable sources of funding on an ongoing basis. Regulatory minimum requirements for the LCR is 100% and for the NSFR will be 100% (as per 2019) under Basel III/CRD IV. The LCR remained above 100% during 2017. To increase the NSFR ratio to the minimum requirement levels, action was taken to restructure the funding in Q1 2016, after which the NSFR remained above 100% for the remainder of 2016 and 2017.

LIQUIDITY COVERAGE RATIO REQUIREMENT

The regulatory requirement as per 31 December 2017 for the LCR is 100% and there is no regulatory requirement on the NSFR as per that date (100% as per 2019). For conservative reasons ICS maintains a higher ratio. The NSFR as per 31 December 2017 is 135%. The LCR is monitored on a daily basis as part of the Daily Dashboard. The LCR and the required buffer are discussed at least on a monthly basis in the BSM meeting. In 2017 the composition remained stable. The regulatory LCR requirement for ICS increased to 100% as of January 2017. However, no significant changes to the composition or the size of the liquidity buffer are made in 2017 as ICS already has a strategic range of 110 – 115%.

NET STABLE FUNDING RATIO

As per ultimo December 2017, ICS is already compliant with the upcoming liquidity requirements of the Net Sable Funding Ratio which is effective as per January 2019 (100%). NSFR monitoring involves a monthly production of the ratio, a forecasted NSFR (horizon of 3 months and a forecast till the end of the year) and a monthly analysis of the variations. The required liquidity buffer of ICS is to a large extent predictable as result of its stable business model. The seasonal effect is recurring and for that reason an adequate buffer can be anticipated in time.

Liquidity stress testing

ICS implemented and embedded risk governance and processes to ensure that liquidity risk is managed consistently and within the set risk appetite boundaries. Stress testing is an essential tool in this process. ICS assesses liquidity stress for four scenarios based on three risk drivers and two severity levels. The liquidity stress scenarios are developed in accordance with the stress testing and scenario analysis policy. The stress test evidences that ICS can survive a protracted period of severe stress, as there is adequate Buffer Remaining After Stress (BRAS). It is also demonstrated that funding under normal and adverse stress situation is adequate. This adequate liquidity position is foreseen to be maintained in 2018 and beyond as per the funding strategy of ICS (as aligned with ABN AMRO).

ICS has a conservative approach to liquidity management. Liquidity limits are in place to ensure adequate liquidity. ICS also is already compliant with future liquidity requirements Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR). As per ultimo December 2017 the LCR is 114% and the NSFR 135%. The regulatory requirement as per December 31, 2017 for the LCR is 100% and there is no regulatory requirement on the NSFR as per that date (100% as per 2018). These figures show that there is a significant surplus on liquidity and both ratios are well above the limits set in the risk appetite statement, LCR 100% and NSFR 100%.

The required liquidity buffer of ICS is to a large extent predictable as a result of the stable business model. The seasonal effect is recurring and for that reason an adequate buffer can be anticipated in time. The NSFR requirements are not yet effective, but based on current information available, ICS is compliant with the future requirement. The maturity calendars show a solid cash flow on the short term.

Funding

ABN AMRO Bank N.V. is ICS' main source of funding. In November 2016 ICS entered into an open ended Facility Agreement (FA) limited at €1.85 billion. ICS is expected not to obtain funding from any other banks.

The concentration of funding of the loan book could be a potential risk to ICS, but is integral part of the central funding model of ABN AMRO. This dependence on the funding from ABN AMRO cannot be negated by ICS. By means of mitigation ICS monitors the credit rating of ABN AMRO on a daily basis.

ICS' funding strategy aims to optimise funding sources in order to maintain the targeted funding position. ICS' funding plan is periodically calibrated taking into account local needs as well as local constraints. The funding strategy is executed taking into account the following guidelines:

- Long and short term funding; defining the optimum balance between long and short term funding.
- Setting the framework for the maturity profile.

Contractual and Behavioural Maturity Calendar

The maturity mismatch between loans and funding requires liquidity risk management. We consider maturity transformation an integral part of our business model, which is why we closely monitor our liquidity position and the resulting risks.

On a monthly basis the reporting department reports a contractual and behavioural maturity calendar to the BSM, in order to assess and monitor the current and possible future liquidity position. Aforementioned calendar takes into account the maturity structure of the various relevant assets and liabilities on the statement of financial position.

The main goals of contractual and behavioural maturity calendar are to:
- Create insights into behavioural liquidity maturity mismatches;
- Improve management of funding needs;
- Use cash-flow information to determine volume of liquidity buffer.

Based on the analysis as per 31 December 2017 both the contractual and behavioural maturity are forecasted to generate positive cumulative net cash flows, which supports the conclusion that ICS' funding and liquidity structure is adequate.

9.34.4. Operational risk

Operational risk refers to the potential loss resulting from inadequate or failed internal processes, persons and systems or from external events. The risk management department monitors operational risks. Significant areas of operational risk for ICS are:

Compliance & conduct risk

ICS intends to comply with the relevant legislation and regulations and takes into account society's reasonable expectations. Products offered by the bank are acceptable solely when they meet client interests, comply with the relevant legislation and regulations - both in wording and spirit -, are transparent and do not contravene the purport of the regulations.

ICS manages compliance and conduct risk by monitoring the key risk indicators and auditing control measures.

Information security risk

Customers are dependent on the appropriate performance and security of information from ICS' information systems. For this reason, ICS has adopted a structured information security approach that provides assurances for the confidentiality, integrity and availability of information.

In order to mitigate IT Information Security risks, ICS has designed an Operational Control Framework in line with the ISO27001 standard for Information Security. This results in regular 1st and 2nd line monitoring and reporting of these controls. ICS established a department that specialises itself in IT information security risk to further control these risks (Information Risk & Security).

The ISO27001 standard, and the ICS control framework, also cover IT outsourcing risk. ICS has established a specialised procurement department that supports the business in the procurement and contracting process. Furthermore, in 2017 the risk department together with the procurement department started a project to further establish the use of risk assessments for (cloud) outsourcing projects.

Fraud risk & Information security

The Fraud Risk Management department is responsible for the prevention and detection of credit card fraud (involving, for example, web account takeovers, internet fraud and phishing). It is expected that "Card Not Present" fraud (online fraud) remains the biggest risk category related to fraud in the near future. ICS ultimately recovers 77,1% of gross fraud losses in 2017 (75.2% in 2016). ICS remains focussed on reducing operational losses related to fraud.

Business continuity risk

ICS safeguards the stakeholders' interests and the organisation's reputation, brand and value-added activities. ICS' Business Continuity Management (BCM) provides assurances for resilience in the form of the response given by the Crisis Management Team (CMT) in the event of any threats. The ICS BCM Policy and Standards are based on the "Principles for BCM requirements for the Dutch financial sector and its providers" and the ISO22301 standard. The BCM practices include IT Disaster Recovery tests to reduce the IT risk of the organization.

Operational risk mitigation

ICS has an operational risk management framework in place. This framework relates to the following operational risks and risk management activities.

RISK EVENT MANAGEMENT

ICS seeks to minimise the risk impacting unforeseen operational failures within our business and in our suppliers and service providers. ICS has a Risk Event Management (REM) process in place to record, track and monitor operational failures. High impact events will be discussed as well in the Enterprise Risk Committee.

BUSINESS CONTINUITY MANAGEMENT

ICS implemented Business Continuity Management (BCM) to ensure that ICS is able to continue to manage its business and operations under adverse conditions.

STRATEGIC RISK ASSESSMENT

ICS implemented a Strategic Risk Assessment (SRA) process in order to assess the risk associated with set strategic objectives in conjunction with related mitigating measures. The SRA is intended for a strategic/tactical level with a time-horizon of one year as step-up for the subsequent years, which is; often documented in a strategy/business plan covering change and business-as-usual objectives.

CHANGE RISK ASSESSMENT

ICS implemented a Change Risk Assessment (CRA) process in order to assess risk associated to significant changes arising from proposals for new or changed products, processes, activities, systems / IT and organizational structures.

RISK CONTROL SELF-ASSESSMENT (RCSA)

ICS has a Risk and Control Self-Assessment (RCSA) process in place to identify, assess, and mitigate operational risks. Identification of risks, the assessment of the probability and impact of occurrence and the determination of controls mitigating the risks to acceptable levels is paramount in achieving ICS' business objectives.

MONITORING CONTROL & TESTING

Monitoring Control & Testing is a periodic process that focuses on key controls and requires demonstrable evidence on the operational effectiveness of these key controls which have been identified in the RCSA process. Identified weakness must be remediated as per the action plan which is required to be made. The outcomes of MC&T are used as input for the RCSA process.

9.34.5. Business Risk

Business risk refers to the risk that earnings decline and/or depart from the forecasts due to uncertainties about income or the expenses incurred in generating income. ICS monitors its cost-to-income ratio and the Return on Equity.

9.34.6. Other risks

Other risks identified in the risk taxonomy are of relevance to ICS, but are not of material significance. These other risks are covered by means of a buffer for unquantified risks in the ICAAP.

9.35. Events after reporting date

December 19, 2017 the Board of Directors approved of an Interim-Dividend of €110 million to be distributed to the Shareholder The formal approval of the Shareholder was given on 8 January 2018. Payment of this interim dividend was executed in January 2018. There have been no other significant events after the reporting date that requires disclosure in these financial statements.

9.36. Profit appropriation

The reported annual profit amounts to €109.753.000.
Total dividend payment will be €124.000.000, of which €110.000.000 has already been paid out as interim dividend. The proposed dividend for 2017 will be €273.128 per share.

10. Other

10.1. Statutory rights for profit appropriation

Profit appropriation is at discretion of the General Meeting of Shareholders, although appropriation will occur to meet with solvency requirements.

10.2. Definitions of important terms

- AAB or ABN AMRO Bank
  Refers to ABN AMRO Bank N.V. and its consolidated subsidiaries. Sole shareholder of ICS since 1 July 2010.
- AACF
  Refers to ABN AMRO Consumer Finance B.V. a former subsidiary of ABN AMRO Group.
- AAG or ABN AMRO Group
  Refers to ABN AMRO Group N.V. and its consolidated subsidiaries. Sole shareholder of AAB.
- EMS
  Refers to European Merchants Services B.V., a minority interest of ICS until 31 August 2015.
  Based in Amsterdam, the Netherlands.
- ICS or the Company
  Refers to International Card Services B.V. including its branches and participations. Based in Diemen, the Netherlands.
- ICS Belgium
  Refers to the former Belgian branch of International Card Services B.V. based in Diegem, Belgium.
- ICS Germany
  Refers to the German branch of International Card Services B.V. based in Düsseldorf, Germany.
- ICS Netherlands
  Refers to solely to International Card Services B.V. (branches not included) based in Diemen, the Netherlands.
- WIN
  Refers to Wireless Interactive & NFC Accelerator 2013 B.V., a 10% minority interest of ICS based in Amsterdam, the Netherlands.

11. Independent auditor's report

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Independent auditor's report

To: the shareholders and supervisory board of International Card Services B.V.

Report on the audit of the financial statements 2017 included in the annual report

Our opinion

We have audited the financial statements 2017 of International Card Services B.V. ('ICS'), based in Diemen.

In our opinion the accompanying financial statements give a true and fair view of the financial position of International Card Services B.V. as at 31 December 2017, and of its result and its cash flows for 2017 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

The financial statements comprise:

- The statement of financial position as at 31 December 2017
- The following statements for 2017: the income statement, the statements of comprehensive income, changes in equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of International Card Services B.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the Wet toezicht accountantsorganisaties (Wta, Audit firms supervision act), the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

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

Materiality

Materiality	EUR 7 million (2016: EUR 7 million)
Benchmark applied	5% of profit before taxation
Explanation	Based on our professional judgement, a benchmark of 5% of profit before taxation is an appropriate quantitative indicator of materiality. The profit before taxation best reflects the financial performance of International Card Services B.V.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the supervisory board that misstatements in excess of EUR 350 thousand which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matters are consistent with prior year.

Risk	Our audit approach	Key observations
Loan loss provisioning The appropriateness of the loan impairment allowances for loans to customers requires judgment of management. Impairment losses are incurred if there is objective evidence of impairment as a result of a loss event that has an impact on the estimated future cash flows of the loans and receivables that can be reliably estimated. The identification of impairment and the determination of the recoverable amount are part of the estimation process at ICS including, amongst others, the assessment of objective evidence for impairment, the financial condition of the counterparty and the expected future cash flows. The use of different modelling techniques and assumptions could lead to different estimates of impairment charges on loans and receivables. Furthermore, associated risk management disclosures are complex and dependent on high quality data. As the loans to customers represent the majority of ICS's balance sheet and given the related estimation uncertainty on impairment charges, we consider this a key audit matter. Please refer to the Significant accounting judgments, estimates and assumptions section in note 9.4 to the financial statements and note 9.17 Loans to customers.	We assessed and tested the design and operating effectiveness of the controls within the loan origination and credit card processes, risk management processes, including monitoring of arrears and the period end estimation process for determining impairment allowances. We challenged the model based assumptions underlying the impairment identification and quantification including forecasts of future cash flows and estimates of recovery on default. For loan impairment allowances calculated on a collective basis we tested, supported by our specialists, the underlying models including ICS's model approval and validation process including the elements outsourced to ABN AMRO Bank NV. Finally, we assessed the completeness and accuracy of the disclosures and whether the disclosures are in compliance with the requirements included in EU-IFRS.	Based on our procedures performed, we consider the loan impairment allowances reasonable.

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Risk	Our audit approach	Key observations
Information technology ICS is dependent on the IT infrastructure for the continuity and reliability of their business processes including financial reporting, this also includes the outsourced IT infrastructure. ICS continuously makes investments to further improve the IT environment and IT systems. The role of financial disclosures is important to stakeholders and increasing data granularity in financial reporting and regulatory reporting requirements urge for high quality data and an adequate IT environment. We therefore consider this as a key audit matter. Please refer to the operational risk management section in note 9.34.	We tested the IT general controls related to logical access and change management and application controls relied upon for financial reporting and embedded in ICS's key processes. In some areas we performed additional procedures on access management and related systems. We also assessed the reliability and continuity of the IT environment and the possible impact of changes during the year either from ongoing internal restructuring initiatives or from external factors such as reporting requirements. We assessed the reliability and continuity of electronic data processing only to the extent necessary within the scope of the audit of the financial statements. In addition, our audit procedures consisted of assessing the developments in the IT infrastructure and analyzing the impact on the IT organization.	For the audit of the financial statements we found the reliability and continuity of the automated data processing systems adequate.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The management board's report
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

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Report on other legal and regulatory requirements

Engagement

We were engaged by the supervisory board as auditor of International Card Services on 24 January 2017, as of the audit for the year 2016 and have operated as statutory auditor since that date.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

Other non-prohibited services provided

In addition to the statutory audit of the financial statements we have audited prudential reporting to the Dutch Central Bank as required by Dutch Law.

Description of responsibilities for the financial statements

Responsibilities of management and the supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing ICS's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate ICS or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on ICS's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing ICS's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.,:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting

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

- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ICS's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ICS's ability to continue as a going concern.
  If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

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

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 31 May 2018

Ernst & Young Accountants LLP

signed by P.J.A.J. Nijssen

Wisselwerking 32
Postbus 23225
1100 DS Diemen
KvK Amsterdam nr 33.200.596

INTERNATIONAL CARD SERVICES