ICS VISA MasterCard
INTERNATIONAL CARD SERVICES

International Card Services Annual Report 2018

For the year ending on

31 December 2018

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1. INTRODUCTION

1.1. ICS Profile

International Card Services (ICS) is the largest and leading Dutch credit card issuer. With more than three million cards, ICS' share in the Dutch credit card market is approximately 46%. For more than 30 years, we have been dedicated to offering our customers payment and credit products at the best service levels. Our cards offer our customers a secure, convenient and fast payment method all over the world and supplementary insurance to cover contingencies. More than three million ICS cards are currently in circulation, either issued directly or in collaboration with co-branded partners.

ICS excels in fraud prevention and we monitor our customers' security 24/7. Not only is the quality of our customer service certified and award-winning. Customers value ICS as a partner they can always count on. They recommend us more to others than other financial institutions. As a consequence, we continue to achieve results and we see the use of our credit cards increase.

In view of the changes in society and our sector, ICS wants to contribute to a safer society and increased trust in financial institutions. Financial transactions are becoming progressively faster as well as easier. No matter what might happen in the world, we want to make sure our customers can always make payments without worry, now and in the future.

1.2. 2018 in Brief

Despite signs of slowing economic growth towards the end of the year, transactions and turnover continued to increase in 2018, with growing retail and online sales. ICS again processed an all-time high number of transactions: 99 million, a 11% increase compared with the previous year. Card present transactions increased by 10%, in large part due to a 50% increase in contactless transactions. Turnover increased by 7% to 7,875 million.

In line with the expected trend, the credit portfolio of ICS decreased by 18% to € 592 million, compared with € 720 million at the end of 2017. This followed increased focus on providing financially sound credit by ICS, within the financial sector in general and by the Dutch Authority for the Financial Markets (AFM).

ICS rolled out a redress scheme in 2017, for certain issues related to granting loans above the customers borrowing capacity, as identified in 2015. As a result of the commitment of ICS to carry out the redress scheme in full and recover every customer rightfully entitled to compensation, the redress scheme has been almost completed.

ICS has committed itself to a remediation programme to speed up remediation actions in relation to Customer Due Diligence (CDD), and that has been shared with the Dutch Central Bank. For the incremental external costs involved, we've taken a provision in 2018 of € 30 million.

1.3. CEO's Message

The past year was important for ICS in various ways. While we saw a continuing increase in both the number of and gross turn-over of credit card transactions, we made important progress in defining the new strategy and ensuring a future-proof organisational structure. We made far-reaching changes to our organisational structure and our management, reducing management layers and the number of managers in general. We formally accommodated all activities and functions within the new management structure, increasing efficiency and effectivity. The mandates have been redefined and are placed lower down in the organisation, resulting in swifter decision-making and more agile processes.

This is all part of a transformation that has not yet been completed. We presented our plans for reorganisations in 2018, and our Works Council issued a favourable advice on them at the beginning of 2019. The plans reflect what is necessary to increase the agility of ICS, improve efficiency and thereby enable investment in our innovative potential. These changes are not a goal in itself, but are a part of ICS' goal to continue to be a responsible and innovative financial institution, acting in the customer's interest. Building our future proof organisation is the first step in a process that will transform ICS into the safest and most reliable payments organisation, anytime and anywhere.

Times are changing: what is deemed safe today, might not be safe tomorrow. At the same time, people share more personal information of themselves than ever before, both knowingly and unknowingly. Identity fraud has become a real threat and phishing tactics are increasingly ingenuous. ICS excels in fraud prevention and we monitor our customers' security 24/7.

At the same time, we have concluded that our responsibility to help protect the financial services sector and our continued co-operation with – amongst others – our shareholder, regulators, other banks, law enforcement and customers requires us to accelerate our activities. Therefore, ICS has drafted a 'Wwft programme', that was submitted to DNB in January 2019. In March 2019 DNB expressed that the 'Wwft programme' meets their expectations on the remediation actions needed. Over the coming 2-3 years, the 'Wwft programme' will contribute to safeguarding our organisation, our customers, and the financial sector as a whole against the threats of money laundering and terrorist financing. ICS has taken a provision of € 30 million for this programme. Building partly on our experiences from the redress scheme and on our experience with fraud prevention, we are convinced we will deliver our goals in the expected time frame.

ICS wants to contribute to a safer society and increased trust in financial institutions. Financial transactions are becoming progressively faster as well as easier. No matter what might happen in the world, we want to make sure our customers can always make payments without worry, now and in the future.

It is impressive to see that while all these changes are happening, our employees continue to work with the customer's interest at heart. I want to thank everyone who worked for ICS during 2018 for his and her contribution to our results.

Besides profit, turnover and the number of transactions, this is probably best reflected by the fact that our customers continue to value our products and services, translated into customer satisfaction levels and an NPS score that is more than simply above average within the financial sector. This is a result for which our continued co-operation with our co-branders is also an important building block. In that light, we welcome Volksbank customers, who are serviced via ICS since 2018, bringing our total number of co-branders to 19.

Diemen, the Netherlands, 24 May 2019

Maurice Koot,
CEO ICS

600
Over **600 employees**

3 Million
More than **3 million credit cards** in circulation

Service
High levels of customer **satisfaction**

AFM
The Dutch Authority for the Financial Markets (AFM) supervises the conduct of the entire financial market sector, among which ICS

DNB
ICS has been granted a **banking licence by DNB**

99 Million
In 2018, ICS processed more than **99 million transactions**

19 Partners
ICS issues credit cards in co-operation **with 19 co-branding partners**

35 Million
You can pay with an ICS credit card at more than **35 million locations**, in more than **140 currencies**

Savings
Customers receive **interest** when their **positive balance** totals more than € 500

Benefits
Worldwide payment **convenience**, **chargeback** and **purchase insurance**

Contactless
Contactless payments via more than **2,5 Million** of our credit cards and via several types of wearables.

Safety
24/7 customer security monitoring. Close co-operation with regulators, government, other **financial instutions** and **law enforcement**

2. REPORT OF THE SUPERVISORY BOARD

The Supervisory Board is pleased to present the ICS Annual Report and Financial Statements 2018, as prepared by the Management Board. The past year has been an important year for ICS, with both internal and external challenges. The Supervisory Board is pleased with the results ICS has achieved.

2.1. Composition of the Supervisory Board

During 2018, several changes in the composition of the Supervisory Board took place, due to succession and broadening the Supervisory Board with members with competences related to consumer credit.

- As of 15 January 2018 Erica Kostelijk was appointed as a Supervisory Board member.
- As of 14 February 2018 Claire Dumas was given an honourable discharge as a Supervisory Board member.
- As of 14 February 2018 Jos ter Avest was appointed as a Supervisory Board member and as chairman of the Supervisory Board.
- As of 28 August 2018, Jan Speksnijder was also appointed as a Supervisory Board member.

As of August 2018, the Supervisory Board consists of four members. An overview of the members of the Supervisory Board as of May 2019 is included in Section 7.3 Supervisory Board.

Members of the Supervisory Board act in accordance with the interests and continuity of ICS, taking account of the relevant interests of the company's stakeholders. Given its current composition, the Supervisory Board is of the opinion that the Supervisory Board as a whole comprises the required knowledge, expertise and experience to adequately perform its supervisory duties in relation to ICS. It combines both general knowledge and experience of financial institutions, as well as specific knowledge of consumer credit, for example.

The responsibilities and duties of the Supervisory Board are laid down in the Supervisory Board regulations and are described in Section 7.3 Supervisory Board. These regulations supplement the responsibilities and duties assigned to the Supervisory Board by Dutch law and by the ICS Articles of Association.

2.2. Supervisory Board Meetings

In accordance with the Supervisory Board regulations, the Supervisory Board held four regular meetings in the past year. Also, two additional meetings took place, where the organisational change including the composition of the management team and long term strategy and the business model were discussed. The Supervisory Board also carried out the annual evaluation of its performance.

Additionally, during 2018, the Supervisory Board was in close contact with ICS, its Board of Directors and relevant stakeholders such as the supervisory authorities, on a variety of subjects. The most important subjects of these are discussed below.

The Supervisory Board has been closely involved in the selection process for the current Board of Directors, as well as the broader Management Board. During part of 2018, ICS had one Statutory

Member of the Board. The Supervisory Board cooperated closely with CEO Maurice Koot, during this period. We are pleased that as of 8 January 2019, Petra Vernooij has also been appointed as Statutory Member of the Board. It is the intention to expand the number of Statutory Members of the Board to four, subject to the approval of the supervising authorities.

The changes and appointments in the Board of Directors and the Management Board are part of a broader reorientation and reorganisation of ICS, on which the Board of Directors regularly updated the Supervisory Board. In addition to close contact with the Board of Directors, the Supervisory Board also has regularly contact with the Works Council of ICS on this subject. This will continue into 2019.

The Supervisory Board closely followed the execution of the standing ICS business strategy and also regularly informed itself on the development of the new 'Aspiration 2022' business strategy. We believe that the combination of an agile way of working, a healthy payment business, a responsible credit business and an inspired workforce will contribute to the future of ICS and its current and future customers.

Together with the Board of Directors, the Supervisory Board is satisfied that the redress scheme, following the identification of certain past issues related to the granting of credit and loans to customers above their borrowing capacity, has nearly been completed. The same applies to the implementation of several credit measures for Spread Payment Facility customers, such as, the abolishment of the 2% penalty when a customer misses a due date and the introduction of a 'soft block' after thirty days in arrears. Both measures are in line with the views of supervisory authority AFM.

In addition to regular meetings, the Supervisory Board had additional meetings on safeguarding society from the threats of money laundering and terrorist financing. In its role as a gatekeeper of the financial services industry, ICS has committed to further strengthening and enhancing its CDD activities and transaction monitoring. This has been translated into a 'Wwft programme' for the coming two to three years, for which a provisions of € 30 million has been taken.

2.3. Risk & Audit Committee

The Supervisory Board has one regular committee, namely the Risk & Audit Committee. All members of the Supervisory Board are members of this Committee. The responsibilities of the Risk & Audit Committee include assessing all matters relating to the principles of valuation and determination of results, internal control, the financial reporting functions, the internal audit, the external audit, risk assessments and compliance with regulations. For example the follow up of audit findings related to the redress scheme to compensate clients, to anti-money laundering and to IT-controls.

2.4. Corporate Governance

For more information on the composition of the Supervisory Board and its duties and responsibilities, see Section 7.3.

2.5. Advise to the Shareholders Meeting

Over the past year, the Supervisory Board has appreciated the open, transparent communication between and cooperation with the Board of Directors of ICS and ICS as a whole. If ICS carries through its business strategy and continues to anticipate and react to threats and opportunities in its current manner, we are convinced that ICS can look forward to the future with confidence.

The Supervisory Board wishes to thank ICS and its employees for their strenuous efforts and activities to serve their customers over the past year, and the results they have achieved. The Supervisory Board proposes to approve the Annual Report and Financial Statements 2018 and to discharge the Management Board for their provided leadership and the Supervisory Board for their supervision.

Diemen, the Netherlands, 24 May 2019

Supervisory Board
International Card Services B.V.

3. REPORT OF THE STATUTORY BOARD OF DIRECTORS

3.1. ICS Business Model

Key to ICS' business strategy is that we choose to apply a clear separation between our Payment and Credit products. We have established separate Grids for these product lines, and we avoid cross-subsidisation between the two product lines. To implement 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 potential default risk. We see this as an integral part of both our credit risk management and our duty of care to our customers.

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, covering credit, pre-paid, mobile, point-of-sale and online. The business model for our Payments product line is volume driven. We deliver mass customised 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).

With our Payments proposition for commercial customers, ICS helps companies focus on their business. Naturally, it offers the same secure, convenient and fast payment methods as is the case for customers. In addition, it helps companies improve their cash flow management through increasing predictability and manageability of their cash flow. Moreover, it simplifies the invoicing process for companies.

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. Some of our customers have a credit facility in addition to their credit card, allowing them to repay in instalments ('Spread Payment Facility' or SPF). We aim to both manage our credit risk and ensure our products are in our customers' best interest. ICS therefore introduced several measures to prevent customers from getting in arrears in the first place and to resolve arrears more quickly. At the end of 2018, the number of new customers in arrears had decreased by approximately 45%, compared with the previous year.

3.2. 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. In 2018, we introduced our new and improved business strategy, 'Aspiration 2022'. It describes our goal to become an innovative, responsible consumer credit provider with a healthy payments business. In the first half of 2019, we will finalise the approach for the implementation of this strategy. More information on this is provided in our Outlook for 2019.

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

PAYMENT PRODUCT AT ITS BEST

ICS helps shape the future of card payments by introducing customer-centric innovations such as contactless payment with wearables, co-operating with several smart watch manufacturers. Moreover we turn our Commercial Card portfolio into an even more relevant proposition for the Small and medium-sized enterprises (SME).

RESPONSIBLE CREDIT

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

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 is committed to a 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 investments for improving systems, processes, products and people.

3.3. Strategic Developments

Within the continuously changing financial sector, three spearheads are particularly important for ICS: Customers interest & behaviour, Digitalisation & Innovation and Regulatory environment. We reached several milestones within these spearheads, reflecting the progress achieved by ICS.

3.3.1. Customers interest and behaviour

The activities and services ICS provides are focused on the creation of sustainable value for our customers. Where applicable and necessary and with regard for customers' interest, we adapt our products and services to accommodate the changing environment and consumer behaviour. Customer centricity is important, since it contributes to fair treatment of customers, contributes to customers' trust in ICS (and the financial sector as a whole) and increases customer loyalty.

Building on efforts undertaken in previous years, ICS made several important changes. We abolished the 2% penalties for customers

who missed their first two due dates and we introduced 'soft blocking' after 30 days in arrears. This way, customers in arrears are not faced with further increases of payments due. Following the implementation, we have seen a decrease of more than 23% of SPF customers in arrears. Furthermore, ICS introduced 'Zorginstrument', to give a specific group of customers with persistent payment problems an arrears-free and debt-free perspective.
ICS uses the Net Promoter Score (NPS) to measure customer satisfaction and help us improve customer satisfaction and experience. ICS aims to achieve an NPS of +18. In 2018, the scores ranged from +8 to +27 for the various cards ICS issues, with an overall score of +15 (2017: +18). This score is above the market average and qualifies as 'Good'.

3.3.2. Digitalisation & innovation

Digitalisation & Innovation has both internal and external impact on the activities and results of ICS. Internally, the establishment of an Innovation & Technology Department contributes to the agile way in which colleagues work and collaborate to achieve the goals of ICS. Externally, in 2018, ICS was one of the first financial service providers to offer customers the possibility to pay contactless using their smartwatch, through co-operation with Garmin Pay and Fitbit Pay. ICS also partnered with CreditClick. Within 6 months, we completed the process from idea to realisation of an initiative to provide customers with instant online credit for small (< € 1,000,-) but durable purchases. ICS is convinced that co-operation with external partners, including Visa and Mastercard, is essential to enable the flexibility and versatility modern-day customers require.

3.3.3. Regulatory environment

In 2018, ICS successfully implemented the obligations and requirements pursuant to the General Data Protection Regulation (GDPR) that came into force on 25 May 2018. We continued to prepare for the Payment Services Directive II (PSDII), which gives new parties access to the payments market. After some delay, PSDII was implemented in the Netherlands in the second half of February 2019. ICS also made adjustments following the enforcement of the fourth Anti-Money Laundering Directive (AML IV) in June 2018 and in anticipation of the fifth Anti-Money Laundering Directive (AML V). Moreover, ICS has committed itself to the acceleration of Customer Due Diligence (CDD) activities, for example through a remediation programme, for the coming two to three years. The aforementioned changes in the field of laws and regulations are discussed in greater detail in Section 5 Regulatory environment.

3.4. Financial Developments

3.4.1. Financial results

The following table presents the key financials for the years 2017 and 2018.

(in millions, €, unless otherwise stated)

	2018	adjusted 2018*	2017	adjusted 2017*
Net profit	55	73	110	69
Operating income	221	215	297	220
Operating expense	(150)	(120)	(143)	(121)
Impairments	(7)	(7)	(6)	(6)
Cost-to-income-ratio (CIR)	67,8%	52,6%	48,3%	55,0%
Turnover	7.875	7.875	7.349	7.349
# of card transactions	99	99	89	89
Portfolio	1.065	1.065	1.184	1.184
# cards in circulation	3.063	3.063	3.016	3.016

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

**adjusted for one-off items Wwft and revaluation Visa C-shares

In 2018, net profit was € 55 million, a decrease of 50% (€ 55 million) compared with 2017. Significant one-off items were recognised in both years.

A provision of € 30 million was recognised in 2018 for Wwft (see Section 3.8 Operational Developments) and 2017 was favourably impacted by € 114 million from the sale of ICS' Visa Inc. class A-shares. In 2017 ICS formed a provision of € 24 million for a restructuring plan and an additional provision for the redress scheme (€ 30 million).

After adjustment for the Wwft provision of € 30 million and revaluation of the Visa C-shares, net profit in 2018 was € 73 million, € 4 million (or 6%) higher than the adjusted result for 2017.

Operating income in 2018 decreased due to the impact of the aforementioned one-off items in 2017. In 2018, adjusted operating income decreased by € 5 million compared with 2017, largely due to a decline in the revolving credit portfolio which had a negative impact on interest income. Higher commission and fees were driven by increased consumer turnover (+7%) and a to higher transactions volume.

Operating expenses increased mainly due to the formation of the Wwft provision partly offset by a decrease in personnel expenses (restructuring provision in 2017). In 2018, adjusted operating expenses decreased by € 1 million compared with the previous year, again due to lower personnel expenses. Amortisation expenses relating to intangible assets decreased compared with 2017. Rebilling expenses increased due to a higher allocation of ABN AMRO Bank N.V. staff to ICS.

As a result of lower operating income and higher operating expenses, the cost-to-income ratio deteriorated to 67,8%. The adjusted cost-to-income ratio improved from 55% in 2017 to 52,8% in 2018. The loan impairments increased by € 1,3 million compared with 2017 due to the implementation of IFRS 9. Furthermore, net credit loss decreased, due to lower gross losses and bailiff expenses.

The tax burden improved due to the repayment of company tax for previous years.

3.4.2. Financial position

Total assets amounted to € 2 billion, a decrease of € 363 million compared with 2017. Balances at credit institutions and ICS' portfolio have decreased compared to 2017. The total portfolio was € 1,1 billion at year-end 2018, a decrease of € 107 million compared with 2017.

Total equity was € 305 million, € 76 million lower than in 2017 due to a lower result and higher dividends paid out.

Total liabilities (excluding shareholders equity) decreased by € 287 million to € 1,7 billion in 2018. This decrease is mainly due to lower funding requirements on account of a lower consumer loans and advances portfolio, partially offset by an increase of amounts due to customers.

At 31 December 2018, the LCR was 114% and the NSFR 130%. The Total Capital Ratio (25%) and the Leverage Ratio (10%) were also well above the regulatory requirements (for more information, see Note 9.33 and 9.34).

3.5. Business Developments

3.5.1. Customer satisfaction

The success of ICS largely depends on the quality of our products and services and the loyalty they create among our customers. A customer-centric experience (articulated in our see-think-do-care approach) in combination with quality awareness by our staff have been and will continue to be pillars of our strategy and business operations.

Through both the NPS for ICS and our various co-operations with co-branders, as well as our internal customer satisfaction scores, we were again awarded high ratings in the year under review. The goal for ICS is to continuously exceed our customers' expectations. As part of Aspiration 2022, this has been coupled to an NPS of +18. This score is above market average and qualifies as 'Good'. Our overall NPS for 2018 was +15, with a range from +8 to +27. In-depth analysis provides us with insights into key factors to increase customer satisfaction and experience within the boundaries of our products and services.

3.5.2. Customer's interest

ICS puts the customer and the customer's needs and interests first. Our efforts are focused on the customer's needs, as well as – and above all – on what is beneficial to the customer and what is compatible with his or her financial situation. This not only influences the strategy, policy and processes of ICS, but also the attitudes and behaviour of our staff as a vital component of our corporate culture.

This commitment is shown in various ways, in relation to our customer base in general and through special attention for customers in vulnerable financial positions. For example, during the past year the conditions for the acceptance of new customers were made more stringent. We increased the monitoring frequency of existing customers to enable us to identify indications of a specific customer's financial situation that give cause for concern, such as late payment. We will discuss several measures in more detail below.

3.5.2.1. AFM 1:20 measures

In 2018, ICS abolished the 2% penalty for customers who missed the due date and we introduced 'soft blocking' after 30 days in arrears. This means that customers in arrears are not faced with further increases of payments due, for either their own expenditures or penalty interest. These measures are part of a broader set of measures, following the redress scheme, whose implementation has almost been completed.

3.5.2.2. Zorginstrument

In the autumn of 2018, ICS introduced 'Zorginstrument'. As part of this initiative, arrangements are made with customers who have persistent payment issues, and who because of their individual financial situations are not expected to catch up on their arrears within regular attachments. Based on strict principles, a feasible repayment scheme within a reasonable period is agreed with customers, under which the customer can repay enough of his arrears. Although in most circumstances ICS is not the largest creditor or the main reason for a customer's credit issues, with Zorginstrument, ICS does contribute to a debt-free future for vulnerable customers. It is expected that three out of five customers with whom ICS makes arrangement for a repayment scheme will qualify for the strict approach of Zorginstrument. Based on experiences and outcomes, ICS will adjust the approach if and when useful or necessary.

3.5.2.3. 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 developed a redress scheme that provides remedial measures for the customers who were affected. This scheme includes financial compensation for specific customers.

In 2018, ICS continued the redress scheme that was initiated in 2017. At the end of 2018, all customers involved had been contacted, with only a marginal (< 3%) number of customers left in scope. Most of these customers were offered individual action plans, due to the complicated nature of these cases (e.g. revolving credits, deceased customers). ICS remains committed to carrying out in full the redress scheme and recovering every customer rightfully entitled to compensation.

3.5.2.4. AFM dashboard

Each year, the AFM draws up a specific module for Consumer Credit companies, as part of the Customer Interest Dashboard ('AFM Klantbelang Dashboard 2018'). Together with 11 other parties, we participated in this module for our credit product, and were assessed on 6 components. ICS improved its overall score by 0.3 points for the second consecutive year, resulting in a score of 2.3 on the 5-point scale. The average overall score of all participants increased from 2.4 to 2.5, after decreasing from 2.6 in 2016.

3.5.2.5. Security and Fraud Prevention

The payment system and our IT-infrastructure form the foundation for ICS to ensure that our customers can use their credit card for fast, simple and safe payments. Laws and regulations are the context within ICS works in relation to preventing and combatting (financial) criminal activities. After 30 years, we have a proven track record of maintaining safety in payments via credit card. ICS sees it as an obligation to communicate openly and transparently on the successes it achieves in preventing and combatting criminal financial activities and on the safeguards that customers, merchants and other parties involved can apply to contribute. Therefore, we report regularly, for example via the media, on the results in taking down phishing sites, with around 300 deceitful websites being eliminated on a monthly basis thanks to ICS.

One of our greatest responsibilities is to protect our customers and businesses as well as their financial data through safe payment transactions. ICS 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. In addition, we take immediate action in case of external data breaches that impact our customers' card information. When customers do become victims of (online) criminals, ICS manages to recoup over 75% of the initial damage, preventing even more damage to customers via future transactions.

The safety of our credit cards is the result of a joint effort by ICS, together with our customers, merchants, acquirers and other private and public organisations. Not only does ICS have great knowledge and expertise in this field, as a large financial service provider, we also see it as a social responsibility to share this knowledge and expertise, to further promote safe payment transactions. We work together with other organisations to prevent fraud and financial crime, for example the Electronic Crimes Task Force. ICS also is the main sponsor of the Wim van Doorn Award, committed to honouring persons or organisations that have contributed to the prevention of fraud, through co-operation and through innovative measures.

3.6. Employee and HR Developments

3.6.1. 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 customers' interests, 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 relevance to society.

3.6.2. Getting our team ready for the future

Consumer demand, our competitors as well as technological possibilities result in continuously changing environment for ICS. ICS is transforming in line with this dynamic world. We are changing our structure, our way of working, our capabilities, our propositions and our systems and processes. Important steps were taken towards this in the past year, for example through optimising our organisational structure, our culture and our working environment, as well as through the renewal of our terms of employment and the development of a new Social Plan. Our focus on the role of Human Resources within our business strategy is underlined by the addition of the HR manager to the ICS Management Board.

3.6.3. Optimising ICS' structure

Adjustment of the organisational structure of ICS contributed to the efficiency of our business management and made ICS more futureproof. Changing the management structure aligned the organisation with our business strategy, after which new talent was attracted and attention was given to the necessary capabilities within management positions.

Subsequently, in the fourth quarter of 2018, we formally accommodated all activities and functions within the new management structure, increasing efficiency and effectivity. At the same time, the number of management layers and management positions was reduced. As a result, mandates are placed lower down in the organisation, resulting in swifter decision-making and a more agile organisation.

Finally, also in the fourth quarter, further plans and activities as part of the restructuring and reorganisation were presented to the Works Council. Our goal is to continue to increase the agility of ICS, improve efficiency and thereby enable investment in our innovative potential. Attracting top talent in the field of innovation, technology and agile working is essential and will therefore be a main priority for ICS in 2019. With regard to the restructuring and reorganisation, the Management Board continued its open and thoughtful communication and approach on context, content and consequences of the plans in 2018. We will continue this approach in 2019.

3.6.4. Further developing our culture

Over the coming years, ICS will continue its transition, maintaining its position as a responsible and innovative financial institution, acting in the customer's interest and continuously anticipating and adapting to the continuously changing market. With this in mind, in the first half of 2018, we explicitly paid attention to our employees' mindset on the trends that are relevant for ICS. Learning ability and agility, in combination with a focus on performance, are essential for the culture of ICS to deliver our strategy. Concrete and visible adaptations and interventions are key, such as fewer management layers, multi-disciplinary teams that are focused on specific product groups and a more agile way of working.

We will continue to work on the necessary culture, hand in hand with our focus on our customers interest, cooperation, trustworthiness and inspired employees who take responsibility for result. The focus on an inspired workforce is especially important since the ICS organisation and structure are undergoing tremendous changes. We focus on the employability of our employees, but management is aware of the fact that this changing environment can have an impact on our employees' commitment.

3.6.5. Rewarding and caring for our employees' interests

3.6.5.1. Social plan

The changes in the financial sector, such as the on-going digitalisation, a focus on core activities and outsourcing of other activities, are impacting on employment in the financial sector as a whole, as well as at ICS.

As a good employer, ICS believes it is of the greatest importance to mitigate the consequences of this development. For this reason, ICS agreed upon a new Social Plan with the labour unions in 2019. Personal development, employability and mobility are major features of this Social Plan. ICS makes every effort to facilitate and support its employees in those areas.

Our goal is to minimise forced dismissals, focusing on supporting work-to-work transactions, either within ICS or outside our company, and to maximise the chance of optimal (out)placement of our employees. As part of the Social Plan, a thoughtful, transparent and fair process has been drawn up in the event of a reorganisation. Possible negative outcomes of a reorganisation are minimised for employees, for example by financial arrangements, in addition to the work-to-work support referred to above.

3.6.5.2. Terms of employment

The ICS performance management system was developed further in 2018, in line with the desired organisational culture. More than ever, we want responsibility and initiative to be part of how individual employees act. In addition to agreements on 'What' will be realised and 'How' this will be realised, we use feedback instruments to accommodate personal development as well as developmental and vitality arrangements. To maintain an attractive profile as an employer, we strive for modern and attractive terms of employment. For example through a cafeteria-model system of terms of employment, and less through a performancedriven system. Where possible and applicable, we look for opportunities through cooperation with ABN AMRO in this field. Overall, ICS continues its ethical remuneration practice, within the frame work of the Wet beloning financiële ondernemingen.

3.6.5.3. Working environment and tooling

To enable our business strategy and to strengthen the position of ICS in the 'war on talent', our working environment and tooling for our employees must be suited to a modern and innovative organisation. Several initiatives were launched in 2018 that will lead to new facilities, new hardware and software and new means for knowledgesharing and cooperation. Together with further flexibilisation of working hours, the right conditions as well as the right incentives for employees are created to take control and work flexibly and autonomously.

3.6.5.4. Personal and professional development

Against the background of this transition, we maintained focus on the personal and professional development of our employees. Most of our employees continued their activities on our training- and development platform 'SAM' in 2018. There was significant demand for the various courses and the platform has been evaluated through dialogue with our employees. The training offer was aligned with the requirements of both ICS and our employees. Demand for courses and training in relation to an agile way of working and combatting money laundering and terrorist financing was particularly strong.

3.6.5.5. Privacy

The implementation of the GDPR in the Netherlands on 25 May 2018 led to several adjustments in relevant systems and processes, both in relation to the role of ICS towards its customers and towards its employees.

3.7. Operational Developments

3.7.1. Customer due diligence

ICS strives to protect its customers and businesses as well as their financial data through safe payment transactions. Moreover, as a financial institution we have an important responsibility in combatting and preventing money laundering and terrorist financing. ICS feels this responsibility intrinsically, and takes its responsibility as gatekeeper within the financial sector very seriously. Security and fraud prevention occupy a central place, and where necessary and applicable, ICS works closely with external stakeholders, including regulators, governments, other banks and law enforcement.

Building on the work that has been done in the past and taking into account existing shortcomings and input from the Dutch Central Bank, Customer Due Diligence (CDD) activities will be accelerated. ICS has committed itself to a remediation programme to speed up remediation actions. The programme has been submitted to the Dutch Central Bank in January 2019 and has been approved in March 2019. For the incremental external costs involved, we have taken a provision in 2018 of € 30 million. The amount is based on, among other items, the total number of cases, the time needed to review each case, the percentage that will be reviewed using external resources and potential remediation actions.

ICS is committed to fulfill its responsibility by following through its Wwft programme. However, in general, experience and time have shown that efforts in this field will never reach an end. External threats and the subsequent demands from society, lawmakers and ourselves will continue to challenge the vigilance of our organisation. As a result, ICS continues to strengthen its systems and procedures to minimise potential risks for our organisation, our customers and other stakeholders.

3.7.2. Other developments

ICS continuously develops and improves its systems and procedures to serve its customers. These operational developments do not always directly impact the way we interact with our customers, but ultimately always relate to improvements that benefit the customer. A good example is provided by the improvements in fraud rules in relation to online fraud detection and transaction monitoring and client filtering. In 2018, ICS adjusted procedures for the further introduction of 3D Secure, which ensures safe and reliable online payments. We also improved internal transfer procedures between our collection departments for customers in arrears. Furthermore, we made preparations for further improvement of our acceptance procedures, with an application score card and behavioural scoring.

4. RISK MANAGEMENT

ICS is committed to being a well-capitalised bank with sufficient liquidity that focuses on delivering sustainable value to its stakeholders. ICS is committed to a sound risk/reward profile and an overall moderate risk profile. ICS continuously 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 identified, assessed, mitigated, monitored and reported.

In 2018, ICS started a reorganisation, one of the outcomes of which was the decision to separate the Chief Financial Officer and Chief Risk Officer functions. ICS believes this will contribute to further improvement of its risk management.

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 main risk types are identified by ICS (see Note 9.34):

- Credit risk
- Market risk
- Liquidity risk
- Operational/Non-Financial risk
- Business risk

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. Courses are open to and meant for all ICS employees and are of particular importance given the changes related to the reorganisation.

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 of risks and is responsible for identifying, assessing, responding to, monitoring and reporting of risks and events. Furthermore it applies the Risk framework and executes the monitoring of controls.

The **Second Line of Defence** controls risk and is responsible for bank-wide policy setting, designing and maintaining the Risk Framework, testing the effectiveness of controls and overseeing the risk exposure. It supports the first line in applying the framework and challenges the monitoring performed.

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 of the first and second line, 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 three risk committees in its risk decision-making.

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.

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.

PROGRAMME 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 the business model and risk profile.

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 they may face. 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.

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 2019. The modifications will include further specification and could result in an increase or a decrease in the additional buffer.

ECONOMIC CAPITAL

Economic Capital is not calculated specifically for ICS, but through consolidation at an 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 2019 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 2018, 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. In addition, there were important developments regarding the GDPR-directive and the AML-directives IV and V.

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 2018, following an invitation by the European Commission invited market parties to respond to its FinTech consultation, as part of its Action Plan for retail financial services.

The European Banking Authority (EBA) launched a detailed consultation on FinTech in August 2017. Subsequently, in March 2018 the EBA published its FinTech Roadmap, setting out the priorities for further work on financial innovation and establishing the FinTech Knowledge Hub. The Roadmap also describes the EBA's next steps and indicative milestones for

2018/2019 in light of the stakeholder feedback received and in alignment with the Commission's FinTech Action Plan. In July 2018 the European Parliament (EP) published a Monetary Dialogue on virtual currencies, which contains an overview of virtual currencies describing relevant technological aspects and different use cases. Based thereon, EP derives implications for financial market regulations and monetary policy (with a focus on the possibility of central bank digital currencies). On 15 March 2018 the Joint Committee of the European Supervisory Authorities (ESAs) published its final report on Big Data analysing its impact on consumers and financial firms. Overall, the ESAs have found that while the development of Big Data poses some potential risks to financial services consumers, the benefits of this innovation currently outweigh these. Many of the risks identified by the ESAs are mitigated by existing legislation. Where applicable ICS has incorporated such legislation.

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.

GDPR

The EU General Data Protection Regulation (GDPR) aims to reinforce the data protection rights of individuals and facilitate the free flow of personal data in the digital single market. GDPR requirements are stricter than those in the former EU Data Protection Directive. Moreover, the powers of the Dutch Data Protection Authority (Autoriteit Persoonsgegevens) were expanded. The GDPR applies as of 25 May 2018, coinciding with the repeal of the existing Dutch Data Protection Act (Wet bescherming persoonsgegevens). Implementation of the GDPR at ICS started and was mainly completed at an earlier stage.

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. After the deadline for implementation of PSD II into Dutch law on 13 January 2018 was not met, PSD II was ultimately implemented by the Dutch government on 19 February 2019.

By then, ICS had already started incorporating the implementation of PSD II in its workflows and systems. The Regulatory Technical Standards by EBA, implementing SCA, will become effective as of September 2019.

AML IV AND V

Implementation of the fourth EU anti-money laundering directive ('AML IV') in national legislation took place in 2018.

Meanwhile, in light of the Panama Papers revelations and in direct response to the then recent terrorist attacks in Europe in July 2016, the European Commission proposed further European anti-money laundering and prevention of terrorism financing legislation: AML V. This directive came into effect on 9 July 2018 and introduces, amongst other things, a UBO register. Regarding the implementation of AML IV within the organisation, ICS focused on training its staff accordingly and thus strengthening the compliance awareness level throughout ICS.

6. OUTLOOK 2019

A new and improved business strategy was introduced in 2018. ‘Aspiration 2022’ describes our goal to become an innovative, responsible consumer credit provider with a healthy payments business. This business strategy, together with the spearheads, is leading for our activities in 2019.

6.1. Change Story

No matter what might happen in the world, we want to make sure our customers can always make payments without worry, now and in the future. To achieve this, we will first lay a foundation: we will invest most of our time and energy in making ICS viable for the future. This means we must comply with the new requirements set by regulators and the market, and need to do a better job of offering our customers added value. We’re going to adopt Agile and Lean practices and start organising our operations more efficiently.

Credit cards will remain a key product, but they will serve as a basis for new propositions. We will also be introducing all-new forms of payment. We will be introducing new technologies and new features across all Channels, to really ‘Reinvent the customer experience’, shorten our turnaround times and meet our customers’ needs more efficiently. So customers can manage their own business with next to no effort, based on maximum transparency of the products they are using.

ICS already excels in fraud prevention and we monitor our customers’ security 24/7, but we want to really make a difference in security and trustworthiness, always and everywhere. This requires that we systematically reduce our expenses, so that we can invest more and more in renewing our strategy, to which our propositions, processes and structures will have been adapted. We will do all that is necessary to become the most secure and trustworthy payment company around. No matter what happens and where in the world our customers might be, we are choosing to soar above the market standard. This calls for a major effort and for products that may diverge considerably from anything we currently offer.

We obviously value convenience, speed and simplicity as much as our customers. They should be able to rely on the smooth experience that has become the standard. But this comes in second place. A higher speed is only possible for us once security has been guaranteed.

6.2. Customer interest & behaviour

ICS will continue its focus on customer interest and behaviour, elaborating on the implementation of several measures in 2018. This means balancing what the customer demands with what is beneficial to the customer, as well as thoroughly looking at what is compatible with the customer’s (personal) financial situation. ICS implemented various measures in 2018. We will continue these measures in 2019, adapting them where necessary.

6.3. Digitalisation & innovation

ICS strives for a future-proof, open and flexible IT architecture and platform that is ready for a fintech-like business model. This is not only necessary because of technological changes in the market, but also because of our changing revenue models. Therefore, we will continue to match our customers' demands and to work more efficiently, on developing new revenue and service models, and on cost reductions. Externally, the implementation of PSDII will have a considerable impact on digital and innovative developments in financial services.

6.4. Regulatory environment

Changes in the field of laws and regulations demand continuous adjustment, adaptation and anticipation by ICS. PSDII has been implemented in the second half of February 2019, with several important steps to follow the coming year. The implementation of AMLD IV, AMLD V and related rules and regulations continue to demand the strengthening and the improvement of our role as gatekeepers to minimise the risk of money laundering and terrorist financing through financial institutions. ICS carefully monitors additional changes in the regulatory environment and the consequences they may have for our processes and for the way in which we conduct our business.

6.5. Corporate culture

ICS is facing the challenges of a declining credit portfolio and decreasing interest income. In addition, expanding financial technology companies are changing the landscape of the financial markets and the way in which customers interact with financial institutions. This influences the business strategy and corporate culture of financial institutions such as ICS. ICS actively engages in preparing for the future as an organisation as well as for our employees and we look forward to the future with confidence.

6.6. Organisational changes

Between now and 2022, ICS wants to become an innovative, responsible consumer credit provider with a healthy payments business. Although the transformation as a whole will take several years, the change will need to be maintained at the right speed. After all, shifts in consumer behaviour, technology and legislation will continue to challenge our organisation. We will choose the highest speed within the constraints of what is possible and sensible. This is discussed in greater detail in Section 3.6 Employee and HR developments.

In response to and in anticipation of changes in our environment, we started the effectuation of our new business strategy, which also has an impact on the organisational structure. Our Management Board combines an open and transparent attitude with experience in transformation and innovation. Together with the modernisation of our organisation and trimming of management layers, this changing culture enables us to take on the next phase in our agile way of working. Going forward as the financially sound company ICS has been for 30 years, we accordingly look with confidence to the future and the possibilities it harbors.

7. GOVERNANCE

7.1. Structure and Management

ICS, a limited liability company, is a wholly-owned subsidiary of ABN AMRO Bank N.V. ICS has its registered office in the Netherlands, with also a branch in Germany. ICS' Board of Directors has two statutory directors, the CEO, Maurice Koot and Petra Vernooij, Director Customer & Business Solutions.

Pursuant to our 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, we remains committed to our gender diversity ambition at all levels in the future.

The members of ICS' Supervisory Board are mostly senior managers at our shareholder, ABN AMRO Bank N.V.. One member, the chair, is engaged by ABN AMRO Bank N.V. as an external advisor.

7.2. Management as of 31 December 2018

SUPERVISORY BOARD

Ms E.E. Kostelijk, Member
Mr J.M.A.J. Smeets, Member
Mr J.G. Ter Avest, Chairman
Mr J. Speksnijder, Member

STATUTORY BOARD OF DIRECTORS

Mr M.M.W. Koot, Chief Executive Officer (CEO)
Ms P. Vernooij, Director Customer & Business Solutions (appointed as of 8 January 2019).

7.3. Supervisory Board

Members of the Supervisory Board 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, the Risk & Audit Committee. All members of the Supervisory Board are members of this Committee.

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 2018, two additional meetings took place.

Ms E.E. Kostelijk was appointed as a Supervisory Board member as of 15 January 2018. Ms C.M. Dumas was given an honourable discharge as a member of the Supervisory Board as of 14 February 2018 and Mr J.G. Ter Avest was appointed as a Supervisory Board member as of that same date. Mr J. Speksnijder was appointed as a Supervisory Board member as of 28 August 2018.

As of August 2018, the Supervisory Board consists of four members.

7.4. 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 was one change in the membership of the Statutory Board of Directors in 2018 since our previous Annual Report. In August 2018, Vincent Bouwens announced that he would be stepping down as CFRO of ICS. Ms Petra Vernooij was appointed as Statutory Member of the Board as of 8 January 2019. It is the intention to expand the number of Statutory Members of the Board to four, subject to the approval of the supervising authorities.

7.5. 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.

7.6. 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. They provide assurances for the implementation and appropriate performance of the controls and supervision required for effective risk management, compliance with regulations and accurate and complete disclosure of information to the shareholder.

7.6.1. 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. ICS adheres to the content and purpose of the Banker's Oath.

7.6.2. Internal audit department

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

7.6.3. 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 of ICS is based on the latest applicable guidance and legislation. This includes additional mid- and long-term requirements for identified staff with regard to variable compensation, including a claw-back arrangement.

For more information see Note 9.30 Compensation of the key management personnel.

7.7. Prevention of Corruption, Bribery, Fraud and Cybercrime

7.7.1. Corruption and bribery

One of the key risks for 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. Trustworthy relations between ICS and our stakeholders, including customers, employees, suppliers and shareholders and society in general, are therefore essential.

7.7.2. 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 business 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 maintains a business relationship.

7.7.3. Customer integrity

To ensure that ICS remains a reliable and compliant financial institution, we adhere to relevant laws and to our own policies such as Global Standards Customer Due Diligence regarding natural persons, the Global Standards Customer Due Diligence regarding business customers, the Customer Acceptance and Anti-Money Laundering Policy and the Sanctions policy. It furthermore takes into account the rules laid down by Mastercard, Visa and ABN AMRO Bank.

7.7.4. Organisational and employee integrity

All staff members are subject to mandatory training in order to recognise red flags of bribery or corruption and to be able to make proper decisions. As a rule, all actual or suspected incidents, irregularities or breaches involving for example, possible bribery or corruption or GDPR-breaches have 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.

7.8. Fraud and Cybercrime

ICS is committed to provide secure payment transactions. Our information security framework defines management and staff responsibilities and sets out security directives that apply to ICS, our vendors and third parties with whom we exchange information. The ICS fraud risk management department systematically monitors customer transactions 24/7 in order to detect fraudulent transactions, raises awareness and mitigates fraud risks. ICS raises awareness among customers and employees on how to recognise potential cybercrime, for instance by means of phishing e-mails.

In recognition of the importance of continuous protection of our customer's and organisation's information and data, we have established a structured approach to information security which is designed 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.

In addition, ICS also accepts its responsibilities as a large financial service provider. We work together with other organisations to prevent fraud and financial crime, for example the Electronic Crimes Task Force. ICS also is the main sponsor of the Wim van Doorn Award, committed to honor persons or organisations that have contributed to the prevention of fraud, through co-operation and through innovative measures. (see Section 3.6.7 Security and Fraud prevention).

7.9. 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 customers. We aim to minimise the adverse social and environmental impact of our activities and those of our customers 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.

In 2018, ICS determined that within the afore mentioned framework, a more structured approach is necessary with regard to our activities that relate to ESE aspects. After an analysis of the current situation and possible approaches, ICS started on the integration of activities under an overarching ESE approach. The initial focus will be on the contributions ICS can make within its own activities, after which the focus will be extended to fields of influence for ICS.

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8. FINANCIAL STATEMENTS 2018

8.1. Company Income Statement

(in thousands, €)

	Note	2018	2017
Income			
Interest income		92.098	70.701
Interest expenses		(2.344)	(3.317)
Net interest income	9.7	**89.754**	**67.384**
Fee and commission income		165.087	160.459
Fee and commission expenses		(40.381)	(46.713)
Net fee and commission income	9.8	**124.706**	**113.746**
Dividend and other operating income	9.9	6.704	115.429
Operating income		**221.164**	**296.559**
Expenses			
Personnel expenses	9.10	(46.007)	(69.731)
General and administrative expense	9.11	(101.714)	(70.781)
Depreciation of tangible assets	9.18	(773)	(822)
Amortisation of intangible assets	9.21	(628)	(1.557)
Rebilling expenses	9.12	(884)	(365)
Operating expenses		**(150.006)**	**(143.256)**
Impairment charges on loans and advances and other receivables	9.13	(7.302)	(6.046)
Total expenses		**(157.308)**	**(149.302)**
Profit before tax		**63.856**	**147.257**
Income tax expenses	9.14	(8.898)	(37.504)
Profit for the year		**54.958**	**109.753**

The accounting policies and Notes on pages 52 to 124 form part of, and should be read in conjunction with, these financial statements. The opening balance of accumulated other comprehensive income was impacted by the implementation of IFRS 9. Implementation and the effect on the opening balance is disclosed in Note 9.3 on page 54.

8.2. Company statement of Comprehensive Income

(in thousands, €)

	Note	2018	2017
Profit for the year	8.1	**54.958**	**109.753**
Items that will be reclassified to the income statement			
Unrealised gains/(losses) on investments	9.19	-	27.475
Unrealised gains/(losses) on Investments- deferred tax	9.23	-	(6.869)
		-	20.606
Items that are reclassified to the income statement			
Realised gains/(losses) on investments	9.19	-	(110.073)
Realised gains/(losses) on investments - deferred tax	9.23	-	27.519
		-	(82.554)
Comprehensive income (and losses)		**54.958**	**47.805**
Attributable to:			
Equity holders of ICS B.V.		54.958	47.805
Comprehensive income (and losses)		**54.958**	**47.805**

The accounting policies and Notes on pages 52 to 124 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	IFRS 9 31 December 2018	IAS 39 31 December 2017
Assets			
Cash and balances at central banks	9.15	227.010	223.330
Loans and advances to banks	9.16	644.099	901.166
Loans and advances to customers	9.17	1.064.763	1.171.509
Other assets	9.19	30.703	38.824
Investments	9.20	31.567	25.093
Property and equipment	9.18	1.876	2.427
Intangible assets	9.21	2.290	2.922
Deferred company tax assets	9.23	118	148
Total assets		**2.002.426**	**2.365.419**
Liabilities			
Due to customers	9.24	291.790	285.064
Due to banks	9.25	1.221.193	1.455.065
Other liabilities	9.26	91.120	101.202
Current company tax liabilities	9.22	5.732	36.483
Deferred company tax liabilities	9.23	3.414	3.504
Provisions	9.27	84.333	103.277
Total liabilities		**1.697.582**	**1.984.595**

(in thousands, €)

	Note	31 December 2018	31 December 2017
Equity			
Share capital	8.4	45	45
Other reserves	8.4	249.841	264.978
Result for the year	8.1/8.4	54.958	109.753
Availible for sale resreve	8.4	-	6.048
Total equity	**8.4**	**304.844**	**380.824**
Total liabilities and equity		**2.002.426**	**2.365.419**

The accounting policies and Notes on pages 52 to 124 form part of, and should be read in conjunction with, these financial statements.

The 2018 opening balance was adjusted due to impact of IFRS 9. Balance items which were impacted due to the implementation of this new standard are: loans and advances to customers, investments, current company tax assets, provisions, other reserve and unrealised gains and losses investments. See also our IFRS 9 transition disclosure in paragraph 9.3 on page 54.

8.4. Company statement of Changes in Equity

(in thousands, €)

	Note	Share capital	Other reserves	Result current year	Available-for-sale reserver	Total
Balance at 1 January 2017		**45**	**200.944**	**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		-	(40.000)	-	-	(40.000)
Changes in available for sale reserve		-	-	-	(61.948)	(61.948)
Balance at 31 December 2017		**45**	**264.978**	**109.753**	**6.048**	**380.824**
Balance at 31 December 2017 (IAS 39)		**45**	**264.978**	**109.753**	**6.048**	**380.824**
Impact of adopting IFRS 9		-	(890)	-	(6.048)	(6.938)
Balance 1 January 2018		**45**	**264.088**	**109.753**	**-**	**373.886**
Addition to other reserves		-	109.753	(109.753)	-	-
Net income of the year	8.1	-	-	54.958	-	54.958
Paid out dividend	8.5	-	(124.000)	-	-	(124.000)
Balance at 31 December 2018		**45**	**249.841**	**54.958**	**-**	**304.844**

The 2018 opening balance was adjusted due to the impact of IFRS 9. The impact of the IFRS 9 implementation on equity is € 6,9 million. In Note 9.3 ‘Change in accounting policies’ a restated openings balance is included.

Last year’s net profit was added to the other reserves for an amount of € 109,7 million. A dividend payment to the owners of the parent company, ABN AMRO Bank N.V., impacted equity with a total amount of € 124 million.

The number of shares authorised are 454 with a par value € 100,-. All of shares issued and fully paid and Notes on pages 52 to 124 form part of, and should be read in conjunction with, these financial statements.

8.5. Company Statement of Cash Flows

(in thousands, €)

		2018	2017
Cash flows from operating activities			
Operating profit before taxation	8.1	63.856	147.257
Depreciation and amortisation	9.20/9.21	1.402	2.379
Provisions and impairments losses	9.17/9.27	47.716	80.241
Adjustments on non-cash items included in profit		49.118	82.620
Fair value adjustment	9.9/9.19	(6.476)	(114.415)
Changes in operating assets and liabilities			
Loans and advances to banks	9.16	(14.883)	(35.307)
Loans and advances to customers	9.17	81.640	26.759
Other assets	9.18	13.907	(7.941)
Due to banks	9.25	(233.871)	(77.907)
Due to customers	9.24	6.725	35.930
Other liabilities	9.26	(11.229)	(28.697)
Net changes in all other operational assets and liabilities	9.18/9.26	(55.351)	31.565
Changes in operational assets and liabilities		**(213.062)**	**(55.598)**
Income taxes paid	9.14/9.19/9.22/9.23	(37.479)	(35.928))
Net cash generated by operating activities		**(144.043)**	**23.936**

Cash flows from investing activities			
Investments in financial assets available for sale	9.19	-	128.128
Purchases of fixed assets	9.20	(225)	(1.988)
Cash flows from investing activities		**(225)**	**126.140**
Cash flows from financing activities			
Dividends paid to shareholders	8.4	(124.000)	(40.000)
Cash flows from financing activities		**(124.000)**	**(40.000)**
Change in cash and cash equivalents		**(268.268)**	**110.076**
Cash and cash equivalents at 1 January	9.15/9.16	849.004	738.928
Cash and cash equivalents at period end	9.15/9.16	580.734	849.004

The accounting policies and Notes on pages 52 to 124 form part of, and should be read in conjunction with, these financial statements.

(in thousands, €)

		2018	2017
Cash and cash at central banks	9.15	227.010	223.330
Loans and advances to banks (1)	9.16	353.724	625.674
Total Cash and cash equivalents		**580.734**	**849.004**

(1) Loans and advances to banks with an original maturity less than 3 months is included in loans and advances to banks.

Supplementary disclosure of operating cash flow information

Interest paid		(2.126)	(3.317)
Interest received		62.140	70.701
Dividend received from investments	9.9	229	929

9. NOTES TO ANNUAL FINANCIAL STATEMENTS

9.1. Corporate Information

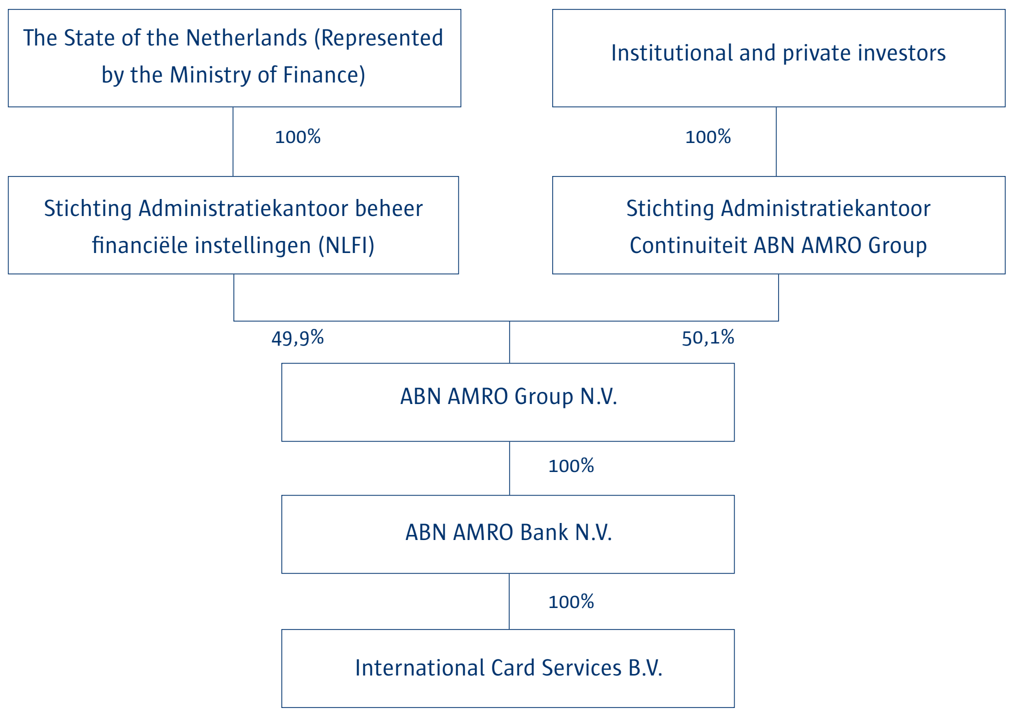
International Card Services B.V. (‘ICS’, ‘ICS Netherlands’ or the ‘Company’), together with its branch in Düsseldorf, Germany, primarily offers card services in the Netherlands and Germany. ICS is engaged in issuing, promoting, administrating and processing of Visa and Mastercard credit cards. Furthermore, 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 seated in the Netherlands 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 ending on 31 December 2018 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 24, 2019.

BRANCHES

The German branch (‘ICS Germany’), of which the office is registered in Düsseldorf, Germany, is ICS’ only branch. In 2018 ICS did not change its legal structure.



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.

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.

BASIS OF PREPARATION

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

- Financial investments are measured at fair value and are, in accordance with IFRS 9, reported in profit or loss;
- Other financial assets (including loans and advances 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 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 euros, which is ICS' reporting currency, rounded to the nearest thousand (unless stated otherwise).

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 2018 ICS adopted IFRS 9 (Financial instruments) and IFRS 15 (Revenue from contracts with customers) as amendments to IFRS:

IFRS 9 FINANCIAL INSTRUMENTS

ICS adopted IFRS 9 Financial Instruments as from 1 January 2018. IFRS 9 was issued by the IASB in July 2014 and endorsed by the EU in November 2016. ICS has applied the principles of IFRS 9 modified retrospective from 1 January 2018 onwards. Prior years have not been restated in line with the transitional provisions of the standard. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and includes requirements for the classification and measurement of financial instruments, impairment of financial assets.

See the IFRS 9 transition disclosure in this note for details of the transitional impact of IFRS 9.

CLASSIFICATION AND MEASUREMENT

The classification and measurement of financial assets under IFRS 9 is determined by the business model in which the assets are held and by 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 IAS 39 classifications of loans and advances and receivables, available for sale (AFS), FVTPL, and held-to-maturity.

As part of the transition to IFRS 9, ICS has performed an analysis of the business models and contractual cash flows of all financial asset portfolios. This transition has resulted in a number of changes. Additional information on these changes is provided in the IFRS 9 transition disclosure in this note.

The IFRS 9 classification and measurement accounting policies of ICS are explained in the section on significant accounting policies in this note.

IMPAIRMENTS

IFRS 9 replaces the ‘incurred loss’ model with the ‘expected credit loss (ECL)’ model, which is designed to be forward-looking. The IFRS 9 impairments requirements are applicable to financial assets measured 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. Financial assets without significant increase in credit risk (stage 1): 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. Financial assets with significantly increased credit risk (stage 2): lifetime expected credit loss (LECL) is recognised. Interest revenue is recognised, based on the gross carrying amount;
3. Credit-impaired financial assets (stage 3): these financial assets are defaulted and consequently a LECL is recognised. Interest revenue is recognised, based on the amortised cost.

Under IFRS 9 a customer is considered in default when ICS comes to a payment agreement with the customer due to an arrear in payments, 90 days past due or bankruptcy or when a customer has committed fraud. (See Note 9.34). Under IAS 39, a repayment agreement was not classified as ‘In Default’.

The key quantitative metric determining when a financial asset is transferred to stage 2 is an increase of the number of days past due (from ≤ 30 days past due to > 30 ≤ 90 days past due). Negative developments in the economy can also result in a transfer to stage 2.

ICS uses only three 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);
- 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.

TRANSITIONAL IMPACT OF IFRS 9

This section provides insight into the impact that the transition to IFRS 9 has on the Financial Statements at the transition date of 1 January 2018. The impact is the result of specific changes attributable to new classification and measurement requirements, combined with an increase in the allowances for expected credit losses following the new impairment requirements.

IFRS 9 TRANSITION DISCLOSURE

The following table reconciles the carrying amounts under IAS 39 with the carrying amounts under IFRS 9 and shows the impact (net of tax) on shareholders' equity and total equity attributable to the transition to IFRS 9 on 1 January 2018.

IAS 39			Reclassifications and Remeasurements due to IFRS 9			IFRS 9
			31-dec-17	Reclassifications	Restatements	
€ x 1,000	Ref	Measurement Category	Carrying Amount	From AFS to FVTPL	Provisions & Allowance	1- January 18
Assets						
Cash and balances at central banks		AC	223.330	-	-	223.330
Loans and advances to banks		AC	901.166	-	-	901.166
Loans and advances to customers	a	AC	1.171.509	-	-7.735	1.163.774
Investments (FVTPL)	b	FVTPL	-	25.093	-	25.093
Investments (AFS)	b	AFS	25.093	-25.093	-	-
Current company tax assets	c	-	-	-	2.231	2.231
Other assets		AC	38.824	-	-	38.824
Total assets			**2.321.098**	**-**	**(5.504)**	**2.321.098**

IAS 39			Reclassifications and Remeasurements due to IFRS 9			IFRS 9
			31-dec-17	Reclassifications	Restatements	
€ x 1,000	Ref	Measurement Category	Carrying Amount	From AFS to FVTPL	Provisions & Allowance	1- January 18
Liabilities						
Due to banks		AC	1.455.065	-	-	1.455.065
Due to customers		AC	285.064	-	-	285.064
Provisions	d	AC	103.277	-	1.434	104.711
Other liabilities		AC	101.202	-	-	101.202
Total liabilities			**1.944.608**	**-**	**1.434**	**1.946.042**
Equity						
Share capital			45	-	-	45
Other reserve	a-d		264.978	6.048	-6.938	264.088
Result for the year			109.753	-	-	109.753
Acailable for sale reserve	b		6.048	-6.048	-	-
Total equity			**380.824**	**-**	**(6.938)**	**373.886**
Total liabilities and equity			**2.325.432**	**-**	**(5.504)**	**2.319.928**

A) The IFRS 9 impairment requirements resulted in a € 7,7 million higher provision; this amount is excluding tax effect.

B) "Financial investments do not meet the SPPI requirements because the contractual cash flows are not solely payments of principal and interest. As a result, investments are classified from AFS to FVTPL for an amount of € 25,1 million. Due to the reclassification an amount of € 6,0 million is transferred to retained earnings. As of the 1 January 2018 ICS does not have items in "Other Comprehensive Income Statement".

C) The tax effect due to IFRS 9 is € 2,2 million.

D) The IFRS 9 impairment requirements also demand from companies an allowance for loan commitments and financial guarantees; these amounts are included in the provisions.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 became effective for annual periods beginning on or after 1 January 2018. It establishes a comprehensive five-step framework for determining the nature, amount, timing and uncertainty of revenue from contracts with customers.
After identifying contracts and their performance obligations, revenue is recognised as an amount that reflects the consideration to which ICS expects to be entitled in exchange for transferring promised goods or services to customers. The transaction price is allocated to each performance obligation. Revenue is recognised when a promised good or service is transferred to the customer, either at a point in time or over time. ICS elected to apply the modified retrospective approach in the transition to the new standard.

The standard introduced enhanced disclosures on fee and commission income, and had no further impact on the Financial Statements and comparative figures (see Note 9.8).

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 in 2019. Note that only the alterations which are relevant to ICS are discussed below.

IFRS 16 LEASES

The new standard on leases was issued by the IASB in January 2016 and will become effective on 1 January 2019. IFRS 16 replaces IAS 17 Leases and removes the distinction between 'operating' and 'finance' leases for lessees. The requirements for lessor accounting remain largely unchanged. In the transition to IFRS 16, the standard permits a choice of either a full retrospective or modified retrospective approach.

The main impact of IFRS 16 on the financial statements of ICS is expected to arise from leases of office buildings and cars which the ICS leases for own use as lessee. ICS has elected to apply the modified retrospective approach in the transition to the new standard. ICS is currently adjusting its operating procedures and systems in order to implement the new requirements of the standard. Additional disclosures on both the lessor and lessee lease portfolios will be included in the 2019 financial statements.

AMENDMENTS TO IFRS 9

The IASB issued amendments to IFRS 9, Prepayment Features with Negative Compensation, which became effective on 1 January 2019. These amendments allow instruments with symmetric prepayment options to be measured at amortised cost or at fair value through other comprehensive income.
As ICS does not currently have any financial instruments with these features, these amendments do not have an impact. New standards, amendments and interpretations not yet endorsed

The IASB has issued amendments that have not yet been endorsed by the EU and that are therefore not open for early adoption. However, there are amendments to IFRS. ICS is currently assessing the impact of these amendments. The impact of the amendments on the financial statements is expected to be insignificant.

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 the following sections:

- Impairments losses on loans and advances to customers — Note 9.17
- Fair value of financial instruments — Note 9.6
- Deferred tax assets — Note 9.23
- Impairment of FVTPL investments (as of 2018) — Note 9.20
- Provisions — Note 9.27

9.5. Summary of Significant Accounting Policies

FOREIGN CURRENCY TRANSLATION

The financial statements are stated in euros, 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.

FINANCIAL ASSETS AND LIABILITIES

The classification of financial assets and liabilities at initial recognition depends on their purpose and characteristics and management's intention when acquiring them (IFRS 9).

For the materially changed accounting policy see 'Classification and measurement of financial assets (applicable before 1 January 2018)'.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS (APPLICABLE FROM 1 JANUARY 2018)

Under IFRS 9, ICS classifies financial assets based on the business model in which they are held. The business model is determined at a portfolio level. Portfolios are based on how ICS manages financial assets in order to achieve a particular business objective. The business model assessment is based on the level of sales, risk management, performance evaluation and management compensation. Derecognition is used as a condition to determine whether a transaction results in a sale.

Two business models are distinguished:

- Hold to collect' business model, in which cash flows are primarily generated by collecting contractual cash flows until maturity of the financial instrument. Sales can occur, as long as they are incidental, infrequent and insignificant The assessment of the frequency and significance of sales is determined for each underlying portfolio. Sales that result from increases in the credit risk of the counterparty or take place close to maturity do not contradict the 'hold to collect' business model.
- 'Other' business models not meeting the criteria of the business models mentioned above, for example business models in which financial assets are managed with the objective of generating cash flows from sales (trading book) are managed on a fair value basis. Under these business models, the financial assets are measured at FVTPL.

After the business model has been determined, the contractual cash flows of financial assets are assessed. Debt instruments can be classified at amortised cost only when the contractual cash flows are solely payments of principal and interest (SPPI). Contractual cash flows that are SPPI are consistent with a basic lending arrangement in which consideration for the time value of money and credit risk are typically the most significant interest elements. Instruments that do not meet the SPPI requirements are mandatorily measured at FVTPL. Financial assets are assessed in their entirety, including any embedded derivatives that are not separated from the host contract.

Based on the business model determined and the SPPI assessment, the following measurement categories are identified under IFRS 9:

- Amortised cost – Financial instruments measured at amortised cost are debt instruments within a hold to collect business model with fixed or determinable payments which meet the SPPI criteria. These instruments are initially measured at fair value (including transaction costs) and subsequently measured at amortised cost using the effective interest rate method, with the periodic amortisation recorded in the income statement. Financial instruments measured at amortised cost are presented net of credit loss allowances in the Statement of financial position.
- FVTPL – Financial instruments measured at FVTPL include instruments whose cash flows do not meet the SPPI requirements. Of these instruments it is mandatory to directly recognise changes in the fair value inthe income statement.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS (APPLICABLE BEFORE 1 JANUARY 2018)

Before 1 January 2018, financial assets were classified, based on the criteria in IAS39, loans and receivables and available for sales. 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 amortisation 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 (see Note 9.20 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 AND MEASUREMENT 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 amortisation recorded in the income statement.

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

STATEMENT OF CASH FLOWS

For the purpose of the cash flow statement, cash and balances at central banks comprise cash on hand, freely available balances with central banks and other banks, and 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 advances 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 arising 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 advances 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 as 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 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. Generally a 10% difference in the present value of the cash flows between the initial and modified contract (payment arrangement) is accounted for as derecognition. 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. An exchange of an existing financial liability for a new liability with the same lender on substantially different terms, qualitatively and quantitatively (a 10% difference in the present value of the cash flows) 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

An Expeceted Loss Model is applied to on-balance sheet financial assets accounted for at amortised cost and fair value through profit and loss (FVTPL) such as loans, receivables, as well as off-balance sheet items such as commitments and certain financial guarantees, and undrawn committed revolving credit facilities. For the change in accounting policies due to IFRS 9 we refer to Note 9.3 on page 54. For the details on impairment of the financial assets we refer to Note 9.17.

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 estimated 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.

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.

ICS VISA MasterCard INTERNATIONAL CARD SERVICES

(in thousands, €)

31 December 2018	Carrying value	Quoted market prices in active markets (Level 1)	Valuation techniques observable inputs (Level 2)	Valuation techniques significant unobservable inputs (Level 3)	Total fair value
Assets					
Cash and balances at central banks	227.010	227.010	-	-	227.010
Loans and advances to banks	644.099	-	-	644.099	644.099
Loans and advances to customers	1.064.763	-	-	1.064.763	1.064.763
Investments	31.567	-	31.567	-	31.567
Total Financial assets	**1.967.439**	**227.010**	**31.567**	**1.708.862**	**1.967.439**
Liabilities					
Due to banks	1.221.193	-	-	1.221.193	1.221.193
Due to customers	291.790	-	-	291.790	291.790
Total Financial liabilities	**1.512.983**	**-**	**-**	**1.512.983**	**1.512.983**
31 December 2017					
Assets					
Cash and balances at central banks	223.330	223.330	-	-	223.330
Loans and advances to banks	901.166	-	-	901.166	901.166
Loans and advances 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**

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.

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.

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 AND ADVANCES 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.

9.7. Net Interest Income

Accounting policy for net interest income

Interest income and expense on financial instruments is recognised in the income statement on an accrual basis using the effective interest rate method, except for those financial instruments measured at fair value through profit or loss. 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 (Effective Interest Rate), 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 are specified in the following table.

(in thousands, €)

	2018	2017
Interest income		
Other receivables	241	241
Loans and advances to banks	4.773	5.102
Loans and advances to customers - revolving loans	2.709	3.273
Loans and advances to customers - credit cards	81.975	59.397
Negative interest on interest bearing liabilities	2.400	2.688
	92.098	70.701
Interest expenses		
Due to banks	(50)	(703)
Due to customers	(668)	(1.119)
Other liabilities	-	(586)
Negative interest on interest bearing assets	(1.626)	(909)
	(2.344)	(3.317)
Net interest income	**89.754**	**67.384**

To compensate customers for issues in its credit portfolio, ICS provisioned for undue interest payments. Loans and advances to customers – credit cards, part of interest income 2017, holds a compensation for these undue payments of € 38 million. The 2018 interest ICS does not hold a provision for these undue payments. Excluding this amount item the interest income in 2018 was lower, due to a lower average interest bearing portfolio.

In 2018 we did a reclassification in Interest Expenses – Other Liabilities due to the nature of the interest expenses. We reclassified these interest expenses to Personal Expenses Note 9.10.

9.8. Net Fee and Commission Income

Accounting policy for net fee and commission income

ICS applies IFRS 15 when recognising revenue from contracts with customers, all of which is included in net fee and commission income. After identifying contracts and their performance obligations, revenue is recognised as an amount that reflects the consideration to which the bank expects to be entitled in exchange for transferring promised services to customers. The transaction price is allocated to each performance obligation. Revenue is measured at the fair value of the consideration received, taking into account discounts and rebates. The amount of revenue recognised is discounted to the present value of consideration due, if payment extends beyond normal credit terms.

Revenue is recognised when a promised service is transferred to the customer. Fees and commissions are recognised either:

- At point in time (Payment services, insurance fees and partly services fees): the fee is a reward for a service provided at a moment in time; or
- Over time (amortised) (partly service fees): the fee relates to services on an ongoing basis.

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

(in thousands, €)

	2018	2017
Fee and commission income		
Payment services	97.331	92.702
Service fees	66.041	65.570
Insurance fees	1.715	2.187
	165.087	160.459
Fee and commission expenses		
Payment services	(32.242)	(37.948)
Service fees	(2.386)	(2.551)
Insurance fees	(5.370)	(5.588)
Other service fees	(383)	(626)
	(40.381)	(46.713)
Net fee and commission income	**124.706**	**113.746**

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 N.V.

Higher commission and fees were driven by increased consumer turnover (+7%), due to higher transactions volume.

As mentioned in the accounting standard ICS split the fee in 'point in-time' and 'overtime' as of 2018. 2018 is the first year that ICS adopt IFRS 15. Payment services and insurance fees are point-in-time fee. Service fees are partly classified at point in time (processing fees) and partly classified as over time (annual fees). For a breakdown see the table below.

(in thousands, €)

			2018
Fee's split in	**Fees Point-in-Time**	**Fees Over Time**	**Total**
Payment services	97.332	-	97.332
Service fees	10.387	55.654	66.041
Insurance fees	1.715	-	1.715
	109.433	**55.654**	**165.087**

9.9. Dividend, Sale of Investments and Other Operating Income

Accounting policy for dividend, sale of investments and other operating income
Investments are held at fair value through profit and loss as of 1 January 2018. Income related to those positions includes realised gains and losses arising from changes in the fair value, dividends received from investments and related funding costs. Dividend income from investments is recognised when entitlement is established. (Un)realised gains or losses are recognised in the income statement (IFRS 9).

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

(in thousands, €)

	2018	**2017**
Dividend income	229	929
Gain on sale investment	-	114.415
(Un)realised gains	6.475	-
Other Income	-	85
Total dividend and other operating income	**6.704**	**115.429**

Dividend income reflects the year's dividend payments received on ICS' shares in Visa Inc. See also Note 9.20.

The gain on sale of investments decreased with € 114 million to € 0 million (2017: € 114 million). The decrease is explained by the sale of shares in Visa Inc. in 2017. In 2018 no transactions took place.

The unrealised gains increased with € 6,5 million to € 6,5 million in 2018 (2017: € 0), because IFRS 9 Financial Instruments has become effective as at 1 January 2018 (see Note 9.3 for more information). At transition date, the available for sale portfolio in equity instruments was reclassified to held at fair value through profit and loss.

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 are specified in the following table.
(in thousands, €)

	2018	**2017**
Salaries and wages	32.262	31.794
Social security charges	5.332	4.484
Defined contribution plan expenses	6.653	6.726
Other	1.760	26.727
Total personnel expenses	**46.007**	**69.731**

In 2017 there was an amount of € 24,2 million included for a restructuring provision in Other. In 2018, no additions to the restructuring provision were needed (see also Note 9.27).

As at 31 December 2018 the following FTEs were employed by ICS:
Costs included in personnel expenses, permanent staff:

- International Card Services B.V. (Netherlands) employed 464 FTE (2017: 494 FTE);
- International Card Services B.V. (Germany) employed 13 FTE (2017: 13 FTE).

Costs included in General and administrative expense, temporary staff:

- International Card Services B.V. (Netherlands) employed 137 FTE (2017: 114 FTE);
- International Card Services B.V. (Germany) employed 0 FTE (2017: 0 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 are specified in the following table.

(in thousands, €)

	2018	2017
Housing	1.622	1.098
Marketing and public relations costs	7.126	9.922
Information technology costs	26.144	22.433
Post and telephone	4.067	5.056
Agency, staff and consultancy costs	15.663	18.432
Provisions	30.272	(1.887)
Fraud losses	3.809	3.061
Other	13.011	12.666
Total General and administrative expenses	**101.714**	**70.781**

Agency staff and consultancy costs includes the costs for temporary staff (see Note 9.10) and strategic programs.

A specification of the provision expenses is as follows:

(in thousands, €)

	Note	2018	2017
Litigation	9.27	30.272	(1.625)
Co-branders	9.27	-	(193)
Other	9.27	-	(69)
Total provisions		**30.272**	**(1.887)**

The specification of fees paid to EY is were as follows:

(in thousands, €)

	2018	2017
Financial statement audit fees	331	198
Audit related fees	46	25
Total auditor’s fee	**376**	**223**

Total fees paid to EY are included under Agency staff and consultancy costs and amount to € 376 thousand (2017: € 223 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 purpose of the group audit of ABN AMRO Bank N.V. The costs for these procedures are borne by ABN AMRO Bank N.V. 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 are specified in the following table.

(in thousands, €)

	2018	2017
Rebilling	884	365
Total Rebilling expense	**884**	**365**

Rebilling expenses relate to group charges for IT, corporate insurance and management costs.
In 2018 the number of services from ABN-AMRO increased. Mainly in Risk, Audit and Compliance services.

9.13. Impairment Charges on Loans and Advances to Customers

Accounting policy for Impairment charges on loans and advances to customers
For accounting policies see change in accounting policies Note 9.3 and our Credit Risk Note 9.34.

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

(in thousands, €)

	Note	2018	2017
Impairments charges on:			
Loans and advances to customers	9.17/9.27	7.302	6.046
Total impairment charges on loans and advances		**7.302**	**6.046**

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 a manner 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 income statement. 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	2018	2017
Current tax expense			
Current tax expense on year under review		15.926	36.916
Adjustment for current tax of prior years		(6.966)	(50)
		8.960	36.866
Deferred tax expense	**9.23**		
Deferred taxes arising from current period		(168)	(501)
Deferred taxes arising from write-down (or reversal) of deferred tax assets		107	1.139
		(61)	638
Total tax expense		**8.898**	**37.504**
Effective tax rate		13,9%	25,5%

	2018	2017
Nominal tax rate Netherlands	25,00%	25,00%
Nominal tax rate Germany	31,23%	31.23%

The adjustment for current tax of prior years refers to a repayment of tax for the year 2016 when Visa Incorporated shares were sold. The Dutch tax authorities concluded that a part of the sale value of these shares should have been exempted from company tax.

For more information on the deferred taxes arising from write-down (or reversal) of deferred tax assets, see Note 9.23. Due to the IFRS 9 the openings balance of tax changed. For details we refer to Note 9.3 Changes in accounting policies.

The following table shows the reconciliation between expected income tax and the actual income tax.

(in thousands, €)	2018	2017
(Profit)/loss before taxation	(63.856)	(147.257)
Applicable tax rate	25,0%	25,0%
Expected income tax expense	**15.965**	**36.815**
Increase (decrease) in taxes resulting from:		
Disallowed operating and administrative expenses	-	(400)
Disallowed bank tax	-	-
Previously unrecognised tax losses and temporary differences	(208)	
Write-down and reversal of write-down of deferred tax assets	107	1.139
Tax rate differential branch offices	-	-
Adjustments for current tax of prior years	(6.966)	(50)
Total increase (decrease)	**(7.067)**	**689**
Actual income tax expenses	**8.898**	**37.504**

9.15. Cash at Hand and Balances at Central Banks

Cash at hand and balances at central banks are held at amortised cost. This item includes cash on hand and available demand balances with central banks in countries in which the bank has a presence. Mandatory reserve deposits are disclosed in Note 9.16 Loans and Advances - Banks.

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

(in thousands, €)

	Average Interest Rate 2018	31 December 2018	31 December 2017
Cash at hand	0,00%	-	3
Balances with central bank	-0,40%	227.010	223.327
Balance at the end of period		**227.010**	**223.330**

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 (see Note 9.34).

9.16. Loans and Advances - 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 amortisation 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, recognising 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 and advances to banks for the years ended 31 December are specified in the following table.

(in thousands, €)

	Average Interest Rate 2018	IFRS 9 31 december 2018	IAS 39 31 december 2017
Current accounts - credit institutions	-0,21%	353.724	625.674
Interest bearing deposits	1,39%	290.375	275.492
Balance at the end of period		**644.099**	**901.166**

Current accounts – credit institutions relate to balances on current accounts with banks. These 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, 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 and Advances - Customers

Accounting policy for loans and advances to customers
The accounting policy for loans to customers is included in 'Loans and Advances - Banks' see Note 9.16.

Loans to customers for the years ended 31 December is specified in the following table.
(in thousands, €)

			IFRS 9	IAS 39
	Average interest rate 2018	Year of maturity	31 december 2018	31 december 2017
Consumer				
Revolving loans and advances	8,85%	indefinite	27.910	33.919
Credit card - current accounts	0,00%	2019	407.529	366.584
Credit card - interest bearing	12,81%	indefinite	563.649	685.766
Allowance for impairment losses			(18.432)	(12.052)
			980.656	1.074.217
Commercial				
Loans and advances to financial institutions - Interest bearing	0,00%	2019	93	46
Credit card - current accounts	0,00%	2019	80.322	93.311
Credit card - interest bearing	12,29%	indefinite	3.818	4.037
Allowance for impairment losses			(126)	(102)
			84.107	97.292
Balance at the end of period			**1.064.763**	**1.171.509**

Loans and Advances - Customers are differentiated in Consumer and Commercial loans.

CONSUMERS

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

COMMERCIAL

Loans and advances 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.

IMPAIRMENTS

Accounting policy for impairments on loans and advances - customers

As of 1 January 2018, ICS has recognised loss allowances based on the expected credit loss model (ECL) of IFRS 9, which is designed to be forward-looking. The IFRS 9 impairment requirement are applicable to financial assets measured at amortised cost, loan commitments and financial guarantee contracts. These financial instruments are divided into three groups, depending on the stage of credit quality deterioration. See the Credit Risk paragraph in Note 9.34 Risk Management for detailed information.

PAST DUE

The following table shows the days past due.

(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 and Advances - customers						**31 December 2018**	
Consumer loans and advances	999.088	901.700	39.240	12.644	5.868	57.752	6,4%
Commercial loans and advances	84.233	83.440	565	51	89	705	0,8%
	1.083.321	**985.140**	**39.805**	**12.695**	**5.957**	**58.457**	**7,0%**
Loans and Advances - customers						**31 December 2017**	
Consumer loans and advances	1.086.269	1.068.527	56.474	14.768	5.943	77.186	7,2%
Commercial loans and advances	97.348	97.217	504	104	30	639	0,7%
	1.183.617	**1.165.744**	**56.978**	**14.872**	**5.973**	**77.825**	**7,0%**

LOANS AND ADVANCES IMPAIRMENTS PRESENTED BY STAGE, PERFORMING- NON PERFORMING

(in thousands, €)

Overview of Consumer loans and advances in stage

	Outstanding			Provision			Coverage & Impaired Ratio
	Performing	Non-Performing	Total	Performing	Non-Performing	Total	
Stage 1	83.347	-	**83.347**	106	-	**106**	0,1%
Stage 2	705	-	**705**	11	-	**11**	1,6%
Stage 3	-	181	**181**	-	9	**9**	5,0%
Behance at the end of period	**84.052**	**181**	**84.233**	**117**	**9**	**126**	**-**

Overview of Consumer loans and advances in stage

	Outstanding Performing	Outstanding Non-Performing	Outstanding Total	Provision Performing	Provision Non-Performing	Provision Total	Coverage & Impaired Ratio
Stage 1	924.501	-	**924.501**	7.958	-	**7.958**	0,9%
Stage 2	34.614	-	**34.614**	2.049	-	**2.049**	5,9%
Stage 3	-	39.972	**39.972**	-	8.425	**8.425**	21,1%
Behance at the end of period	**959.116**	**39.972**	**999.088**	**10.007**	**8.425**	**18.432**	**-**

Due to an active credit management department and strong on boarding policy for new cardholders we have a low coverage and impaired ratio in stage 1. an significant change in the outstanding will not lead to a significant change in our provision. A € 100 million change in our outstanding in stage 1 leads to an increase of an provision of € 1 million.

Performing loans and advances have a maximum of 90 days past due. Non-performing loans and advances are more than 90 days past due, of which the customer has committed fraud or when a customer is bankrupt.

IMPAIRMENTS BREAKDOWN

Due to the substitute standard of IAS 39 into IFRS 9 the openings balance changed with € 7,7 million. For details of the implementation of IFRS 9 see Note 9.3 Critical accounting judgements, estimates and assumptions. For information over our credit management we refer to Note 9.34.

Impairments on loans to customers changed due to IFRS 9 and are disclosed in paragraph 9.3 Changes in accounting policies. Related to the accounting policies we refer to our credit risk disclosure in our Risk Management, funding and capital management paragraph in Note 9.34.

The following table shows the changes in the impairments to consumer and commercial loans and advances. It also shows the impact of IFRS 9 that is restated in equity.

(in thousands, €)

Impairments allowance for Consumer Loans per stage	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 1 January 2018	**8.680**	**2.538**	**8.546**	**19.764**
Transfers to stage 1	175	(46)	5	134
Transfers to stage 2	(805)	237	3	(565)
Transfers to stage 3	(92)	(680)	559	(213)
Write off	-	-	(688)	(688)
Balance at 31 December 2018	**7.958**	**2.049**	**8.425**	**18.432**

(in thousands, €)

Impairments allowance for Commercial Loans per stage

	Stage 1	Stage 2	Satge 3	Total
Balance at 1 January 2018	**101**	**12**	**14**	**127**
Transfers to stage 1	1	-	-	1
Transfers to stage 2	2	(2)	6	6
Transfers to stage 3	2	1	(3)	-
Write off	-	-	(8)	(8)
Balance at 31 December 2018	**106**	**11**	**9**	**126**

9.18. 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 are specified in the following table.

(in thousands, €)

	Furniture & Mechanical equipment	Hardware	Total
Balance at 1 January 2017	**251**	**1.010**	**1.261**
Additions	1.672	316	1.988
Disposals	-	-	-
Depreciation	(233)	(589)	(822)
Balance at 31 December 2017	**1.690**	**737**	**2.427**
Additions	145	77	222
Disposals	-	-	-
Depreciation	(349)	(424)	(773)
Balance at 31 December 2018	**1.486**	**390**	**1.876**
Cost as at the end of period	3.142	4.523	7.665
Cumulative depreciation as at the end of period	(1.656)	(4.133)	(5.789)

9.19. Other Assets

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

(in thousands, €)

	31 december 2018	31 december 2017
Accrued other income	19.925	14.775
Prepaid expenses	7.792	7.156
Other receivables	1.364	14.430
Other current assets	1.622	2.463
Balance at the end of period	**30.703**	**38.824**

Accrued other income relates to co-branded partners Visa, Mastercard and the Visa Inc. deferred cash consideration (see Note 9.20 for details). The other receivables in 2018 € 1,4 million (2017 € 14,4 million) change in this account is mainly due to a repayment of ABN AMRO Bank N.V..

9.20. Investments

Accounting policy for investments

As of 1 January 2018, the accounting standard and the accounting policy for investments changed. Financial investments include instruments measured at fair value through profit or loss (FVTPL).

Accounting policy for financial instruments measured at fair value through profit and loss.

Financial investments do not meet the SPPI requirements because the contractual cash flows are not solely payments of principal and interest. Financial investments are therefore mandatorily measured at FVTPL.

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

(in thousands, €)

Investments Fair Value	**Ownership**	**31 december 2018**	**31 december 2017**
- Shares Visa Inc.	<1%	31.336	24.863
- Shares Visa Belgium	<1%	231	230
Balance at the end of period		**31.567**	**25.093**

Unrealised gains/(losses) Fair Value	**Fair Value**	**Historical value**	**accumulated unrealised gains/(losses)**
Balance at 31 December			
2017	25.093	17.029	8.064
2018	31.567	17.029	14.538
Change in investments			6.474
Realised gains/(losses) reclassified to income statement	-	-	-
Unrealised gains/(losses) of current period			**6.474**

Breakdown Fair Value	**VISA Inc.**	**VISA Belgium**	**WIN B.V.**	**Total**
Balance at 1 January	**24.863**	**230**	**-**	**25.093**
Acquisition(s)	-	-	-	-
Revaluations	6.473	1	-	6.474
Derecognition due to sale - recycled to income statement	-	-	-	-
Balance at the end of period	**31.336**	**231**	**-**	**31.567**

In 2018 the Financial investments were impacted by the fact that IFRS 9 has become effective.

At transition date, the available for sale portfolio in equity instruments was reclassed to held at fair value through profit or loss, resulting in a change in investments held at fair value through profit or loss. As of 2018 all fair value changes will be classified through profit and loss (see Note 9.3 for more information).

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 programme 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 took place in 2013 and was immediately impaired because expectations were that WIN will not be profitable in the near future.

Critical accounting judgement, estimates and assumptions

ICS reviews its 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.

9.21. 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 amortisation 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. Amortisation is calculated each month on a straight-line basis over the estimated useful lives of the portfolios. ICS estimates 15-20 years as useful life in calculating depreciation. Amortisation 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 are specified in the following table.

(in thousands, €)

	31 December 2018	31 December 2017
Balance at 1 January	2.922	4.479
Amortisation expenses	(632)	(1.557)
Balance at the end of period	**2.290**	**2.921**
Cost as at the end of period	11.864	11.864
Cumulative amortisation as at the end of period	(9.574)	(8.942)

Intangible assets relate to acquired credit card portfolios.
In 2017 there was an additional Amortisation of € 0,7 million in the 'Amortisation Expenses', in 2018 this correction did not occur.

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', see Note 9.14).

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

(in thousands, €)	Total
Balance as 31 December 2017	
Assets	-
Liabilities	(36.483)
Total	**(36.483)**
Balance as 31 December 2018	
Assets	-
Liabilities	(5.732)
Total	**(5.732)**

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' (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 2017	
Assets	148
Liabilities	(3.504)
Total	**(3.356)**
Balance as 31 December 2018	
Assets	118
Liabilities	(3.414)
Total	**(3.296)**

INTERNATIONAL CARD SERVICES

Specification deferred tax assets	Movement	Total
Balance at 1 January 2017		1.285
Property, plant and equipment	P&L	2
Other intangible asset	P&L	18
Provisions	P&L	(16)
Tax loss carry forward	P&L	(1.141)
Balance at 31 December 2017		**148**
Property, plant and equipment	P&L	(19)
Other intangible assets	P&L	-
Provisions	P&L	8
Tax loss carry forward	P&L	-
Other	P&L	
Balance at 31 December 2018		**118**
Gross deferred tax assets as at the end of period		1.581
Cumulative write down as at the end of period		(1.463)
Net deferred tax assets as at the end of period		**118**

Specification deferred tax liabilities	Movement	Total
Balance at 1 January 2017		**24.653**
Investments	OCI	(20.650)
Other intangible assets	P&L	(75)
Accrued income and deferred charges	P&L	(424)
Other	P&L	-
Balance at 31 December 2017		**3.504**
Investments	OCI	-
Other intangible assets	P&L	120
Accrued income and deferred charges	P&L	-
Other assets	P&L	(210)
Balance at 31 December 2018		**3.414**

The decline in tax assets due to carry forward losses relate to Germany. The total carry forward losses were € 4,9 million per 31 December 2018, 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.

ICS VISA MasterCard INTERNATIONAL CARD SERVICES

9.24. Due to Customers

Accounting policy for due to banks and customers
Amounts due to banks and customers are held at amortised cost. That is, fair value at initial recognition adjusted for repayment and amortisation of coupon, fees and expenses to present the effective interest rate of the instrument.

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

(in thousands, €)

	Average interest rate 2018	Year of maturity	31 december 2018	31 december 2017
Demand deposits	0,23%	on demand	291.790	285.064
Balance at the end of period			**291.790**	**285.064**

Demand deposits due to customers include customer balances on both consumer and commercial credit cards. The commercial deposits contain € 39 million of collateral (2017: € 34 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 are specified in the following table.

(in thousands,€)

	Average interest rate 2018	Year of maturity	31 december 2018	31 december 2017
Time deposits - credit institutions - Short-term	-0,41%	2019	610.673	679.817
Time deposits - credit institutions - Long term	0,00%	2021	610.370	747.492
Other deposits - credit institutions - Short-term	0,00%	on demand	150	-
Demand deposits - credit institutions	0,00%	on demand	-	27.756
Balance at the end of period			**1.221.193**	**1.455.065**

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 a 3-year base.

9.26. Other Liabilities

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

(in thousands, €)

	31 december 2018	31 december 2017
Accrued fees and charges	35.698	32.079
Accounts payable and sundry creditors	55.422	69.123
Balance at the end of period	**91.120**	**101.202**

Accounts payable and sundry creditors include amounts to be settled with Visa and Mastercard. The decrease for the year ended on 31 December 2018 compared to the year ending on 31 December 2017 mainly relates to lower volume of transactions at year-end 2018.

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 are specified in the following table.

(in thousands, €)

	31 december 2018	**31 december 2017**
Provision for consumer loans	-	2.492
Provision for Expected credit loss on loan commitments and guarantees	3.999	-
Provision for co-branders	-	432
Provision for legal matters	55.290	74.230
Provision restructuring staff	22.865	23.918
Provision jubilee	999	941
Provision holiday rights	971	1.088
Provision other	209	176
Balance at the end of period	**84.333**	**103.277**

(in thousands, €)

	Consumer loans (IAS 39)	Expected Credit loss (IFRS 9)	Co-branders	Legal	Restructuring	Jubilee	Holiday rights	Other	Total
Balance at 1 January 2017	**3.178**	**-**	**929**	**63.100**	**1.340**	**884**	**-**	**245**	**69.676**
Additions	240	-	-	41.500	24.236	57	1.088	-	**67.121**
Withdrawals	-	-	(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**
Balance at 31 December 2017 (IAS 39)	**2.492**	**-**	**432**	**74.230**	**23.918**	**941**	**1.088**	**176**	**103.277**
Impact of adopting IFRS 9	(2.492)	3.926	-	-	-	-	-	-	**1.434**
Balance at 31 December 2017 (IFRS 9)	**-**	**3.926**	**432**	**74.230**	**23.918**	**941**	**1.088**	**176**	**104.711**
Additions	-	73	-	30.272	-	-	-	-	**30.345**
Withdrawals	-	-	(432)	(49.212)	(1.053)	58	(117)	33	**(50.723)**
Release of unused provisions	-	-	-	-	-	-	-	-	**-**
Balance at 31 December 2018	**-**	**3.999**	**-**	**55.290**	**22.865**	**999**	**971**	**209**	**84.333**

Provision for co-branders relates to the sale of EMS in 2015, and for ICS to honour existing agreements with co-branders, specifically on processing fee expenses. In 2018, the remaining part of the provision was withdrawn. (see Note 9.11).

PROVISION CONSUMER LOANS (IAS 39)

Due to the implementation of IFRS 9, this provision has been released.

PROVISON EXPECTED CREDIT LOSS ON LOAN COMMITEMENTS AND FINANCIAL GUARANTEES

Due to the implementation of IFRS 9 on 1 January 2019, ICS has taken a provision for loan commitments and financial guarantees in its opening balance of € 3,9 million.

For details of the implementation of IFRS 9, see note 0. At year end this provision amounts to € 4,0 million.

PROVISION LEGAL

The Legal provision consists of two provisions, namely 'Wwft' and 'Redress scheme'.

Banks have a responsibility to help protect the financial services sector. We take this responsibility very seriously. ICS invests significant resources in combating financial crime. We work closely with regulators, governments, other banks and law enforcement. ICS has decided, based on existing shortcomings and input from the Dutch Central Bank, to accelerate its Customer Due Diligence (CDD) programme in order to be compliant with anti-money laundering and terrorist financing legislation. ICS has developed remediation programmes to speed up the remediation actions within in our company ICS has setup a remediation plan and has shared this with the Dutch Central Bank and committed to their execution. For the incremental external costs involved, we've taken a provision in 2018 of € 30.0 million. The amount is based on, among other items, the total number of files, the time needed to review each file and the percentage that will be reviewed using external resources. Over the past year, a number of European banks have been the object of money laundering investigations. We recognise that, with financial crime, we have to be vigilant. We're constantly looking for ways to strengthen our systems and raise awareness of potential risks within the bank.

In 2018 ICS has analysed and evaluated the redress scheme for certain issues related to granting loans above the customers borrowing capacity and paid out an amount of € 49 million for compensation. ICS will complete the redress scheme in 2019, fully compensating customers over a period of years. The redress scheme is rolled out, for certain issues related to granting loans above the customers borrowing capacity, as identified in 2015. As a result of the commitment of ICS to carry out the redress scheme in full and recover every customer rightfully entitled to compensation.

RESTRUCTURING PROVISION

In 2018 ICS started withdrawing amounts from the restructuring provision of € 23.9 million. At year end this was € 22,9 million. At the beginning of 2019, the Works Council issued a favourable advice on the reorganisation plans (see Section 3. Report of the Statutory Board of Directors).

PROVISION JUBILEE AND HOLIDAY PROVISION

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

Holiday rights, these provision is formed for the right of holidays and built up holiday allowance.

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 disclosures 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	227.010	-	227.010
Loans and advances to banks	644.099	-	644.099
Loans and advances to customers	656.790	407.973	1.064.763
Investments	-	31.567	31.567
Property and equipment	-	1.876	1.876
Intangible assets	-	2.290	2.290
Deferred company tax assets	-	118	118
Other assets	29.928	775	30.703
Total asset	**1.557.827**	**444.599**	**2.002.426**
Liabilities			
Due to banks	810.419	410.774	1.221.193
Due to customers	291.790	-	291.790
Current company tax liabilities	-	5.732	5.732
Deferred company tax liabilities	-	3.414	3.414
Provisions	7.739	76.594	84.333
Other liabilities	86.866	4.254	91.120
Total liabilities	**1.196.814**	**500.768**	**1.697.582**
Net	**361.013**	**(56.169)**	**304.844**

9.29. Related Parties

Parties related to ICS B.V. 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 2018 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.).

(in thousands, €)

	2018	2017
Income statement		
Interest income	7.174	7.790
Interest expense	-	(1.274)
Rebilling	(884)	(365)
Other operating expenses	(3.310)	(2.987)
Balance sheet (as per end of period)		
Due from banks	639.866	898.768
Other assets	-	1.000
Due to banks	(1.221.193)	(1.455.065)
Other liabilities	(73)	(98)

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, €)

	2018	2017
Short-term employee benefits	646	844
Post-employment pension (defined contribution)	130	153
Total	**776**	**997**

For the year ended on 31 December 2018, the Statutory Board of Directors consisted of one statutory director, the CEO. The CFRO resigned during 2018. Compensation of the key management in 2018 consists of three persons.

ICS does not operate a share incentive scheme. Accordingly, there were no options granted to the Statutory Board of Directors either in 2018 or 2017. ICS' statutory board members are not granted any form of variable compensation.

Members of the Supervisory Board do not receive remuneration from ICS. Three members are working for ABN AMRO Bank N.V. but are unremunerated for their role as Supervisory Board member. The chair of the Supervisory Board is engaged by ABN AMRO Bank N.V. as an external advisor and is paid by ABN AMRO Bank N.V..

9.31. Commitment and Contingent Liabilities

OFF-BALANCE OBLIGATIONS

The undrawn amount of limits issued to cardholders in 2018 amounted to € 7,6 billion (2017: € 7,5 billion). This amount includes ICS Netherlands and ICS Germany. The undrawn 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 2 years with a renewal option. The total lease obligation amounts to € 8,9 million of which € 1,3 million expires within one year.

Furthermore, ICS has multiple (IT-related) contracts. The total financial obligation amounts to € 53 million of which € 31 million expires within one year.

The total contingent liabilities can be specified as follows:

• Less than one year	€	7,6	billion
• Between one and five years	€	22	million
• More than five years	€	0	million

OFF-BALANCE RIGHTS

Received bank guarantees from ABN AMRO Bank N.V. amounted to € 0,6 million in 2018 (2017: € 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.

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, €)	2018	2017
Regulatory Capital		
Equity IFRS	304.844	380.824
Adjustments	(46.911)	(133.373)
Common Equity Tier 1 Capital	257.933	247.451
Total Tier Capital	**257.933**	**247.451**
Risk weighted assets		
Credit Risk	714.620	772.284
Operational Risk	306.572	331.679
Market Risk	31.567	25.093
Total Risk weighted assets scope	1.052.759	1.129.056
Capital ratios		
CET1 Ratio	24,5%	21,9%
Total Capital Ratio	24,5%	21,9%

Regulatory capital consists of CET 1 capital, which comprises share capital, retained earnings including current year profit and unrealised gains and losses less accrued dividends. Certain adjustments are made to IFRS–based results and reserves, as prescribed by the Bank for International Settlements. 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

CREDIT RISK

DEFINITION

Credit risk is the risk that the value and/or the earnings of ICS may decline due to uncertainty in the 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 the 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 of a potential shift in the quality of the total credit portfolio. This is measured by means of the Bad Rate. This Rate is 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, bankruptcy or fraud), on a quarterly basis.

EXPECTED LOSS/EXPOSURE AT DEFAULT & CREDIT RISK WEIGHTED ASSETS

ICS monitors the quality of the credit portfolio by means of the level of Expected Loss and Unexpected Losses to the exposure at the moment of default. This ratio is forward-looking (IFRS 9) and through-the-cycle. Moreover the total amount of exposure to credit risk is monitored by keeping track of the Risk Weighted Assets for credit risk.

PAST DUE AND CREDIT LOSS ALLOWANCE

Loans at risk are primarily exposures for which there are signs indicating that the counterparty may become credit-impaired in the future. Loans at risk are classified into different risk categories for individual counterparties and days-in-arrears buckets for groups of aggregated counterparties in order to optimise monitoring and review of these loans.

PAST DUE

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

ICS has different past due buckets for different stages. In general stage 1 ≤ 30 days past due, stage 2 is > 30 < 90 days past due and stage 3 is > 90 days past due. If a counterparty is more than 90 days past due its considered as default.

ACCOUNTING MEASUREMENT

As of 1 January 2018, ICS recognises loss allowances based on the expected credit loss model (ECL) of IFRS 9, which is designed to be forward-looking. The IFRS 9 impairment requirements are applicable to financial assets measured at amortised cost, loan commitments and financial guarantee contracts. These financial instruments are divided into three groups, depending on the stage of credit quality deterioration:

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
Performing (Initial recognition)	**Credit risk deteriorated** (Assets with significant increase in credit risk since initial recognition)	**Default = Impaired** (Credit impaired assets)
Recognition of ECL		
12 month ECL	Lifetime ECL	Lifetime ECL
Interest revenue		
Effective interest on gross carrying amount	Effective interest on gross carrying amount	Effective interest on amortised cost (gros-scarrying amount less loss allowance)

STAGE TRIGGERS OF STAGE 1, 2 AND 3

We use quantitative and qualitative stage triggers to determine whether a financial instrument should be classified as stage 1, stage 2 or stage 3.

Quantitative stage trigger

The key quantitative metric determining whether a financial instrument is transferred from stage 1 to stage 2 is the deterioration of the lifetime probability of default (LPD) from the date of origination to the reporting date, based on internal data.

The LPD represents the likelihood that a counterparty will default during the lifetime of the financial instrument and depends on the credit risk driver; future developments in the economy, for example employment opportunities or financial crisis.

Qualitative stage triggers

ICS transfers a financial instrument from stage 1 to stage 2 when the instrument meets more than 30 days past due.

A transfer to stage 3 will always be the result of the default of a financial instrument. A default is considered to have occurred when one of the default triggers (bankruptcy or fraud) is met. In addition, 90 days past due is used as a backstop for default. ICS has no other material qualitative stage triggers.

Default trigger

A default is considered to have occurred when one of the default triggers (more than 90 days past due, bankruptcy or fraud) is met, a client will than directly transferred to stage 3. Furthermore ICS does not modify loan conditions.

Calculation method

The amount of expected credit loss allowances is based on the probability-weighted present value of all expected cash shortfalls over the remaining life of the financial instrument for both on- and off-balance sheet exposures. ICS applies a distinction between two types of calculation methods for credit loss allowances:

- Collective 12-month ECL (stage 1) and LECL for (stage 2 and 3) financial instruments that have similar credit risk characteristics are clustered in portfolios and are collectively assessed for impairment losses. A collective impairment calculation approach, based on individual parameters, is also applied for exposures below € 3 million.
- ICS has introduced new models to quantify the Probability of Loss (PL), Loss Given Loss (LGL) and Exposure at Loss (EAL) for calculating the collective 12-month ECL and LECL for these financial instruments. Whereas the credit loss allowance for these assets is collectively determined, the stage is determined for each individual financial instrument separately.

Lifetime expected credit loss

ICS defines the lifetime of credit as the maximum contractual period over which ICS is exposed to credit risk, and not a longer period, even if that longer period is consistent with business practice.

For all contracts, no end date is specified or amounts can be contractually withdrawn by the lender at short notice. In these cases, ICS uses behavioural maturity models that rely on historical client behaviour, given that the exposure to credit losses can extend beyond the contractual period.

Forward-looking information

Three different scenarios for future economic developments are incorporated into the IFRS 9 expected credit loss calculation and risk stage determination in a probability weighted manner (at 31 December 2018: baseline 60%, up 15%, down 25%). These scenarios are developed at least every quarter and reviewed at each reporting date. The 28 macroeconomic variables (including GDP, unemployment rate, housing price index, oil price and Euribor 3M) are forecasted and used for the expected credit loss calculation and selected for each specific portfolio separately. The variables we use are based on statistical relevance and expert judgement. ICS has aligned its forward-looking scenarios with those used in the budgeting process. Specific forecasts of macroeconomic variables are made for two to three years, while subsequent periods gradually align to the long-term average.

Payment Arrangements

ICS continuously measures its active customers in terms of “delayed” payments. This methodology is used for all active customers. An obligation is considered ‘past due’ if a payment of interest or principal is more than one day late. ICS aims to help its customers as soon as they are past due by communicating (e-mail, SMS, letter or outbound call) to remind them of their payment obligations. In its contact with the customer, ICS aims to solve the (potential) financial difficulties by offering payment arrangements. A payment arrangement is offered when a customer is 90 days past due. If a customer is 90 days past due ICS will contact the customer to make a payment arrangement. A payment arrangement means that a customer has to pay a lower monthly amount, which results in a longer repayment period. As soon as the customer has repaid the total outstanding balance, the customer relationship will be ended. Payment arrangements currently offered do not result in loan modifications.

Write-off

When a loan is deemed no longer collectible, it is written off against the related loan loss allowance, specifically if:

- the likelihood of debt repayment falls below certain point (e.g. in the event of bankruptcy or a cash flow shortfall); or
- the financial asset reaches a certain stage of delinquency (e.g. if agreed terms are no longer complied with or the borrower has left ICS). 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 impairment charges on loans and advances in the income statement. Within ICS write-off applies after 385 days in arrears.

Recovery

When a loan is written off against the provision as mentioned, ICS has a special Recovery process in place''. ICS will always try to recover the amount that has been written off. This process can take years. The amount mentioned in Note 9.17 Impairments breakdown (€ 1,3 million) is still subject to activity in the recovery process.

(Cash)Collateral

ICS has an integrated credit approval process for new customers. New customers that are not approved in this process, still have an opportunity to receive a credit facility. These commercial customers must deposit money on a blocked account of ICS. The amount of the deposit is the maximum facility that can be used for the cardholder(s). ICS has no credit risk for these cardholders, for details of these deposit see note 9.24.

ICS does not have any (cash) collateral for stage 3 loans and advances.

Credit Risk Measurement

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.

The internal ratings can be mapped to equivalent Standard & Poor's rating categories as listed below (as at 31 December 2018). 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 portfolios mentioned above.

MAXIMUM CREDIT RISK EXPOSURE

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

(in thousands, €)

	31 December 2018	31 December 2017
Assets		
Balances at central banks	227.010	223.327
Loans and advances to banks	644.099	901.166
Loans and advances to customers	1.064.763	1.171.509
Other Assets	30.703	38.824
Investments	31.567	25.093
Total Assets	**1.998.142**	**2.359.919**
Liabilities		
Commitments and undrawn limits	7.569.479	7.525.052
Total liabilities and commitments	**7.569.479**	**7.525.052**
Total credit risk exposure	**9.567.621**	**9.884.971**

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 decisions are 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 and advances, ICS approves and issues limit requests based on either (external) credit insurance or collateral. At year-end 2018, 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 forms a risk for ICS. The credit insurance covers 90% of the balance at default. For the consumer loans and advances, 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.

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 has no appetite for risk in the trading book. ICS does not, nor does it have any intention to, trade and therefore no trading book-related risk is applicable to the company. 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 (ALM) 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 accounted for in 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 therefore has limited foreign exchange (FX) risk exposure. Clearing and settlement of financial positions is performed on a daily basis in euros. Speculative positions are prohibited by policy and therefore not held. ICS has no disposal of derivative 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. Therefore foreign exchange risk concerning this investment does exist (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% (1,15 as per year ended 2018 versus 1,20 per year ended 2017) in the (euro-dollar) exchange rate results in a € 0,24 million change in reported value of the total Fair Value through Profit and Loss (2017 this was Available for sale through the OCI (see Note 9.3 Changes in accounting policies).

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 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 since most financial assets and liabilities are short-term or carry 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. Since 1 January 2015 this rate has been 14%. Time deposits relating to consumer credit due to ABN AMRO Bank N.V. have a fixed rate on a one-month basis. Time deposits due from credit institutions are related to outstanding consumer savings. These deposits have a fixed rate on a one-month basis.

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

	Notes	Average interest rate 2018	Maturity	Rate
Current accounts - credit institutions	9.16	-0,21%	Indefinite	Variable
Interest bearing deposits - credit institutions	9.16	1,39%	1 month	Fixed
Credit card interest bearing - customers	9.17	12,81%	Indefinite	Variable
Revolving loans - consumers	9.17	8,85%	Indefinite	Variable
Loans and advances to financial institutions - Interest bearing	9.17	0,00%	1-7 days	Fixed
Time deposits - credit institutions - short term	9.25	-0,41%	1-3 months	Fixed
Time deposits - credit institutions - long term	9.25	0,00%	3 years	Fixed
Demand deposits - customers	9.24	0,23%	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	1.483	-	(1.483)	-	-	-	-	-	-	-	-	-
Foreign exchange	-	-	-	-	1.091	-	698	-	-	-	-	-
Other price	-	-	-	-	-	-	-	-	3.578	-	2.264	-

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 stated 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 dollars, is not specifically managed or mitigated and the residual risk is identified as an accepted risk.

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. 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.

LIQUIDITY 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 a 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) in accordance with 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 was approved in 2018 by the ERC and the Business Risk Committee Retail of ABN AMRO. The internally approved Key Risk Indicators (KRIs) 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 has 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 organisation if severe stress hits the markets or 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 on a timely basis. 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 for 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. The regulatory minimum requirement for the LCR is 100% and is 100% (as of 2018) for the NSFR under Basel III/CRD IV. The LCR remained above 100% during 2018. 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% from Q1 2016 untill reporting date.

LIQUIDITY COVERAGE RATIO REQUIREMENT

The regulatory requirement as of 31 December 2018 for the LCR is 100% and there is no regulatory requirement on the NSFR as per that date (100% as of 2019). For conservative reasons ICS maintains a higher ratio. The NSFR as of 31 December 2018 is 130%. 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 2018 the composition remained stable and ICS maintains a strategic range of 110 – 115%.

NET STABLE FUNDING RATIO

As of year-end 2018, ICS is already compliant with the upcoming liquidity requirements of the Net Stable Funding Ratio which is effective as of January 2018 (100%). NSFR monitoring involves monthly calculation of the ratio, a forecast NSFR (horizon of 3 months and a forecast until the end of the year) and a monthly analysis of the variations. To a large extent, the required liquidity buffer of ICS is 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 has 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 also demonstrated that funding under normal and adverse stress situations is adequate. This adequate liquidity position is expected to be maintained in 2018 and beyond in accordance with 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 is also already compliant with future liquidity requirements of the Net

Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR). As of year-end 2018, the LCR is 114% and the NSFR is 130% (2017 135%). The regulatory requirement as of 31 December 2018 for the LCR is 100% and there is no regulatory requirement on the NSFR as of that date (100% as of 2019). 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, with both LCR and NSFR at 100%.

To a large extent, the required liquidity buffer of ICS is 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 in the short term.

FUNDING

ABN AMRO Bank N.V. is ICS' main source of funding. In September 2018, ICS entered into an open-ended Facility Agreement (FA) limited to 2019 € 1.62 billion (2017 € 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 an 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.

DIVIDEND POLICY

ICS's dividend policy takes into account matters including current and pending regulatory capital requirements, our risk profile, growth in commercial activities and market factors. The dividend payout is set in the light of the ICS' moderate risk profile and regulatory changes and to ensure that dividend payments can be maintained in the future.

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.

The reporting department reports a contractual and behavioural maturity calendar to the BSM on a monthly basis, in order to assess and monitor the current and possible future liquidity position. The 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 the 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 the liquidity buffer.

Based on the analysis as at 31 December 2018, 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.

MATURITY BASED ON CONTRACTUAL UNDISCOUNTED CASHFLOWS

The table below provide an breakdown of the above liquidity profile of the financial liabilities of ICS year ended 2018.

(in thousands, €)

Matuity based on contractual undiscounted cash flows 2018

	On Demand	Up to one month	Between one three months	Between three and one year	Between one and 5 year	More than 5 year	Not deter mined	Total
Liabilities								
Due to customers	291.790	-	-	-	-	-	-	291.790
Due to banks	-	185.410	370.969	254.040	410.774	-	-	1.221.193
Other liabilities	4.254	51.139	14.913	20.814	-	-	-	91.120
Sharaholders equity	-	-	-	-	-	-	304.844	304.844
Total equity and liabilities	**296.044**	**236.548**	**385.882**	**274.855**	**410.774**	**-**	**304.844**	**1.908.947**

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 customer 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 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

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) will remain the biggest risk category related to fraud in the near future. ICS ultimately recovered 76.5% of gross fraud losses in 2018 (77.1% in 2017). ICS remains focused 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 organisation.

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 of 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 in the Enterprise Risk Committee as well.

BUSINESS CONTINUITY MANAGEMENT

ICS has 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 has 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 has 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 organisational 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 weaknesses must be remedied in accordance with the action plan that is required to be prepared. The outcomes of MC&T are used as input for the RCSA process.

BUSINESS RISK

Business risk refers to the risk that earnings may 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.

9.35. Post balance sheet Events

No significant post balance sheet events have occurred.

9.36. Profit Appropriation

The reported annual profit amounts to € 54.958. Final dividend payment will be discussed at the shareholders meeting of 24 May 2019. The proposed dividend over the 2018 result will be € 90 million.

10. OTHER INFORMATION

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

- 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 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

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

Report on the Audit of the Financial Statements 2018 Included in the Annual Report

Our opinion

We have audited the financial statements 2018 of International Card Services B.V., 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 2018, and of its result and its cash flows for 2018 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 2018.
- The following statements for 2018: 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	€ 4,7 million (2017: € 7 million).
Benchmark applied	5% of profit before taxation (excluding one-off related to addition to provision legal matters).
Explanation	Based on our professional judgment, 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 €235 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 risk related to Provisions for conduct and regulatory matters has been newly introduced as key audit matter compared to last year, other key audit matters are consistent with prior year.

RISK	OUR AUDIT APPROACH	KEY OBSERVATIONS
LOAN LOSS PROVISIONING As of January 2018, the IFRS 9 Financial Instruments principles for provisioning based on the expected credit losses methodology has been adopted by ICS, including the related disclosure requirement as per the amended IFRS 7. The bank's assessment of significant increase in credit risk, correct stage classification and the determination of the loan impairment allowance is part of the risk estimation process, and requires significant management judgment. Key judgments include the measurement of (deteriorated) credit risks and defaulted loans, modelling assumptions used to build the models that calculate the ECL per stage, assumptions used to estimate the impact of multiple economic scenarios and post model management adjustments. The provision for loan losses for lending as at 31 December 2018 amounts € 18,4 million. This estimated amount is considered a significant estimation balance and considered a key audit matter for our audit. The provision for loan losses for lending is disclosed in note 9.17 Loans to customers of the annual financial statements. Related credit risk disclosures are included in note 9.34 Risk management.	We have assessed and tested the design and operating effectiveness of the controls within the collection and risk management processes, including monitoring of arrears and the period end estimation process for determining impairment allowances including the governance over the collective provisioning. As IFRS 9 was adopted at the start of the year, we performed audit procedures on the opening balances to gain assurance on the transition from the historically applied incurred loss based provisioning. This included evaluating the accounting interpretations for compliance with IFRS 9 and testing the adjustments made following the transition. We challenged, supported by our specialists, the model based assumptions underlying the impairment identification and quantification including estimates of recoveries on foreclosed clients and including the Company's model development and validation processes outsourced to ABN AMRO Bank NV. Finally, we performed substantive and analytical procedures over data, models, impairment calculation and management overlays.	Based on our procedures performed, we consider the loan impairment allowances reasonable.

RISK	OUR AUDIT APPROACH	KEY OBSERVATIONS
PROVISIONS FOR CONDUCT AND REGULATORY MATTERS At 31 December 2018, the total provisions (excluding loan loss allowances) amount to € 84,3 million of which an amount of € 55,3 million relates to legal provisions covering conduct and regulatory matters. The continued increased regulatory findings gives rise to a high level of judgment in determining appropriate provisions and disclosures. ICS has to comply with applicable laws and regulations, including those in relation to client acceptance and payment transactions. An amount of € 30,2 million is provided for in relation to the Know Your Client (KYC) and transaction monitoring remediation programs and € 25,1 million to fulfill the Company's remaining obligation on the client compensation scheme as announced in 2016. These provisions are liabilities of uncertain timing or amount and require considerable judgment of the bank. Due to this high level of judgment and the significant amounts involved, we consider this a key audit matter. The critical accounting estimates and judgments and provision amounts are disclosed in note 9.4. Critical accounting judgments, estimates and assumptions and note 9.27 Provisions.	For the provisions recognized we assessed whether these provisions are reasonable and meet the ICS's accounting policies and other legal and regulatory requirements. We challenged the underlying assumptions and tested the data used. We have obtained an understanding of the entity level controls and the legal and regulatory framework of the bank. We inquired with the Management, Legal and Compliance representatives of ICS to understand and discuss existing and potentially new constructive and legal obligations, and regulatory matters. We examined the relevant regulatory and legal correspondence to assess developments in regulatory findings and observations. We periodically met with the executive board members to understand the significant and potential obligations and challenged their views based on our audit procedures performed, knowledge of the bank and changes in the regulatory environment. We read the minutes of the supervisory board and statutory board of directors. Furthermore, we obtained legal letters from external lawyers to understand regulatory and legal matters. In line with	Based on our procedures performed we consider the provisions to be reasonable. The disclosure on provisions is considered adequate and appropriate and meets the requirements under EU-IFRS.

RISK	OUR AUDIT APPROACH	KEY OBSERVATIONS
	auditing standard 250, we performed an analysis of the shortcomings as identified by the Dutch Central Bank in the KYC process and transaction monitoring process and the remediation thereon. We examined the level of provisioning, performed test of details and assessed the assumptions and judgments made by the bank. Especially in the area of being compliant to the Anti-Money Laundering and Counter Terrorism Financing Act, we involved our internal specialists. Possible outcomes were considered by us for material provisions to independently assess the reasonableness of the judgment applied by the bank. Finally, we assessed the completeness and accuracy of the disclosures related to provisions and whether these disclosures are in compliance with EU-IFRS requirements.	

RISK	OUR AUDIT APPROACH	KEY OBSERVATIONS
INFORMATION TECHNOLOGY ICS is dependent on their 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 Risk Management, Funding and Capital Management.	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 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 as required by 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 significantly 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 as required by Part 9 of Book 2 of the Dutch Civil Code.

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 engagement 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 detect all material errors and fraud during our audit.

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 among others:

- 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 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 the key audit matters:
those matters that were of most significance in the audit of the financial statements. 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, 24 May 2019
Ernst & Young Accountants LLP

Signed by P.J.A.J. Nijssen